

Agenda – Public Accounts Committee

Meeting Venue:	For further information contact:
Committee Room 3 – Senedd	Fay Bowen
Meeting date: Monday, 6 March 2017	Committee Clerk
Meeting time: 13.45	0300 200 6565
	SeneddPAC@assembly.wales

1 Introductions, apologies, substitutions and declarations of interest

(14.00)

2 Paper(s) to note

(14.00 – 14.05)

(Pages 1 – 4)

The strategic approach of councils to income generation and charging: Additional information from the Welsh Government (21 February 2017)

(Pages 5 – 8)

The strategic approach of councils to income generation and charging: Additional information from the Welsh Local Government Association (February 2017)

(Pages 9 – 14)

The strategic approach of councils to income generation and charging: Additional information from the City and County of Cardiff (February 2017)

(Pages 15 – 18)

3 Medicines Management: Evidence Session with the Welsh Government

(14.05 – 15.15)

(Pages 19 – 36)

Research Briefing

PAC(5)–08–17 Paper 1 – Welsh Government’s response to the Auditor General for Wales’ Report on Managing Medicines in Primary and Secondary Care

Dr Andrew Goodall – Director General/NHS Chief Executive

Andrew Evans – Chief Pharmaceutical Officer, Welsh Government



Jean White – Chief Nursing Officer, Welsh Government

Alan Brace – Director of Finance, Welsh Government

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

(15.15)

Items 5, 6, 7, 8, 9 & 10

(15.15 – 15.25 – Break)

5 Medicines Management: Consideration of evidence received

(15:25 – 15:35)

6 Coastal flood and erosion risk management in Wales:

Consideration of draft report

(15.35 – 16.00)

(Pages 37 – 62)

PAC(5)-08-17 Paper 2 – draft report

7 Natural Resources Wales Annual Accounts 2015–16: Update from the Auditor General for Wales

(16.00 – 16.15)

8 Local Authority Funding of Third Sector Services: Auditor General for Wales Report

(16.15 – 16.30)

(Pages 63 – 152)

Research Briefing

PAC(5)-08-17 Paper 3 – Auditor General for Wales Report

PAC(5)-08-17 Paper 4 – Welsh Government response to the Auditor General for Wales's Report

**9 Financial Management and Governance in Community Councils
2015–16: Auditor General for Wales Report**

(16.30 – 16.45)

(Pages 153 – 200)

Research Briefing

PAC(5)–08–17 Paper 5 – Auditor General for Wales Report

**10 The Governance Challenges posed by indirectly provided, publicly
funded services in Wales: Auditor General for Wales’ Discussion
Paper**

(16.45 – 17.00)

(Pages 201 – 250)

PAC(5)–8–17 Paper 6 – Letter from the Auditor General for Wales to the
Committee Chair (14 February 2017)

PAC(5)–8–17 Paper 7 – Auditor General for Wales’ Discussion Paper

Concise Minutes – Public Accounts Committee

Meeting Venue:

Committee Room 3 – Senedd

Meeting date: Monday, 27 February 2017

Meeting time: 13.15 – 16.23

This meeting can be viewed

on [Senedd TV](#) at:

<http://senedd.tv/en/3912>

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 Lee Waters AM
Witnesses:	Nicola Evans, Merthyr Valleys Homes Steve Jones, Tai Ceredigion Derek Lassetter, Tai Ceredigion Michael Owen, Merthyr Valleys Homes Helen White, Regulatory Board for Wales Mike Wiseman, Tenant Advisory Panel
Wales Audit Office:	Huw Vaughan Thomas – Auditor General for Wales Nick Selwyn – Wales Audit Office Gabrielle Smith – Wales Audit Office
Committee Staff:	



	Fay Bowen (Clerk)
	Meriel Singleton (Second Clerk)
	Claire Griffiths (Deputy Clerk)
	Jonathan Baxter (Researcher)
	Katie Wyatt (Legal Adviser)

Transcript

[View the meeting transcript \(PDF 999KB\)](#) [View as HTML \(999KB\)](#)

1 Introductions, apologies, substitutions and declarations of interest

- 1.1 The Chair welcomed members of the Committee to the meeting.
- 1.2 There were no apologies.
- 1.3 The Chair made a statement to clarify a point for the record from a question directed to Pobl at the Public Accounts Committee meeting held on 13 February.

2 Paper(s) to note

- 2.1 The papers were noted.

2.1 Inquiry into Regulatory oversight of Housing Associations: Correction from Welsh Local Government Association

3 Scrutiny of Accounts 2015–16: Responses to Committee Report

- 3.1 The Committee noted the response to their report on Accounts Scrutiny 2015–16 and agreed to seek an update on implementation from the Welsh Government in September 2017.

4 Inquiry into Regulatory oversight of Housing Associations: Evidence Session 9

4.1 The Committee took evidence from Helen White, Chair, Regulatory Board for Wales and Mike Wiseman, Former Chair, Tenant Advisory Panel and member of the Regulatory Advisory Group and *Making it Work* Group, as part of its inquiry into the Regulatory oversight of Housing Associations.

5 Inquiry into Regulatory oversight of Housing Associations: Evidence Session 10

5.1 The Committee took evidence from Steve Jones, Chief Executive and Derek Lassetter, Chair of Tai Ceredigion as part of its inquiry into the Regulatory oversight of Housing Associations.

6 Inquiry into Regulatory oversight of Housing Associations: Evidence Session 11

6.1 The Committee took evidence from Michael Owen, Chief Executive and Nicola Evans, Chair of Merthyr Valleys Homes as part of its inquiry into the Regulatory oversight of Housing Associations.

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

7.1 The motion was agreed.

8 Inquiry into Regulatory oversight of Housing Associations: Consideration of evidence received

8.1 The Committee considered the evidence received.

9 Hospital Catering and Patient Nutrition: Consideration of draft report

9.1 The Committee considered the draft report and subject to a few minor amendments, agreed it.



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

21 February 2017

Dear Mr Ramsay,

THE STRATEGIC APPROACH OF COUNCILS TO INCOME GENERATION AND CHARGING

I attended the Public Accounts Committee on 6 February to give evidence on “the strategic approach of councils to income generation and charging”.

I undertook to provide examples in England where local authorities have taken a novel approach to creating trading companies to generate income.

The attached annex contains some examples.

Committee members may also wish to note the reports produced by the Local Government Association which include examples of how authorities in England are using the general power of competence to build on and extend existing innovation in their areas. The reports are available at:

http://www.local.gov.uk/c/document_library/get_file?uuid=83fe251c-d96e-44e0-ab41-224bb0cdcf0e&groupId=10180

http://www.local.gov.uk/c/document_library/get_file?uuid=f5a54dc8-6fb5-4790-9c40-b4cdbeee98e2&groupId=10180



BUDDSODDWYR | **INVESTORS**
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Parc Cathays • Cathays Park
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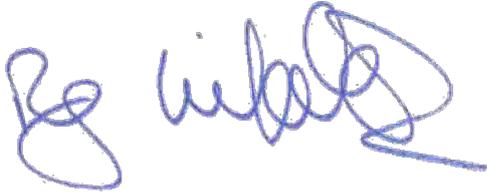
Ffôn • Tel 029 2082 5913
reg.kilpatrick@wales.gsi.gov.uk
Gwefan • website: www.wales.gov.uk

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.

I hope this information is of use to the Committee.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Reg Kilpatrick', with a stylized, cursive script.

REG KILPATRICK

Cyfarwyddwr Llywodraeth Leol /
Director for Local Government

Examples of trading companies established by local authorities in England

A local authority trading company (LATC) is a body that is free to operate as a commercial company but remains wholly owned by the parent local authority.

Below are some examples of LATCs established by local authorities in England. The list has been sourced from published information and is not intended to be exhaustive. The examples are intended to illustrate the range of areas of service provision and models employed in England. One of the features of such initiatives is that they should reflect the needs and objectives of the authority in question, which will vary from place to place. What is good practice in one area would not necessarily meet the needs and circumstances in another.

SOCIAL CARE

Tricuro, is a cross-boundary social care LATC owned jointly by **Dorset, Bournemouth and Poole councils**. Its services include residential care, day services and catering. It operates on a budget of more than £38m and 1,200 staff.

Essex county council was the first local authority to set up a traded service focusing on social care in 2009. It has since become an independent company, known as **ECL**. It reportedly made a profit of £3-3.5 million last year which was reinvested in the service.

NorseCare is a care home provider, and is understood to be the largest LATC in England with an annual turnover in excess of £250 million. It is owned by **Norfolk county council**, and part of Norse Group which brings together three local authority trading companies concerned with: facilities management; property design and management consultancy; and providing residential care homes and 'housing with care' schemes.

HOUSING

Kingstown Works Limited (KWL) is a LATC delivering building maintenance and repairs work to **Hull City Council**. It also trades with other local councils and housing associations. Created in 2006, it employs 390 local people.

Thurrock Council set up a wholly owned housing company, **Gloriana Thurrock Ltd** to build around 1,000 new homes over the next five years.

South Cambridgeshire District Council set up **Ermine Street Housing** in 2014. The company now owns 34 properties worth a total of £7million providing homes for people who cannot get an affordable housing tenancy.

NABCEL is a wholly-owned company of **Nuneaton and Bedworth Borough Council**. The council purchases properties and then leases the properties to NABCEL, which rents the properties out at market rates.

HIGHWAYS

CORMAC is wholly owned trading company of **Cornwall Council**. The vast majority of its work is in highways maintenance and construction. It also manages a 10-year joint venture company responsible for highways and fleet management services for Nottinghamshire County Council.

OTHER SERVICES

Solutions SK is wholly owned by **Stockport Council**. It provides a wide range of services ranging from facilities management, including catering, to highways and waste management. Formed in 2006, current turnover is around £40 million.

Kent County Council (KCC) has a number of trading companies including **KCC Commercial Services Kent Ltd**. These companies provide a wide range of services including legal services, stationery, cleaning, office support and energy procurement to a wide range of customers.

Sevenoaks District Council owns major investments in Swanley. The property, a garage and convenience store situated on the High Street, was bought for £2.45 million. The property is currently let to the Co-Operative Group on a 15-year lease.

Public Accounts Committee

PAC(5)-08-17 PTN2 – 6 March 2017

Additional information from Welsh Local Government Association following evidence session on 6 February 2017

Charging for Services and Generating Income

1. PAC Members asked for additional information on what is being done to generate income across authorities. The following note has been put together by our improvement officer working through professional networks and the good practice database.
2. The commercialisation of services and associated charges will continue to be increasingly important to local authorities as they seek to make services sustainable. This requires a balancing act between maximising income generated, public acceptability and meeting wider social aims.

Waste services: Charging for Garden Waste

Denbighshire

3. Since getting approval to introduce a charge in September 2014, Denbighshire had relatively short time period to introduce the service, key activities were:
 - Communicating with residents – introducing the new service available,
 - Setting up a suitable IT system including payment processing system,
 - Dealing with complaints and setting up suitable processes, and
 - Buy suitable barcode and scanners for the bins.
4. Achievements: 12,500 (30%) properties signed up to the new service initially, by the end of the year this went up to 17,000 (40%) properties. Customers could sign up online (with a discount) or face to face, over the

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phone and at One Stop Shops. Denbighshire worked closely with their IT department to ensure a fit for purpose system was in place. A purpose built Database allowed them to capture, address details, collection day, assisted collection info, as well as other collection history. Every bin is issued with a barcode sticker and this is linked to the customer database. The database is also linked to a 'Trackyou' software system that has in-cab technology allowing the crew to monitor and record customer details in real-time. Helping Denbighshire offer their residents a top quality service.

5. Denbighshire's received £409,374 in income in 2015/16 which was just over their target saving of 400k. The net cost of the service is £265,080.

Monmouthshire

6. The authority had a well-established charged garden waste collection service from July 2013. Having an initial charge of £8 per collection of a 90litres hessian reusable sack, by 2016/17 the charge has increased to £14 per sack.
7. Achievements: Residents are issued with a free sack and must pay for the permit that is tagged on to the sack. Monmouthshire reinforced the importance of having an IT system that was fit for purpose. The number of residents signing up to the charged service has increased year on year in Monmouthshire, with households that tend to have larger gardens purchasing an increased number of bags.
8. In 2014/15 Monmouthshire were generating £229k in income.

Next steps

9. A range of legislation is in place, enabling LAs to charge, however there are certain restrictions on the level of acceptable charging. LAs are required to have a clear rationale behind the set charge. LAs must also consider whether charges can be used to generate a surplus to support

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general revenue budgets or whether they can only recover incurred costs in delivering the service. LAs require clear advice and guidance on what can and cannot be done. The WLGA is commissioning bespoke guidance.

Energy

Wrexham – these projects are fairly unique in Wales.

Domestic Solar Photovoltaic (PV) Project

10. In late 2011 – early 2012 the council installed solar panels on 2675 of their domestic properties. All the properties have between 7 and 16 panels installed. Up until December 2016 they have received £6.9 million in Feed in Tariff payments.

Schools PV

11. In 2013 they installed solar panels on 15 of their schools and 2 in office buildings. All schools have between a 9–10 kw system installed. Between Oct 2013 and December 2016 the council received around £104,000 for these installations.

Solar Farm

12. The Legacy Solar Farm is a 2.64 MW system and has a total of 8,800 panels. It has been generating since May 2015. Up until October the council received £229,000 in Feed in Tariff payments and £172,000 in Export payments.

Redwither Biomass

13. In 2015 the council fitted Biomass boiler in one of our large office buildings. Up until 3rd November 2016 they have received £34,877 in Renewal Heat Incentive payments.

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Culture, Leisure Services and other services:

14. The income generation debate can be seen as two-fold when it comes to the culture and leisure services portfolio.
15. Firstly, LAs have sought to save money through the external delivery of mostly leisure (and some culture) services, mainly leading to the establishment of new charitable trusts. The driving force behind these decisions has been the NNDR rate relief charitable trusts receive from the government, in turn allowing the authorities/providers to save money and reinvest in services.
16. Secondly, LAs have also sought to become more commercially focused in delivering leisure and cultural services; approaches have included the co-location of services (libraries and leisure under one roof), along with the introduction of other money-making ventures such as coffee and leisurewear shops in local leisure centres, the rental of rooms and facilities for meetings/conferences, etc. Leisure services also have the added benefit of charging entry for the use of some services, such as access to the pool and gym facilities.
17. Current state of play across 22 local authorities:
 - 11 Councils outsourced the running of leisure centres,
 - 5 councils are considering ADMs (Ceredigion, Gwynedd, Monmouthshire, Pembrokeshire Swansea) and
 - 6 councils have currently retained control of their leisure services: (Anglesey & Carmarthenshire, Caerphilly Conwy, Denbighshire, and RCT)

Flintshire leisure and library services

18. Flintshire's leisure and library employees voted 90% yes to the proposals to set up a Community Benefit Society to deliver leisure and library services from 1 July 2017. This is a first for Wales and one of only a

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handful of organisations to run services such as these in the whole of the UK.

19. The business plan shows that in the first full year, over £500,000 of savings can be made to the service operation while Flintshire County Council is making a capital investment of almost £1m to improve leisure and library buildings, play areas and artificial pitches in the county.
20. The overall model aims to provide savings of 10% year on year while maintaining and improving existing service levels and protecting jobs. Staff will be represented on the Board of the organisation.

Cardiff Council

21. Cardiff Council handed over eight leisure centres to GLL, a not for profit company which runs 300 facilities across the UK. It is envisaged that this new arrangement would save £31.9m over 15 years, while providing greater future certainty over the leisure provision in Cardiff.

Swansea's Commercialisation Strategy

22. The authority is an example where a corporate strategy is being implemented for commercialism across the council.
 - To protect the public purse and achieve value for money for residents
 - To foster a business like, efficient and innovative approach to service delivery
 - To exploit every opportunity to increase income to offset the loss of grant
 - To protect service delivery
23. Examples of securing sponsorship/advertising income: Waterfront Winterland Ice Rink (sponsorship); 10K road race (sponsorship); roundabouts (advertising); Lamp posts / pillar raps (advertising); Swansea

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Bus Station (advertising); Awards nights; (sponsorship); Christmas Parade (sponsorship); and, the Wales Air Show (sponsorship)

Public Accounts Committee

PAC(5)-08-17 PTN3 – 6 March 2017

Additional information from Councillor Graham Hinchey on Income Generation Initiatives at the City of Cardiff Council

1. Income generation within Local Government has historically focused on the setting of fees and charges, whether in line with statute or, where discretionary, at a level that ensures that costs are covered, or subsidisation is kept to an acceptable level. More recently, however, Local Authorities have begun to recognise potential areas of income generation that have previously seen significant under-utilisation.
2. Since 2012, in addition to fees and charges, The City of Cardiff Council has introduced a number of income generation schemes based on the extended use of statutory powers, marketing partnerships and income generated through sale of services to other organisations.

Extended Use of Statutory Powers

3. The Civil Enforcement of Road Traffic Contraventions (General Provisions) (Wales) Regulations 2013 was passed and came into force on 25 March 2013, allowing the Council to assume responsibility for enforcement of bus lanes and some moving traffic offences (MTOs). The areas of enforcement, which these powers particularly assist, include:
 - Enforcement of Bus Lanes – preventing the blocking of bus lanes
 - Enforcement of Yellow Box Junctions – reducing illegal queuing across the boxes, particularly during peak hours, preventing congestion and delay to all vehicles
 - Enforcement of turning movement bans – enhancing public safety, by preventing conflict with pedestrian crossing movements, and by reducing the use of weak bridges by lorries ignoring weight restrictions
4. In the first full year (2014/15) after assuming responsibility, £848,000 income was received and this grew to £2.840 million in 2015/16.

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5. As Civil Enforcement is a ring fenced account, any such income generated is used to fund related operational cost of parking and enforcement. Any additional surplus or deficit generated by the account is transferred to the Parking Reserve and can only be used for specific purposes such as supporting public transport services, off-street parking and highway improvements in accordance with section 55 of the Road Traffic Regulations Act 1984.
6. To date the Parking Reserve has supported a number of improvements including:
 - Cardiff East Park & Ride
 - Surface Car Park Upgrades
 - City Centre Mobility Assistance
 - Street Works and the installation of additional Pay and Display facilities
 - Installation of Disabled Bays
 - Work required for the implementation of Moving Traffic Offences.

Marketing Partnerships

7. The City of Cardiff Council has many assets and prime highway locations that are attractive to advertisers. These assets have the potential to generate a significant annual income but have rarely achieved full market value in the past. In order to seek to address this, the Council have procured marketing partners to generate an increased and sustainable annual income stream going forward.
8. One such partnership generates income through digital advertising on bus shelters and at other sites. There are currently over 650 bus shelters installed throughout the City, serving the 11 million waiting passengers who use buses in Cardiff annually. The Council has entered into long term contractual arrangements that provide fixed annual rentals together with a profit share from the advertising. In 2015/16 this commercial arrangement generated £343,000 of income and in 2016/17 it is anticipated this will increase to in excess of £400k. The Council also continues to work through a number of opportunities to extend the network of sites to increase income.

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9. Another marketing partnership is generating income streams for Cardiff from existing assets including:
 - Roundabouts
 - Lamppost Banners
 - Litter bins
 - Refuse Vehicles

10. Income generation for 2016/17 is anticipated to be in the region of £150,000 from advertising/sponsorship, with an additional £20,000 generated from associated income such as planning fees, licences and highway notices. These figures are projected to increase by 30% in 2017/18.

11. Taking a “one council” approach it is intended that this partnership will not only maximise income generation, but also reduce costs to the Council for its own outside advertising needs. For example, unsold space will be used (at cost only) to promote Council services and the potential to utilise our own assets further is being explored.

Local Authority Trading Company

12. As of 1 March 2017 Atebion Solutions, the Council’s Commissioning and Procurement Local Authority Trading Company will begin trading, with a conservative estimate of first year turnover of £216,000. The potential for future income generation is, however, significant as the commissioning and procurement sector is worth some £5 billion across Wales. As with other schemes mentioned here, there are secondary benefits to the income generation. A successful trading company will further enhance the Council’s attractiveness as an employer, allowing for the retention and recruitment of highly skilled, qualified and commercially-minded employees, who in turn are able to take the company forwards.

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Other Schemes

13. Another area in which additional income is expected to be generated in 2017/18 is through the promotion and provision of courses at Cardiff Academy, principally to other public sector organisations. This will include the sale of accredited Institute of Leadership & Management and Service Improvement courses. Additional opportunities identified include provision of Health & Safety training to contractors working for the Council as well as hiring out the Academy's new and extended facilities for training and/or small conferences.
14. In addition to the above initiatives, renewable energy generation schemes have been brought online since 2012 at Radyr Weir and through the addition of thousands of solar panels to roofs of premises within the Council's estate. These schemes have the potential between them to generate sufficient sustainable electricity for over 1000 homes, with Radyr Weir averaging over £5,000 of electricity generation per week since October 2016 despite a relatively dry winter impacting on flow rates.

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Cyfarwyddwr Cyffredinol Iechyd a Gwasanaethau Cymdeithasol/
Prif Weithredwr GIG Cymru
Grŵp Iechyd a Gwasanaethau Cymdeithasol

Director General Health and Social Services/
NHS Wales Chief Executive
Health and Social Services Group



Llywodraeth Cymru
Welsh Government

Huw Vaughan Thomas
Auditor General for Wales
24 Cathedral Road
Cardiff
CF11 9LJ

Our Ref: AG/AE/SB

5 January 2017

Dear Huw

Response to the Report of the Auditor General for Wales entitled managing medicines in primary and secondary care

Thank you for report entitled 'managing medicines in primary and secondary care' which was published earlier this month.

We welcome the findings of the report and in particular its recognition both that there are many good aspects of medicines management in Wales, and that NHS bodies are collaborating well to make further improvements.

We note the ten recommendations contained within the report and our detailed response is set out in the attached annex. A number of the recommendations contained within the report are aimed at health boards and NHS Trusts, in the case of these recommendations we have indicated how we intend to support those bodies in implementing the recommendations.

Yours sincerely

Dr Andrew Goodall

cc: Nick Ramsey AM, Chair, Public Accounts Committee
Andrew Evans, Chief Pharmaceutical Officer, Welsh Government
Frank Atherton, Chief Medical Officer, Welsh Government
CGU Mailbox
Cabinet Mailbox

Annex A

Response to the recommendations contained in the report of the Auditor General for Wales entitled managing medicines in primary and secondary care

Recommendation – The Welsh Government, NHS Wales Informatics Service (NWIS) and all health bodies should agree a detailed, time-bound plan for implementing electronic prescribing systems in secondary care, along with a clear process for monitoring the delivery of the plan.

Response – Accepted.

The NHS Wales Informatics Service (NWIS) has established the Welsh Hospital Electronic Prescribing and Medicines Administration project to develop and implement the national plan for electronic prescribing in secondary care and the inaugural meeting of the project board was held on 23 November 2016.

The project team is currently working with stakeholders to define the exact scope of the project and the system requirements. Once this is complete the business case for procurement of a replacement hospital pharmacy system and an electronic prescribing and medicines administration solution will be completed by NWIS and considered by Welsh Government. Subject to the completion of the business case, it is expected that the procurement of these systems will be completed during 2018-19 with implementation beginning in the early part of 2019.

Recommendation – The Chief Pharmaceutical Officer for Wales should lead national reviews to assess each health body's compliance with the MARRS policy, to assess the effectiveness of the new mandatory training programme on medicines management and to assess the long-term sustainability of actions taken in each health body to address all medicines-related findings from Trusted to Care; and

Each health body should develop a time-bound plan for improving storage and security of medicines on hospital wards, including specific consideration of the benefits of implementing automated vending machines.

Response – Accepted.

The Chief Pharmaceutical Officer for Wales will re-convene the Medicine Administration, Recording, Review and Storage (MARRS) working group to undertake a review of each health body's compliance with the MARRS policy. Due to unforeseen circumstances there has been a delay in implementing the e-learning programme on medicines administration. The working group will therefore give further considerations as to how the e-learning programme can be rolled out most effectively. We envisage the first meeting of the re-convened MARRS working group will be in April 2017 and that it will complete its review by March 2019.

[Patient Safety Notice PSN 030](#), issued in April 2016 set out the expected standards for safe and secure storage of medicines on hospital wards. We have identified the need to review the requirements contained in the notice in light of concerns that the cost of replacing the storage on all hospital wards, regardless of current condition, would be disproportionate to the anticipated benefit; given the low level of risk presented by storage facilities on the majority of wards. The MARRS working group will, as part of its work, review PSN 030 and updated guidance will be issued before the end of 2017.

The Chief Pharmaceutical Officer will, with the Chief Pharmacists in local health boards and Velindre Cancer Centre, complete an audit of the current use automated ward vending machines in NHS hospitals in Wales and develop a prioritised list of sites in which automated ward vending should be implemented. This work will be completed by June 2017.

Recommendation – Health bodies should ensure their Chief Pharmacist is, or reports directly to, an executive director; and

Health bodies should have an annual agenda item at the Board to discuss an annual report covering pharmacy services, medicines management, primary care prescribing, homecare medicines services and progress in addressing the issues identified in Trusted to Care.

Response – Accepted in part.

We agree fully that the Board of every health body in Wales should regularly scrutinise all aspects of medicines management. To that end and prior to the publication of your report, in 2016-17 we included six national prescribing indicators, covering a range of areas including antimicrobial prescribing, adverse drug reaction reporting, high risk medicines and the efficient use of resources, in the NHS Outcomes Framework.

To maintain focus on improving medicines management within NHS Wales, we will continue to develop medicines management indicators as part of the outcomes framework. We will also raise medicines management issues through the Joint Executive Team meetings between Welsh Government and NHS Wales bodies.

The UK-wide rebalancing medicines legislation and pharmacy regulation programme, supported by the Department of Health in England on behalf of the four UK administrations, is considering various changes to medicines legislation which are likely to impact on the role of health body Chief Pharmacists. We do not consider it would be appropriate to make a commitment regarding the reporting arrangements for Chief Pharmacists until the outcome of that programme is known. We anticipate the implications for Chief Pharmacists will be clearer in early 2018. In preparation we will undertake an audit of the reporting arrangements for NHS Chief Pharmacists in Wales, this will be complete by September 2017.

Recommendation – Chief Pharmacists should seek the support of the NHS Wales Shared Services Partnership's Workforce, Education and Development Services to strengthen current resource mapping approaches to facilitate robust comparisons of pharmacy staffing levels across Wales and to produce a generic service specification. The specification should set out the typical resources required to deliver key pharmacy services, such as clinical pharmacy input and patient education on the wards. The specification should also be flexible enough to recognise that different types of wards will require different levels of resource.

Response – Accepted.

During 2017-18 we will work with the NHS Wales Shared Services Partnership's Workforce, Education and Development Service and Chief Pharmacists of NHS Wales bodies to undertake a robust assessment of the current and future needs for the pharmacy workforce. This work will be completed by March 2018.

Recommendation – To drive further improvements in prescribing, health bodies should ensure they have a targeted plan of action to achieve cost and quality improvements in prescribing in primary care and in secondary care, in line with prudent healthcare principles. The plan of action should be informed by regular analysis of prescribing data to ensure that attention is focused on the areas where the greatest scope exists to secure cost and quality improvements;

In line with the need to increase the profile of medicines management at Board level, health bodies should ensure that performance against the National Prescribing Indicators is considered regularly by the Board, alongside progress in delivering wider cost and quality improvements in primary care prescribing;

The Welsh Government should ensure the work of the Efficiency, Healthcare Value and Improvement Group takes an all-Wales view on the cost and quality improvements that should be achievable through better prescribing and medicines management, and uses mechanisms such as the twice-yearly Joint Executive Team meeting between government officials and each individual health body to ensure that the necessary progress is being made in securing these improvements.

The Welsh Government should work with NHS bodies to develop and implement a clear national plan of action aimed at reducing medicines wastage, building on the findings from the ongoing evaluation of the *Your Medicines, Your Health* campaign. Reducing waste leads to cost savings whilst at the same time helping patients to take their medicines as prescribed, thereby helping to secure maximum benefit from the medicine; and

Linked to the above points, the Welsh Government should ensure that there is a clear and time-bound plan in place to roll out improved repeat prescribing systems that are being tested by the Prudent Prescribing Implementation Group.

Response – Accepted.

The Efficiency, Healthcare Value and Improvement Group have agreed an all-Wales approach to cost and quality improvement in medicines management in primary and secondary care will be a key area for 2017-18.

During 2017-18 we will agree with health board Chief Pharmacists and other stakeholders, key priorities in the following six areas: driving efficiency; reducing medicines related harm; improving patient experience and outcomes; workforce modernisation; collaborative working, better use of technology and improved estates; and benchmarking. These priorities will be taken forward on an all-Wales basis and progress overseen through regular meetings between the Chief Pharmaceutical Officer and health board Chief Pharmacists, and Joint Executive Team meetings.

We will work with NHS bodies to develop and implement a clear national plan of action aimed at reducing medicines waste. Primarily this will be achieved by encouraging NHS bodies to adopt the elements of the *Your Medicines, Your Health* campaign which the ongoing evaluation, once completed, demonstrates are successful. We will also encourage health boards to implement evidence based approaches which reduce medicines waste. These will include implementing improved repeat prescribing systems such as those which have been tested through the Prudent Prescribing Implementation Group or evaluated in other parts of the UK. We envisage this work will begin in 2017-18 with a time-bound plan agreed by March 2018.

Recommendation – The Welsh Government should develop a plan, in partnership with All Wales Medicines Strategy Group (AWMSG), health bodies and GPs, to evolve the National Prescribing Indicators so that they begin to consider measures of whether the right patients are receiving the right medicines and whether medicines are making a difference to people’s outcomes.

Response – We agree that National Prescribing Indicators are currently too focused on the quantity and cost of medicines prescribed with inadequate consideration given to clinical appropriateness and outcomes. The availability of data to support more sensitive indicators has been a significant constraint.

Whilst significant improvements have been made to reduce variation in prescribing, the rate of improvement has slowed in recent years in part as a result of this approach. We will work with the Wales Analytical Prescribing Support Unit (WAPSU) to establish a project in 2017-18 the purpose of which will be to define a new suite of National Prescribing Indicators utilising additional data sources. The indicators will be developed during 2017-18 with the intention they are approved by the All Wales Medicines Strategy Group (AWMSG) prior to their use from April 2018.

Recommendation – The All Wales Chief Pharmacists’ Committee should lead a national audit of compliance with the measures set out in the all-Wales handbook on the safe and effective delivery of homecare services.

Response – Accepted.

We note this recommendation is aimed at the All Wales Chief Pharmacist’s Committee. We will ensure work to improve the safe and effective delivery of homecare services, including an audit of compliance with the measures set out in the all-Wales handbook, forms part of the key priorities agreed with health board Chief Pharmacists and other stakeholders in 2017-18.

Recommendation – The Welsh Government, supported by 1000 Lives Improvement, should work with pharmacy teams, clinical coding staff and clinicians across Wales to develop a programme aimed at identifying and preventing medicines related admissions (MRAs).

Response – Accepted.

This work will be scoped with 1000 Lives Improvement during the early part of 2017-18 with a view to establishing a medication safety programme in 2018-19.

Recommendation – The Welsh Government and NWIS should continue to work with GP representatives to ensure their concerns about information governance are addressed;

Facilitate wider access to the GP Record so that all pharmacists and pharmacy technicians that deliver clinical services on the wards can access the system for patients who are admitted for an elective procedure, as well as those admitted as emergencies; and

Facilitate wider access to, and use of, the GP Record in community pharmacies so that whenever it is clinically appropriate, patients can have their medicines managed in the community without accessing a GP or other NHS services.

Response – Accepted.

We are continuing to work with NWIS to secure wider access to the Welsh GP Record (WGPR). On 21 November 2016, NWIS announced that access to the WGPR would be extended to hospital pharmacists and pharmacy technicians in planned care settings including outpatients. This builds on the access in emergency care settings which has been available for some time.

The Chief Pharmaceutical Officer is working directly with the Medical Director at NWIS to put in place appropriate information governance arrangements which will allow use of the WGPR by community pharmacists in specified circumstances to support patient care. We envisage this work will be completed early in 2017.

Recommendation –Where the Welsh Government makes a decision to make a new medicine available outside the current national appraisal process, it should clearly explain the rationale underpinning its decision and ensure that health bodies are given sufficient time to plan for the financial implications and service changes associated with introducing those new medicines.

Response – Accepted.

We are pleased the Auditor General for Wales recognises that from time to time it may be necessary for the Welsh Government to make medicines available outside the current national appraisal process. We recognise that this should happen by exception and only where the rationale for so doing is clear.

As has been the case with agreements to date, we expect agreements will continue to be made only where there is strong support for the availability of the medicine(s) both from clinicians and patients across Wales. However we will, with immediate effect and for all future agreements, ensure NHS bodies are more closely involved in the planning arrangements and afforded an appropriate period in which to prepare for the service and financial implications.

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Archwilydd Cyffredinol Cymru
Auditor General for Wales

Local Authority Funding of Third Sector Services



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



Cover photograph - A walk in the park, with Age Connects Cardiff and the Vale. Age Connects volunteers provide much needed support and company to older people in the local area. One of the top 15 photographs in WCVA's Members Photography Contest 2014.

I have prepared and published this report in accordance with the
Public Audit (Wales) Act 2004.

The Wales Audit Office study team was project managed by Nick Selwyn
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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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Summary report

Local authorities are not always making the best use of the third sector nor doing enough to ensure they are securing value for money

- 1 Local authorities in Wales deliver a range of important public services which support the social, economic and environmental well-being of the nation. Most of these services are required by statute (ie local authorities must provide them), although some are provided under discretionary powers (in other words, they are optional). As well as taking direct responsibility for delivering services, local authorities also fund third parties to deliver services on their behalf, usually under the terms of a legal contract.
- 2 The **third sector** is the term used to describe the range of organisations which are neither state run, nor part of the private sector and includes voluntary and community organisations (registered charities and other organisations such as associations, self-help groups and community groups), social enterprises, mutuals and cooperatives. Third sector organisations are diverse in both size and scope, ranging from small, locally based community groups, to large, multi-national charities. Some have no income at all and rely on the efforts of volunteers whilst others are run by paid professional staff. Research by the Welsh Government¹ and the Wales Council for Voluntary Action (WCVA)² reports that the third sector in Wales consists of: over 32,500 different organisations; encompasses 230,000 trustees; 1.13 million volunteers and people helping out in their community; and 51,000 employees.
- 3 The Welsh Government provides the strategic policy framework for the third sector in Wales as well as specific grant funding to support the third sector – £240 million in 2013-14 and £208 million in 2014-15³. Through its **Third Sector Scheme**⁴ and the work of the Third Sector Partnership Council⁵ the Welsh Government is also placing greater emphasis and reliance on the increased involvement of third sector organisations as key partners in the delivery of public services.
- 4 In recent years, local authorities have reduced their role as direct providers of services, placing reliance instead on funding other providers, especially third sector organisations. The case for increasing the involvement of third sector organisations is based on distinct advantages. Third sector organisations can be sensitive to local circumstances and able to respond flexibly to the diverse needs of communities. Third sector bodies can often be financially competitive, as their base costs are comparatively low and as charities, they reinvest surpluses made back into the services provided. To ensure a consistent and transparent approach to funding, local authorities need to have the right processes in place, including a strategic plan for funding the third sector; efficient and effective systems to procure services; and a monitoring and evaluation framework to judge performance, impact and cost.

1 National Assembly for Wales, **Written Evidence to the Committee for the Scrutiny of the First Minister: Welsh Government's Relationship with the Third Sector and Non-Governmental Bodies**, 20 November 2013.

2 The WCVA represents and supports the third sector in Wales campaigning for organisations and providing advice and support to members. Information on third sector organisations is updated by the WCVA annually – **Analysis of All Wales database of voluntary organisations**, 4 January 2016.

3 **2015 Welsh Government Annual Report on Grants**.

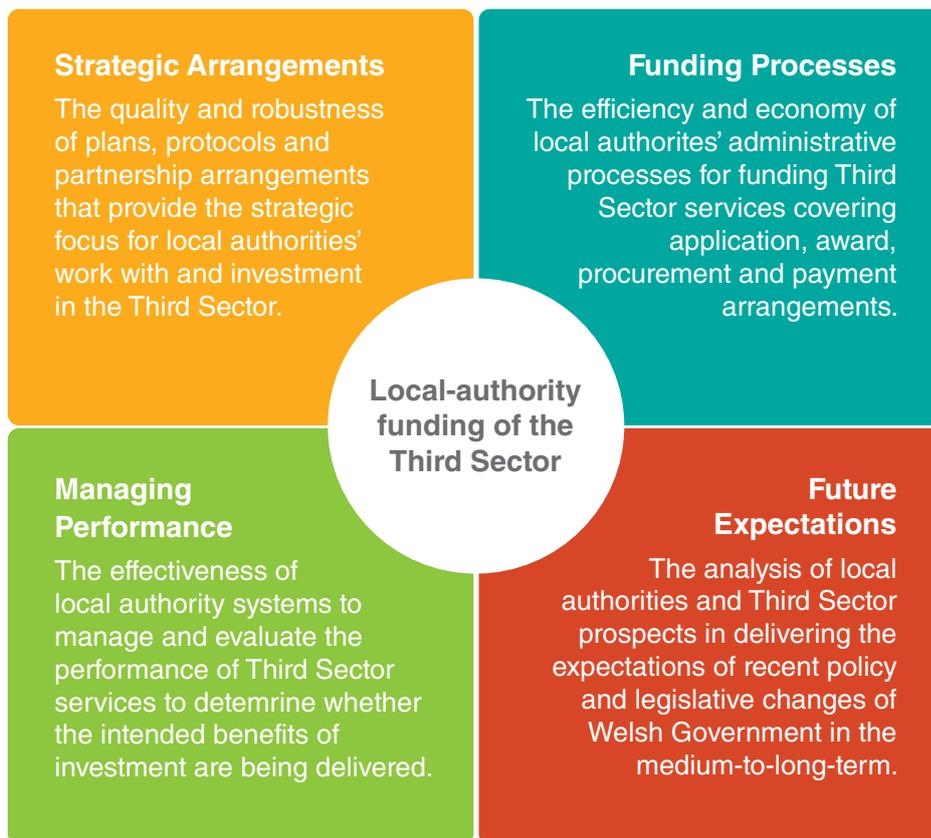
4 Welsh Government, **Third Sector Scheme**, January 2014.

5 The Third Sector Partnership Council was established in 2007 and facilitates consultation with relevant third sector organisations and public sector bodies on the scheme's implementation, operation and review; and considers issues that relate to the functions and responsibilities of the Welsh Government that affect, or are of concern to, the third sector.

About this report

- 5 In this report, on behalf of the Auditor General, we have examined the effectiveness of local authorities' arrangements for funding third sector services. Our study methods are set out in [Appendix 1](#). These include audit fieldwork at six local authorities, surveys with local authority staff, third sector organisations and county voluntary councils⁶ on the approach of authorities to funding third sector services. We also completed a call for evidence with specialist advice agencies as a tracer on third sector funding; interviewed staff working in third sector organisations; and reviewed a range of documents from the Welsh Government, local authorities and third sector bodies. The focus of our review has four main elements as set out in [Figure 1](#).

Figure 1 – The focus of our review of local authority funding of third sector services



⁶ The county voluntary council is the umbrella infrastructure organisation for the third sector in a local authority area. The county voluntary council role is to provide specialist advice, support and information to local third sector organisations on issues that affect them, including funding and governance.

- 6 Based on the findings of this audit, the Auditor General has concluded that **local authorities are not always making the best use of the third sector nor doing enough to ensure they are securing value for money.**
- 7 Between 2001-02 and 2013-14 the total amount awarded by local authorities to third sector organisations has risen from £68.2 million in 2001-02 to £248.8 million in 2013-14, an increase of 165.5% in real terms. Funding of social care services has consistently remained a priority and accounts for the bulk of funding provided by local authorities to third sector bodies (although as a proportion of overall spend it has fallen from 71.4% in 2001-02 to 61.9% in 2013-14).
- 8 Despite the growth in local authorities' funding of third sector services, strategic working has a number of weaknesses. Few local authorities have comprehensive corporate-wide strategies or frameworks that are based on good quality and accurate needs data to drive decisions, plans and activity. Even where strategic intent is developing, translating aspirations into action varies widely. Better-performing local authorities are beginning to undertake comprehensive reviews of their third sector funding to accurately identify the overall level of expenditure on the third sector and to bring consistency and direction to investment decisions.
- 9 Whilst most local authorities have formal compacts with the third sector in their area, these are not always up to date nor do they reflect current joint working arrangements. Partnership activity is not consistent nor effective enough to deliver better outcomes and the important work of county voluntary councils is not always valued nor recognised which reduces their effectiveness.
- 10 To make the best of the resources invested in the third sector, local authorities need to have good administration processes for awarding and managing the work they fund. Done badly, the funding processes can impose heavy burdens on the third sector and result in resources being wasted. However, despite local authorities recognising the importance of creating efficient and streamlined systems to manage their third sector funding, many weaknesses exist. There is no right or wrong approach in the use of grants and local authorities need to ensure that when deciding what service they want, they use the best funding approach, grants or contracts to deliver what is intended by or through the most appropriate delivery partner which could include the private sector and community councils as well as the Third Sector.
- 11 The quality and accessibility of local authority information on the processes for applying and the criteria used to award contracts is of a variable quality and are not always streamlined to support full engagement from third sector organisations. Local authorities are not clear on which option to use – closed or open procurement – when procuring third sector services and the decline in grant support is seen by many third sector organisations as adversely impacting them. Local authority decisions to persist with annual funding awards and the reduction in authorities operating full cost recovery for third sector projects that are funded continues to present significant challenges for many third sector bodies. Overall, because of these weaknesses it is unclear if local authorities are consistently securing value for money from their third sector investment.

- 12 To get the best from funding decisions, local authorities need to ensure they have the right arrangements and systems in place to manage, evaluate, measure and scrutinise performance. We found that performance management arrangements are too inconsistent to provide an adequate level of assurance that services are working well and resources are being used effectively. Many third sector organisations are not clear about what is required from them and require better support from local authorities. Poor performance management arrangements are also weakening accountability and limit effective scrutiny of activity and performance by elected members. Most local authorities have not set measures to be able to consistently judge the impact of their work with the third sector and inconsistencies in risk management arrangements make it difficult for local authorities to evidence how well they are working with the third sector.
- 13 With public sector funding set to continue to fall in the immediate future, the Welsh Government, through its recent legislative changes and planned reforms, envisages a growing role for the third sector in delivering services across Wales. These changing expectations present both an opportunity and a risk. These are significant challenges which have implications for the Welsh Government, local authorities and third sector organisations, which need to be handled with clear leadership and drive. At this time it is unclear if these aspirations are deliverable.



Stepping out: Stroke Association Wales volunteers mark the course with balloons at a Step Out for Stroke event in Pontypridd. One of the top 14 photographs in WCVA's Members Photography Contest 2014.

Source: WCVA

Recommendations

14 The key recommendations arising from our work are as follows:

Recommendations	Who is responsible
<p>R1 To get the best from funding decisions, local authorities and third sector bodies need to ensure they have the right arrangements and systems in place to support their work with the third sector. To assist local authorities and third sector bodies in developing their working practices, we recommend that local authority and third sector officers use the checklist in Appendix 3 to:</p> <ul style="list-style-type: none"> • self-evaluate current third sector engagement, management, performance and practice; • identify where improvements in joint working is required; and • jointly draft and implement an action plan to address the gaps and weaknesses identified through the self-evaluation. 	<p>Local authorities, Public Service Boards and Third Sector Bodies</p>
<p>R2 Poor performance management arrangements are weakening accountability and limiting effective scrutiny of third sector activity and performance. To strengthen oversight of the third sector, we recommend that elected members scrutinise the review checklist completed by officers, and regularly challenge performance by officers and the local authority in addressing gaps and weaknesses.</p>	<p>Local authorities</p>
<p>R3 To support local authorities and the third sector in delivering the expectations of recent policy and legislative changes such as the Social Services and Well-being Act and the Well-being of Future Generations Act, we recommend that the Welsh Government provides commissioning and coordinating guidance and support clarifying its expectations of local authorities. This could be delivered jointly with the Wales Co-operative Centre and/or WCVA.</p>	<p>Welsh Government</p>

Part 1

Local authorities mostly do not have an effective strategic approach to working with the third sector

Bone Appétit, a group of graduate musicians from the Royal Welsh College of Music and Drama, regularly volunteer for Music in Hospitals. In this photo they are raising awareness of the charity at The Senedd in Cardiff Bay, playing songs for children on Saint David's Day. One of the top 15 photographs in WCVA's Members Photography Contest 2015.



- 1.1 Local authorities should develop a clear rationale for why they are working with the third sector and should be clear as to how this partnership working supports them to deliver their corporate priorities. A strategic approach to working with the third sector will ensure the local authority as a whole understands what the third sector can offer and sets out how the local authority will engage with, fund and judge the impact of the third sector on communities and residents.
- 1.2 If local authorities are to work effectively with the third sector, they need:
- comprehensive and robust information on local needs to allow them to set an appropriate vision and strategic priorities for the third sector to be able to judge impact and improvement overtime;
 - good consultation to draw on the specialist knowledge of the third sector and to get buy in to work together to deliver the agreed strategic vision; and
 - the right partnership infrastructure underpinned by a compact to ensure joint working is effective, constructive and delivering what is required.
- 1.3 In this section of the report, we analyse the growth in local authority funding of third sector services. We also consider the strategic approach of local authorities to working with the third sector, reviewing the robustness of local authority strategies, the range of information used to identify and prioritise action and the effectiveness of consultation. We also consider how well partners work together, reviewing the structures that are in place for partnership working and especially the important role of county voluntary councils. We also draw on evidence from our surveys with local authorities, county voluntary councils and third sector organisations, which provide us with a good insight into the effectiveness of local authority strategic and operational working arrangements with the third sector. In [Appendix 1](#), we summarise the coverage and limitations of our survey work.

The third sector's work with local authorities is growing

- 1.4 Data published by the Local Government Data Unit (LGDU) Wales⁷ on behalf of the WCVA, shows that funding of third sector services by local authorities has increased in recent years. The LGDU research, set out in [Figure 2](#), found that between 2001-02 and 2013-14 the total amount awarded by local authorities to third sector organisations has risen from £68.2 million in 2001-02 to £248.8 million in 2013-14, an increase in real terms⁸ of 165.5%.

⁷ The LGDU Wales is part of the Welsh Local Government Association and provides support to local authorities in the management, use and evaluation of data. The information we have drawn on for our review is based on data provided by local authorities in 2001-02, 2003-04, 2009-10 and 2013-14. The return for 2013-14 is the most recent information available in Wales on the funding of third sector services by local authorities.

⁸ The level of income taking into consideration the effects of inflation on purchasing power. Real-terms income refers to the amount of goods and services you can buy today compared to the price of the same goods and services you could have purchased in an earlier period.

Figure 2 – Local authority funding of third sector services in cash and real terms by service area between 2001-02 and 2013-14

Service area	2001-02	2003-04	2009-10	2013-14	Change in real terms
Central Services	£4,949,000	£4,475,000	£4,852,000	£6,108,000	-10.0%
Culture and Related Services	£4,898,000	£5,558,000	£4,726,000	£4,351,000	-35.3%
Education Services	£3,493,000	£5,566,000	£9,441,000	£18,026,000	276.0%
Environmental and Regulatory Services	£315,000	£1,425,000	£2,449,000	£7,007,009	1,521.0%
Highways and Transport Services	£274,000	£530,000	£860,000	£811,000	115.7%
Housing Services	£2,556,000	£21,283,000	£11,443,000	£45,181,000	1,187.9%
Planning Services	£3,061,000	£8,110,000	£4,090,000	£13,203,000	214.3%
Social Care Services	£48,677,000	£78,786,000	£118,514,000	£154,165,000	130.7%
Total	£68,223,000	£125,733,000	£156,375,000	£248,852,000	165.5%

Source: Wales Audit Office analysis of third sector funding produced by LGDU for the WCVA (data has been rounded to the nearest £1,000).

1.5 The LGDU research found that for six of the eight areas authorities fund third sector services there has been a significant real-terms increase in investment. Funding of social care services has consistently remained a priority and accounts for the bulk of funding provided by local authorities to third sector bodies (although as a proportion of overall spend it has fallen from 71.4% in 2001-02 to 61.9% in 2013-14). Outside of social care, the only other area where local authorities invest a significant amount of money is funding for housing services, which has risen from 3.8% of all third sector funding by local authorities in 2001-02 to 18.2% of expenditure in 2013-14. The other six areas collectively accounted for roughly 20% of the total investment by local authorities in the third sector in 2013-14. Between 2001-02 and 2013-14 only funding for central services and culture and related services has fallen in real terms.

1.6 **Figure 3** summarises the change in third sector funding by local authority in cash and real terms between 2001-02 and 2013-14. With the exception of one authority (and even here funding has increased in recent years), local authorities have increased their funding of third sector services in both cash and real terms. Given the level of local authority investment in third sector services, it is important that local authorities have the right strategies, systems and processes in place to get the best from their investment. For local authorities, this is a significant challenge, particularly with ongoing reductions in public finances, which requires the development of new, more cost-effective and efficient ways of working.

Figure 3 – Funding of third sector services in cash and real terms by local authority between 2001-02 and 2013-14

Local Authority	2001-02	2003-04	2009-10	2013-14	Change in real terms
Blaenau Gwent	£1,438,000	£1,513,000	£709,000	£981, 000	-50.2%
Bridgend	£3,759,000	£5,979,000	£8,322,000	£7,127,000	38.1%
Caerphilly	£2,083,000	£2,734,000	£6,367,000	£10,179,000	256.0%
Cardiff	£4,660,000	£32,634,000	£38,101,000	£47,969,000	650.0%
Carmarthenshire	£2,356,000	£4,781,000	£10,730,000	£20,922, 000	547.0%
Ceredigion	£1,282,000	£5,424,000	£12,464,000	£11,805, 000	571.0%
Conwy	£2,567,000	£3,976,000	£4,921,000	£5,340,000	51.6%
Denbighshire	£1,688,000	£2,268,000	£3,273,000	£5,986,000	158.0%
Flintshire	£2,052,000	£2,087,000	£3,349,000	£4,074,000	44.7%
Gwynedd	£5,082,000	£5,523,000	£11,683,000	£16,044,000	130.0%
Isle of Anglesey	£1,002,000	£2,180,000	Not submitted	Not submitted	N/A
Merthyr Tydfil	£1,081,000	£1,143,000	Not submitted	£4,387,000	195.7%
Monmouthshire	£1,024,000	£981,000	£1,785,000	£3,708,000	163.8%
Neath Port Talbot	£4,396,000	£3,380,000	Not submitted	Not submitted	N/A

Local Authority	2001-02	2003-04	2009-10	2013-14	Change in real terms
Newport	£1,560,000	£2,240,000	Not submitted	Not submitted	N/A
Pembrokeshire	£2,145,000	£2,911,000	£5,491,000	£7,890,000	168.0%
Powys	£7,984,000	£12,546,000	£16,278,000	£21,466,000	95.9%
Rhondda Cynon Taf	£9,563,000	£17,207,000	Not submitted	£28,229,000	115.0%
Swansea	£7,289,000	£6,465,000	£16,701,000	£25,086,000	150.7%
Torfaen	£929,000	£2,081,000	£7,315,000	£15,080,000	1,082.8%
Vale of Glamorgan	£2,446,000	£4,263,000	£4,598,000	£5,602,000	66.9%
Wrexham	£1,808,000	£3,419,000	£4,289,000	£6,975,000	181.1%
Total	£68,223,000	£125,733,000	£156,375,000	£248,852,000	165.5%

Source: Wales Audit Office analysis of third sector funding in 2001-02, 2003-04, 2009-10 and 2013-14 produced by the LGDU for the WCVA (data has been rounded to the nearest £1,000).

Local authorities generally do not have a comprehensive and planned approach to working with the third sector

- 1.7 A comprehensive strategy to working with the third sector will set out the local authority's principles and vision for the third sector. The strategy should also set out the outcomes the local authority is seeking to achieve for residents and communities. To be fully effective, the strategy should cover all local authority services and be based on consultation, a robust analysis of needs, priorities for improvement, the actions planned and the outcomes sought in delivering services through the third sector.
- 1.8 None of the local authorities that responded to our survey⁹ reported that they have a single strategy for working with and funding the third sector; however, seven of the eight reported that they have a series of service-specific strategies and funding plans that together they consider make up an overarching framework for working with and funding the third sector. The other local authority which responded to our survey reported that it does not have a strategy or framework. The other 14 local authorities did not respond to our survey.

⁹ We surveyed all 22 local authorities, requesting information on their funding of third sector services. We received eight responses from local authorities (36%). Given the low response rate we have not used the survey extensively in the report.

- 1.9 From our analysis of local authority documentation, we rated six local authorities as having a good strategic approach for working with the third sector. Generally, these are local authorities where there is a corporate-wide strategy on third sector funding that covers all services, and the strategy clearly links to overall corporate priorities. The best strategies have relevant objectives, which are both SMART¹⁰ and also focused on delivering outcomes, and are subject to regular review and evaluation. These strategies are usually underpinned by a good analysis and understanding of needs, including equalities and the Welsh language, and there is evidence of effective engagement with stakeholders to develop the strategy. The best strategies have also been effectively challenged in their development and are subject to ongoing review, evaluation and effective risk management. **Figure 4** highlights how Flintshire County Council has developed its strategic approach to the third sector since 2011.
- 1.10 We assessed a further 13 local authorities as having a strategic approach of variable quality but gaps existed and arrangements needed to be strengthened if the aspirations of the local authority were to be realised. We also rated three authorities as having poor or insufficiently evidenced strategic approaches with significant gaps in both the range and quality of plans, actions, needs information and the supporting delivery arrangements.
- 1.11 Through our surveys with county voluntary councils¹¹ and third sector advice agencies¹² we tested awareness, understanding and knowledge of current strategic arrangements within local authorities for third sector services. Overall, our surveys found that third sector organisations do not believe that local authorities have an adequate strategic approach to working with, and making the best use, of the third sector. For instance:
- nine county voluntary councils report that their local authorities have no strategies or frameworks and one county voluntary council did not know;
 - only one county voluntary council considered that its local authority uses accurate and comprehensive data to identify what needs and issues it is seeking to address through its funding of third sector services; and
 - only one county voluntary council reported that the local authority follows its strategy consistently.

10 SMART is a project goal and objective-setting process that supports the setting of trackable and relevant measures that have sufficient resources to achieve them and within a definite delivery deadline. SMART is an acronym and stands for Specific, Measurable, Attainable, Realistic and Timebound.

11 We surveyed all the county voluntary councils in Wales and received 20 responses. The Gwent Association of Voluntary Organisations (GAVO) covers four local authorities: Blaenau Gwent, Caerphilly, Newport and Monmouthshire. We received three individual returns from GAVO covering two of the four local authorities covered by GAVO. In addition, the Neath Port Talbot Council for Voluntary Service did not complete the survey but was interviewed as part of our fieldwork. The local authority areas where we have no survey information are Denbighshire, Neath Port Talbot, Monmouthshire and Newport.

12 We received responses from 33 organisations which provide advice and information services funded by local authorities in Wales, a mix of national and local bodies.

Figure 4 – Flintshire County Council – third sector funding review

For local authorities and the third sector to work together effectively, local authorities should have in place a strategic approach that links to the local authority priorities. This makes it clear to third sector organisations how they can contribute to the local authority priorities.

Flintshire County Council had considered how this could be implemented. The authority, like others, was faced with addressing significant budget pressures in funding across all areas of its services. Some of the pressures were likely to affect the council's grant funding to the third sector.

The authority had, in conjunction with the third sector, already developed grant management guidelines which set out clearly how it manages grants to the third sector. The authority made it clear that the third sector will be treated in the same way as authority departments in terms of budget decisions. For example, any bid from a third sector organisation is expected to align its bid for funds to the authority's key priorities. The authority has emphasised its commitment to a strategic approach by providing funding for three years but has made it clear the authority's expectations of how the funding would reduce during the three years.

To emphasise the commitment for the third sector to work in a more business-focused way the authority has moved to outcome-based agreements. This meant the successful organisations were clear about what the authority expected from the grant funding and the level of service to be delivered.

Since 2000 the authority has provided core funding to some third sector organisations. The purpose of this funding is to provide a more stable funding base to those organisations which can allow them to compete in commissioning exercises. The authority has agreed core funding for third sector organisations for a three-year period from 2015-16 onwards. The authority has also mapped all expenditure and who in the third sector was receiving money. Whilst individual departments continue to manage their own funding of third sector services, the local authority's central policy has a long-established role of overseeing all funding activity to ensure effective central oversight across the local authority.

Having a clear methodology when it comes to funding helps the authority and the organisations involved to plan ahead and understand where the local authority wants to be in a certain timescale.



Even if you're feeling blue - volunteering puts a smile on your face!: Volunteer paint thrower Mary Heath at The St David's Hospice Colour Run, a unique colour race that celebrates healthiness, happiness, individuality and giving back to your community. One of the top 15 photographs in WCVA's Members Photography Contest 2016.

Source: WCVA

1.12 In addition, even where local authorities have established frameworks to guide their work with the third sector, partners felt these are mostly not implemented consistently and often have limitations, particularly in respect of the robustness, quality and comprehensiveness of need and demand assessments. We also found evidence of individual departments using local data and information to inform their service planning – for example, in Torfaen, the third sector contributes to the needs mapping database that feeds into a five-year housing commissioning strategy. However, county voluntary councils highlighted that if local authorities do not have a clear long-term strategy, then funding focuses on hot topics – immediate priorities that require a short-term intervention but which rarely require a sustained response – rather than longer-term preventative services that will have a greater and wider benefit to the community and for the local authority. These conclusions are echoed in the findings of our other surveys which, taken together, highlight that local authority strategic and planning arrangements for third sector services often have weaknesses.

Better-performing local authorities understand and regularly review their work with the third sector to streamline and improve their strategic funding priorities

- 1.13 Three of our six fieldwork local authorities have undertaken comprehensive reviews of their third sector funding in the past four years, mainly focused on accurately identifying the overall level of expenditure on the third sector. As a result of these reviews, some local authorities found that different departments and services in the local authority were funding the same third sector organisation to deliver broadly similar services. By conducting these reviews, the three local authorities consider that they have a better understanding of the range of activity they fund through the third sector and are subsequently better placed to develop a more strategic approach for their future work with the third sector. For instance, Carmarthenshire County Council identified in its wider third sector review that a large number of organisations report that they are delivering advice and information services than the authority was aware of – [Figure 5](#).

Figure 5 – Carmarthenshire County Council – coordinating third sector funding

Carmarthenshire County Council's review started in 2013 from a request to identify the local authority's annual spend on the third sector. At that time, the local authority had some anecdotal evidence that its third sector spending was uncoordinated. The local authority sought to identify a clear understanding of its annual spending and to assess the alignment of that spending with the local authority's single integrated plan priorities. The local authority aimed to ensure that future corporate approaches to funding the third sector would be more effectively coordinated to ensure minimal impact on residents of reduced third sector funding. The review also highlighted duplicated funding within the local authority which had previously been agreed with no central oversight.

The local authority sought to engage with all third sector organisations in receipt of funding and held a major conference to look at the issue. The local authority's chief executive and leader were heavily involved with leading the process. The local authority requested information from the third sector organisations that it was funding and its own departments to understand the total quantum of funding.

At the time of our fieldwork, the local authority had just completed its review and was developing the next iteration to its approach to working with, and funding, the third sector. The local authority acknowledged that the review had taken longer than anticipated but that the review findings have provided it with a very firm knowledge base to further develop its approach. The previous disaggregation of funding of the third sector to departments meant the local authority did not have a clear understanding of its overall spend on the third sector.

- 1.14 In Neath Port Talbot, the local authority has worked closely with the voluntary and community sector of Neath Port Talbot to review its grant funding arrangements and identified that a number of departments used their own grant funding arrangements and the local authority lacked a corporate overview of that activity. Following the review, the voluntary and community sector coproduced a **Grant Funding Scheme**, which was aligned with the Welsh Government's **Third Sector Scheme**. The management oversight of third sector funding is now contained within a single corporate department that now oversees all grant funding through a single local-authority-wide application process. That process makes it easier to align funding on achieving local authority priorities. The new process for third sector grant funding is easier to administer and enables the local authority to focus and align the work of third sector organisations on delivering authority strategic priorities. The local Voluntary Sector Liaison Committee also has an input into the scheduled regular reviews of the scheme to maintain the joint approach.
- 1.15 In Flintshire, the local authority reviewed the delivery of its domestic abuse support. At the start of the review, the local authority was funding two third sector providers in two separate locations. The local authority was reducing its funding for this area of work and proposed that the two third sector organisations should work together to provide the service in the future, thereby managing the reduction but maintaining the provision. The service is now provided on a collaborative basis by the two organisations, albeit at a lower cost than previously, but with the same level of service to the public.
- 1.16 However, we found that the other three fieldwork local authorities have not yet mapped out or reviewed the full range of their third sector funding for all services, although there tends to be a greater understanding of third sector provision in social care than other authority departments. Where authorities have not taken a strategic overview of third sector work and funding, interactions between the local authority and the third sector can often be patchy and less formal, with working practices driven by individual departments, services and officers. Because of poor oversight and coordination, local authorities miss out on opportunities to identify cost savings by rationalising management overheads.
- 1.17 A lack of corporate oversight can also result in variable funding arrangements and inconsistent decisions which can influence the quality of the services provided by third sector organisations. Individual local authority departments often work independently of each other, set different outcomes and use different approaches to procuring and grant funding the third sector with very different performance management arrangements. For example, we found that one local authority has funded a number of organisations with overlapping remits to deliver advice and information services by different local authority departments. Each contract incurred a management set up and administration cost which could have been reduced or avoided if an integrated approach to funding was in place. An integrated funding approach as adopted by other local authorities could reduce the burden on third sector organisations by simplifying administration, payment, performance and monitoring requirements.

- 1.18 County voluntary councils reported that where a local authority lacks an overall strategy or corporate framework, communication with the third sector can often be ad-hoc, uncoordinated and framed against very different department standards. One noted that local authority 'departments do things differently. A recent Communities First process.....was relatively simple, but with a quick turnaround for applicants to submit. Other examples such as Families First tenders, are often excessive and prohibitive.' Others noted that 'ad hoc arrangements across different departments leads to an inconsistent approach – ie differing financial thresholds for SLAs, contracts, Tendering' and another that because 'there is no apparent coordinated approach this sometimes impacts on perception of equality and transparency'.
- 1.19 During our fieldwork interviews and in responses to our call for evidence, third sector organisations frequently commented that officers and elected members do not fully understand how the third sector can help local authorities to deliver their corporate objectives and improve services for the public. A number of third sector organisations told us local authorities often lack the in-depth knowledge to understand and benefit fully from the opportunities that are available to add value to their own investment by linking their allocation of resources with other programmes of work.
- 1.20 For instance, third sector organisations noted that local authority funding is sometimes a prerequisite for organisations successfully bidding for, and securing, funding provided by others; for example, European structural and investment funds¹³, monies made available from other public sector bodies and national programmes such as the Big Lottery¹⁴. These are funds that are also not open to local authorities to access and use, and consequently offer opportunities to add value to local authorities' own third sector investment. As respondents to our call for evidence stated, 'the ripple effect of the third sector is massive (but) the local authorities don't understand this' and another that 'if the Local Authority does not have the faith in a project that is being delivered within the locality what hope do we have of convincing others to also come in'.

¹³ Funding provided by the EU Commission administered by the Welsh Government that can be used to support people into work and training, youth employment, research and innovation, business competitiveness, renewable energy and energy efficiency, and connectivity and urban development.

¹⁴ [Big Lottery Fund UK, Third Sector Early Intervention Fund webpage](#)

All local authorities have compacts with the third sector but these are not always up to date or effective

- 1.21 An important element in encouraging and developing the work of the third sector is the local third sector compact. Compacts provide a clear framework for local partnership working between local authorities and the third sector. A good compact will clearly set out the roles and responsibilities of the partners, be tailored to the needs of the area, the funding that is available and the diversity of third sector provision locally. An effective compact will also set out the principles of how the partners will do business and signatories have a responsibility to work in line with its principles and commitments.
- 1.22 The Welsh Government, in recognition of the important role of the third sector in supporting and helping public bodies deliver services and meet national priority objectives, introduced the **Code of Practice for Funding the Third Sector** (the Code)¹⁵. The Code sets out the key principles which underpin how the Welsh Government works with and funds the third sector. All Welsh Government departments must comply with the Code and Welsh Government sponsored bodies are required to comply through their funding agreements. All other public bodies (including NHS bodies and local authorities) must comply with the Code in cases where the Welsh Government has awarded them hypothecated funding. Local authorities are also expected to adhere to the principles of the Code and reflect these in their local third sector compacts.
- 1.23 Given the Welsh Government's expectations of public bodies as set out in the Code, and in particular local authorities, in their funding of third sector services, we surveyed the county voluntary councils on the use of the Code and how local authorities treat hypothecated funding. Of the nine county voluntary councils who stated that their local authority had a strategy for third sector services, five felt that the Code added value to the procurement of third sector services by local authorities. However, only three of the nine felt that their local authority's strategy is consistent with the Welsh Government's Code – ie the strategy covers all services and influences all decisions by the local authority in its works with the third sector.
- 1.24 We also reviewed all the compacts from our fieldwork local authorities. While a few compacts clearly reflected local circumstances and relationships, others appeared to be rather generic and showed little variation from the Welsh Government's Code. There was a stronger sense of ownership from third sector organisations where compacts had been reviewed and adapted to reflect local circumstances and changing financial positions. Those changes were viewed as encouraging improvements in the relationship between the local authority and the local third sector. For example, Blaenau Gwent recently reviewed and updated its compact (the **Third Sector Scheme**) in early 2016 and extended coverage to draw in other public sector bodies, including the local health board, Gwent Police Force and the Gwent Police and Crime Commissioner. The local authority recognised the revised scheme was in the early stages of implementation but anticipated that it will provide a clearer strategic framework for how public bodies with different budgets work with, and fund, the third sector within the county borough local authority area.

¹⁵ The Code has been updated on several occasions, most recently in January 2014.

1.25 However, we found that whilst local authorities have formal compacts with the third sector in their area, these are not always up to date nor do they reflect current partnership arrangements. We found that a number of compacts have been in existence for over 10 years without being revised or updated and often do not reflect current strategic priorities, how services are configured, provided and funded by local authorities nor accurately reflect the range of partners that provide services on behalf of the local authority. One county voluntary council noted that ‘there is no third sector compact, nor a Funding Code’.

Partnership working between local authorities and the third sector is not consistently effective to drive improvement

- 1.26 In order to understand how the third sector can make the best and most cost-effective contribution to addressing local authority priorities, it is essential that local authorities have a full and detailed knowledge of the services that the third sector currently provides. To achieve this, local authorities need to have effective and ongoing engagement and dialogue with the third sector. Poor engagement and consultation can result in local authorities designing services which do not reflect priorities, need or demand or result in poorly framed service specifications which are neither economic, efficient nor effective. However, because the third sector ranges from very small local community-based organisations to large UK-wide charities, it can be challenging for local authorities to both consistently and effectively engage with the full range of stakeholders.
- 1.27 Regular local authority and third sector partnership meetings are important mechanisms to oversee activity and ensure the local authority and third sector organisations are working effectively to deliver improvements. These are often framed around joint liaison committees which include both elected members and local authority officers. We found greater evidence of positive engagement between local authorities and the third sector where the local authority has a corporate approach to engaging and working with the third sector (which is usually underpinned by a robust and up-to-date compact). For example, the work of Neath Port Talbot County Borough Council summarised in [Figure 6](#).

Figure 6 – Neath Port Talbot County Borough Council – third sector partnership working

In Neath Port Talbot, the Voluntary Sector Liaison Committee has been looking at the importance of the third sector informing the local authority of the issues local people are facing. The local authority recognises that it is facing reducing budget settlements from the Welsh Government and the need to respond to, and work with, communities in more innovative ways. The local authority has clearly recognised the need to understand the services that it currently provides and what the third sector can provide. The local county voluntary council identified that it could also play a more effective role itself in improving the effectiveness of the Voluntary Sector Liaison Committee.

- 1.28 Likewise, the relationship between Flintshire County Council and third sector organisations is based around open and effective dialogue. From 2015-16 Flintshire County Council is reducing its core funding to third sector organisations but due to its effective engagement with partners, the reductions in funding have not been significantly challenged, primarily because the local authority communicated that reductions will be at the same level as the pressures needing to be addressed in the local authority's own services. The local county voluntary council considered the open and transparent nature of its dialogue with Flintshire County Council as a positive demonstration of the effective joint working and funding arrangements developed by partners in Flintshire.
- 1.29 Nevertheless, a number of respondents to our call for evidence considered that the relationship between local authorities and the third sector are not effective, often citing the relationship as unequal and more akin to a parent-child relationship. Concerns were raised that as the funding body, the local authority has greater power within the relationship, and if third sector organisations challenge the local authority then future funding decisions could be detrimentally affected. Only 14 of the 56 organisations that responded to our call for evidence stated that current partnership working between local authorities and third sector organisations is effective or very effective compared with 35 who considered current partnership working as not very effective. One respondent said 'most relationships labelled 'partnership' are no such thing. Neither is there any effective strategic planning around third sector funding.'
- 1.30 Many of the third sector organisations that responded to our call for evidence did not consider that local authorities have effective partnership arrangements for third sector working. One provider commented that 'the third sector could be utilised more fully and that there is insufficient value placed on what the third sector can offer' and another that 'although partnership is often talked about the reality is very different. Our experience has been that the third sector has limited influence in decision making and involvement often feels 'tokenistic'.' Some respondents considered that local authorities place a greater emphasis on third sector organisations delivering services at a lower cost rather than appreciating the additional value that the third sector can deliver, whilst others raised concerns that local authorities will seek to reduce funding to the third sector rather than be faced with having to cut services directly delivered by the local authority.
- 1.31 Where local authorities have not yet adopted a single strategy for working with the third sector, we found that partnership working is often variable and is dependent upon the approach of individual local authority service departments. Many local authority social care services have longstanding and more formal relationships with the third sector, which highlights the role of third sector organisations in delivering services. Partnership arrangements between local authorities and the third sector in social care are often framed around Welsh Government strategic documents – for example, **Fulfilled Lives, Supportive Communities**¹⁶ – and supplemented by social services market position statements – [Figure 7](#). These arrangements have supported partners – local authorities and third sector bodies – to continue to develop and strengthen strategic funding of third sector social care services.

¹⁶ **Fulfilled Lives, Supportive Communities** is the Welsh Government's strategy for social services in Wales. Whilst it is primarily for local authorities who have the responsibility for strategic planning, the role and contribution of the third sector is recognised as fundamental in meeting social care needs.

Figure 7 – Social services market position statements

The market position statement is an important part of a strategic funding process. It is a statement of what a local authority care and support market needs to look like in future and forms part of that dialogue with partners, including providers and local people so that they can plan to provide the best for service users. The market position statement should set out how the local authority will work with the organisations which offer services, care and support to individuals, families and communities.

Local authorities publish these documents to enable all potential providers to understand what services the local authority will consider providing in the future. All of the local authorities set out clearly that they expect that the third sector can compete to provide those services. Those market position statements enable the third sector to understand the local authorities' strategic approach, albeit only in social services, and how the sector can contribute to the delivery of services. This clarity is valued by the third sector as it can help it to develop services that the local authority needs but these should be accompanied by a clear approach to funding the identified services. We noted that in social services, the following contributed to the successful partnership working between the local authority and third sector organisations:

- a clear funding process;
- a focus on the needs of the local authority for the service being funded;
- clear objectives for the contract;
- regular reporting mechanisms;
- staff who had the expertise to commission and manage projects;
- organisations which were capable of writing bid documents and utilising the procurement process; and
- a clear exit strategy.

Interviewees considered that the development of well-being assessments under the **Social Services and Well-being Act 2014** will help to further develop local authorities' understanding of the needs of their local populations.

- 1.32 Despite the third sector's growing role in providing public services in Wales, the relationship between local government and the sector has suffered from a variety of problems. One respondent to our call for evidence noted that 'funding does not appear to be 'joined up'. Often a single service can be funded from several different 'pots'. The third sector is not always engaged as a strategic partner by local authorities and the contribution voluntary bodies make to strategies, priorities and joint working to deliver better services is variable.

1.33 With public sector partnership working increasing through public service boards¹⁷, it is important that all partners are represented effectively so that the widest understanding of funding of third sector services is available. In some areas, however, local authorities report that engaging the local health board in joint funding arrangements has not always been as successful and that this needs to be addressed given the level of funding health boards also provide to the third sector. Poor coordination of funding approaches between local authorities and local health boards is more onerous for both the local authority and third sector bodies and is less efficient than a joined-up local approach covering the range of public sector bodies including local authorities, health and police for example.

County voluntary councils play a key role in focusing and coordinating the third sector but their work is not always valued nor recognised and weaknesses in current arrangements undermine their effectiveness

- 1.34 County voluntary councils are often seen as ‘the voice of the third sector’ in a local authority area, often representing the third sector on strategic partnerships. County voluntary councils act as a conduit for policy information, supporting networks around key themes and areas of interest, with the aim of ensuring that policy and decision makers understand the needs of third sector organisations in a specific area. The Welsh Government views county voluntary councils as representing their member organisations and volunteers to meet their core service obligations, and the Welsh Government funds county voluntary councils to deliver this role.
- 1.35 The Welsh Government provides funding for local county voluntary councils to coordinate and support the activity of the third sector. Local third sector organisations can become members of their local county voluntary council. At present, the county voluntary councils reflect local authority boundaries with the exception of GAVO which covers Blaenau Gwent, Caerphilly, Monmouthshire and Newport.
- 1.36 We found that where relationships between local authorities and their county voluntary council are effective, then county voluntary councils are able to promote and support third sector organisations to secure funding and project work. We found examples of local authorities using their county voluntary council to identify suitable third sector organisations to deliver specific projects locally. In these situations, the county voluntary council acted as a broker and provided advice and support to its members to secure funding as well as develop the capacity and skills of third sector organisations. For example, GAVO and Caerphilly County Borough Council have developed a clear process to support the third sector’s capacity as shown in [Figure 8](#).

¹⁷ The **Well-being of Future Generations (Wales) Act 2015** establishes statutory public service boards in each local authority area. The purpose of public services boards is to improve the economic, social, environmental and cultural well-being in their areas by strengthening joint working across all public services in Wales.

Figure 8 – GAVO – developing the capacity of the third sector to compete in procurement

Caerphilly Central Policy Team has worked with procurement colleagues and the local county voluntary council (GAVO) to strengthen the capacity of the third sector. The Procurement Service provides guidance and support to third sector organisations in line with the Welsh Government's Opening Doors Initiative: Procurement and the Third Sector. The local authority aims to ensure more local organisations are successful in securing contracts with the local authority.

In 2014-15 this work continued with close work between procurement and GAVO around third sector procurement. The local authority's Procurement Team runs fortnightly procurement clinics where third sector organisations can receive advice and guidance on the tendering process and the use of the local authority's e-procurement system. There is a dedicated Supplier Relationship Officer within the Procurement Team who provides support to organisations. The local authority has also produced directorate procurement plans and these are hosted on the authority's website.

Alongside the above proactive work with the third sector, the local authority, in the autumn of 2014, in conjunction with GAVO and Aneurin Bevan University Health Board, ran seven bite-sized seminars for third sector organisations, to support their development and sustainability, and prepare them for future procurement and funding opportunities. Those sessions included the following areas:

- what are social enterprises?
- business plans
- risk management
- legal structures
- VAT matters
- the difference between grant/contract/service level agreement

Following those sessions, the local authority, in partnership with Aneurin Bevan University Health Board and the Office of the Police and Crime Commissioner held a conference that brought together third sector organisations with commissioners of services. The event provided the third sector with the opportunity to hear about the procurement processes and to meet organisations that would be running procurement exercises. At the time, the Office of the Police and Crime Commissioner funded a Development Liaison Officer to support the third sector to access funding for service provision via their Strategic Commissioning Board.

- 1.37 In some areas, county voluntary councils are seen by local authorities as the single representative of the third sector and consequently are invited to represent the third sector on strategic working groups and committees, irrespective of their expertise or knowledge of the subject matter. However, respondents to our call for evidence identified that local authorities focus primarily on local county voluntary councils as the key conduit into the sector but reported that county voluntary councils do not always liaise and communicate with their member organisations or effectively represent their views.
- 1.38 For example, a number of third sector organisations reported their concerns that they are not consistently consulted by their local county voluntary council and therefore questioned whether the county voluntary council could be seen as the authentic voice of the third sector. This lack of communication can lead to mistrust within the third sector and some organisations questioned whether county voluntary councils can be seen as an effective representative of the whole sector if there is no effective and ongoing engagement. It is important that local authorities seek assurance that for whatever forums they use to consult with the third sector, the process is as representative as possible of the sector and facilitates a wider range of third sector representatives for working groups and committees.
- 1.39 We also found evidence that some county voluntary councils are competing with their member organisations for both project funding and volunteers. One North Wales county voluntary council set up a befriending service funded by the National Lottery which the Red Cross¹⁸ was already in receipt of funding to provide in the same local authority area. This resulted in the two organisations providing the same service and ‘competing’ for both volunteers to run the service but also service users who would benefit from the work. To make best use of third sector funding, local authorities and county voluntary councils need to clarify their expectations of how funding will be used to support the third sector locally to avoid duplicated activity wherever possible and to maximise the impact and benefit that can be achieved from investment.
- 1.40 We also received information that some county voluntary councils are part of decision-making panels in local authorities for funding to which they have also applied. This can lead to a potential conflict of interest and this is something that should be managed. Whilst policies and procedures cannot predict all situations, and the seriousness of some conflicts of interest will be a question of degree, county voluntary councils are obliged to identify and disclose potential conflicts in a timely and effective manner.

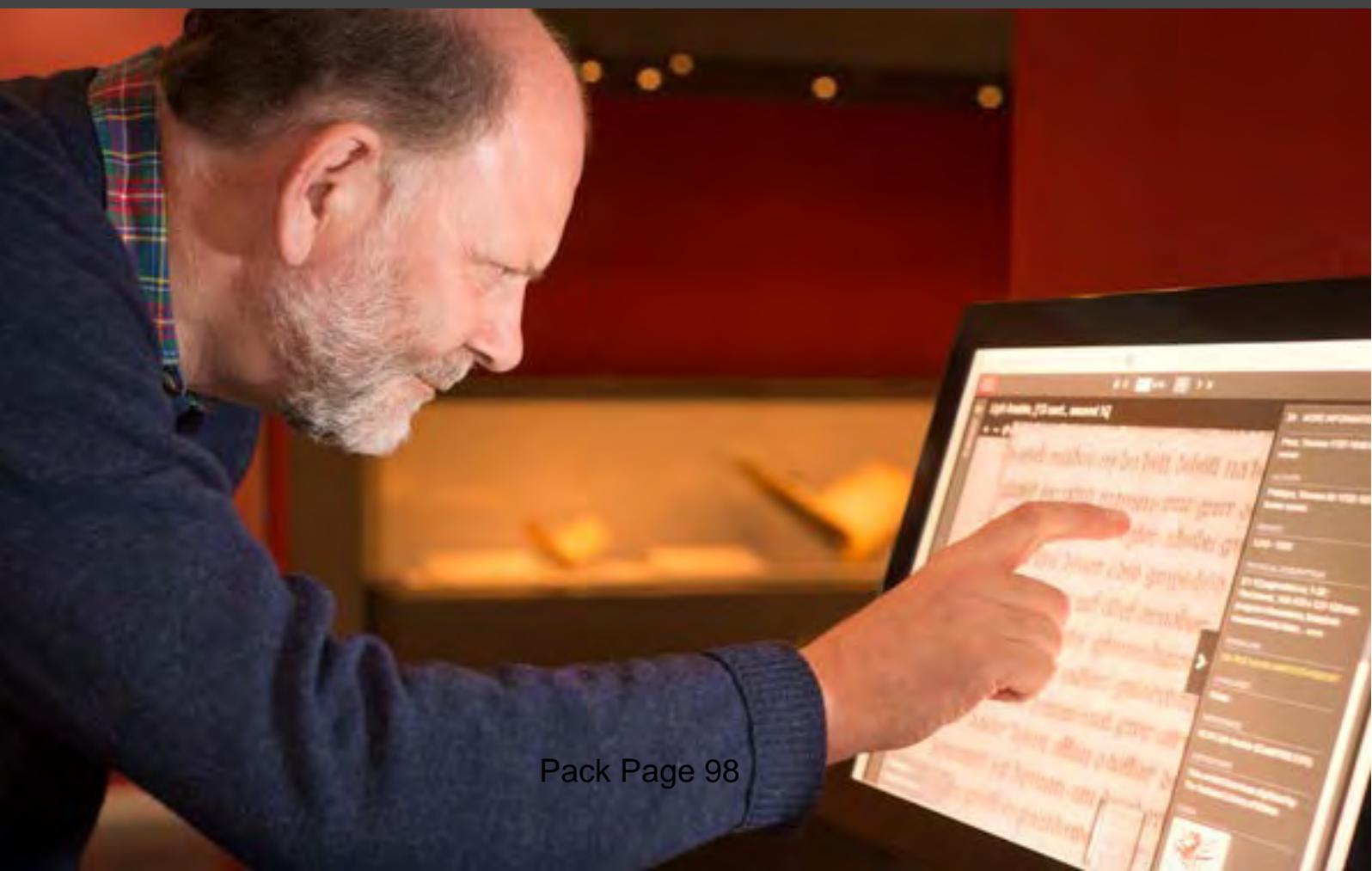
¹⁸ The British Red Cross is a charity that helps people in crisis through its voluntary network, which helps vulnerable people in the UK and abroad prepare for, withstand and recover from emergencies in their own communities.

- 1.41 The key question that must always be addressed is whether a county voluntary council's duties or responsibilities to the local authority could be affected by some other interest or duty that they may have. One respondent to our call for evidence noted their concerns 'about our local county voluntary council making decisions around allocation of funding in the same room as authorities and health board. They are effectively getting funding, they say it's because they are meeting an unmet need, but are not always working with third sector organisations to ready themselves to be able to bid and they do not always share things they have learned. Relationships have been pre-forged between LA and CVC which gives them the edge. This is clear conflict of interest.' County voluntary councils should be clear about their role on such panels, and local authority funding of services through such mechanisms needs to ensure that due process is followed and decisions are transparent.
- 1.42 In addition, some local authorities have also sought to coproduce services in conjunction with current and potential third sector service providers, especially county voluntary councils. The development of these approaches which value the expert knowledge of service providers and service users is one that can produce valuable insights into future service design. However, we found that these coproduction approaches had been constrained by current service providers being reticent to share their knowledge and expertise with other providers. This is a tension that local authorities need to manage if they are to get the maximum return from their resources. It is clear that engagement and trust must be built between all partners and that the focus should be on improving outcomes for people.
- 1.43 There is need for clarity about the role of county voluntary councils in the changing public sector environment. The current position where some county voluntary councils both support third sector organisations and also compete against them means that local authorities cannot always be clear as to how representative county voluntary councils are of the third sector. By having a stronger articulation of the role of the local county voluntary council, both local authorities and individual third sector organisations would be in a clearer position to work together to improve outcomes for citizens in Wales. It would also ensure that local decision-making processes are fully transparent and that trust is further developed across the third sector.

Part 2

Inconsistencies in local authorities' arrangements for funding the third sector make it difficult to demonstrate value for money

Colin volunteers on the Cynefin project, and is also involved in recording the conditions of OS Maps, at The National Library of Wales. One of the top 15 photographs in WCVA's Members Photography Contest 2016.



- 2.1 Once local authorities have approved their strategy for third sector services and the programme of works to be procured is identified and agreed, local authorities must develop and set out their administration arrangements to secure third sector services. These should be as simple as possible with approval systems, controls, monitoring and evaluation arrangements proportionate to the value of the funded work. Local authorities must decide on whether to use a grant or a contract, the period the funding award will cover, the frequency of payments and whether full cost recovery will be met. Processes for advertising and awarding services should also be transparent with information on how decisions will be made and performance reviewed clearly set out, up front and before any decisions are made.
- 2.2 It is therefore important that local authorities' arrangements for funding third sector organisations are efficient and effective, as the choices made by authorities are crucial to the achievement of value for money. Done badly, the funding processes can impose heavy burdens on the third sector with organisations having to invest resources to comply with systems which are often perceived by the third sector as onerous. Poor funding arrangements can also increase the risk of third sector organisations being unable to deliver what they are being paid to do and consequently result in public monies being wasted or a service failing.
- 2.3 Given that administration arrangements can be critical for the third sector successfully bidding for, securing and delivering services, we set out in more detail below our analysis of current practices. Our analysis looks at:
- the quality and accessibility of local authority information on the services required, the processes for applying and the criteria used to award contracts;
 - whether local authorities have good arrangements to identify when to run open or closed procurement;
 - the basis for a local authority deciding to use contracts or general grant support for third-sector-funded services;
 - the length of time local authority third sector service contracts last; and
 - the funding arrangements in place and whether they cover full cost recovery.

Application processes are not always streamlined to support full engagement from third sector organisations

- 2.4 Within local authorities, there are likely to be many different teams and services involved in funding the third sector, awarding grants and agreeing contracts for a wide range of purposes. To ensure local authorities are making the best use of the third sector and encourage participation from as wide a range of organisations as possible, local authorities need to have clear and appropriate application and information systems in place. From our review, we consider the best local authorities to operate single application systems covering all services and departments which commission services within the local authority. Corporate-wide systems ensure third sector organisations and local authorities have familiarity and understanding on arrangements, and when consistently used can streamline and reduce the burden of administration for all parties – for example, the work of Merthyr Tydfil County Borough Council set out in [Figure 9](#).
- 2.5 From our fieldwork and document reviews, we found that local authorities are beginning to improve their application processes for third sector funding by:
- standardising application forms within the local authority and using one process for all third sector funding;
 - introducing electronic processes to request and store information from third sector organisations to reduce duplicated information requests;
 - centralising grant management processes corporately to streamline administration, and improve coordination and oversight in the award of funding;
 - greater transparency of local authority processes – for example, clearly setting out the qualification criteria for contracts, the process for approving contracts and review and management arrangements;
 - revising application processes to ensure third sector organisations focus on demonstrating how their work contributes to delivering the local authority's corporate objectives; and
 - appointing third sector strategic partners who receive longer-term funding – subject to meeting delivery and performance targets – to reduce the need for regular tendering.

Figure 9 – Merthyr Tydfil County Borough Council – centralising grant claims from the third sector

We found that Merthyr Tydfil County Borough Council had sought to improve its application process and address the fragmented use of grants to third sector organisations by creating a Voluntary Sector Funding Protocol. The protocol was set up to achieve the following:

- a single point of access to financial support;
- a single joint assessment panel;
- create a consistent and transparent process; and
- avoid potential duplication and that resources are allocated according to identified need.

In addition to these aims, the local authority identified eight principles that would underpin the relationship between the local authority and those applying for funding:

- delivery of strategic policy objectives
- accountability
- stability
- efficiency
- transparency, consistency and fairness
- security of funding
- payment in advance

All the principles go to help build a working relationship which can help build a strong sustainable third sector.

The local authority uses two panels to look at applications from organisations; they are the Technical Appraisal Panel (TAP) and the Grants Panel. The TAP is made up of members and officers of the local authority, and is there to look at the viability and fit of the application from an organisation. The TAP will then make a recommendation to the Grants Panel as to whether the application should be approved/rejected/deferred.

The Grants Panel is made up of local authority elected members and also representatives from other organisations such as Heads of the Valleys, registered social landlords and the Welsh Church Fund. The panel will receive the applications from the TAP but it is also set up to look for opportunities:

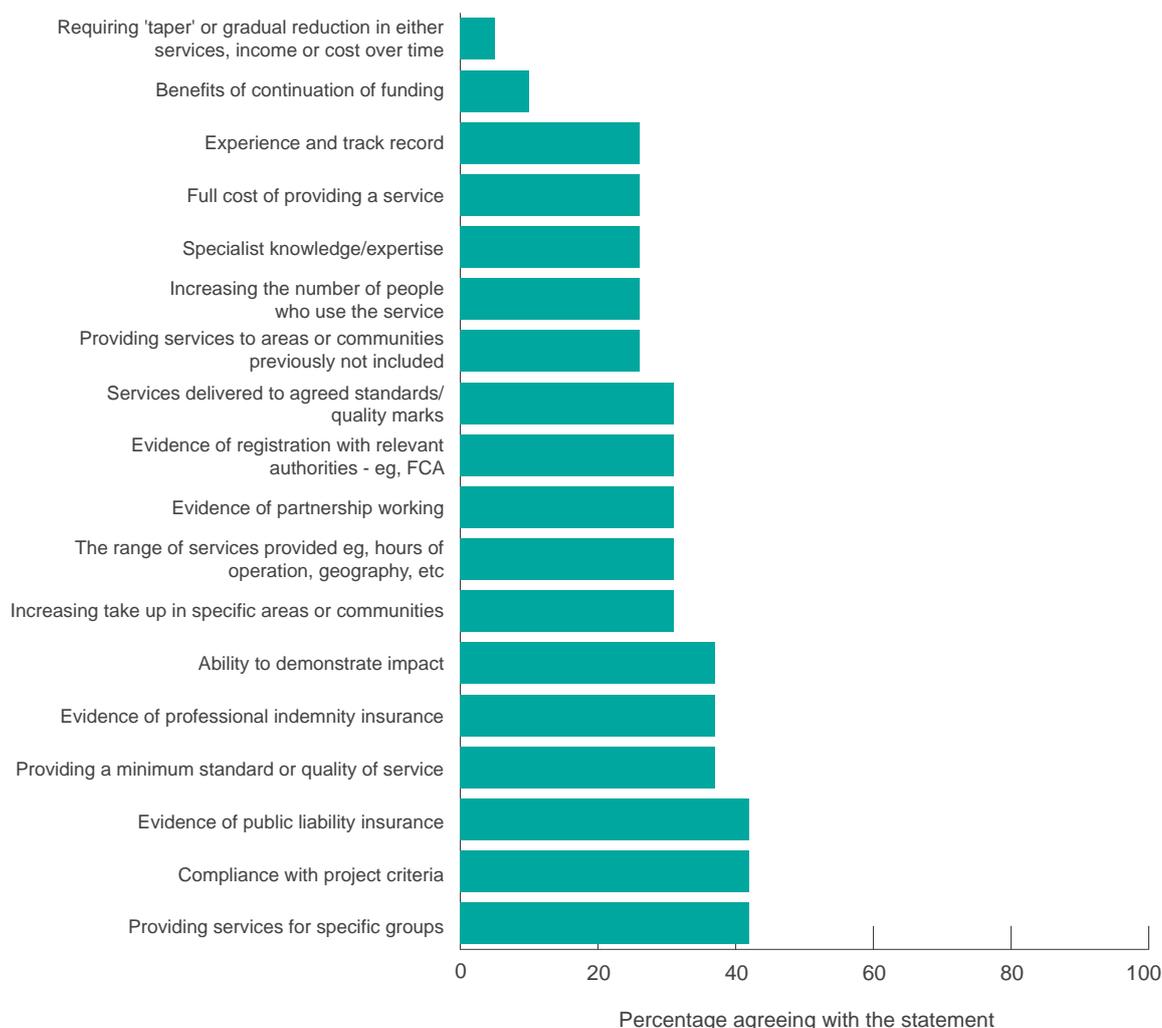
- to streamline processes and improve the transparency of processes and decision making;
- for rationalisation where schemes could be combined; and
- to achieve better and more effective use of resources.

The panel also receives information about the status of projects in place.

This provides the third sector with confidence that the local authority is looking at applications for funding in a fair and equitable way. It also demonstrates that the local authority wants to maximise the benefit of the small amount of funding that it has to distribute.

2.6 Several of our fieldwork local authorities have also revised their funding codes of practice for the third sector, clearly setting out their expectations on both the local authority and the third sector organisations. In particular, local authorities are focusing on setting clearer standards and emphasising their expectations of what third sector organisations are required to deliver and achieve. Whilst a focus on delivering outcomes is becoming more important in strategic funding decisions, the cost effectiveness of third sector organisations remains the key driver and price comparisons – usually unit costs – are often used as the main basis to determine who to award contracts to. This is drawn out in our survey of county voluntary councils set out in **Figure 10**.

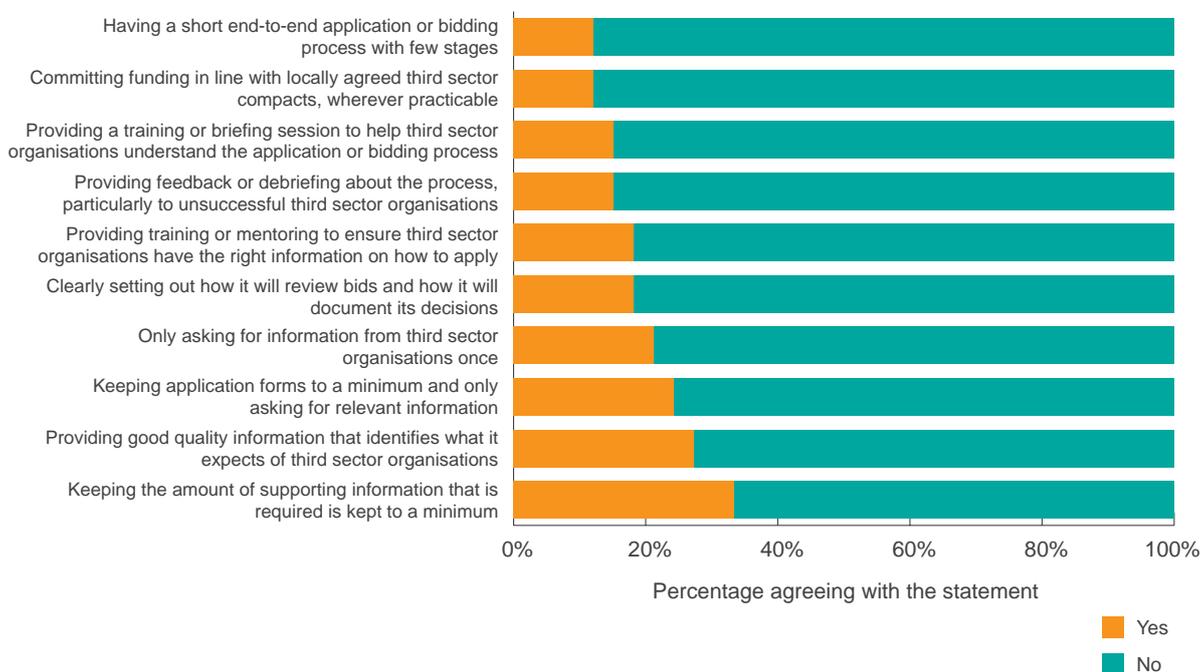
Figure 10 – County voluntary councils' views on the key issues considered by local authorities in awarding funds to third sector organisations



Source: Wales Audit Office, Advice County Voluntary Councils Survey, May 2016

- 2.7 The graph lists the potential criteria that local authorities can use to award funding to third sector organisations. Taken together, these represent key drivers for local authorities to use in balancing cost, risk, impact, quality and support to organisations. For all options, very few county voluntary councils believe that local authorities use a sufficiently wide range of criteria to decide on funding awards and these findings suggest that local authorities need to undertake further work to develop their basis for awarding monies. Whilst cost is undoubtedly an important consideration, local authorities also need to ensure this is balanced with, and does not outweigh, other considerations if they are to deliver value for money from their strategic funding decisions.
- 2.8 Our survey of advice and information providers asked third sector organisations to identify the steps taken by local authorities to streamline application processes to support the work of third sector bodies. The survey findings set out in [Figure 11](#) highlight that the experience of the majority of advice providers is that local authorities have not rationalised their funding arrangements to minimise the burden of third sector bodies when bidding for contracts.

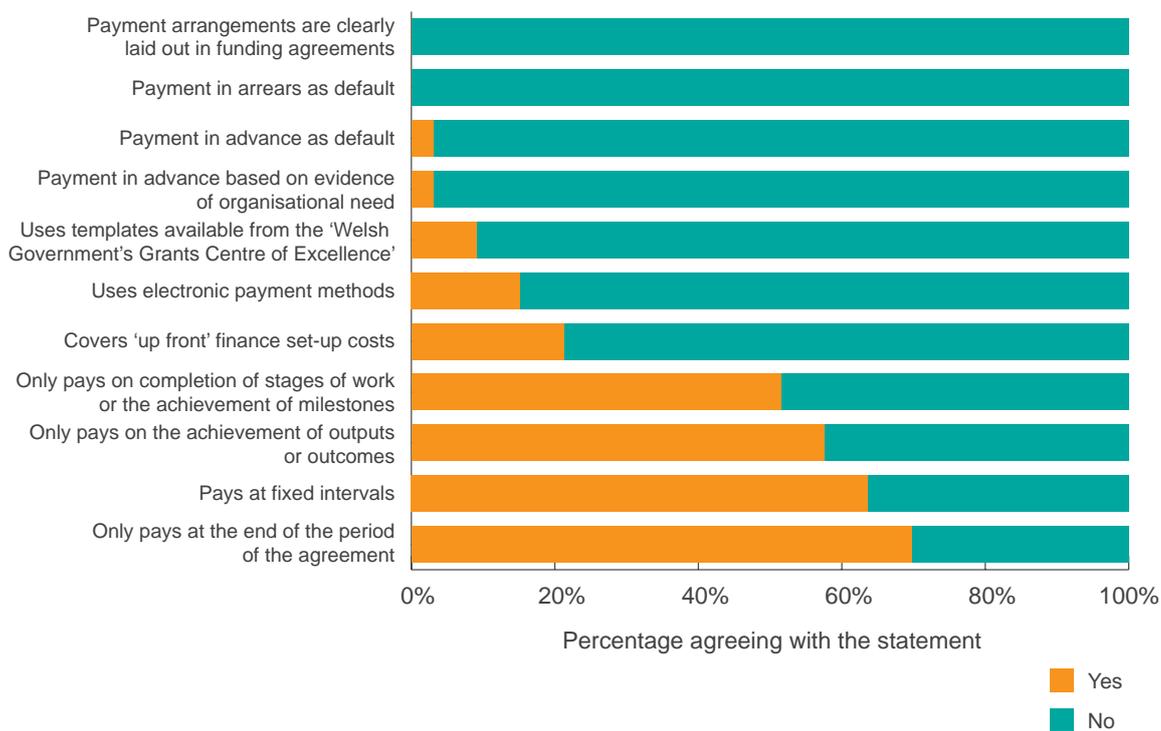
Figure 11 – Third sector advice agencies’ views on how local authorities seek to streamline application arrangements to reduce burdens on organisations



Source: Wales Audit Office, Advice Providers Survey, May 2016

- 2.9 In addition, the survey findings in **Figure 12** show that overall advice providers do not consider that local authorities have payment arrangements that are streamlined and support third sector organisations. Just over half of advice providers receive payments at fixed intervals and on the achievement of agreed targets/outcomes. However, the majority responded that local authorities do not adequately set out payment arrangements in funding agreements and few advice providers (less than 25%) receive payments from local authorities electronically – the cheapest and most efficient method of payment – or have the upfront costs of setting up contracts covered by local authorities.
- 2.10 We concluded that overall, the application and information processes used by local authorities for the third sector are too variable and are not efficient or economic. Consequently, because of these weaknesses, local authorities are not doing all they can to support and encourage third sector organisations to apply for funding.

Figure 12 – Third sector advice providers' views on local authorities' payment arrangements for services



Source: Wales Audit Office, Advice Providers Survey, May 2016

Local authorities are not always using the most appropriate approach for funding services

- 2.11 Through their strategic funding arrangements, local authorities specify the services they require and this represents a substantial investment of public resources. To ensure that local authorities receive the best possible supply of services at the most economical price, whilst at the same time ensuring that third sector service providers are provided the opportunity to compete for work on a fair and equitable basis, is a challenge. Generally, local authority funding of services is based on two main approaches – open or closed procurement – and [Figure 13](#) summarises the advantages and disadvantages of these two approaches.
- 2.12 We found that a small number of local authorities continue to work with the same third sector organisations without regularly testing the market to ensure that they are securing the best return on their resources. Whilst working within established partnerships can reduce or limit risk for local authorities, the approach reduces the pool of potential suppliers and can also inadvertently work against the Welsh Government’s objectives of local authorities developing local third sector organisations, and can be a frustration where such closed approaches are considered inequitable and limit opportunities for local authorities to drive further improvements and efficiencies. Local authorities need to recognise that using a closed approach does not allow equal access to all third sector organisations and better placed, more cost-efficient and effective organisations may be missed.
- 2.13 Conversely, open funding approaches allow for greater competition and enable a wider range of organisations to bid for funding, although this can negatively impact on small local organisations who now have to compete with a wider range of organisations for local authority contracts. On this basis, local authorities should be using the recently introduced European Union procurement regulations – the **EU Public Contracts Directive 2014**¹⁹ (the 2014 Directive) – to support how they fund work.
- 2.14 The 2014 Directive provides a new light-touch procurement regime. These regulations allow local authorities to resource third sector activity below a threshold of €750,000 without the need for a formal procurement processes. The directive introduces a number of simplified rules and procedures. They broaden the possibilities for negotiation: the competitive procedure with negotiation may be used when justified by the specific circumstances in relation to the nature, complexity or the legal and financial make-up of a given project, or by the fact that the needs of the contracting authority cannot be met by an off-the-shelf type of solution. The documentation required by the directive is also reduced, notably through the compulsory acceptance of self-declarations from bidders (through a standardised European single procurement document) with only the winning bidder having to submit formal evidence (certificates and attestations).

¹⁹ Specifically, local authorities are able to advertise their contracts via less burdensome prior-information notices (instead of contract notices). Furthermore, they are able to agree with the preselected bidders on the deadlines in their procurement procedures. Crown Commercial Service, [A Brief Guide to the EU Public Contract Directives 2014](#), October 2016.

Figure 13 – Advantages and disadvantages of open and closed procurement for local authorities and third sector organisations

Open procurement

Open procurement is usually a one-stage process, where all interested third sector organisations respond to a notice inviting submissions to deliver specified services. The contract notice states where to obtain documents and the last date when submissions will be accepted. Open procurement is available to all interested third sector organisations with no or few restrictions.

Advantages

- no favouritism (application process open to everyone);
- new suppliers can enter into the market;
- increased employment opportunities if new firm secures work;
- supports suppliers to develop and grow their work;
- local authority spreads risk by increasing the number of suppliers used;
- competitive process results in highly competitive proposals; and
- lower cost and likelihood of respondents accepting greater risk/responsibility.

Disadvantages

- inexperienced and unknown suppliers can enter into the market;
- upfront investment in time and money from suppliers with no guaranteed return;
- increased evaluation time for local authority to complete background checks and evaluate documents;
- unrealistic competition;
- greater chance of litigation (compared to closed procurement);
- can take a long time and can be expensive;
- process requires strict adherence and compliance with procedures;
- restricts suppliers from participating in developing and agreeing specifications;
- restricts the possibility of building long-term supplier relationship;
- it can suppress innovation by focusing on the bottom line;
- it limits supplier participation because of its excessive formalism; and
- suppliers cut corners to be competitive which enhances risk.

Closed procurement

Closed procurement limits the request for submissions to a select number of third sector organisations. Although considered a competitive process, competition is limited to only those third sector organisations shortlisted or invited to apply for the contract following a prequalification or selection process. Key to effective closed procurement is to ensure those selected to participate are qualified to fulfil the specific type of requirement, or certain conditions warrant the use of a limited number of third sector organisations in order to reduce the time and cost of the selection process.

Advantages

- you only invite those suppliers who can demonstrate references, knowledge, resources, financial stability and experience;
- keeps supplier list to a manageable number;
- process can be turned around quickly and is less expensive than other options;
- rewards best-performing suppliers and removes an element of risk; and
- continuity in process and performance for local authority and suppliers.

Disadvantages

- local authority open to accusations of favouritism;
- less price competition;
- potential for cartel tendering;
- new suppliers who could deliver a good service at less cost are not able to compete;
- suppliers are kept to a minimum and local authorities run risk of operating difficulties if one supplier drops out of the market;
- prequalification process needs to be open and fair and well thought out; and
- closed procurement can limit the number of potential third sector organisations from bidding.

Source: Wales Audit Office

- 2.15 However, a number of the county voluntary councils noted slow progress by local authorities in adopting the new streamlined system for contracts with values under €750,000, and were critical that local authorities are not using the provisions of the directive to streamline and speed up their strategic funding approaches. To ensure that the benefits of the funding method selected outweigh the costs, we would therefore expect local authorities to consider the need, wherever possible, to promote open and effective competition throughout the procurement process; and to balance this with the value of, and risk associated with, the approach.
- 2.16 In deciding which approach to pursue, local authorities should therefore:
- decide on the types of services that are being funded;
 - consider the type of information required to make a decision (for example, seeking quotations or using a tender or proposal process);
 - define the value and risk associated with the procurement;
 - determine whether light-touch processes in line with the **EU Public Contracts Directive 2014** are possible for the funded work;
 - decide the degree to which third sector organisations are able to meet the funding requirements;
 - consider whether innovative solutions are required; and
 - the cost and resources required of both the local authority and the potential third sector organisations seeking to supply the service.

There has been a significant growth in contracts for services and the decline in general grant support is creating some difficulties for third sector organisations

2.17 Third sector organisations receive both 'grants' and 'contracts' from local authorities to enable them to carry out their work. Grants contribute towards the expense of developing and running an organisation but do not necessarily fund a specific service. In comparison, contracts are funds provided by local authorities to a third sector organisation for specific work where the level and type of service are clearly defined. Figure 14 summarises the difference in approaches.

Figure 14 – The main differences between grants and contracts for third sector services

Grants	Contracts
<p>Grants to third sector organisations are resources that are paid to support the running of the third sector body and are not allocated for a specific contract or service. These are often referred to as core grants or core support and the grant enables a third sector organisation to continue to operate and support its core activity. Grants tend to be based on the cost of the third sector organisation providing a range of services, the impact of which it can be difficult to quantify. Funding risks are as much with the funder as the provider and the grant will be unique to the circumstances of the third sector organisation as it has not been subject to market testing and is often based on negotiation. Historically, grants have traditionally been provided to smaller and more local community-based bodies who are seen as being more accountable to the communities they serve.</p>	<p>Contracts to third sector organisations are resources for a specific service as specified by the local authority and is usually awarded following some form of tender and appraisal. These resources are used to fund only the service that has been funded and should not be used to cross-subsidise other activity. Contracts are secured via some form of competition and are price-based (although pricing may be only one determinant of the contract). Contracts operate against a defined output and operate with more certainty for both the funder and the third sector organisation. Funding risks are much more with the service provider. As contracts are open to a wider range of third sector organisations to tender for work, the approach adopted by local authorities can attract national and multi-national organisations to tender which will lose the potential local or community focus.</p>

Source: Wales Audit Office

- 2.18 Our analysis, set out in **Figure 15**, shows that between 2001-02 and 2013-14 there has been a shift in local authority funding of third sector services. Whilst the amount of grant funding has increased in cash terms from £30.8 million in 2001-02 to £39.5 million in 2013-14, in real terms (taking inflation into account) there has been a 19.1% reduction. There has also been a significant decrease in the proportion of resources allocated by local authorities to third sector bodies as grants. In 2001-02 grants accounted for 45.1% of all third sector funding provided by local authorities. By 2013-14 grant funding had reduced to 15.8% of all third sector funding by local authorities. In the same period, contracts to third sector organisations increased by £171.9 million, a rise of 302% in real terms. The proportion of funding provided as contracts has also increased significantly from 54.9% in 2001-02 to 84.2% in 2013-14. The shift in funding from grants to contracts demonstrates that local authorities are refocusing their third sector funding to investment to services that directly benefit or support delivery of specific activities.
- 2.19 Whilst contracts are likely to have clearer and identifiable delivery objectives and outcomes, grants are valued by third sector organisations for providing greater freedom to organisations to develop and deliver a wider range of services. The reduction in grant funding therefore highlights that local authorities are less willing to contribute to meeting the day-to-day running costs of organisations where it is generally more difficult to identify how resources directly contribute to benefiting local people and communities or, indeed, the work of local authorities.

Figure 15 – Local authority funding of third sector services between 2001-02 and 2013-14

Funding area	2001-02	2003-04	2009-10	2013-14	Change in real terms
Amount of funding for grants	£30,785,000	£48,579,000	£35,797,000	£39,484,000	-19.1%
Amount of funding for contracts	£37,439,000	£78,154,000	£120,578,000	£209,368,000	302%
Total	£68,223,000	£125,733,000	£156,375,000	£248,852,000	165.5%

Source: Wales Audit Office analysis of third sector funding in 2001-02; 2003-04; 2009-10; and 2013-14 produced by the LGDU for the WCVA (data has been rounded to the nearest £1,000).

- 2.20 We found that contracting processes and the decline of grants can create a more difficult environment for third sector organisations. Only 4 of the 56 organisations responding to our call for evidence stated that the change in funding from grants to contracts has positively affected their organisation, with 19 stating that the change has had a negative impact and 18 stating that they had seen no positive or negative impact. Fourteen of the respondents did not know and one did not respond. The cumulative effect of reductions in grant and local authorities seeking to maximise the benefits arising from their funding is resulting in many third sector groups, especially small and medium-sized locally based bodies, struggling to stay afloat and maintain appropriate levels and standards of service.
- 2.21 For example, Welsh Women's Aid stated that in some cases, local authorities have awarded contracts to generic service providers rather than specialist providers because of lower competitive-tender prices. However, the appointed provider often lacked the specialist knowledge to provide such niche and specialist services, which was impacting adversely on service users. Whilst it is legitimate for local authorities to secure the best price for a service, it should not be the only driver. Quality, impact, coverage and take-up are also important, particularly in specialist services which, by their very nature, often provide better value for money even though they may be more expensive.
- 2.22 Four local authorities responding to our survey stated that they have protected third sector funding from budget cuts in the last three financial years but three have not been able to offer that protection. However, only one of the county voluntary councils reported that local authorities have protected third sector funding from budget cuts. The vast majority – 17 of the 19 respondents – reported that local authorities have not sought to protect third sector funding and one respondent did not know. In addition, only 8 of the advice and information agencies felt that their local authority has protected third sector advice and information services from budget cuts in the last three financial years, with 22 stating that this had not happened and 3 not responding to that question. Our data analysis shows that only one local authority has seen a reduction in third sector funding with all others increasing spending in real terms. The difference in opinion may be a reflection of the change in funding with grants reducing and contracts for services increasing.
- 2.23 Third sector organisations responding to our call for evidence noted that 'grants are more efficient to the third sector as commissioning is costly and has a huge amount of waste, in both time and resources'. Another respondent noted that 'the challenge is to remain a customer focused service rather than becoming an income chasing business', whilst another respondent noted that 'sadly there is little respect for volunteering and lack of understanding of the costs or benefits of volunteering for individuals' and communities' health, well-being and up skilling as well as the added value in direct service delivery. There is too much expectation of the third sector being able to provide services at no cost or at least self-finance part of the service. Full cost recovery is not accepted. Middle managers often have little business understanding. Too often annual contracts are not paid until end of financial year causing cash flow problems for smaller organisations.'

- 2.24 In response to the reduction in grants, some groups have looked elsewhere for support either through general donations or funding applications to trusts and foundations. However, this has been generally inadequate to meet running costs or requires support from public bodies in the form of match funding to access such funds. Other third sector organisations have moved to become social enterprises²⁰ and looking to access social investment²¹, trading opportunities and adopting business practices as a means of generating income to fund mainstream activities.
- 2.25 Through these moves, some third sector organisations are now engaging with the 'social investment market' intended to replace public funding for public services, through the use of financial instruments such as payment by results and social impact bonds²². Some social enterprises that attract private finance do so by entering into debt commitments with private investors, whilst continuing to rely on public sector finance both to provide the contracted service and repay their investors. The rise of social enterprise investment therefore presents opportunities but is also a potential risk for third sector organisations if not managed effectively. There is no right or wrong approach in the use of grants, and local authorities need to ensure that when deciding what service they want, they use the best funding approach, grants or contracts, to deliver what is intended. This approach also has to be balanced with procurement policy at a national level which itself can present a challenge with local authorities needing to balance on the one hand the drive toward aggregations and economies of scale in order to reduce costs and lever in savings with local delivery approaches which enhance broader community objectives and better support smaller community based groups.

The recent growth in local authorities requiring third sector organisations to form consortia to bid for contracts presents potential risks as well as opportunities for all parties

- 2.26 We found a growing trend of third sector bodies being encouraged by local authorities to participate in bids as part of a consortium. The move by local authorities to encourage third sector bodies to develop consortia to bid for contracts is based on a belief that this will deliver better services for citizens and communities but also improve value for money for the local authority. Consortia are seen as offering economies of scale, more efficient processes and clearer lines of engagement. However, consortia can also present significant disadvantages. To be effective, consortia require high initial investment in time and resources and, whilst this approach can prove to be effective in engaging a wide range of expertise to meet the needs of service users, we found that local authorities are not always considering the time and resources that such bids take to compile.

²⁰ Social enterprises are organisations that apply commercial strategies to maximise improvements in human and environmental well-being alongside profits. Social enterprises can be non-profit, and may take the form of a cooperative, a mutual organisation, a social business, a benefit corporation, a community interest company or a charity organisation. What differentiates social enterprises is that their social mission is as core to their success as any potential profit.

²¹ Social Investment Business (SIB) is a UK registered charity and trading company that offers loans, grants and other financial products to charities and social enterprises. SIB manages one of the largest social investment portfolios in the UK. Its foundation pioneered community investment in the UK and, to date, has leveraged over £30 million from corporate and public sector organisations.

²² A social impact bond is a contract with the public sector in which a commitment is made to pay for improved social outcomes that result in public sector savings.

- 2.27 Local authorities are expecting organisations which are normally in competition to join together where there is no tradition of cooperation or a there is reluctance to work collectively. This collaboration is intended to make tenders more attractive to local authorities but does create some significant challenges for third sector organisations. For example, third sector organisations are governed by charity law and have their own objectives which may be constrained to a specific set of users or locality. Consortia may therefore may not be a viable option.
- 2.28 One of the main values of the third sector is its diversity. Encouraging independent organisations to work together to deliver services where no relationships have previously been in place (especially where they have been in competition) is not making the best use of the differences that exist. Local authorities also need to make sure they have an adequate lead-in time in their strategic funding arrangements to ensure consortia are able to develop sufficiently to be able to submit realistic and sufficiently robust bids and tenders for services. This does not always happen and we found examples of local authority timescales continuing to be driven by optimism rather than realism.

The continued use of annual funding awards does not support sustainable funding of the third sector

- 2.29 Annual or short-term funding creates a variety of problems for third sector organisations. It can result in difficulties in attracting and retaining staff, spending disproportionate time on developing and submitting applications for funds rather than delivering services, and difficulties in optimising performance when there is a great degree of uncertainty. A number of third sector organisations report that annual funding does not provide an effective basis for the planning and delivery of services, mainly due to the difficulty in aligning funding decisions, staff recruitment and contract length. Sustainable funding is essential to third sector organisations recruiting and retaining suitably qualified and experienced staff.
- 2.30 Only three of the nine county voluntary councils where the local authority has a single strategy or a framework stated that their local authority's strategy is consistent with the Welsh Government's code of practice for funding the third sector with the other six stating that local strategies are inconsistent with that code. Although the Welsh Government's code of practice on funding third sector services identifies that local authorities should provide a minimum of three months' notice for the ending of funding, we found that not all local authorities were always able to provide this information in a timely manner. This can be affected by late confirmation of budgets at a national level by the UK Government and the Welsh Government.



Christian Merrick at Cosmeston: Christian has been volunteering with Innovate Trust's Green Days project at Cosmeston Lakes Country Park since the beginning of 2016. One of the top 15 photographs in WCVA's Members Photography Contest 2016.

Source: WCVA

- 2.31 Poor communication creates considerable uncertainty for third sector organisations, business planning, and affects their ability to recruit and retain high-quality staff as well as look to provide innovative solutions. The lack of timely information about future funding means that third sector organisations are providing staff with redundancy notices, in some cases three months before the end of a funding cycle, which can be annual funding. This can contribute to the loss of staff who are looking for job security and also increase administration, recruitment and training costs. More importantly, the lack of sufficient notice critically affects service users where services may be withdrawn or changed.
- 2.32 Only three of the county voluntary councils reported that local authorities provide third sector organisations with sufficient notice of funding decisions which can support better continuity of service provision. Nine of the county voluntary councils stated that their local authorities do not. This inefficient cycle of funding can lead to ineffective service delivery and local authorities do not always receive full value for the contract that they are funding. For example, one respondent to our call for evidence noted that 'over the last five years there has seldom been a level playing field. Projects are confused, both in application and design. They are not efficient or effective with a long set up and long wind down and when a new similar project starts again they do not learn from the mess of last time, time and money are wasted again and beneficiaries miss out.'

- 2.33 Two of our six fieldwork local authorities have sought to overcome the challenge of the annual cycle of funding by providing third sector organisations with a commitment of longer-term funding. In Neath Port Talbot the local authority has agreed in principle to fund eight third sector organisations as strategic partners for the next three financial years starting from 1 April 2016. The local authority has identified that these organisations are essential to the delivery of the local authority's corporate objectives and is providing them with longer-term funding. However, the local authority does not wish to create a dependency culture and so is working with these strategic partners to access alternative sources of funding at the end of the three years.
- 2.34 A number of third sector organisations called for local authorities to consider greater flexibility in their use of grants when funding the third sector. This is because third sector organisations feel that due to their innovative delivery approaches and use of volunteers, they can deliver more with a smaller sum than local authorities can with larger budgets. There was also a call for local authorities to consider carefully what they fund to improve outcomes for the public and avoid only funding activity that can be easily quantified. Third sector organisations identified that funded services have less flexibility to respond to emerging service user needs compared to grant funding.

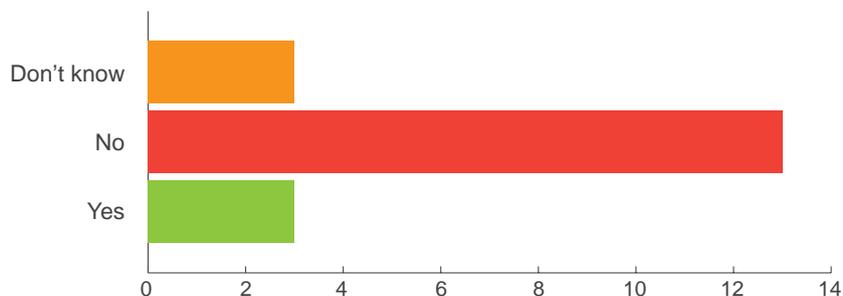
Full cost recovery continues to be a problem for many third sector bodies

- 2.35 Traditionally, it has been standard practice for third sector organisations to price activities based on the full cost of delivery and include within costs salaries of staff directly involved in the project as well as overheads²³. However, management and accommodation overheads are often not requested nor included in tenders by local authorities. This is partly a result of difficulties that some in the third sector have in working out the true cost of service, but is also a reflection of a growing reluctance amongst local authorities to meet the full cost²⁴ of a third sector organisation.
- 2.36 **Figure 16** shows that for 13 of the 19 county voluntary councils who responded to our survey do not believe that their local authority have full cost recovery processes in place.

²³ Overheads are the operating expense of providing a service including, for example, the costs of rent, utilities and taxes, exclusive of labour and materials.

²⁴ Full cost recovery means that a third sector organisation receives money to cover the direct costs incurred in providing a service and also the overhead costs.

Figure 16 – County voluntary councils' views on whether local authorities operate a full cost recovery model for third sector projects they fund



Source: Wales Audit Office, County Voluntary Council Survey, May 2016

2.37 One county voluntary council commented that ‘full cost recovery is included in the funding code of practice but there is a statement to say that full cost recovery might make the third sector group less competitive, so it is not really actively encouraged’. In some cases, only direct service provision is covered by the local authority funding agreements and organisations have to subsidise the cost of providing services through other sources. Many third sector organisations felt that local authorities do not fully understand the full costs of delivering services and the importance of overheads in enabling organisations to deliver what is specified, costs related to offices, ICT, management costs, legal advice and insurance. For example, one advice provider who completed our survey noted that their experience is that local authorities have ‘little recognition of need for full cost recovery’ and another that there is ‘no recognition of need for full cost recovery. No respect for third sector.’

Part 3

Local authorities are unable to consistently evidence the impact of their work with the third sector

Foraging Day at Merthyr Mawr: A group of regular conservation volunteers with Innovate Trust's Green Days at Wild Spirit Bushcraft, where they learned about foraging and bushcraft, and cooked their own lunch over an open fire in a yurt. One of the top 15 photographs in WCVA's Members Photography Contest 2016.

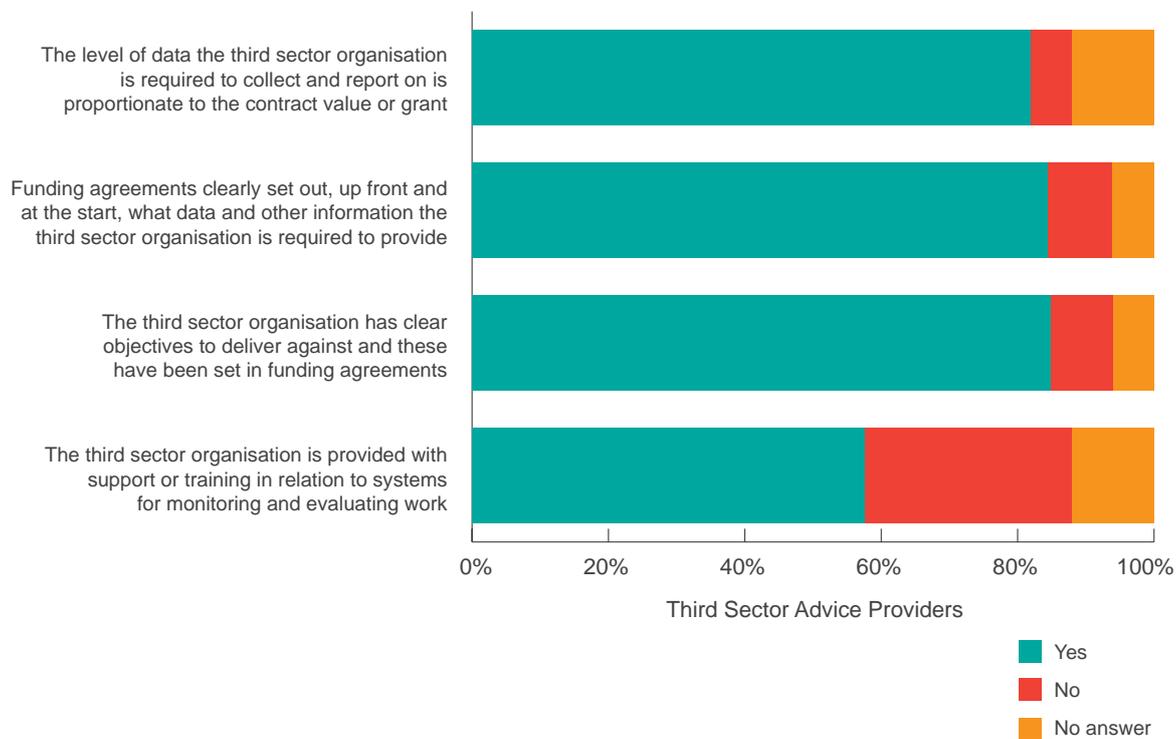


- 3.1 To get the best from funding decisions, local authorities need to ensure they have the right arrangements and systems in place to manage, evaluate, measure and scrutinise performance. Effective scrutiny of the third sector is centred around a number of key principles: providing training and support to organisations, and developing efficient systems to collect information that is proportionate; setting clear standards of how and what third sector organisations are required to perform against; and having the right processes in place to scrutinise and judge performance. This section of the report looks at the robustness of the arrangements put in place by local authorities to manage, review and scrutinise the performance of the third sector.

Local authority arrangements to monitor and review the performance of third sector organisations are not always consistent or effective

- 3.2 **Figure 17** summarises the findings of our survey of advice providers, and generally provides a positive picture of the systems created by local authorities to manage and oversee third sector funding. Just under 60% of third sector organisations stated that they receive support and training from local authorities on the how their services will be monitored and evaluated. In addition, over 80% of third sector advice organisations responded positively that local authorities set clear and appropriate objectives to judge performance when contracts are first agreed and signed. In addition, 80% of survey respondents felt that the level of data they are required to collect and report to local authorities is proportionate to the value of their contract. Taken together, the views of third sector advice organisations suggests that most local authorities are setting clear standards for advice providers to perform against, and operate balanced and appropriate systems to manage, evaluate and scrutinise third sector performance.
- 3.3 However, in comparison to advice providers, the county voluntary councils are less positive about local authorities' arrangements. **Figure 18** summarises the findings of our survey of county voluntary councils and shows there are wide variances in partners' views on the effectiveness of local authorities' systems to manage and oversee third sector funding. Seven county voluntary councils reported that their local authorities provide third sector organisations with support and training in relation to systems for monitoring and evaluating their work but eight stated that this does not happen and three did not know. Twelve of the county voluntary local authorities stated that local authorities set out the data and the other information that third sector organisations are required to provide at the outset of funding agreements; however, three stated that their local authorities do not and four did not know. Only seven county voluntary councils reported that the data that third sector organisations are required to collect and report is proportionate to the contract value or grant. Eight county voluntary councils did not agree and four did not know.

Figure 17 – Advice providers' views on the requirements of local authority performance management arrangements



Source: Wales Audit Office, Advice Providers Survey, May 2016

3.4 Taken together, the views of county voluntary councils suggest that whilst most local authorities are clearly setting out the data that they require organisations to collect, there is more that local authorities could do to ensure these requests are proportionate and manageable for the third sector. In addition, local authorities also need to improve their support and engagement with third sector organisations to ensure they are properly equipped to play their full role in monitoring and evaluating performance.

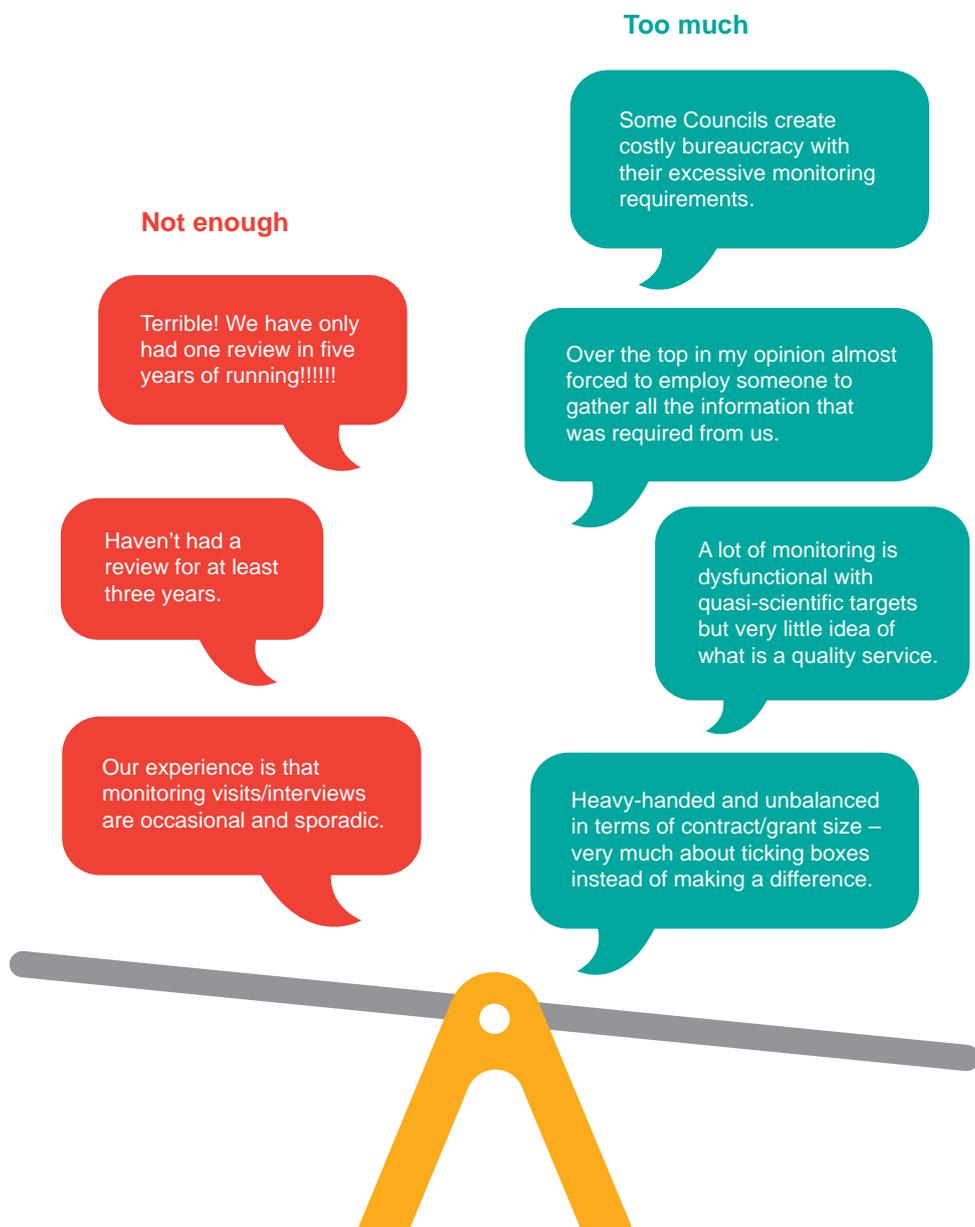
Figure 18 – County voluntary councils’ views on the requirements of local authority performance management arrangements



Source: Wales Audit Office, County Voluntary Councils Survey, May 2016

3.5 The reported lack of support and training is a critical issue for local authorities to consider when looking at the capacity and skills of third sector organisations. We found that a number of local authorities are also not specifying to third sector bodies the key information they require to judge the effectiveness and performance of the services they commission. In some cases, limitations in local authority performance measurement frameworks and reporting arrangements for third sector organisations has resulted in some third sector organisations not reporting on their performance for a number of years. This contrasts with the views of other organisations which stated that reporting and data collection requirements were overly onerous and not always meaningful or appropriate – Figure 19.

Figure 19 – Third sector advice providers' views on local authority processes for managing and reviewing their performance



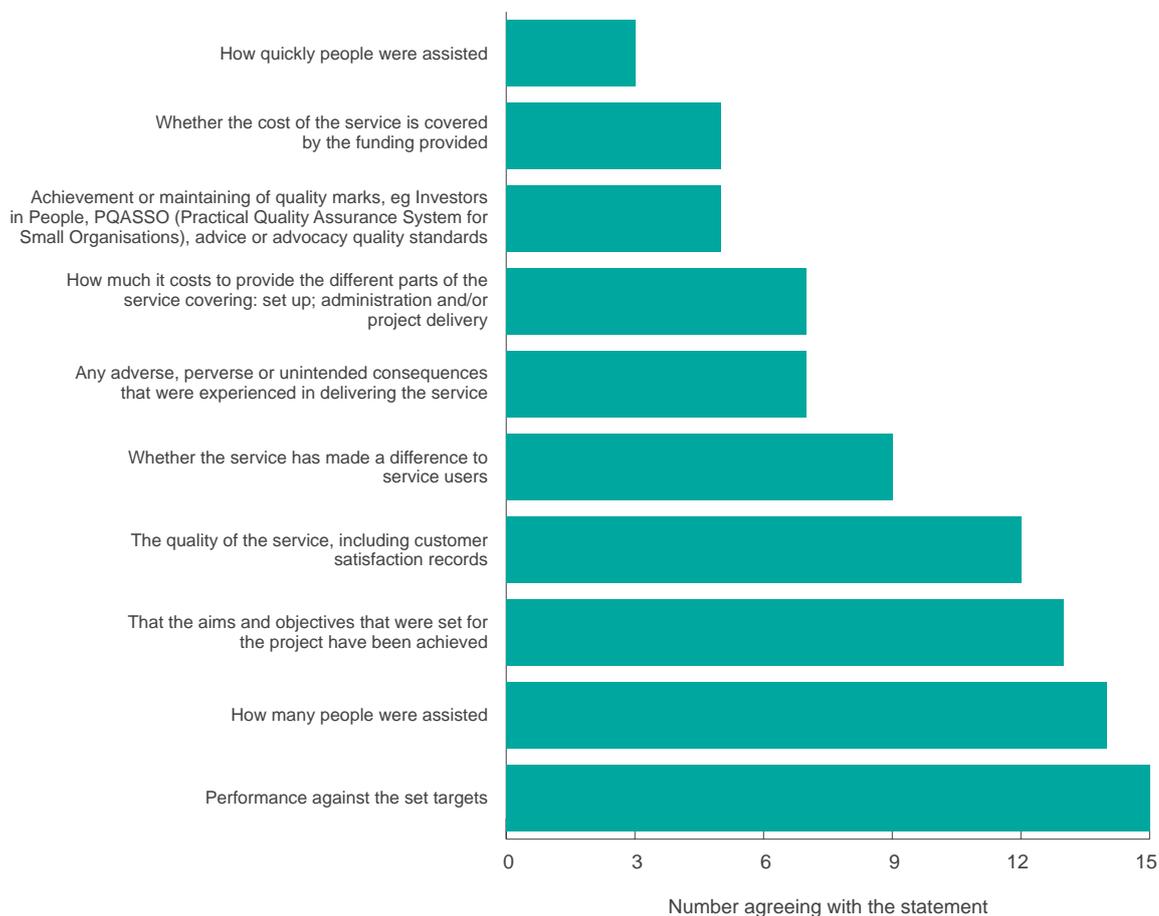
Source: Wales Audit Office, Advice Providers Survey, May 2016

- 3.6 From our document review of all 22 local authorities, we evaluated 6 as having established what we consider to be effective arrangements to monitor, review and evaluate the performance of third sector organisations. In these circumstances, local authorities have clearly stipulated the information they required from third sector organisations and have developed clear and simple processes to capture data from the third sector. We found few gaps in information and the data provided was largely focused on judging performance against delivery of the local authority's strategic objectives. Generally, we considered the volume of data and detail being provided, and the frequency of submissions, to be appropriate to the size and length of the contracts being monitored. Some services, in particular Supporting People and Social Care, have also developed monitoring systems with clearer expectations and better-quality review systems, something echoed by respondents to our surveys. With regard to the other 16 authorities, 11 provided evidence that they were covering some of these elements, but gaps existed in their processes and the remaining 5 showed poor or insufficiently evidenced approaches, with significant gaps in processes.
- 3.7 Some third sector organisations noted that in the absence of local authorities specifying their reporting and evaluation requirements, they had chosen to submit internal management reports to provide some form of assurance to those funding them on how their services are performing. Whilst internal management reports will be of interest to local authorities, the information will not specifically focus on demonstrating how the third sector organisation is necessarily delivering against the local authority's priorities for the funding. Internal management reports have also been developed to meet the specific reporting and performance management requirements of the organisation and charity funders, not local authorities, and are unlikely to therefore provide adequate assurance that services are delivering against local authority funding objectives.
- 3.8 Inconsistent and ineffective local authority monitoring and evaluation arrangements means that the third sector is not always clear about what is required and how best it can demonstrate the positive impact of its work. Poor performance management arrangements also weaken accountability and limit potential scrutiny of activity by elected members.

Most local authorities have not set measures to be able to consistently judge the impact of their work with the third sector

- 3.9 Monitoring and reviewing performance is about collecting information and evaluating the extent to which third sector funding has met its objectives. Effectively assessing performance will also help local authorities and third sector organisations to improve management of third sector funding, wider accountability for performance and expenditure, and policy development. Setting poor indicators makes it difficult for local authorities to therefore judge the true value of the services they are funding and the impact of the work of third sector organisations. Key to the effective scrutiny of performance is having robust but streamlined processes that strike the right balance between collecting everything and nothing.
- 3.10 Through our fieldwork and document review work, we assessed the quality and range of measures set by local authorities to judge the impact of third sector services. We assessed 10 authorities as showing good practice in setting appropriate measures for their third sector services to work. The best-performing authorities linked performance measures for third sector organisations with authority corporate priorities and strategic plans to be able to judge the impact from investment. We also rated a further four authorities as having some weaknesses in performance management information systems, and further work is required to appropriate measure are in place to be able to judge performance. We rated the remaining eight authorities as having poor or insufficient performance measures, which means that they are unable to effectively challenge and scrutinise performance. These are mostly authorities where third sector funding decisions continue to be managed by individual departments, which has resulted in a wide variation in the quality and robustness of working practices. We similarly found weaknesses in the way that grant funding is evaluated, and evidenced some local authorities continuing to provide monies to third sector organisations with few or no clear performance measures attached to the funding.
- 3.11 **Figure 20** summarises the findings of our survey of county voluntary councils about the criteria that local authorities use to monitor and evaluate their work with third sector organisations. The responses show that local authorities place greater reliance on meeting project targets than the quality of the service and user experience, and many local authorities are still heavily focused on outputs not outcomes.
- 3.12 Where data is collected, some county voluntary councils felt that much of the information has little or no relevance to judging the effectiveness of services. This is despite the view from the third sector that many third sector organisations focus on outcomes monitoring and tracking the difference made to service users. Similarly, just 4 of the 33 advice and information agencies that responded to our survey reported that local authorities set appropriate outcome measures for the third sector advice and information services they fund to be able to judge improvement over time.

Figure 20 – County voluntary councils' views on the criteria used by local authorities to judge the performance of third sector organisations



Source: Wales Audit Office, County Voluntary Councils Survey, May 2016

3.13 Torfaen County Borough Council linked its funding of third sector organisations to outcomes and has created a series of measures to calculate the Social Return on Investment (SROI), which is used as a guide to assist decision makers on where to allocate funds to get the best return for their investment – Figure 21. Other local authorities, including Pembrokeshire, have also started to use community benefit clauses within their procurement processes. These clauses often focus on developing wider benefits for local communities through the delivery of services and employment and training opportunities for residents.

Figure 21 – Torfaen County Borough Council – social return on investment

The SROI allows the local authority to make the reduction in an equitable way and on the basis of those organisations that were making the most of the grant funding they receive for the community and the local authority.

The SROI is calculated by identifying the cost per head based on the number of people who have had contact with the organisation and then divided by the number of social impacts the service provides; this provides a value per head. The value per head is then divided by the number of corporate plan priorities where the service delivers outcomes. This then provides the local authority with an SROI per head figure. The lower the cost the better the value for money in respect of social impact.

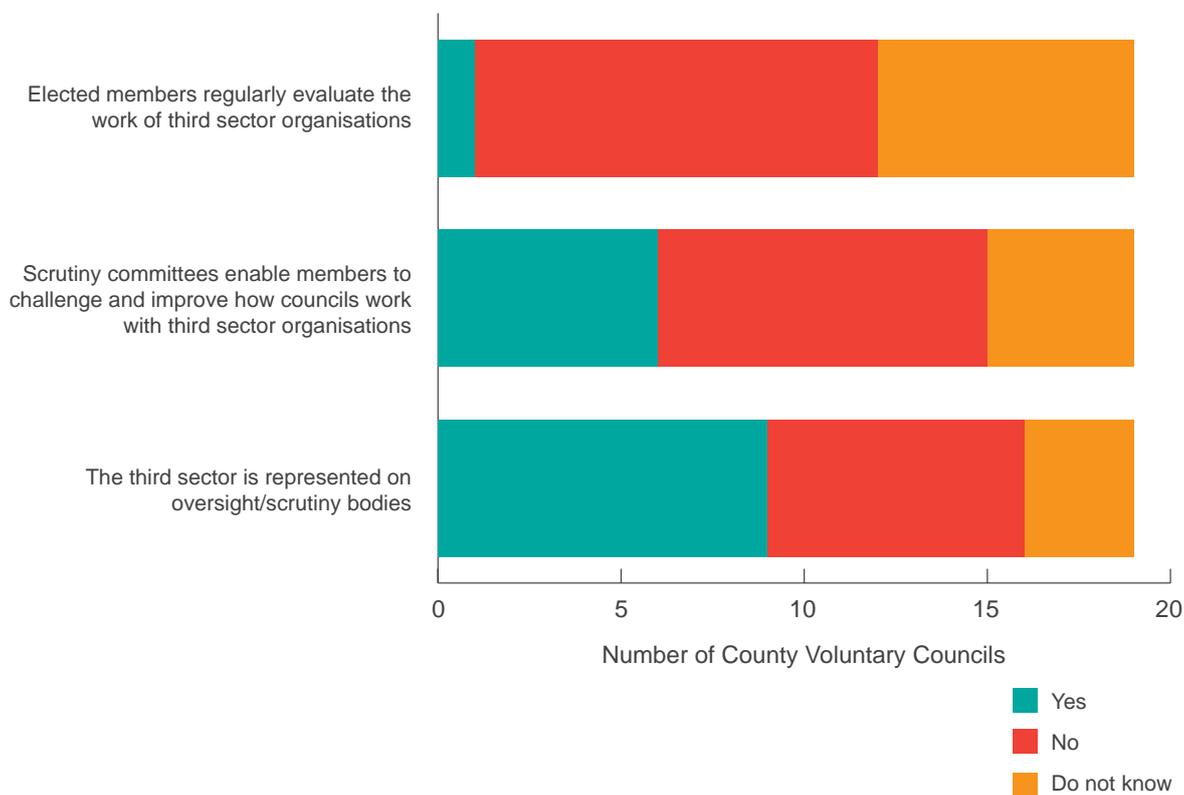
The calculation was shared with the local council for voluntary services and local third sector organisations to ensure that everyone understood the calculation and how it would be used. The local authority set up a group to evaluate the organisations using the SROI. Membership of the group included the executive member with responsibility for grant funding and other local authority elected members to create a grant advisory panel. The local authority used the SROI to rank the organisations and those that achieved a low-cost figure were successful in receiving continued funding.

Scrutiny and risk management arrangements to evaluate and oversee third sector funding are not always suitable or effective

- 3.14 Scrutiny committees can play a key role in overseeing the funding of third sector services to challenge underperformance, hold organisations to account and identify opportunities for improvement. Local authority scrutiny committees should maintain rigorous levels of oversight in relation to services contracted to third sector organisations as they would to those directly provided by the authority itself. We did find some examples of developing practice where local authorities' scrutiny of their third sector funding is improving. In Neath Port Talbot, the local authority's Policy and Resources Committee has been fully engaged in a review of third sector funding. As a result of the review, elected members better understand the benefits and challenges of the local authority's work with the third sector and have identified opportunities to up skill elected members to improve the effectiveness of scrutiny going forward. However, we found that, overall, scrutinising the performance of the third sector is an area of work that some local authorities struggle with.

3.15 Responses to our survey of county voluntary councils highlight concerns with their local authorities' scrutiny work in overseeing and challenging the performance of third sector services as set out in [Figure 22](#). Just under half of county voluntary council respondents acknowledged that third sector organisations are represented on oversight and scrutiny bodies. However, only 6 of the 19 county voluntary councils who responded to our survey felt that scrutiny committees enabled members to challenge and improve how their local authority worked with third sector organisations and only one that elected members regularly evaluated the work of the third sector.

Figure 22 – County voluntary councils' views on local authority scrutiny arrangements



Source: Wales Audit Office, County Voluntary Councils Survey, May 2016

- 3.16 The findings from our call for evidence echo the views of county voluntary councils and highlight that arrangements to review and scrutinise third sector performance are not consistently used. Only 14 of the 56 organisations which responded felt that local authorities' monitoring arrangements for third sector projects are effective. Common weaknesses identified by third sector organisations included:
- inconsistent monitoring processes between and within local authority departments;
 - information provided by third sector organisations not being used by local authorities when reviewing projects;
 - processes being overly burdensome on third sector organisations; and
 - limited capacity within local authorities to conduct reviews in a timely manner.
- 3.17 We found that scrutiny of third sector funding is often devolved to the individual subject-specific scrutiny committees. By vesting scrutiny in individual committees, local authorities often lack a central or corporate oversight of the full range of third sector funding taking place within the authority. This can result in an authority being unable to identify potential areas of duplication and miss out on opportunities to improve efficiency in their future funding of third sector services. Local authorities need to, therefore, improve how they collect, manage, share and analyse data to ensure they have the right intelligence to both take decisions and to clearly understand the potential impact of these decisions on the local authority, third sector organisations and service users.
- 3.18 Risk management is an important part of local authorities' scrutiny and oversight arrangements and, done well, can provide local authorities with assurance that the risk of certain kinds of events happening or having an impact on the business of the local authority are reduced or eliminated. Effective risk management is a process for identifying, assessing and prioritising risks of different kinds and, once the risks are identified, creating a plan to minimise or eliminate the impact of negative events. Local authorities need to consider a range of risks that working with the third sector can present; those may include reputational and financial risks.
- 3.19 Our fieldwork identified that local authorities do not always consider risk in their work with the third sector. Of the six local authorities we visited, only one had a clear process to specifically assess the risk of funding third sector organisations. One local authority told us that senior officers' professional judgment was used to judge risk, but this approach lacked any formal system to consistently assess and mitigate risk as information is not recorded or managed and is a point-in-time evaluation against no agreed criteria. Where there is a history of procuring services, especially in social care, we found more established processes with a greater focus on capturing risks in formal registers which are subject to review and mitigation actions.



Volunteer front walkers leading the way on Tenovus Cancer Care's Goodnight Walk in 2014. This event sees hundreds of walkers light up the night to remember and celebrate the lives of loved ones affected by cancer, and would be impossible without the help of fantastic volunteers. One of the top 15 photographs in WCVA's Members Photography Contest 2014.

Source: WCVA

3.20 In Flintshire, the internal audit service had identified funding of social care third sector organisations as an area for focus. The internal audit team's review, published in 2015, found that significant improvement in the control environment was required despite a number of areas that the local authority managed well including relationships between the local authority and the third sector and joint development of service specifications. The report noted that 'Key controls exist but fail to address all risks identified and/or are not applied consistently and effectively.' The audit team made a number of recommendations for improvement which the local authority was in the process of implementing when we visited.

Part 4

Changing expectations of the third sector present both opportunities and risks which need to be carefully managed if the anticipated benefits are to be realised

Young volunteers of Ferndale Grassroots having a hard earned rest by the newly developed pond high above the Rhondda Fach. This photograph was the runner-up in WCVVA's Members Photography Contest 2016.



- 4.1 With public sector funding set to continue to fall in the immediate future, the Welsh Government (and local authorities) have taken the opportunity to redefine public services focusing on new sustainable and preventative approaches for service delivery. Within recent legislative changes and planned reforms, a growing role for the third sector is identified. In this final section of the report, we consider the opportunities and risks presented to the new agenda of a stronger and more mainstreamed third sector.
- 4.2 The squeeze on government spending has focused policy makers' attention on the role of voluntary participation and the third sector in the provision of public services, leading to greater funding scrutiny and a need to understand how communities can participate in sustainable public services. This policy shift towards coproduction assumes that levels of volunteering, third sector activity and its distribution in all localities can effectively meet growing demand for public services. However, this has to be balanced against the reliance of the Welsh third sector on public monies which have reduced in recent years and brought with it a need for local authorities and other public bodies to seek to maximise the benefits that can be secured from every pound of investment.
- 4.3 For the third sector to be fully effective it needs to be able to compete to provide services in a fair and equitable way. Building capacity within the third sector to ensure as wide a range of organisations are able to participate in strategic funding processes is therefore an important role of local authorities. Torfaen County Borough Council has recently employed a Community Grants and Development Officer who has engaged with third sector organisations to help them improve how they work with, manage and review local authority funding services. Through this work, the Community Grants and Development Officer is both supporting third sector organisations to work with the local authority, but also ensuring that the local authority's funding is being used in the most effective way.
- 4.4 Some respondents to our call for evidence acknowledged that whilst many third sector organisations often do not possess the necessary capacity, skills, time and expertise to bid for local authority contracts, most local authorities are not looking to proactively support and encourage the development and growth of their local third sector. In particular, smaller, local and community-based third sector organisations find it particularly challenging to continue to evolve and meet new and more demanding local authority requirements.
- 4.5 We found that local authorities' procurement processes did not always help the local third sector. Because of the monetary value of the contracts, many had to follow the strict procurement procedures. Some organisations found this to be prohibitive for them to apply for opportunities. Some local authorities, through the county voluntary council, did provide information meetings where organisations were walked through the process and shown how it worked, and in some cases,

local authorities were able to demonstrate that third sector organisations had succeeded in competitive bids as a result of the training. However, information exchange does not solve the issue around capacity and expertise in the third sector and this is something local authorities need to consider in their strategic funding processes.

- 4.6 A strong message from our research is that while supporting the third sector to enable them to bid for contracts is essential, there is also an equally important need for training and support for those within the local authorities involved in funding services in order to ensure that they adopt and use appropriate and proportionate practices. Very few local authorities have staff dedicated to work with, and develop, the third sector and even where there are designated officers whose primary remit is to encourage and develop third sector capacity, these officers will find it difficult to understand the diversity and complexity of their local third sector.
- 4.7 Working proactively with the local third sector is more than capacity building – it is also a prerequisite to ensuring local authorities are getting the best return from their investment through their engagement with the local third sector market. A good understanding of the local market is therefore critical to local authorities maximising the potential benefits that can be secured from the third sector. To have a full understanding of the market, local authorities need to therefore recognise its diversity, its intrinsically competitive nature, how much power the local authority has through funding organisations and how decisions influence the future development of the third sector market.
- 4.8 Proactive management of the market is also critical to ensuring the aspirations of recent and emerging policy decisions of the Welsh Government fully deliver their intended benefits. **Figure 23** summarises three policy directives from the Welsh Government which highlight a growing role for the third sector.
- 4.9 However, we found that local authorities and third sector organisations do not always have a clear understanding of the amount of competition in different service areas and the shift in funding noted above – from grants to contracts for services – has changed the funding relationship between local authorities and the third sector. Underlying this change from grants to contracts for services is a shift in assumptions: from one that sees local authority funding as a way of supporting a third sector to deliver its own plans and priorities, to one that sees the third sector as part of a wider approach to delivering local authorities' plans and priorities. At a strategic level, the assumptions driving strategic funding decisions have therefore diminished third sector input into service planning and needs assessment, and replaced collaborative with competitive relationships (often invoking commercial confidentiality), amongst third sector bodies and between third sector bodies, county voluntary councils and local authorities.

Figure 23 – The Welsh Government sees a growing role for the third sector in the delivery of public services

The **Social Services and Well-being (Wales) Act 2014** (the 2014 Act) provides the legal framework for improving the well-being of vulnerable adults and children, and carers who need support, and for transforming social services in Wales. The 2014 Act aims to address issues of demographic change and raise the expectations of those who access care and support. The role of the third sector is referenced several times in the 2014 Act and Section 16(1) imposes a duty on local authorities to promote social enterprises, cooperative organisations, cooperative arrangements and third sector organisations to provide care and support and preventative services in their area. The 2014 Act also requires local authorities to change how they work with individuals to help them achieve their well-being outcomes. Firstly by asking ‘what matters to them?’ and secondly by maximising their support networks and accessing community and voluntary resources, which are vital to achieving the aims of the 2014 Act. The third sector is key to supporting this culture change.

Similarly, the **Well-being of Future Generations (Wales) Act 2015** (the 2015 Act) requires public bodies to take a long-term view, structured around the five themes of long term, prevention, integration, collaboration and involvement. Welsh local authorities will need to be mindful of these requirements and in particular the objectives set by their local public service boards. Each public service board must set out a local well-being plan, detailing how their area will achieve the Sustainable Development Principle of the 2015 Act, and must invite ‘relevant voluntary organisations’ to participate on the board. Although only public bodies are bound by the 2015 Act, it is clear that for a local authority to achieve its well-being goals, it will require the support of other sectors, in particular third sector bodies.

The white paper, **Reforming Local Government: Power to Local People**²⁵, identified a greater role for third sector organisations in the delivery of public services in the future. The white paper set out the Welsh Government’s proposals for improving public services and looked at a wider role for the third sector in a number of areas, in particular an accelerated model of local authorities funding services through the third sector, social enterprises and mutuals. The white paper supported the expansion of third sector organisations with a much greater involvement in the direct delivery of public services. The Welsh Government is currently reviewing its options to take forward the white paper proposals but remains committed to a growing role for the third sector in providing public services.

²⁵ Welsh Government, **Devolution, Democracy and Delivery – White Paper Reforming Local Government: Power to Local People**, February 2015

- 4.10 The WCVA has recently undertaken a strategic review to set a new vision and priorities for its work in the coming years. The WCVA has worked with county voluntary councils to review priorities for local, regional and national third sector support services. The WCVA has looked at the future risks and opportunities that face the third sector and how the sector can collectively respond to these. These issues include environmental factors including climate change; economic impacts on society and individuals; the collection and use of data to shape services and the impact of increasing digitisation; demographic changes; and the changing face of public services through the impact of new legislation.
- 4.11 The WCVA consulted on a revised strategic framework in the autumn of 2016 setting out its aims and strategic priorities for the future and its principles for third sector working. The WCVA recognises the challenges that the sector faces and recognises the variety of responses that the sector could offer to these in the coming years. The WCVA highlights that as public services change in the coming years there are opportunities and risks to the sector. The risks include greater competition for funding from other public bodies and also the private sector, and the opportunities include greater collaboration between third sector organisations in the delivery of services.
- 4.12 It cannot be ignored that the third sector faces a number of major challenges, especially around its role, remit, funding and status in Welsh society. As noted above, there is a pressing urgency from the Welsh Government for the third sector to have a greater role in facilitating and delivering public services as well as maintaining its advocacy and representation role on behalf of Welsh citizens. It is also important to recognise the contribution the third sector makes to the strategic and statutory objectives of local authorities, and the economic and employment benefits in many Welsh communities. To deliver the aspirations presented by the emerging policy direction of the Welsh Government will therefore require changes in how local authorities and other public bodies work with the third sector.
- 4.13 There is a need for closer working relationships to be developed between local authorities and the third sector to ensure the third sector is equipped to play an active and effective role in strategic funding processes but also has the capacity and ability to meet the new and emerging requirements of recent legislation and policy priorities. These are significant challenges which have implications for the Welsh Government, local authorities and third sector organisations, which need to be handled with clear leadership and drive.

Appendices

Appendix 1 - Study methodology

Appendix 2 - Good practice case studies

Appendix 3 - Checklist for local authorities effectively engaging and working with the third sector

Step Up, Step Out volunteers, stepping up and stepping out to help their local community by creating a path at Loggerheads County park. One of the top 15 photographs in WCVA's Members Photography Contest 2015. Photo by Graham Davies, a volunteer with the Step Up, Step Out Programme.



Appendix 1 - Study methodology

Review of literature

We have reviewed a wide range of documents and media, including:

- Welsh Government policy and guidance documents
- local authority plans and strategies for the third sector in all 22 local authorities
- the WCVA's reports on third sector funding produced by the LGDU (Wales)

Data analysis

We have analysed the data collected from local authorities by the LGDU about local authority funding of third sector services. The LGDU carried out this work on behalf of the WCVA in 2001-02, 2003-04, 2009-10 and 2013-14. The returns include information for 19 of the 22 local authorities and does not include any information for the Isle of Anglesey, Neath Port Talbot and Newport which did not provide returns to the LGDU. The 2009-10 return had data missing for five local authorities – the Isle of Anglesey, Merthyr Tydfil, Neath Port Talbot, Newport and Rhondda Cynon Taf. Despite these omissions, the information published by the LGDU remains the most comprehensive, consistent and recent source of data on the level of funding provided by local authorities to third sector organisations in Wales. The data drawn from individual returns from each authority has not been audited for accuracy.

Local authority fieldwork

We visited six local authorities in Wales in 2016. The local authorities selected represented a mix of authorities which are geographically spread across Wales and also reflected different levels of funding to the third sector as reported in the LGDU reports. These were:

- Blaenau Gwent County Borough Council
- Carmarthenshire County Council
- Flintshire County Council
- Neath Port Talbot County Borough Council
- Pembrokeshire County Council
- Torfaen County Borough Council

During the visits, we interviewed a range of local authority staff, third sector organisations and members.

Surveys

We undertook a range of online surveys and the coverage of the surveys with response rates were as follows:

Survey respondents	Purpose of survey	Response rate
Local authorities	<p>To gather views on the following areas:</p> <ul style="list-style-type: none"> • strategic approach to funding third sector services; • how the approach takes account of the Welsh Government's frameworks; • how effective communication with the third sector is; • governance-related issues including risk management; • support for third sector organisations applying for funding; • funding processes; and • how third sector organisations' performance is managed, reviewed and evaluated. 	<p>Heads of procurement for the 22 local authorities and received 8 responses (36%). Given the low response rate we have not used the survey extensively in the report.</p>
Local county voluntary councils	<p>To gather the third sector's views on the following areas:</p> <ul style="list-style-type: none"> • local authority strategic approaches to funding third sector services; • how local authority approaches take account of the Welsh Government's frameworks; • how local authorities communicate with the third sector; • governance-related issues including risk management; • local authority support for third sector organisations applying for funding; • local authority funding processes; and • how local authorities manage, review and evaluate third sector organisations' performance. 	<p>The 19 county voluntary councils, and we received 20 responses, although 1 county voluntary council that responded was also a fieldwork local authority area and requested to be interviewed rather than complete the survey. The Gwent Association of Voluntary Organisations covers four local authorities (Blaenau Gwent, Caerphilly, Monmouthshire and Newport). The survey asked about the approach of individual local authorities and we received three responses from the Gwent area. We have only used the findings to report views at an all-Wales level. Denbighshire Voluntary Services Council was unable to respond to the survey due to the retirement of the Chief Executive who left in November, and the Interim Chief Officer being off work ill for the period. The local authority areas where we have no survey information are Denbighshire, Neath Port Talbot, Monmouthshire and Newport.</p>

Survey respondents	Purpose of survey	Response rate
Information and advice agencies	<p>To gather views of third sector information and advice agencies providing services to local authorities on the following areas:</p> <ul style="list-style-type: none"> • local authority strategic approaches to funding third sector services; • how local authority approaches take account of the Welsh Government's frameworks; • how local authorities communicate with the third sector; • governance-related issues including risk management; • local authorities support for third sector organisations applying for funding • local authority funding processes; and • how local authorities manage, review and evaluate third sector organisations' performance. 	<p>We focused on information and advice services because local authorities provide a high proportion of funding to these organisations and they also cover a wide range of services for the public. The Welsh Government undertook a national review of information and advice services in 2013 which made a number of recommendations. In March 2015 the Welsh Government created a National Advice Network to provide advice to the Welsh Government on policy requirements to improve access to good-quality social-welfare law information and advice services.</p> <p>We surveyed advice and information agencies, and 33 organisations responded to the survey. Of these 33 organisations, 21 were from a national organisation that has delivery contracts with 20 local authorities. These organisations provided responses, as far as possible, for each of the 20 local authorities up to question 30 and then the national umbrella organisation completed questions 31 to 35. We have only used the findings to report views at an all-Wales level.</p>
Call for evidence to the wider third sector	<p>To gather views of the third sector on:</p> <ul style="list-style-type: none"> • the effectiveness of local authority systems for publicising, awarding, managing and reviewing third sector projects; • current partnership working between local authorities and third sector organisations; • how effectively local authorities fund third sector services; • how the move away from grant funding to greater payment for services under contract has affected third sector organisations; and • to what extent does local authority funding of third sector services deliver the intended benefits and outcomes. 	<p>The call for evidence was promoted to the third sector through the WCVA and local county voluntary councils. We received 56 responses to that call for evidence. We have summarised themes from the call for evidence.</p>

Appendix 2 - Good practice case studies

Good practice – how we determine it

These are the parameters we use to judge whether to include a case study as good practice:

- a programme, activity or strategy that has proven effectiveness, supported by a comprehensive evaluation.
- a programme, activity or strategy that has been shown to produce successful outcomes and is supported to some degree by subjective and objective data sources.
- a programme, activity or strategy that has worked within one organisation and shows promise during its early stages for becoming practice with long-term sustainable impact.
- a programme, activity or strategy that has the potential for replication among other organisations.
- a programme, activity or strategy that is delivering value for money. Value for money is defined as the optimal use of resources to deliver the intended benefits.
- a programme, activity or strategy that is delivering savings/reductions in expenditure with no or low impact on performance.

Within the body of the report, we have identified the following areas of good practice:

- Flintshire County Council – third sector funding review ([page 17](#))
- Carmarthenshire County Council – coordinating third sector funding ([page 19](#))
- Neath Port Talbot County Borough Council – third sector partnership working ([page 23](#))
- social service market position statements ([page 25](#))
- GAVO – developing the capacity of the third sector to compete in procurement ([page 27](#))
- Merthyr Tydfil County Borough Council – centralising grant claims from the third sector ([page 33](#))
- Torfaen County Borough Council – SROI ([page 56](#))

In addition, we have also identified the following transferable practice.

Case study 1 – Pembrokeshire County Council – working closely with the third sector

The local authority was finding the cost of bulk collections in a large sparsely populated county was becoming prohibitive. The local authority looked for a solution other than to stop the service and to see if it could be delivered in a different way. FRAME, a registered charity and social enterprise, was interested in taking over the work.

FRAME provides education, training and employment opportunities to people with all disabilities and people who are considered to be socially excluded, to enable them to test their ability to work, develop new skills and change direction in their lives. These opportunities are provided through the operation of a community reuse and recycling project which as well as offering reusable furniture and household items to the general public, targets those experiencing the effects of poverty and social deprivation in Pembrokeshire, providing items at very low cost or free of any charge to individuals or families in crisis.

The awarding of the work to FRAME by the local authority has other benefits. The local authority:

1. does not have to pay for the infrastructure to collect the items;
2. reduces its costs on landfill; and
3. through working with FRAME is encouraging people who are considered socially excluded to get back into society and reduce their dependence on welfare benefits and other local authority services.

FRAME is also working with the local authority's Education Department to help maintain a small woodland and use it for students with challenging behaviour to get an understanding of their environment. The local authority's strategic approach to funding services has allowed it to make the best use of the third sector. By ensuring the tender documentation is developed and appropriately focused, the local authority is encouraging local organisations to bid for important services to complement its provision and develop further capacity.

Since the fieldwork in March 2016, the woodland project has ceased (the woodland was on a short lease) and FRAME hopes to run a similar project in future.

Appendix 3 - Checklist for local authorities effectively engaging and working with the third sector

Area	In place	Under development	Not in place
1. Strategic arrangements			
Vision			
The local authority has an agreed vision on how it will work with the third sector that covers all services and all third sector funding.			
The vision has been shared with, and is understood by, all relevant staff in the local authority.			
The vision has been shared with, endorsed by and is understood by elected members.			
The vision has been shared with, and is understood by, the local county voluntary council.			
The vision has been disseminated to third sector organisations working with the local authority.			
Corporate Approach			
The local authority has a corporate led approach for working with the third sector that covers all departments and services.			
The corporate approach translates the corporate vision into practical actions.			
The local authority has designated a corporate lead for the third sector who is responsible for overseeing and coordinating the totality of the local authority's third sector funding.			

Area	In place	Under development	Not in place
Compact			
The local authority has an up-to-date compact with the third sector.			
The compact clearly outlines and defines the relationship and expectations of the local authority and the third sector in working together.			
There is a shared understanding between the local authority and the third sector about what can be achieved through working together.			
The compact is tailored to the needs of the local area and has been developed in partnership with the third sector.			
The compact is reviewed regularly.			
The compact considers funding made to the third sector from health bodies and police and crime commissioners.			
County voluntary council			
The local authority and the county voluntary council have agreed the latter's remit and responsibilities as well as its limitations.			
There is agreement on how and what the county voluntary council represents the third sector on.			

Area	In place	Under development	Not in place
Partnership arrangements			
The role of the third sector is identified and agreed on all suitable and required partnerships and committees at a:			
<ul style="list-style-type: none"> corporate level – in the work of strategic partnerships and corporate scrutiny committees; 			
<ul style="list-style-type: none"> department level – in specific partnership arrangements to support wider policy agendas within defined areas; and 			
<ul style="list-style-type: none"> service level – on local partnerships and specific service-led initiatives. 			
Understanding engagement with the third sector			
The local authority has a central record of all funding to third sector organisations made by the local authority which is refreshed annually.			
The local authority collates financial information and reports at least annually on the totality of its third sector funding showing:			
<ul style="list-style-type: none"> which organisations are funded by the local authority; 			
<ul style="list-style-type: none"> the contract value; 			
<ul style="list-style-type: none"> which funding mechanisms, either grant or contracts, has been used; 			
<ul style="list-style-type: none"> the length of the contract; 			
<ul style="list-style-type: none"> which department/service has contracted the third sector organisation; 			
<ul style="list-style-type: none"> the measures of success established for the work; and 			
<ul style="list-style-type: none"> what the intended benefits of the work are. 			

Area	In place	Under development	Not in place
2. Funding processes			
Designing services			
The local authority draws on the third sector's expertise and knowledge in designing new services to be provided by the third sector.			
In designing services, the local authority clearly sets out:			
<ul style="list-style-type: none"> what demand the service is meeting; 			
<ul style="list-style-type: none"> how it has decided on the type of service that it requires; 			
<ul style="list-style-type: none"> whether innovative solutions are required; and 			
<ul style="list-style-type: none"> how the local authority will engage with current and potential providers to further refine and develop the service. 			
Effective award systems			
The local authority has established a single centralised and corporate funding system for the management and ward of all third sector monies.			
The local authority has effective systems to award funding to organisations that sets out:			
<ul style="list-style-type: none"> a clear funding timetable that is available to all potential bidders so that they can prepare for opportunities; 			
<ul style="list-style-type: none"> the process that will be used to make a decision (for example, seeking quotations or using a tender or proposal process); 			
<ul style="list-style-type: none"> the value and risk associated with the various funding routes; 			

Area	In place	Under development	Not in place
<ul style="list-style-type: none"> whether light-touch processes in line with the EU Public Contracts Directive are possible for appointing organisations to deliver the work; 			
<ul style="list-style-type: none"> clear and published criteria that are understood by all organisations seeking funding, including community benefit clauses; 			
<ul style="list-style-type: none"> the cost and resources required for the local authority to oversee and administer the process; 			
<ul style="list-style-type: none"> the length of time that funding will be provided; and 			
<ul style="list-style-type: none"> how full cost recovery will be addressed. 			
Efficient award systems			
The local authority has efficient corporate systems to award funding based on:			
<ul style="list-style-type: none"> concise and clear application processes; 			
<ul style="list-style-type: none"> use of online and electronic systems to distribute and collate information and bids; 			
<ul style="list-style-type: none"> short end-to-end decision-making arrangements; 			
<ul style="list-style-type: none"> the minimum number of stages and processes required to make a decision; and 			
<ul style="list-style-type: none"> decisions being delegated to the lowest level. 			

Area	In place	Under development	Not in place
Grants or contracting			
The local authority has set out the circumstances when it will use grant funding and when it will contract for services. This has been shared with all potential bidders, including the third sector.			
The local authority ensures that this process is consistent and appropriate to the risks and size of the funding provided.			
The local authority's contract terms and conditions are proportionate to the level of funding being made and are specific to the work that is being funded.			
The local authority reviews these funding processes to ensure they are not unintentionally excluding third sector organisations from securing local authority work.			
Training			
The local authority provides training to support the third sector covering:			
<ul style="list-style-type: none"> • how to apply for funding – the dos and don'ts; 			
<ul style="list-style-type: none"> • complying with the local authority's procurement systems; 			
<ul style="list-style-type: none"> • data collection processes; 			
<ul style="list-style-type: none"> • performance management and scrutiny arrangements; 			
<ul style="list-style-type: none"> • payment cycles and performance targets; and 			
<ul style="list-style-type: none"> • contract termination/continuation requirements. 			

Area	In place	Under development	Not in place
3. Managing performance			
Information collection			
The local authority has specified the information required to monitor and evaluate the performance of third sector organisations it funds and this is set out in the agreement for funded work.			
The information only measures relevant activity.			
The systems to collect information are streamlined and efficient, and third sector organisations only submit information once and electronically on agreed timescales.			
Performance review			
The local authority regularly reports third sector funding to scrutiny committee(s) against a balanced and local-authority-wide set of performance information. This covers:			
<ul style="list-style-type: none"> • clear standards of how and what third sector organisations are required to perform against specific to the service the local authority funds; 			
<ul style="list-style-type: none"> • conclusions of external audit/inspection reviews; and 			
<ul style="list-style-type: none"> • relevant service-based performance data. 			
The local authority has the right processes in place to scrutinise and judge performance. These should be proportionate to the value of the funding but ensure that they provide the local authority with assurance that its funding is achieving the expected outcomes.			

Area	In place	Under development	Not in place
Risk management and internal audit			
Risks associated with third sector funding are considered at both a corporate and service level in developing and agreeing risk management plans across the local authority.			
A rolling programme of internal audit systems testing and compliance reviews is undertaken on the local authority's funding of third sector services, systems and practices.			

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Dirprwy Ysgrifennydd Parhaol / Deputy Permanent Secretary

Y Grŵp Addysg a Gwasanaethau Cyhoeddus
Education and Public Services Group



Llywodraeth Cymru
Welsh Government

27 February 2017

Huw Vaughan Thomas
Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

Dear Huw,

I write in response to the publication of the Local Authority Funding for Third Sector Services report. The role of the third sector in the delivery of public services is an important matter and I'm glad that you were able to investigate the topic.

I note the majority of the recommendations of the report are for local authorities to address in respect of their strategic approach to working with third sector organisations. It is vital, therefore, that they bring a strategic approach to their overall engagement with the third sector and innovation in austere times will be key. From a value for money perspective it is of course equally important that local authority scrutiny committees should maintain as rigorous levels of oversight in relation to services contracted to third sector organisations as they would to those directly provided by the authority itself.

To achieve this mix of strategic direction with due rigour, the Welsh Government supports the co-opting of expert external members to their scrutiny committees and provides guidance along these lines, which we will continue to reinforce. We will raise the report and its findings with the networks of scrutiny officers and champions convened by the Welsh Local Government Association.

The report does also highlight one recommendation for Welsh Government to provide guidance clarifying the Government's expectation of local authorities in relation to their work with third sector. We partially accept this recommendation. Guidelines are currently being prepared on good practice in relation to local Compact agreements between third sector organisations and public services. These Compact agreements set out the principles for



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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.

how third sector and local authorities can work together to achieve improvements for the community. The recommendations of the Local Authority Funding for Third Sector Services report will be considered in relation to the content of those guidelines.

However, I was a little surprised to see in the third recommendation the inclusion of a reference to the Well-being of Future Generations (Wales) Act and the Social Services and Well-being (Wales) Act. Guidance was produced by Welsh Government in support of these Acts and we would welcome discussions on the supporting evidence which would underpin these references. As an example of the documentation produced in support of the Acts, the Social Services and Well-being (Wales) Act sets out the expectations for local authorities (and other partners) and is supported by a range of codes of practice and statutory guidance. This includes our expectations around partnership working and the role of the third sector, for example, as members on the statutory regional partnership boards. Welsh Government has also provided funding through the Intermediate Care Fund which recognises the role of the Third Sector and again specific requirements are set out in the guidance.

This letter is copied to the Chair of the National Assembly for Wales Public Accounts Committee.

Yours sincerely

Owen Evans

Document is Restricted

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Financial Management and Governance in Community Councils 2015-16



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU



The team who prepared this report comprised
Anthony Barrett and Deryck Evans.

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The Auditor General is independent of the National Assembly and government. He examines and certifies the accounts of the Welsh Government and its sponsored and related public bodies, including NHS bodies.

He also has the power to report to the National Assembly on the economy, efficiency and effectiveness with which those organisations have used, and may improve the use of, their resources in discharging their functions.

The Auditor General also audits local government bodies in Wales, conducts local government value for money studies and inspects for compliance with the requirements of the Local Government (Wales) Measure 2009.

The Auditor General undertakes his work using staff and other resources provided by the Wales Audit Office, which is a statutory board established for that purpose and to monitor and advise the Auditor General.

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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	Looking forward to 2018-19 and beyond, the Auditor General's programme will continue to look at common issues arising during the annual audit, and will also incorporate a review of the sector's response to the Well-Being of Future Generations Act 2015	42

Summary report

There remains scope for community councils in Wales to develop and improve financial management and governance, particularly in relation to the quality of their financial reporting, financial management and internal audit arrangements

- 1 There are over 735 town and community councils in Wales. In some cases, these councils jointly provide services through joint committees established for specific services, usually burial services. There are nine such joint committees in Wales. Collectively, this report refers to these bodies as community councils.
- 2 This is my fifth annual report summarising issues identified by external auditors during their statutory audit of community councils in Wales. In my previous reports on financial management and governance at community councils, I set out the changes to the external audit arrangements from 2015-16 onwards. The audit arrangements are intended to help community councils develop their financial management and governance arrangements over time.
- 3 In this first year of the revised audit approach, councils have been subject to a more in depth examination than in previous years. The results reported indicate that many councils may not have grasped the requirements of the new arrangements. Furthermore, the audit focussed on areas where there was already some evidence of gaps in community council's arrangements.
- 4 This is the first report published following these changes to the audit arrangements and it has two main purposes.
- 5 Firstly, the work undertaken by external auditors identifies a number of recurring issues that apply across the community council sector. Furthermore, auditors may identify serious failures on the part of individual councils. **Part 1** of this report draws councils' attention to these issues so that they can consider if the issues apply to them and if there are lessons they can learn from others and use to develop their own arrangements.
- 6 Secondly, my future audit programme is informed by the issues that auditors identify during the audit and wider developments affecting community councils. In my report on the outcomes of the 2012-13 audit, I committed to publishing in advance the specific areas that auditors will focus on in the following year's audit. This will allow community councils to identify areas where they need to develop their arrangements and to take any required action before the start of the financial year. **Part 2** of this report outlines the areas I plan to focus on over the next five years.

- 7 This report summarises the outcomes of audit work completed to 31 October 2016, one month past the statutory deadline for the publication of audited accounts. As at 31 October, 655 out of 740 (88%) audits had been completed.

Effective financial management and governance is important because community councils manage significant sums of public money and are becoming more complex bodies

- 8 Effective financial management and high standards of governance are important for a number of reasons.
- 9 Community councils are entrusted with significant sums of public money. In 2015-16, they raised over £31m from council tax payers, spent over £40m and, as at 31 March 2016, held over £32m in reserves and balances.
- 10 County councils are currently seeking to transfer assets and services to community councils for community councils to meet the service needs of their communities. This will add a degree of complexity to the community council's activities and it is essential that community councils have effective financial management and governance arrangements in place to be able to provide and properly manage these new functions.

Community councils are subject to a statutory audit requirement which is designed to be proportionate to the needs of community councils

- 11 The Auditor General's responsibilities for the audit of community councils are set out in the Public Audit (Wales) Act 2004 (the Act). The Act requires the Auditor General to satisfy himself that:
- a the accounts are prepared in accordance with regulations;
 - b they comply with the requirements of all other statutory provisions applicable to the accounts;
 - c proper practices have been observed in the compilation of the accounts; and
 - d the body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

- 12 The audit arrangements are, however, designed to be proportionate to the size and scope of councils and to provide a reasonable level of assurance over their stewardship of public money. In practice, this means that auditors' expectations and the extent of work carried out are based on the size and complexity of individual councils.
- 13 This year, the Auditor General changed the way in which the statutory audit of community councils is carried out. The Auditor General's previous reports on financial management and governance in community councils identified a need for a consistent approach to be adopted at all community councils, and this has been applied for 2015-16.
- 14 One of the key advantages of adopting a consistent approach across all councils is that the outcomes from the audit give a full picture of the standards of financial management and governance for the sector. This report draws together auditors' findings from across all community councils in Wales.

The audit of community councils' 2015-16 accounts identifies key recurring themes around financial management and reporting that the sector as a whole needs to review and address

- 15 As in previous years, the number of councils receiving qualified audit opinions is too high. Community councils are subject to a proportionate audit process that tests whether or not the councils comply with their statutory responsibilities. Where a council does not comply the audit opinion is qualified.
- 16 In general, the issues that result in qualified audit opinions are easy to address and councils should already be meeting the standards assessed by the external audit.
- 17 Timeliness and quality of accounts preparation is also a recurring theme as highlighted in the Auditor general's earlier reports on financial management and governance in the sector. Auditors report that councils frequently submit accounts for audit that are late or inaccurate/incomplete.
- 18 Auditors specifically focussed on budget setting and management and how councils engage their internal audit service. Auditors found that practices varied across Wales, although, too many councils fail to meet the required standards. Auditors also identified a number of other recurring weaknesses that councils across Wales can learn from. In some cases, the weaknesses identified were deemed to be sufficiently serious to warrant the Auditor General making formal written recommendations to individual councils.

- 19 Of particular concern is the relative weakness of smaller councils. All councils irrespective of size are required to comply with the same laws and regulations. The audit process is designed to be proportionate to the size of individual councils and expectations are adjusted accordingly. However, a disproportionate number of smaller councils fail to meet the required standards meaning they are not meeting their statutory responsibilities.

The Auditor general's future audit programme will focus on areas of key weakness identified during the audit cycle

- 20 The Auditor General's five year programme for community council audit is informed by the outcomes of the 2015-16 and earlier audits. It will also address emerging themes and issues as they are identified.

Detailed Report



1 Community councils in Wales manage significant sums of public money and hold significant values of reserves and assets and this is likely to increase in future

In 2015-16 community councils received over £43 million of income and incurred over £40 million of expenditure

Community councils raised over £31 million from council tax and generated over £12 million from other sources in the year to 31 March 2016

- 1.1 Community councils raise funds either through setting a precept, by charging for goods and services, by claiming grants or disposing of long term assets.
- 1.2 A precept is a peremptory order to the unitary authority to pay a named sum to the community council. The amount of the precept is divided between the council tax payers of the community and is paid in full to the community council. In 2015-16, community councils in Wales raised over £32m from council tax payers through their precepts.
- 1.3 Councils also raise funds by charging individual members of the public and other users for goods and services provided by the community council. Charges may typically be made for:
 - a use of village halls/community centres owned and managed by the community council;
 - b burial fees where the community council is a burial authority;
 - c hire charges for sports facilities; and
 - d car parking charges.
- 1.4 Councils may also raise funds for investment in long term assets by applying for grants, drawing down loans or disposing of long term assets. Usually, the use of these funds will be restricted to specific purposes.
- 1.5 In total, in 2015-16, community councils in Wales raised over £12m from these external funding sources.

Expenditure in 2015-16 totalled over £40 million including over £13 million in staff costs

- 1.6 Community councils have a range of statutory powers and functions upon which they may lawfully incur expenditure. These include powers related to:
- a appearance of villages including for example, key buildings and sites, good design, and roadside verges;
 - b open air and exercise including for example, village greens, protection of commons, recreational facilities, pleasure grounds and public walks, swimming pools and facilities for countryside visitors;
 - c gatherings including powers related to tourism, entertainments and the arts, halls and centres and twinning;
 - d public lighting and crime prevention including for example surveillance;
 - e ownership and provision of allotments;
 - f health including public conveniences, litter and graffiti and water and pond drainage;
 - g communication including rights of way, works to footpaths and bridleways, shelters and seats and vehicle parks and cycle racks; and
 - h powers related to the dead for example provision of a cemetery.
- 1.7 Community councils employ staff to administer their activities. In many cases, the council employs only one member of staff, the council clerk. However, larger councils may employ several members of staff undertaking activities such as administration or grounds maintenance.
- 1.8 In 2015-16, community councils spent in total over £13 million on staff costs out of total expenditure of over £40 million.

Community councils in Wales manage reserves worth over £32 million and long term assets worth over £188 million

Community council reserves at 31 March 2016 exceeded £32 million

- 1.9 Community councils hold reserves and balances for a variety of reasons. These include to finance unforeseen expenditure and to 'save' for future projects. In some cases they are required by law to set money aside for specific purposes. For example receipts from the disposal of long term assets may be defined as capital receipts and only used to finance capital expenditure.
- 1.10 When setting their annual precept, community councils must take into account the level of the reserves they hold and whether or not they plan to finance any of their expenditure from reserves or whether or not they need to increase the amounts set aside in reserves.

Community councils manage long term assets worth over £188 million as at 31 March 2016

- 1.11 Community councils own various categories of long term assets. These include:
 - a land and buildings – offices, halls, village greens, allotments, cemeteries and parks and sports fields;
 - b outdoor equipment and facilities – playground equipment, bus shelters and seating and public conveniences;
 - c internal fixtures and fittings – IT equipment and furniture; and
 - d civic regalia.
- 1.12 The value of these assets is reported in the councils' annual returns. As unitary authorities transfer assets to community councils, the value of assets held by community councils is likely to increase significantly.

A significant proportion of the total income, expenditure and assets of the sector is concentrated in the larger councils which are subject to the requirements of the Well-Being of Future Generations Act

- 1.13 Section 40 of the Well-Being of Future Generations Act sets out the role of community councils in relation to local wellbeing plans. It states that councils with annual income or expenditure over £200,000 for three consecutive years or more are subject to duties under the Act.
- 1.14 In 2015-16, 57 (9%) councils had income or expenditure of over £200,000, although, this number fluctuates annually. In 2015-16 these councils;
- a Raised 55% of the total income for the sector;
 - b Incurred 56% of all expenditure incurred by the sector;
 - c Held 45% of all reserves and 55% of all assets (by value) held by the sector.
- 1.15 It is therefore particularly important that these councils ensure their financial management and governance arrangements are fit for purpose.

2 Too many community councils in Wales receive avoidable qualified audit opinions and this is particularly the case with smaller councils

Auditors issue 'qualified' audit opinions when councils fail to comply with their statutory responsibilities

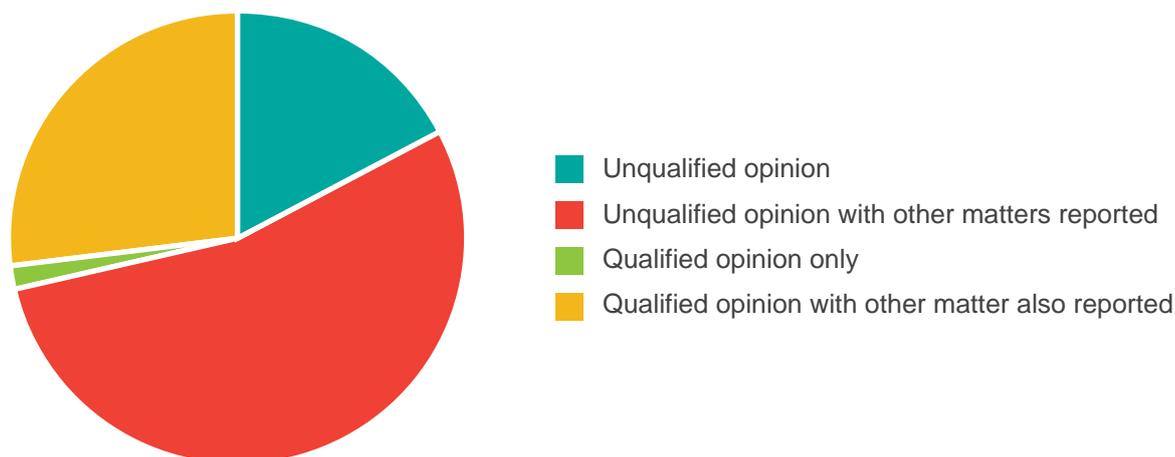
- 2.1 The Auditor General's work is designed to discharge his responsibilities under the Public Audit (Wales) Act 2004.
- 2.2 Auditors review the accounting statements included in the annual return and the assertions made in the Annual Governance Statement to come to a conclusion on whether or not there is evidence that the accounting statements have been properly prepared and whether or not the council has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
- 2.3 Auditors measure the council's arrangements against its statutory responsibilities and issue a 'qualified' opinion when they identify non-compliance. This means that except for those issues referred to by the auditor, the auditor has not identified evidence to suggest the council does not have proper arrangements in place. However, councils should note that all audit qualifications are avoidable if they have appropriate arrangements in place to comply with their statutory responsibilities.
- 2.4 Auditors will also report on other matters that have come to their attention during the course of the audit. Councils should consider these matters so they can improve their internal arrangements in light of the comments made.

Over 200 individual councils (30%) received a qualified audit opinion for 2015-16

- 2.5 Thirty% of councils received a qualified audit opinion, 50% received an unqualified opinion but with other matters drawn to their attention, and the remaining 20% received an unqualified opinion with no further matters for their consideration.

Exhibit 1 – Numbers of councils receiving a qualified audit opinion in 2015-16

Auditors qualified 203 councils' annual returns and raised other matters of concern at 593 councils.

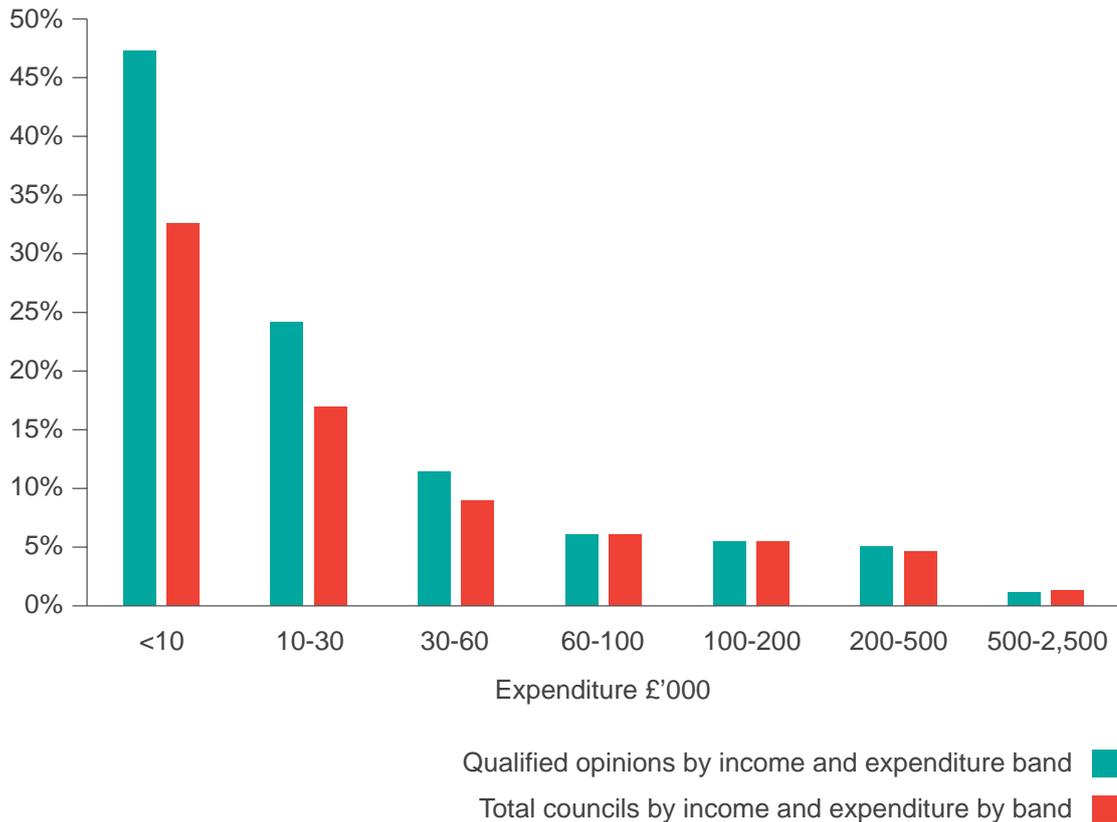


A disproportionate number of smaller councils receive qualified audit opinions suggesting there is a particular need for these councils to review their arrangements

- 2.6 Auditors issued over 200 qualified audit opinions for 2015-16 on behalf of the Auditor General. In many cases, auditors also drew other matters to the attention of councils. Only 20% of councils received an unqualified opinion with no further matters for their consideration.
- 2.7 All councils regardless of size are required to adhere to the same relevant legislation. Notwithstanding this, the arrangements required for smaller councils do not need to be as complex as those of the larger councils. Auditors take this into account when undertaking their audit work.
- 2.8 Councils with annual income and expenditure below £30,000 each year form about 50% of the total number of councils in Wales. However, they account for over 70% of all councils receiving qualified audit opinions. This means that these councils are more likely to fail in their statutory obligations.

Exhibit 2 – Numbers of councils with qualified audit opinions by size of council

Councils with annual income and expenditure below £10,000 and from £10,000 to £30,000 represent 33% and 17% of councils respectively. However, 47% and 24% respectively of all qualified councils fall within these bands.



The most common audit qualifications relate to the failure to adhere to the statutory timetable for the accounts, to put in place arrangements to manage risk, and to set an appropriate budget

- 2.9 Auditors issued qualified opinions for a number of reasons in 2015-16. The most common of these were in relation to assertions made by the councils that they had complied with their responsibilities in relation to:
- approving the accounting statements in accordance with the Accounts and Audit (Wales) Regulations 2014;
 - setting a budget in accordance with the Local Government Finance Act 1992;
 - putting in place arrangements for the management of risk as required by the Accounts and Audit (Wales) Regulations 2014; and
 - keeping proper accounting records and preparing the accounting statements in accordance with the Accounts and Audit (Wales) Regulations 2014.

Over 8% of councils did not prepare and approve their annual accounting statements in accordance with the timetable set out by the Accounts and Audit (Wales) Regulations 2014

2.10 Regulation 15 of the Accounts and Audit (Wales) Regulations 2014 sets out the timetable for community councils to prepare and approve the accounting statements. Auditors identified that a significant number of councils did not adhere to this timetable in for the 2015-16 accounts. Further detail is provided in Part 3 of this report.

Significant numbers of councils failed to set an appropriate budget as required by the Local Government Finance Act 1992

2.11 Auditors identified as part of a themed review that many councils either do not set a budget or that the budget set does not comply with the specific requirements of the Local Government Finance Act 1992. Further detail and analysis is provided in Part 4 of this report

Over 45 councils (7%) failed to make proper arrangements for the management of risk

2.12 Regulation 5 of the Accounts and Audit (Wales) Regulations 2014 sets out the council's responsibility to ensure that there is a sound system of internal control which facilitates the effective exercise of that body's functions, and which includes arrangements for the management of risk.

2.13 This is a recurring issue for the sector and has been identified in each of the Auditor General's reports on community council financial management.

Auditors were unable to give an opinion (disclaimed to give an opinion) on whether the accounts had been properly prepared at 10 councils

2.14 Regulation 14 of the Accounts and Audit (Wales) Regulations 2014 requires community councils to prepare accounts in accordance with proper practices. However, auditors of 10 councils were unable to obtain sufficient audit evidence to conclude that the accounts had been properly prepared.

2.15 Examples of the difficulties encountered by auditors leading to this conclusion included:

- a insufficient information to support the value of fixed assets;
- b council unable to explain how individual entries in the accounts, eg, total payments, are calculated leading to unresolved discrepancies;
- c councils unable to provide a properly completed bank reconciliation;

2.16 While this issue affects only a small number of councils each year, it is important that all councils ensure they understand their accounts and ensure that those accounts fairly present the income and expenditure/receipts and payments and balances held at the year end.

3 Community councils in Wales need to improve the timeliness with which they prepare their annual accounts and the quality of the annual returns submitted for audit

Over 50 councils (8%) failed to comply with the statutory timetable for preparing and approving the accounting statements

The Accounts and Audit (Wales) Regulations 2014 set out a timetable for the preparation and approval of community councils' accounting statements

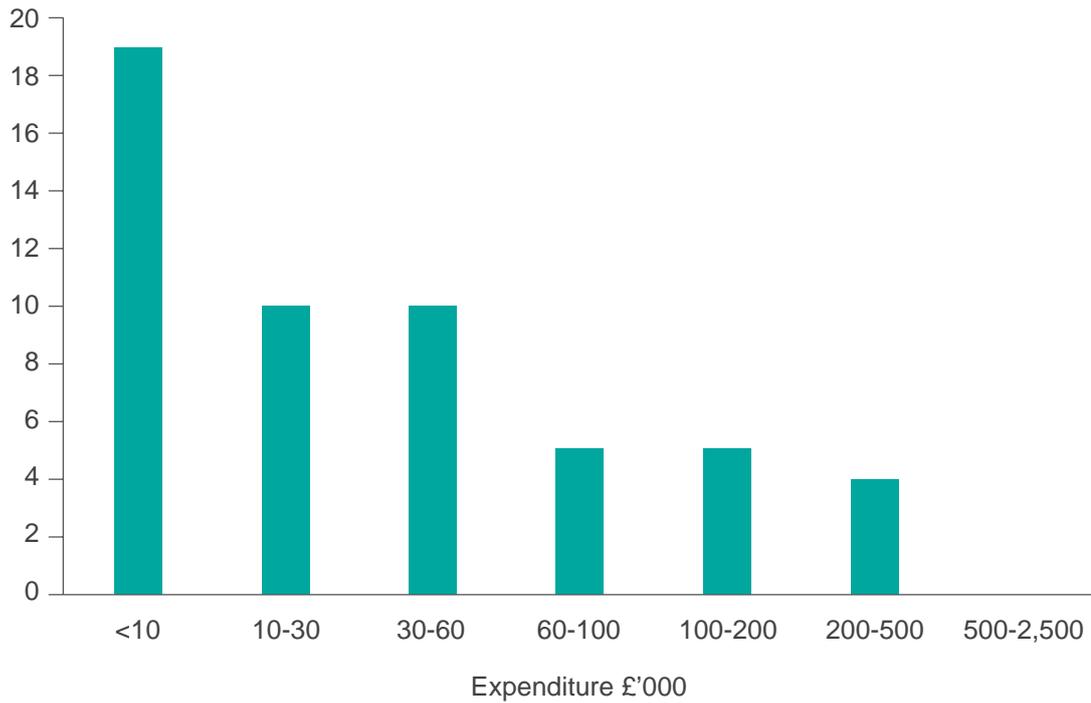
- 3.1 Regulation 15 of the Accounts and Audit (Wales) Regulations 2014 sets out the timetable for the preparation and approval of the annual accounts:
- a The council's responsible finance officer (RFO) must prepare and certify that the accounts properly presents the council's receipts and payment, or present fairly the council's financial position and income and expenditure. The certification is evidenced by the RFO signing and dating the accounting statements. Provision for signature and date are made in the annual return.
 - b The members meeting as a whole must consider the accounting statements and, following that consideration, approve the accounting statements for submission to the auditor by a resolution of the body; and following approval, ensure that the accounting statements are signed and dated by the person presiding at the meeting at which that approval was given;
 - c These actions must be completed by 30 June following the end of the financial year.

Over 50 councils failed to adhere to the timetable set out in the Regulations, and most of these were smaller councils

- 3.2 Auditors identified 53 councils where either the RFO or the Council had failed to meet their obligations under the Regulations. Thirty-nine of these councils have annual income and expenditure of less than £60,000.

Exhibit 3 – Numbers of councils who failed to meet the statutory timetable for preparation of accounts

Nineteen councils with annual income and expenditure below £10,000, 10 councils with annual income and expenditure between £10,000 to £30,000, and 10 councils with annual income and expenditure between £30,000 and £60,000 failed to meet the statutory timetable for the accounts



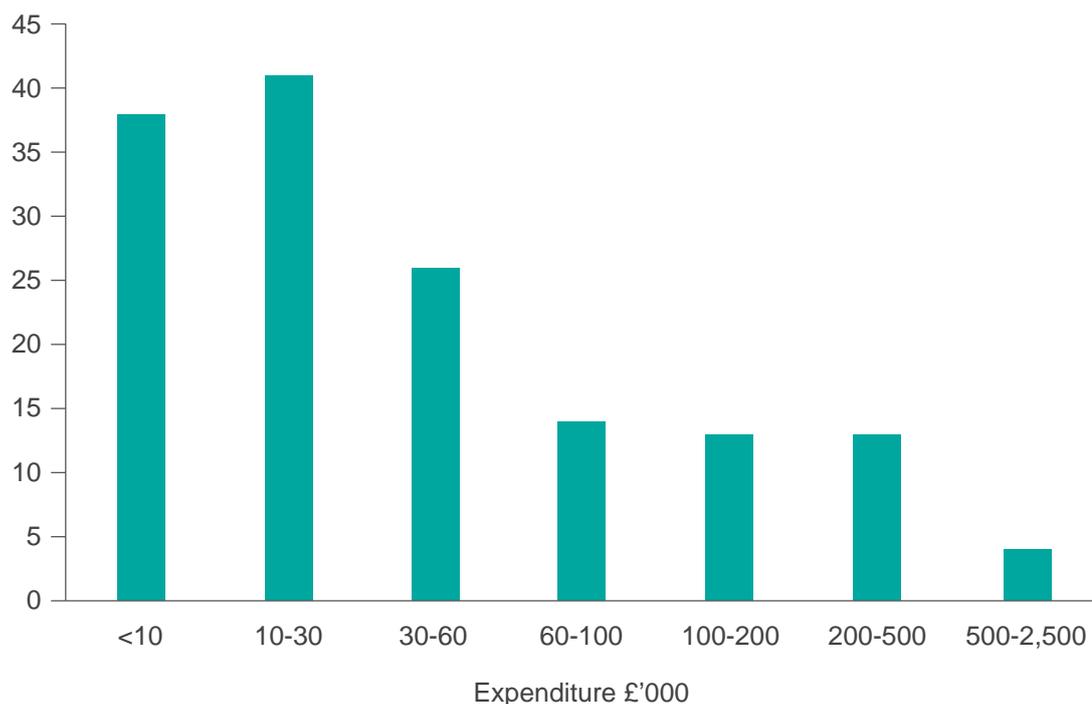
Too many councils submit annual returns that are incomplete or contain simple errors

Auditors identified errors in the accounting statements of 149 (23%) councils

- 3.3 The accounting statements required for community councils in Wales are simple, both in structure and accounting requirements.
- a Arithmetic errors. In many cases, the accounting statements did not add up. Often this is as a result of the accounting statements being rounded to the nearest pound. However, it is important that councils ensure that the accounting statements are correctly presented.
 - b Incorrect treatment of unrepresented transactions. At the year end, there will often be timing differences between transactions being recorded in a council's cashbook and the transaction clearing through the council's bank account. As part of their year-end accounts preparation, councils will reconcile the cashbook to the bank statement. Under proper accounting practice, reconciling items are not adjusted for at the year end. Instead they are reversed if necessary in the following year. However, too many councils either amend the prior year accounts or the current year accounts to remove the impact of the uncleared transactions. This has the effect of mis-stating the accounting statements.
 - c Exclusion of bank accounts and transactions. In some cases, poor record keeping by councils means that balances held in some bank accounts and transactions linked to those accounts are excluded from the accounting statements for the year. This results in understatements of the council's balances and mis-statement of its income and expenditure for the year. The lack of internal control also puts at risk the funds held by the council.

Exhibit 4 – Numbers of councils with errors in their accounting statements by size of council

The accounting statements of 149 (23%) councils contained avoidable errors due to a misunderstanding of proper accounting practices or lack of attention to detail. This appears to be a particular issue for smaller councils with annual income and expenditure less than £60,000



Source: Wales audit Office analysis of 2015-16 annual returns.

174 councils (27%) submitted annual returns for audit that had not been fully completed

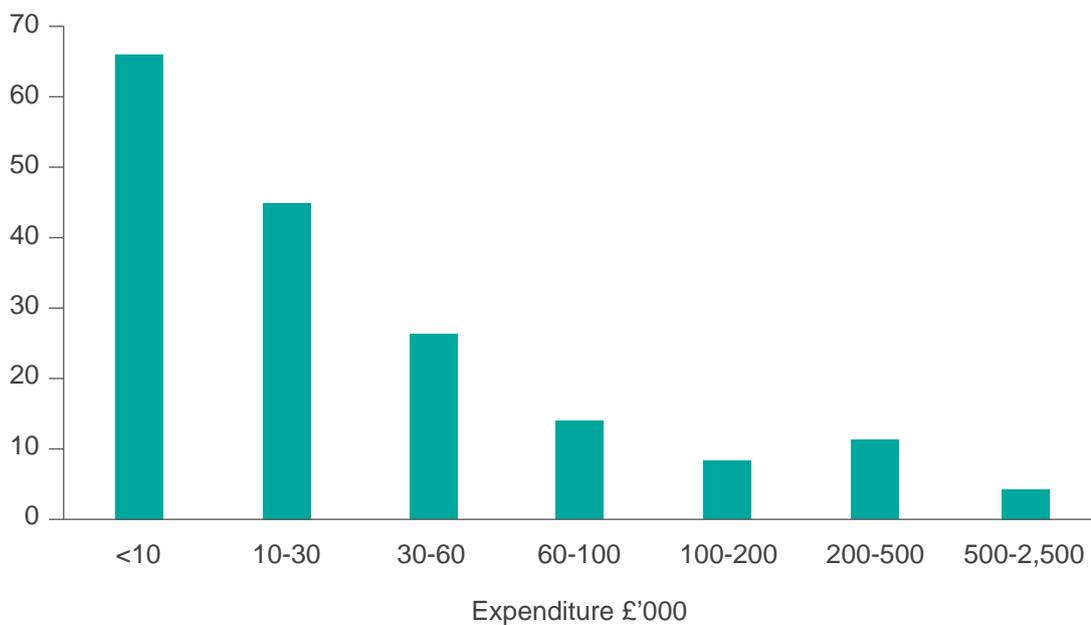
3.4 The annual return prepared by community councils is designed to be easy to complete. Councils are provided with guidance on completing the form on the form itself and also in the Practitioners' Guide. Nevertheless, each year, auditors identify that many councils do not complete the annual return fully. Common issues identified in 2015-16 include:

- a Failure to fully complete the annual governance statement. The Annual Governance Statement is set out in two parts. In the first part, the council makes a number of assertions about its general arrangements. In the second part, the council sets out its arrangements related to the Auditor General’s review of themed governance arrangements. This section is to be completed by all councils and is linked to the changes in the audit arrangements for 2015-16. All councils have previously been informed of the changes to the audit arrangements and given prior notice of the themes to be examined for 2015-16. It is therefore disappointing to note that some councils did not complete this section of the annual return. It is important that every council reads and understands the requirements set out by their auditor and ensures that they fully complete the annual return.
- b Failure to include details required by legislation or the Practitioners Guide. In many cases, councils did not complete the details required. These include failure to insert the minute references to evidence that the council approved the annual return and a failure to include signatures as required by the Accounts and Audit (Wales) Regulations.

3.5 This appears to be a particular issue for smaller councils.

Exhibit 5 – Numbers of councils with incomplete annual returns by size of council

Over 170 (27%) councils failed to complete the annual return fully. This appears to be a particular issue for smaller councils with annual income and expenditure less than £60,000



- 4 The sector as a whole needs to improve its budget setting arrangements if it is to manage additional services and facilities transferred from unitary authorities, and this is particularly the case for smaller councils

For the 2015-16 audit, auditors have focused on how councils have set and monitored their budgets

All community councils are required to set and monitor their annual budget

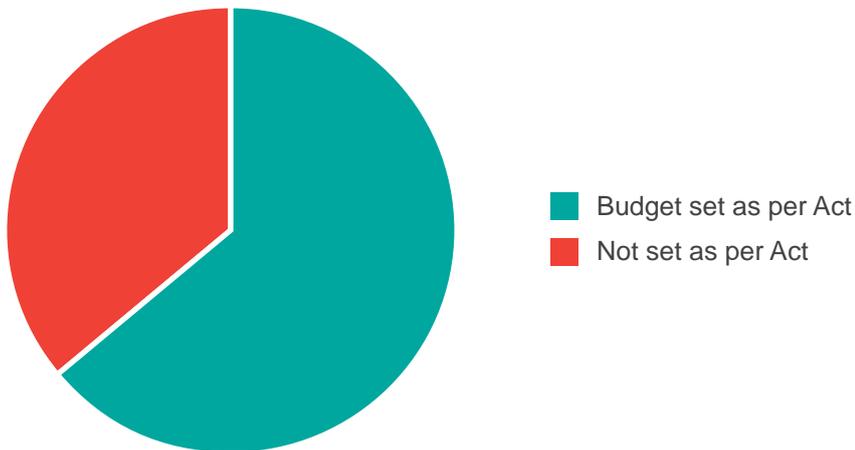
- 4.1 The Local Government Finance Act 1992 and proper practices requires councils to calculate and approve the annual budget. Section 41 of this Act allows councils to issue a precept, the basis of which is determined, in accordance with Section 50, by the calculation of the budget requirement.
- 4.2 Regardless of this statutory requirement, the budget is important as
 - a it results in the setting of the precept for the year;
 - b it gives the council authority to spend money in accordance with approved spending plans and financial regulations; and
 - c it provides a basis for monitoring progress during the year by comparing actual to planned spending.
- 4.3 In future, it will also be critical as councils undertake other services and assume responsibilities over other assets as unitary authorities increasingly seek to transfer responsibilities for some services to other bodies such as community councils.
- 4.4 The budget is a crucial element of effective financial management and accountability and ultimately, reduces the amount of time councils spend managing their financial resources. In the absence of adequate budget setting and monitoring arrangements, councils are unable to effectively manage public funds and demonstrate compliance with statutory requirements.
- 4.5 Budget setting was identified as a specific area of focus for the 2015-16 audits. This review identified a number of issues as set out below.

Over a third (36%) of councils did not set an appropriate budget including all the elements they are required to include by law

4.6 As shown in [Exhibit 6](#), over a third (36%) of councils did not set an appropriate budget. These councils had not taken into account all elements of the budget setting process including planned expenditure, anticipated income, contingencies and reserves, and then approved the final budget.

Exhibit 6 – Budget setting arrangements

36% of councils did not set a budget as required by the Local Government Finance Act



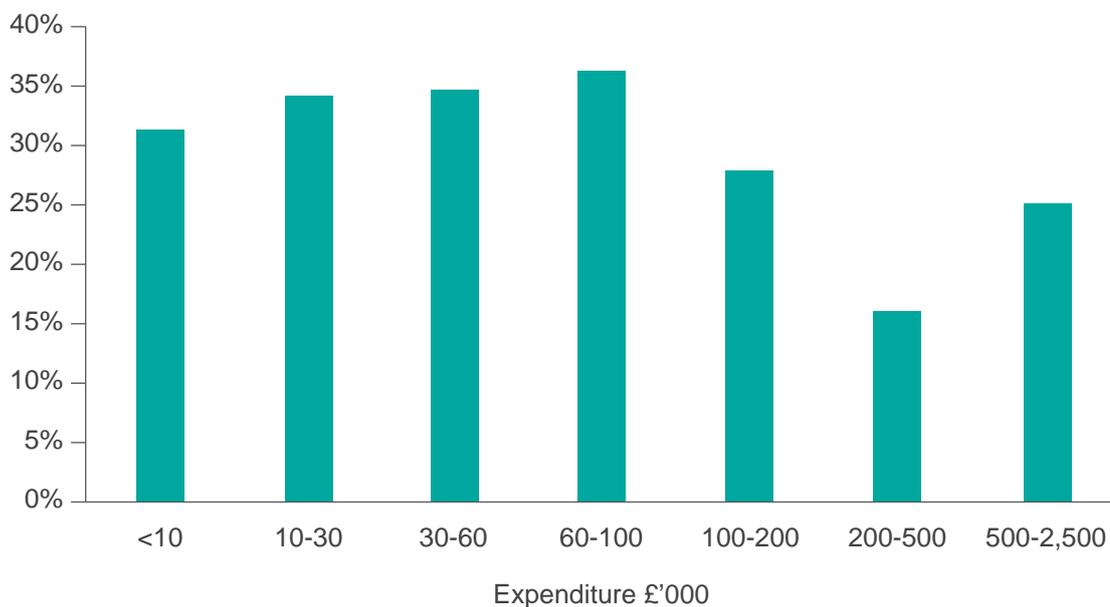
4.7 A more detailed analysis by council size as shown in [Exhibit 7](#) indicates that this is an issue across all bands. Whilst budget setting is important for all sizes of councils, it is particularly important for those 38 councils with annual expenditure over £60,000. It is these councils that will typically seek to take on additional functions from unitary authorities in future. These councils include 10 councils with annual income and expenditure over £200,000 who are subject to duties under the Well-Being of Future Generations Act.

4.8 The most common areas of non-compliance were failures to take into account:

- a Income sources other than the precept. Community councils received over £12 million in other income during 2015-16. This represents almost 30% of the total income for the sector for the year.
- b Reserves and balances. As at 1 April 2016, the sector as a whole held over £30 million in reserves and balances. This represents 96% of the total amount raised from council tax payers for the financial year.

Exhibit 7 – Inadequate budget setting by size

Auditors identified that inadequate budget setting is an issue across all sizes of council



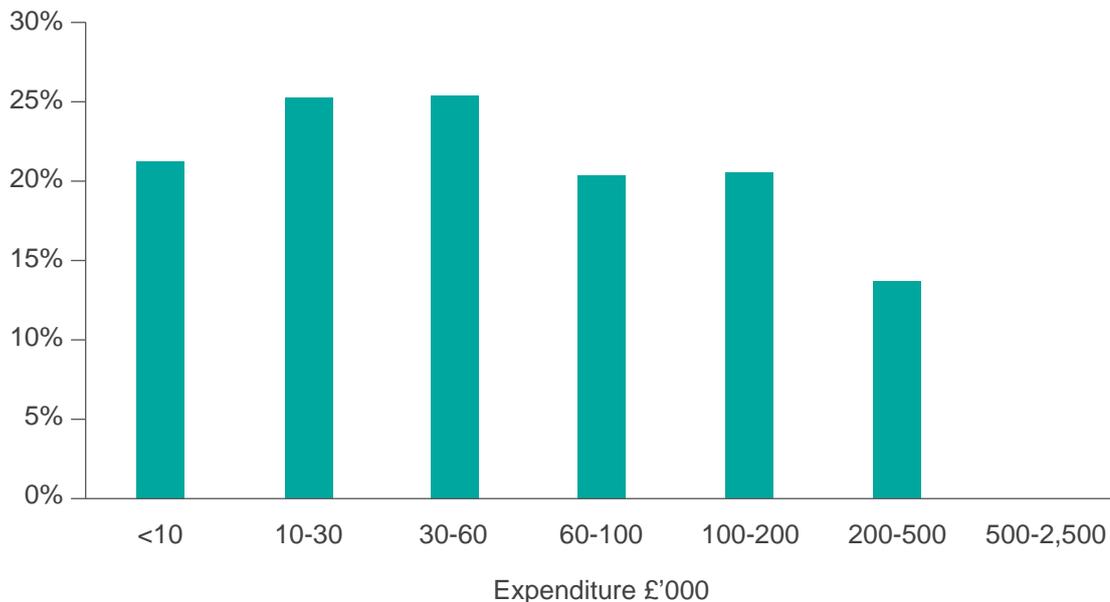
- 4.9 In some instances, auditors identified that the precept demand to the unitary authority did not agree to the budget requirement set by the council when it set its budget and agreed the precept sum. The councils did not provide evidence to explain why there was a difference between the precept incorporated in the budget and the precept demand issued to the billing authority.

Over half of all councils do not have adequate budget monitoring arrangements in place

- 4.10 The Accounts and Audit (Wales) Regulations 2014 include a specific requirement for councils to have in place adequate and effective arrangements for financial management. These arrangements include arrangements for monitoring income and expenditure against the budget.
- 4.11 Over half of all councils (52%), including all those that did not set an appropriate budget, had inadequate budget monitoring arrangements in place. Where adequate budget setting arrangements are in place, a quarter (25%) of all councils do not adequately monitor progress against the budget.
- 4.12 After approval of the budget, it should be an active tool for managing the council's finances. Regular comparison of budget to actual outturn should be undertaken allowing consideration, if necessary, of whether expenditure plans should be amended, steps taken to increase income, or whether to utilise reserves. **Exhibit 8** below indicates that the larger size councils with budget setting arrangements in place are better at monitoring those budgets than smaller councils.

Exhibit 8 – Inadequate budget monitoring by size of council

Over 20% of all councils with annual income and expenditure below £200,000 did not have effective budget monitoring arrangements in place



- 4.13 Over half of all councils (52%), including those that did not set an appropriate budget, had inadequate budget monitoring arrangements in place. Where adequate budget setting arrangements are in place, a quarter (25%) of those councils do not adequately monitor progress against the budget.

5 Many community councils will find it difficult to demonstrate that they have an adequate and effective system of internal audit in place, and receive full value from that service

For the 2015-16 audit, auditors focused on the terms of reference for internal audit

All community councils are required to have in place an adequate and effective internal audit

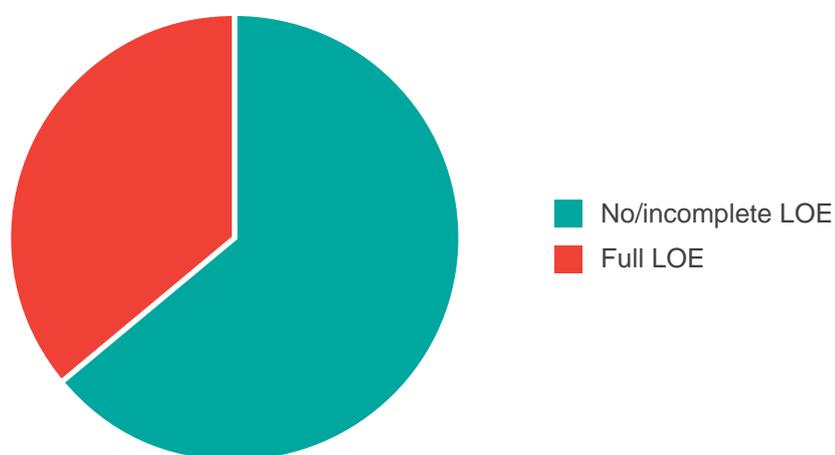
- 5.1 The Accounts and Audit (Wales) Regulations (Regulation 6) require all community councils in Wales to have an adequate and effective system of internal audit in place. Internal audit forms an important part of the internal control arrangements that each council is required to have and review annually.
- 5.2 The responsibility for determining whether or not internal audit is adequate and effective lies with individual councils. In order to make this assessment, councils must consider the audit needs, taking into account the size and complexity of the individual council, and also how the internal auditor discharges the audit function ie, the quality of the audit work undertaken.
- 5.3 The 2015-16 external audit examined whether or not councils had agreed terms of reference with their internal auditor. Such terms should be set out in a letter of engagement with the internal auditor. It should set the expectations of both parties regarding issues such as:
 - a respective roles and responsibilities;
 - b planning, scope and timing of audit work;
 - c reporting requirements;
 - d independence and competence assurances; and
 - e access to information and relevant personnel.
- 5.4 In the absence of a comprehensive and complete terms of reference, councils cannot clearly assess whether the internal auditor has met their expectations and complied with the Accounts and Audit (Wales) Regulations.

A majority of councils did not have full terms of reference in place for their internal audit

5.5 **Exhibit 9** shows that almost two out of three councils (64%) had no or inadequate internal audit terms of reference.

Exhibit 9 – Inadequate internal audit terms of reference

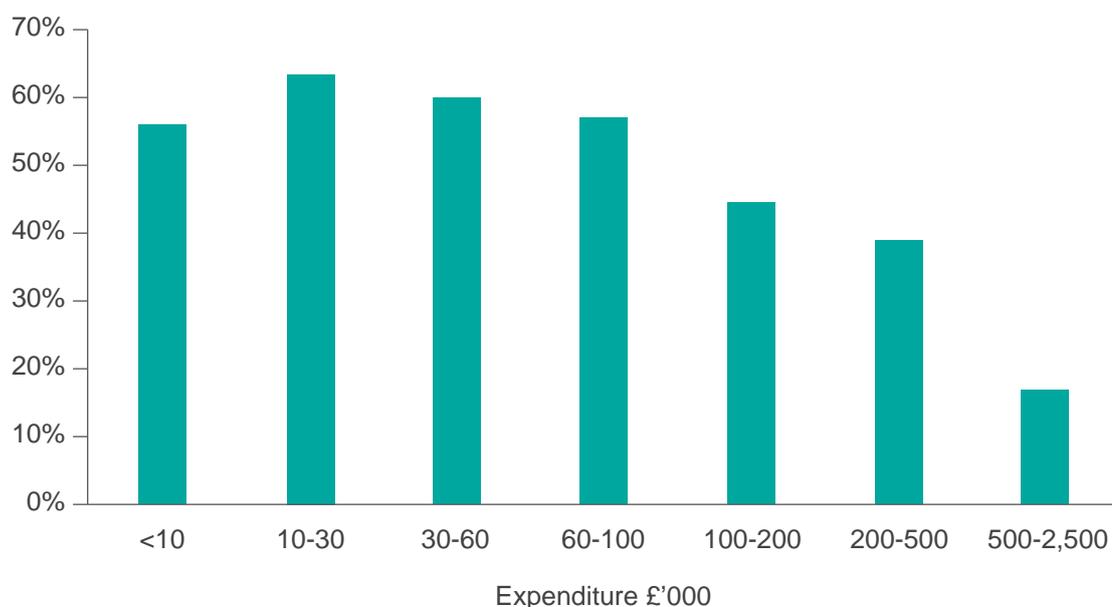
64% of councils did not have adequate terms of reference for their internal auditor



5.6 As shown in **Exhibit 10**, this issue is prevalent across all sizes of council, although, less so in the larger councils.

Exhibit 10 – Councils with no or inadequate terms of reference as percentage of councils in size band

The percentage of councils without full or any terms of reference ranges from 17% to 63% of councils by band

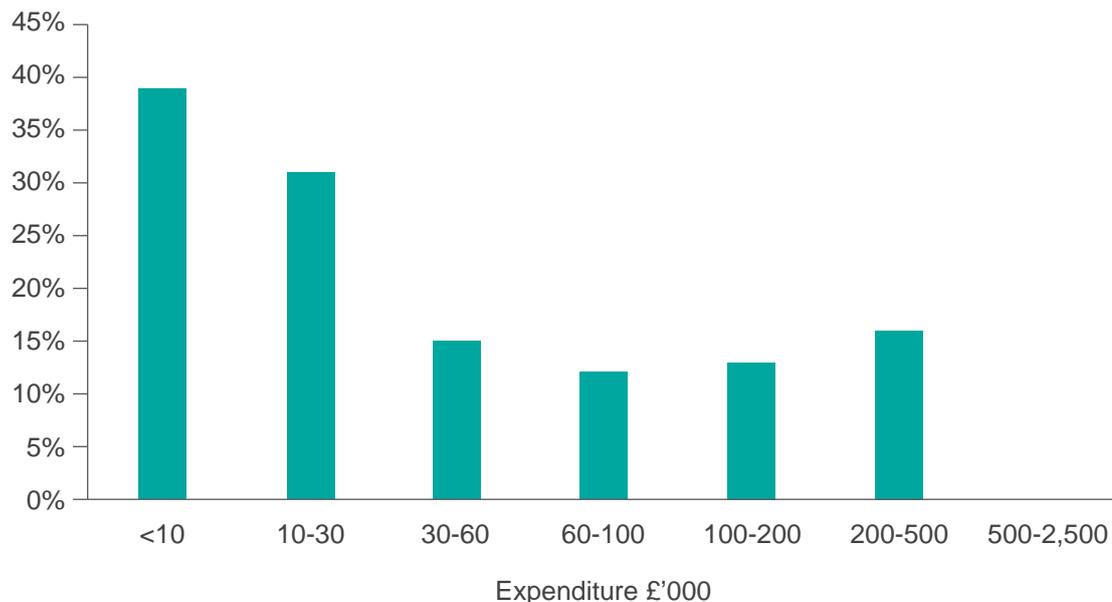


Almost a third of community councils also lack any detailed feedback from their internal auditor meaning they do not receive the full value from the internal audit service

- 5.7 Our audit work also highlighted deficiencies in the internal audit reporting arrangements at approximately two fifths of all councils. This means that not all tests in the annual internal audit report included on the reverse of the annual return had completed or where neither an outline of internal audit work undertaken nor a separate detailed report had been provided.
- 5.8 Where councils do not receive and consider adequate reports, councils do not receive full value from the internal audit service.
- 5.9 In addition, some one third of all councils (32%) had both inadequate internal audit terms of reference and reporting arrangements. These two issues are likely to be related: deficiencies in reporting arrangements may often arise from deficiencies in the terms of reference between the two parties. Again, as shown in [Exhibit 11](#), this is more common in the smaller councils where internal audit arrangements may be more informal.

Exhibit 11 – Councils with both inadequate internal audit terms of reference and reporting arrangements by size of council

Between 10% and 40% of councils lack both adequate terms of reference with, and effective reporting arrangements by, their internal auditor. This is particularly the case for councils with annual income and expenditure below £30,000



5.10 Adequate internal audit terms of reference would help both councils and internal auditors understand their respective responsibilities and consequently to address deficiencies, including those regarding reporting arrangements, arising. Those councils with both inadequate terms of reference and reporting arrangements will find it difficult to evidence that they have maintained an adequate and effective system of internal audit in accordance with statutory requirements.

In some cases, internal audit drew different conclusions to those of the external auditor suggesting that the work undertaken by internal audit was insufficient

5.11 In section 4 of this report, I noted that significant numbers of community councils did not set an appropriate budget and/or did not have effective budget monitoring in place. I also noted that in some cases, the precept demand sent to the council tax billing authority differs from the sum approved by the council.

5.12 In the majority of these cases, the internal auditor in a report to the council asserts that 'the annual precept demand requirement resulted from an adequate budgetary process, progress against the budget was monitored and reserves were appropriate'.

5.13 It is a matter of some concern that the reported results of internal audit's work are not supported by the findings of the external auditor.

6 Auditors reported on a number of recurring matters that councils across Wales could learn from

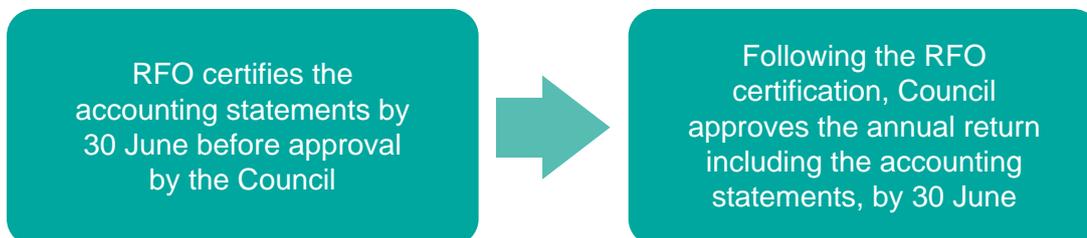
Many councils do not follow the basic procedural requirements set out in law

Many councils fail to follow the correct procedural requirements when approving the Annual Return

- 6.1 The Accounts and Audit (Wales) Regulations 2014 set out the process that community councils must follow when approving the Annual Return. This process is set out below.
- 6.2 Auditors noted that over 30 councils (5%) did not properly follow these arrangements.

Exhibit 12 – The statutory approval process for community council’s accounts

The responsible Financial Officer must certify the accounting statements before the Council approves the accounting statements, and the annual governance statement



- 6.3 Auditors identified cases where:
- a The RFO only certified the accounting statements after the Council had approved the annual return.
 - b Either or both the RFO or the Council had failed to discharge their responsibilities by 30 June. In some cases, this was due to individual councils' meeting cycles and could have been addressed by the council altering, for one month, their normal meeting schedule.

Auditors reported that a number of councils do not prepare minutes in accordance with the requirements of the Local Government Act 1972

- 6.4 The Local Government Act 1972 requires that each council must keep minutes of the proceedings of the council and its committees. The minutes held by the council represent the lawful record of its discussions and decisions. Where loose leaf minutes are kept rather than a minute book, each page must be consecutively numbered and initialled by the person signing the minutes at the time of signature.
- 6.5 Auditors reported that loose leaf minutes provided by councils as audit evidence are not initialled as evidence that they are authentic. Where minutes are not properly kept, there is a risk that minutes could be replaced by inaccurate or misleading records. Furthermore, there is also the risk that councils are unable to properly evidence the decisions taken by the council and how those decisions have been arrived at.

Auditors noted recurring issues related to councils' potential non-compliance with the law that could have a financial impact on individual councils

Auditors reported that several councils currently maintain gratuity funds for the benefit of officers of the councils

- 6.6 Community councils have in the past given gratuity payments to clerks on retirement. However, these payments were in the gift of the employer and could only be awarded at the point of the employee's departure. The statutory basis for such payments was set out in the Local Government (Discretionary Payments) Regulations 1996.
- 6.7 The Discretionary Payments Regulations were amended at various times until their eventual repeal in January 2012. Therefore, at present, there is no statutory basis for making a gratuity payment.
- 6.8 Notwithstanding this, auditors have reported that a number of councils currently maintain gratuity funds and may hold such funds in separate bank accounts.
- 6.9 Councils are advised that before they make any gratuity payments, they should obtain proper legal advice to minimise any risk of making an unlawful payment.

Community councils inappropriately making use of the 'free resource' available under section 137 of the Local Government Act 1972

- 6.10 Community councils are statutory corporations and only have such powers that are conferred on them by statute. This means that they must be able to identify a specific statutory power for each of their actions. Notwithstanding this, subject to some formalities, section 137 of the Local Government Act 1972 gives community councils a general power to spend up to a certain limit in each financial year for any purpose which, in its opinion, is in the interests of or will directly benefit the area or its inhabitants. However, where the council has a specific statutory power, the specific power should be applied rather than section 137.
- 6.11 Auditors noted that councils regularly make payments relying on section 137 when a more appropriate, specific power is available.

Auditors reported that a number of community councils appear to be making inappropriate reclaims of VAT on behalf of other bodies

- 6.12 In his report in the public interest for Mawr Community Council dated December 2011, the appointed auditor drew attention to inappropriate arrangements made by the council to reclaim VAT on behalf of bodies ineligible to make such claims.
- 6.13 During the 2015-16 audit, auditors identified a number of arrangements whereby councils are seeking to recover VAT on behalf of others. It is our view that such arrangements are likely to be unlawful. Councils should therefore seek advice from HM Revenue and Customs to ensure that the arrangements they put in place comply with tax legislation. A failure to do so would place the council at risk of significant financial penalties.

Some councils hold significant levels of financial reserves without a clear purpose as to why those reserves are held

Although reserves held by individual councils vary, in total, at 31 March 2016 community councils in Wales held balances that exceeded the annual 2015-16 precept raised from council tax payers

- 6.14 As at 31 March 2015, community councils in Wales held reserves totalling over £30.1 million.
- 6.15 Collectively, community councils raised £31.4 million from council tax payers in 2015-16 and increased the sums held in reserves to over £32.4 million at 31 March 2016. This year-end balance exceeds the sum raised from council tax payers during the year.

Auditors identified that councils commonly fail to take their reserves into account when setting their annual budget and precept

- 6.16 Community councils have no general power to hold large sums as financial reserves. In some cases, councils must set aside certain funds as reserves. These include capital receipts which are not available to support the council's day to day costs.
- 6.17 The Local Government Finance Act 1992 specifically requires community councils to take reserves into account when setting their precept. Auditors examined the budgets set by councils and noted that one of the most common failings was that individual councils took no account of the sums held in reserves.
- 6.18 At individual councils, reserves held range from 3% of the precept for 2015-16 to 3,300% of the precept. In many cases, councils were unable to provide explanations as to the purpose for which the reserves are held.

In many cases, councils need to make significant improvements to the records of the long term assets they hold

Community councils in Wales hold in excess of £188 million of assets

6.19 Community councils hold a wide range of long term assets including land and buildings, playground equipment, public conveniences, furniture and fittings, and civic regalia. The value of these assets is reported in the annual accounting statements as over £188 million across Wales.

Auditors identified that councils commonly have no or only limited records of the assets they hold

6.20 All councils, regardless of their size and the extent of the long term assets held, should have a full record of these assets. Such records should be sufficient to identify the cost or value of individual assets and details of where title deeds etc may be found.

6.21 Auditors have frequently found that councils have limited or no records of the long term assets they hold. As they take on assets and services from unitary authorities, it will become even more important for community councils to maintain proper asset records.

7 Since the publication of the Auditor General's report on the 2014-15 accounts, auditors have exercised statutory powers to make formal recommendations to a small number of councils

- 7.1 As part of the audit, the Auditor General has a duty under the Public Audit (Wales) Act to consider whether, in the public interest, he should make a report on any matter which comes to his notice in the course of the audit, in order for it to be considered by the body, or brought to the attention of the public. The Auditor General also has a statutory power to issue written recommendations to councils and require the councils to consider those recommendations in accordance with specific provisions within the Act. Where the Auditor General exercises these powers, councils must consider the recommendations at a public meeting and publish their response to the report or recommendations.
- 7.2 When auditors exercise these powers, there are usually lessons that can be applied to other councils across Wales. The Auditor General recommends that all councils consider the following issues and whether any of the issues raised may apply to them.

Auditors made written recommendations to improve councils' financial management and compliance with statutory requirements

Holyhead Town Council

- 7.3 In April 2016, the auditor issued a report to Holyhead Town Council, setting out deficiencies in its delegation arrangements, its budget setting, and its internal financial rules. The auditor found that:
- a The Council had improperly delegated responsibility for consideration of planning matters to individual councillors. Such arrangements are contrary to law which prohibits the council delegating its functions to individual members.
 - b The council operates a cinema complex, but excluded from its budget the income and expenditure generated by the cinema.
 - c In addition, the accounting arrangements for the cinema did not support effective financial management and decision making.
 - d The council's standing orders which govern the way in which it operates were significantly out of date and no longer reflected the way in which the council operated.

Machynlleth Town Council

- 7.4 In April 2016, the auditor issued a report to Machynlleth Town Council, setting out deficiencies in its financial management and governance spanning the six financial years up to and including 2014-15. The auditor found that during this period:
- a The Council failed to maintain adequate and complete financial records;
 - b The Council failed to prepare its annual accounts on a timely basis;
 - c The Council failed to prepare its accounts on the correct basis due partly to the lack of records, and partly due to incorrect treatment of significant income and expenditure related to its 'Y Plas' facility.
 - d The Council commissioned an external consultant to assist the council to address its problems with the accounts and to undertake internal audit work. However, the identified deficiencies with the work undertaken includes:
 - the accounts prepared by the consultant did not agree with the underlying records;
 - the bank reconciliation prepared did not reconcile the cashbook and the bank accounts; and
 - the accounts were not prepared on the correct accounting basis.
- 7.5 As a consequence of the Council's failure to maintain proper records, the Council has incurred a loss of over £5,000 in VAT that it is no longer able to recover.

Nantyglo and Blaina Town Council

- 7.6 In December 2016, the auditor issued a report to Nantyglo and Blaina Town Council, setting out deficiencies identified as part of the audit of the 2014-15 accounts. The auditor found that:
- a the council had not maintained records of contracts of employment for its employees; and
 - b although reporting that contracts of employment had been examined in the year, the council's internal auditor was unable to provide evidence that this internal audit work had actually been completed.

8 The Auditor General's audit programme for 2016-17 to 2020-21 will continue to focus on areas where there is scope for community councils to improve their financial management and governance

For the 2016-17 audit, auditors will focus on the arrangements councils have made to adopt a Code of Conduct for members, and to ensure they are properly dealing with payroll issues

All community councils must adopt a Code of Conduct for Members and individual members agree to abide by the Code

- 8.1 An essential part of any body's governance framework is the behaviour demonstrated by the members of that body. The Local Government Act 2000 created a new ethical framework for local government in Wales. It created a power for the Welsh Ministers to issue a model code of conduct to apply to members and co-opted members of all relevant authorities in Wales.
- 8.2 Community councils are required to adopt the Code in its model form in its entirety, but can make additions to the Code, provided these are consistent with the Model. The locally adopted Code is then integral to the individual council's governance framework.
- 8.3 For the 2016-17 audit, auditors will consider how the Code has been adopted and will seek evidence that:
- a the council has adopted a Code of Conduct;
 - b individual members has agreed (on acceptance of office) to abide by the Code; and
 - c the council is maintaining a register of members' interests.

Community councils employ staff and unless they are exempt from doing so must ensure that they register with HM Revenue and Customs as an employer

- 8.4 Organisations normally need to register as an employer with HM Revenue and Customs (HMRC) when they start employing staff. Community councils usually have only one paid officer, the Clerk. The majority of these Clerks work part-time, their hours varying from one to two days per week, to a few hours per quarter in connection with Council meetings.

- 8.5 However, the Clerk is an office holder and emoluments received, whether described as an honorarium, a salary, a payment towards expenses or a combination of these, are chargeable as employment income and there is liability for Class 1 National Insurance Contributions (NICs)
- 8.6 As employers, community councils normally have to operate PAYE as part of their payroll. PAYE is the HMRC system to collect income tax and national insurance from employment. There are however exemptions from this requirement. For example, employers do not need to register for PAYE if no employees are paid £112 or more a week, get expenses and benefits, have another job, or get a pension. However, all employers must keep payroll records
- 8.7 For the 2016-17 audit, auditors will seek evidence that:
- a The council has registered with HMRC and is operating PAYE as required. This evidence may be in the form of returns to HMRC or confirmations from external payroll providers.
 - b Where councils are not registered, confirmation of the reasons why the council has not registered.
 - c The council is keeping proper payroll records.

For the 2017-18 audit, auditors will focus on the effectiveness of internal audit and how councils manage their reserves and balances

An effective internal audit function is an essential part of any council's system of internal control, and the 2017-18 audit will focus on the adequacy of work undertaken

- 8.8 Internal audit forms an important part of the internal control arrangements that each council is required to have in place and review annually.
- 8.9 The 2015-16 external audit examined whether or not councils had agreed terms of reference with their internal auditor. Section 5 of this report sets out the Auditor General's findings in relation to internal audit and identifies concerns over how councils can assess the adequacy and effectiveness of its internal audit function. This report also draws attention to inconsistencies between internal auditors' findings and those of the external auditor.
- 8.10 Therefore, for the 2017-18 audit, auditors will examine the work undertaken by internal audit in order to assess whether or not it meets the expectations of the sector.

Community councils in Wales hold in excess of £32 million in reserves and balances, and the 2017-18 audit will examine how councils plan to use these reserves for the public benefit

8.11 Community councils hold in excess of £32m in reserves and balances. In some cases these reserves will include capital receipts which have restricted uses. However, audit work in 2015-16 identified that many councils do not take their reserves into account when setting their annual precept.

8.12 The 2017-18 audit will therefore consider what plans community councils have for their reserves and balances and how they manage these resources effectively.

Looking forward to 2018-19 and beyond, the Auditor General's programme will continue to look at common issues arising during the annual audit, and will also incorporate a review of the sector's response to the Well-Being of Future Generations Act 2015

Each year, the Auditor General identifies a number of common or recurring issues as part of the annual audit work, and these will be considered as part of the future audit programme

8.13 As reported above, auditors continue to identify recurring issues as part of their normal audit work. The Auditor General will incorporate themed governance reviews of these issues as part of his annual audit programme.

8.14 The issues identified for review will be those that are commonly identified, or those that have a significant potential impact on community councils and their effective use of public funds.

For community councils, the Auditor General will discharge his responsibilities under the Well-Being of Future Generations Act 2015 in a proportionate manner by integrating his work within the statutory audit process

8.15 Community councils in Wales with gross income or expenditure over £200,000 each year have a duty under the Well-Being of Future Generations Act 2015 to take all reasonable steps towards meeting the objectives included in the wellbeing plan in effect in its area. Each financial year, relevant councils must publish a report on the progress it has made in meeting the local objectives.

8.16 The Auditor general also has responsibilities under the Act to carry out an examination of each public body at least once every five years. The Auditor General's approach will be proportionate to the scale of the sector, and details have yet to be worked out. We do, however, propose that an initial examination will take place during 2020-21.

The Auditor General's future programme of themed governance reviews is set out in a four year plan, although, this may be subject to change as issues emerge over time

8.17 The objective of the new audit arrangements introduced for 2015-16 is to examine and assess the effectiveness of community councils' governance arrangements over a period of years. The reviews will focus on recurring themes identified as part of the annual audit cycle and will help councils to improve their arrangements where required over time. **Exhibit 13** sets out my current proposed timetable for future governance themes, although, these may change over time.

Exhibit 13 – Future governance themes

The Auditor General's future governance themes for community councils will broadly follow a four year plan, although, this may be subject to change as issues emerge

2017-18	2018-19	2019-20	2020-21
Effectiveness of Internal Audit Use of reserves	Compliance with Standing Orders Delegation to committees	Use of s137 Local Government Act 1972 Arrangements for making payments	Employment of staff Well-Being of Future generations

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Mr Nick Ramsay
Chair
Public Accounts Committee
National Assembly for Wales
Cardiff Bay
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Date: 14 February 2017
Our ref: HVT/2687/fgb
Page: 1 of 2

Dear Nick

DISCUSSION PAPER: THE GOVERNANCE CHALLENGES POSED BY INDIRECTLY PROVIDED, PUBLICLY FUNDED SERVICES IN WALES

I am pleased to enclose an advance copy for you of my discussion paper on the topic of 'arms-length governance', which I will be publishing later this week.

The paper is not a typical audit report (and so it is not being laid formally before the Assembly under my studies powers). Instead, and whilst it draws upon my previous audit work, it sets out the nature of the challenges facing those who are responsible for designing and operating robust governance arrangements for Welsh public services that are delivered at arms-length. The paper is intended to be neutral, rather than judgemental, and my intention is that it will promote constructive debate about the way forward in relation to governance issues affecting public services in Wales. Its overall purpose is therefore to support improvement across what is an increasingly complex public service delivery landscape.

Partly as a response to recommendations made by the previous Public Accounts Committee during the Fourth Assembly in some of its reports, the Welsh Government is working to improve the consistency of its oversight arrangements in relation to arms-length bodies. My staff are liaising with them to take forward the issues raised in the paper, and Sir Derek Jones and I jointly chaired a very useful workshop session with his senior team last November to explore this topic in more detail.

In addition to supporting the work of your Committee, I intend that the key messages within the paper will be disseminated more widely during 2017 via the Wales Audit Office's ongoing programme of 'Good Practice Exchange' events. The timetable that I envisage for rolling-out the paper is as follows:

- **Mid-February:** publication of the paper. As this is not a standard audit report, I do not plan to issue a formal press notice. Instead, we will be distributing the paper via e-mail to key stakeholders alongside invitations to register for a 'webinar'. The paper (in both English and Welsh) will then be uploaded to our website.
- **12 April (provisional date):** The WAO will host a 'webinar' (an approach we are using very successfully in our Good Practice Exchange work) involving a facilitated live panel of three or four experts discussing this topic, and also answering on-line questions from pre-registered participants. If judged a success, it is possible that further such webinars could follow over subsequent months.
- **Autumn 2017:** WAO to facilitate seminar / workshop events in both North and South Wales, under our 'Good Practice Exchange' banner, to encourage wider debate and facilitate shared learning. These could well include case studies of successful arms-length governance arrangements.

Key to this overall approach is our intention and ability to be flexible, in order to secure key stakeholders' engagement and participation in debate, input and action.

I look forward to discussing the contents of the paper with you in due course, as well as working with you to use its contents to inform the Committee's future work.



HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES

Enc: Discussion paper: The governance challenges posed by indirectly provided, public funded services in Wales



Discussion Paper: The Governance Challenges Posed by Indirectly Provided, Publicly Funded Services in Wales

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We treat the English and Welsh languages on an equal basis. Mae'r adroddiad hwn hefyd ar gael yn Gymraeg.

The Wales Audit Office study team comprised Alastair McQuaid and Mike Usher.

Foreword by the Auditor General

Governance is at the heart of public services. It underpins how resources are managed, how decisions are made, how services are delivered and the impact they have, now and in the future. It also infuses how organisations are led and how they interact with the public. Governance needs to be robust but it must also be proportionate. Well-governed organisations are dynamic and take well-managed risks; they are not stagnant and bureaucratic.

Publicly funded services should be delivered by the organisations best placed to do so. Special-purpose public bodies and external contractors play an important role in Welsh public service provision and deliver many benefits. I encourage well-managed risk taking and recognise good practice wherever I come across it; but quite rightly, the public expects high standards of governance whenever public money is involved. Since I became Auditor General in 2010, I have published a series of audit reports that have focused upon governance failures. This paper includes examples from these reports and among the recurring themes are:

- a) ineffective oversight and monitoring
- b) a lack of transparency
- c) inappropriate conduct
- d) poorly managed conflicts of interest

Frequently, these governance failures have occurred within bodies that deliver public services 'indirectly,' at arms-length from their parent or client body. Many were associated with flawed procurement or disposal processes or were failed grant-funded projects. The impacts have included poor-quality services, losses of public funds, reputational damage and erosion of public trust and confidence in those responsible. The root causes of many of the audit issues that I have had to report on have included:

- a) insufficient consideration of arrangements for oversight and the appropriate balance between autonomy and intervention;
- b) a lack of clarity around how governance arrangements should operate in practice, contributing to reduced transparency and diluted public accountability; and
- c) the absence of a consistent and shared understanding of, and commitment to, standards of ethics and conduct to be observed by all those involved in public service delivery.

Unclear governance arrangements in public services create risk. The sheer diversity of governance arrangements that exist within and between bodies that operate at arms-length increases the inherent risks associated with them. If differences in perception and understanding are not recognised, then associated risks are often not properly assessed and so cannot be well-managed.

Meaningful consideration of the governance of indirectly provided, publicly funded services in Wales has to take account of the changing context within which they operate and the broader concepts that underpin them. It appears to me that there are no easy answers; attempts to impose order risk being inflexible and may constrain innovation. A proliferation of rules can be the enemy of good governance; the simpler and clearer the expectations, the more likely it is that those involved in delivering public services will be incentivised to aspire to them. Solutions must be realistic and must be grounded in the values and standards that remain at the core of public services, which are reflected in the principles of the Well-being of Future Generations (Wales) Act. However, there are opportunities to learn, not only from previous failures, but also from existing good practice and innovative ideas, in relation to accepting and navigating complexity.

This paper highlights learning points from my previous audit work. Its contents are relevant to policymakers, officials, practitioners and academics, as well as those who oversee, provide and receive indirectly provided services that are funded with public money. I hope that by stimulating debate, this paper will help to spread good practice, generate new ideas, support beneficial change and so contribute to the good governance of public services in Wales.

Huw Vaughan Thomas
Auditor General for Wales

October 2016

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Executive summary

- 1 Increasingly, public services are delivered through subsidiaries, partners or contractors, rather than directly by central or local government bodies or by the NHS. This paper uses the term ‘indirectly provided’ for such services and aims to encourage debate about the governance implications of emerging trends in indirectly provided, publicly funded services in Wales.
- 2 Such services can be provided by a wide range of public, private and third sector entities under various legal, administrative, collaborative and contractual arrangements. This diversity arises from the ways in which Welsh public services have developed over time and also because the pressures for change are complex and are increasing. Although diversity may reflect flexibility and pragmatism and has many advantages, there is also a danger that it can contribute to confusion and increased risk.
- 3 In Wales, as elsewhere in the UK and across the world, the traditional boundaries between the public, private and not-for-profit (third) sectors are also becoming blurred. Whilst the third sector has always played a significant part in delivering Welsh public services, the growth of third and particularly private sector involvement is accelerating:
 - a) as well as the significant role played by the private sector as a supplier of goods and services to public bodies, private entities are increasingly involved in providing services directly to the public, generating profits for their shareholders;
 - b) private individuals bolster the expertise and capacity of public bodies by participating on boards as non-executives, with responsibility for stewardship of public resources and for commissioning and delivering public services;
 - c) partnerships between organisations in the public and private sectors are used to assist delivery of a wide range of public policies and functions by leveraging-in private sector expertise and resources;
 - d) public bodies are engaging in partnerships with, and outsourcing services to, third sector organisations to supplement core capacity, plug gaps in services and better connect with communities;
 - e) some publicly funded bodies within the third sector are seeking to decrease their reliance upon grant funding and donations by engaging in commercial activities, including by providing paid-for services to businesses and to the public; and
 - f) many public bodies are seeking opportunities to generate income by establishing subsidiary bodies as arms-length companies to engage in trading activities.

- 4 As the public, private and third sectors have become increasingly intertwined in public service delivery, it becomes more of a challenge to ensure consistent application of terms such as: 'the Welsh public sector'; 'Welsh public services'; 'public servants'; and 'public money'. The scale, direction and pace of these changes also bring with them inherent tensions and contradictions, along with potential for conflicting priorities and for imbalances between risk and reward. Nevertheless, regardless of the legal status of an entity or individual involved in dealing with 'public resources' to provide 'public services'; it is essential that their conduct and behaviour meets the high standards expected by the public.
- 5 In addition to individuals or entities involved in delivering public services, the public also has expectations of those who receive public money for other purposes. Significant public funds are paid to procure goods or services from the private and third sectors, or are advanced as grants or loans to support private enterprises engaged in commercial activities which support public policy objectives such as job creation. Although debate about ethics and conduct in relation to public funds beyond their use for public service provision is important, it is outside the scope of this paper.
- 6 This paper does not seek to assess the governance effectiveness of the Welsh Government, individual arms-length bodies or of contracted-out services in Wales. Neither does it evaluate the relative merits or risks of different models of indirect service provision or provide a manual for establishing new arms-length bodies, entering into partnerships or procuring services. Instead, it explores emerging trends and poses questions. Its objective is to prompt discussion amongst public service leaders and stakeholders about how to identify and learn from existing good practice, recognise potential problems and strengthen governance frameworks in order to ensure that the conduct of public business in Wales by all individuals and entities:
 - a) demonstrates appropriately high ethical standards;
 - b) meets public expectations;
 - c) underpins efficient, economic and effective service delivery; and
 - d) safeguards public resources and the well-being of future generations.

- 7 A debate about good governance in relation to indirectly provided, publicly funded services in Wales is necessary and timely because:
- a) new models for delivering services are being developed. Often these involve bodies at arms-length from government and arrangements for procurement, partnership and co-production, which may limit public scrutiny and accountability.
 - b) with increasing private sector involvement in service delivery, personal interests and the profit motive may come into conflict with public sector values of selflessness, user focus and wider public responsibility.
 - c) the administrative and legislative definitions of ‘public services’, ‘public servants’ and ‘public money’ are inconsistent; creating potential difficulties when applying governance rules and principles.
 - d) the provisions of the Well-being of Future Generations (Wales) Act 2015 (the WFG Act) directly affect 44 Welsh public bodies, but have wider implications for all bodies involved in Welsh public service delivery.
- 8 Whilst recognising the diversity and dynamism of Welsh public services provision, it is essential that governance expectations are clearly and consistently understood by all commissioners and providers of public services. However, compliance arrangements must not be so burdensome as to intrude unnecessarily, constrain innovation, compromise efficiency or undermine sustainability. Instead, they should help to build effective relationships, foster trust, provide clarity, support accountability, incentivise improvement and mitigate risk.
- 9 Governance exists to underpin the provision of excellent public services and the proper conduct of public business; it is not an end in itself, nor should it be seen as a drag or obstacle to effective delivery. On the contrary, well-governed organisations tend to be those which provide excellent public services. Organisations which neglect to establish the proper foundations of good governance will often, sooner or later, find themselves in operational difficulties.

Exhibit 1: a call to action

This paper proposes that:

An effective approach to the governance of indirectly provided, publicly funded services in Wales should:

- underpin expectations of the standards of ethics and conduct of all individuals or entities using public money to deliver services;
- enable individuals and entities to be held to account for their conduct and behaviour, as well as for service delivery;
- take account of the diversity and complexity of public service delivery systems;
- balance autonomy and timely, appropriate intervention;
- spread learning from good practice; and
- support implementation of the WFG Act.

We welcome debate on:

- how existing good practice and diverse approaches to governance can best inform a coherent and transparent approach to the governance of indirectly provided, publicly funded services for Wales;
- how good governance can be incentivised in indirectly provided, publicly funded services, without stifling innovation;
- how risk and reward can be appropriately balanced, and to what extent should senior pay and private profits be moderated when public money is involved; and
- how implementation of the WFG Act can best influence the ethical governance of indirectly provided, publicly funded services in Wales.

Part 1

1. Creating a shared understanding of the issues

- 1.1. Done well, public service governance should enable an organisation to deliver its objectives effectively and to live up to public service values at the same time. However, some difficulties arise in practice because of the absence of a clearly defined, commonly understood and consistently applied set of key terms and concepts.

Exploring key terms (1): the ‘Welsh public sector’ and ‘Welsh public services’

- 1.2. Public services are hugely diverse, covering functions ranging from transport, health and education to economic development, culture and the environment. Some of these services are provided by private bodies, although they may use public funds. Not all public services deal directly with the public, some provide intermediate services between public bodies.
- 1.3. The Welsh public sector, in common with the UK as a whole, has evolved over many years, rather than being planned from first principles¹. Not all bodies providing what are commonly understood to be Welsh public services are devolved to Wales; some Welsh public service providers are not part of the public sector; not all employees of public authorities or bodies in Wales are ‘public or civil servants’; and ‘public funds’ may be used by private organisations to engage in commercial activities. What is more, even within what is generally understood to be the public sector, different governance arrangements apply to central government, local government and health bodies².

¹ The National Audit Office report, **Departments’ oversight of arm’s length bodies: a comparative study**, July 2016, examines differences in arms-length delivery systems across four central government departments.

² In April 2015 the Auditor General for Wales published **Governance in the NHS in Wales Memorandum for the Public Accounts Committee** which looked in detail at governance in the NHS in Wales.

1.4. In 2014, the Williams Commission³ identified the Welsh **public sector** as comprising:

‘...the body of staff directly employed by publicly funded bodies.’

And Welsh **public services** as:

‘...services delivered for the benefit of the public; this can include services delivered through the third sector, social enterprise or that are contracted out.’

The Williams Commission also noted that:

‘There is no clear and agreed definition, however, of exactly what the Welsh public sector is, or which organisations it includes....the sector has evolved and that its structure lacks coherence... is highly complex, and may appear to lack an adequate overall rationale. There are several aspects of this which we believe cause serious problems for the governance of the public sector.’

1.5. In response to the Williams Commission’s report, the Welsh Government has begun listing all of the devolved public bodies in Wales and is also seeking to develop a classification system which categorises bodies according to their legal status and their arrangements for accountability⁴.

1.6. The list of devolved bodies in Wales prepared in response to the Williams Commission draws upon various sources of information, such as bodies that receive a remit letter from the Welsh Government, bodies subject to audit by the Auditor General or investigation by the Public Services Ombudsman, bodies whose members are disqualified from being assembly members, and bodies that are required to lay accounts before the assembly. However, these sources are not consistent with each other. In addition, legal definitions are inconsistent; the term ‘public authority’ is defined differently in the Human Rights Act 1998⁵, the Freedom

³ The Commission on Public Service Governance and Delivery, **Full Report**, January 2014

⁴ Following the Commission on Public Service Governance and Delivery (the Williams Commission) report, the Welsh Government has established a register of public bodies in Wales funded from the budget allocated by the UK Government to Wales (the Welsh Block Grant) which has identified 90 bodies in the main register as well as a further 736 town and community councils. Academi Wales quote an estimate of around 3,000 organisations in Wales ‘that deliver public services and/or manage significant amounts of public money’ [Academi Wales, **The Good Governance Guide: Doing it right, doing it better**, Draft, January 2016].

⁵ The Human Rights Act makes it unlawful for any ‘public authority’ to act in a way which is incompatible with the European Convention on Human Rights. ‘Public authority’ includes a court or tribunal and any person certain of whose functions are of a public nature.

of Information Act 2000⁶, by EU law, by case law and by the WFG Act⁷.

Furthermore, the terms often used to describe the various types of public body⁸ do not provide clear, mutually exclusive definitions.

- 1.7. The European Union (EU) requires the governments of member states to produce accurate public sector accounts according to an EU classification of entities into public or private sectors. The UK's Office for National Statistics (ONS) applies the EU classification⁹, based upon the level of government control over funding, appointments, and operations, and breaks the UK public sector into three areas:
 - a) central government, which in Wales includes the National Assembly, ministerial departments, non-ministerial departments, executive agencies and also Welsh Government sponsored bodies at arms-length from departments.
 - b) local government, which in Wales includes the 22 Welsh unitary authorities, their subsidiary bodies fire and rescue authorities, police and crime commissioners, national park authorities, community councils.
 - c) public corporations, which in Wales are controlled by the Welsh Government but have substantial financial, commercial and operating independence and derive more than half of their income from the sale of goods or services. Public corporations accounts are not consolidated within the Welsh Government department accounting boundaries.
- 1.8. Some of the public sector entities involved in providing services indirectly are included within more than one of the three ONS classifications and the tendency to establish new bodies on an individualised case-by-case basis has often created weak and inconsistent associations between function and form. For example, housing associations are recognised as public bodies for some purposes but are treated as third sector bodies for funding and accounting purposes¹⁰; universities

⁶ The Freedom of Information Act creates a public right of access to information held by 'public authorities'. Public authorities covered by the act are listed in a schedule which is regularly updated. Wholly owned public companies are covered by the act's provisions.

⁷ The Well-being of Future Generations (Wales) Act 2015 lists 44 bodies to which the act's provisions apply. However, the Public Services Ombudsman for Wales' remit extends to a wider range of Welsh public bodies.

⁸ The terms 'non-ministerial department' and 'non-departmental public body' are purely administrative.

⁹ The ONS classifies organisations for national accounts purposes according to categories set out in the 2010 European System of Accounts.

¹⁰ In September 2016 the ONS announced that Registered Social Landlords (RSLs) in Wales, commonly called housing associations, are to be re-classified as public sector bodies. This decision, based on the amount of Welsh Government control over RSLs, will result in over £2 billion of housing association debt being added to Welsh Government accounts and may restrict the ability of RSLs to access private finance.

are not recognised as public bodies by UK law, although they are by EU law¹¹. The situation is confusing for the public, who may not even realise that that some public services in Wales (such as Welsh-language broadcasting, policing and the criminal justice system) are not devolved to Wales.

- 1.9. Importantly, there is no agreed strategic approach to developing governance structures and systems for new public service models that consistently relate function to form and enable all relevant entities and individuals to be held democratically and publicly accountable for:
 - a) how well public resources are used
 - b) how well services are delivered
 - c) what outcomes are achieved
 - d) their conduct and behaviour
- 1.10. The particular form adopted when a new body is established will determine characteristics that influence the degree of real and perceived autonomy, the nature and extent of accountability, the extent and effectiveness of public scrutiny and also legal duties. When establishing a new body it is important to review the proposed form and function together and consider them in relation to resulting characteristics including:
 - a) whether the body's financial transactions and balances are consolidated into government accounts, subject to consideration of materiality, or accounted for separately. All UK companies, including those established by public bodies, are obliged to file annual accounts and other information with Companies House, which is publicly accessible. Subsidiary bodies established as limited liability partnerships are not subject to all of these requirements.
 - b) transparency and challenge; the extent to which the body is subject to public audit by the Auditor General, has its own audit committee, is subject to regulatory oversight and also to statutory provisions that enable public transparency (for example, the Freedom of Information Act 2000). Where a body is established as a charity, it will be subject to scrutiny by the Charity Commission to ensure that it is acting within its charitable objectives and in accordance with the Charities Act 2011.

¹¹ Further and higher education institutions receive public funding but are not classified as public bodies by law in England and Wales. In Scotland further education colleges are now classified as part of the public sector and, therefore, have less flexibility and autonomy than their counterparts in England and Wales. The Public Accounts Committee of the National Assembly recently identified a lack of transparency in relation to senior executive pay, including in relation to the further and higher education sectors. (National Assembly for Wales, Public Accounts Committee, **Senior Management Pay**, November 2014)

- c) the status of employees; whether the body's employees are civil servants, subject to the requirements of the Civil Service code; or other public sector employees subject to the requirements of a professional body; and whether they are public servants for the purposes of the criminal law.
- d) funding, individually or in combination, through the Welsh Government budget, through request for resources, through grants or grant-in-aid, or by income from fees or charges.
- e) financial flexibility and status in relation to requirement to break-even, treatment of financial surpluses, ability to borrow, tax liability and national non-domestic rates liability.
- f) whether EU directives apply, such as in relation to procurement of goods and services, requiring open tendering¹².

1.11. At present, there is some uncertainty about how the approach to governance in public bodies required by the WFG Act will be achieved in relation to indirectly provided, publicly funded services. We explore this issue in more detail in [Part 3](#).

'There were a range of legal and practical reasons for RIFW's governance arrangements:

- EU funding rules for the JESSICA programme required that RIFW should sit at arms-length from the Welsh Government (and therefore could not have its own Accounting Officer);
- RIFW investment decisions needed to be commercially based; and
- demonstrable managerial independence from political influence would be vital, particularly when seeking potential private-sector investment partners during the planned second phase of RIFW's existence.'

Source: **The Regeneration Investment Fund for Wales** (RIFW), July 2015

¹² Where public bodies procure goods or services, they are expected to follow EU law. To demonstrate that good value for money is achieved from public funding, EU law requires public bodies to advertise contracts above a certain limit in the Official Journal of the European Union. Although commercial, private sector bodies are not covered by EU procurement law, they are expected to use fair and open practices, including competitive tendering, when letting contracts related to public services and public funds.

- 1.12. Whilst this situation rightly allows for flexibility and pragmatism, it can sometimes undermine the consistent application of principles and compliance with standards, rules and guidance. It leads to significant and increasing levels of value for money and reputational risks to the Welsh Government associated with services provided to, and on behalf of, public bodies in relation to:
- a) service models: some delivery models such as consortia (and the legal basis for them) may inhibit transparency and dilute accountability.
 - b) ethical standards: the Welsh Government expects the highest ethical standards of itself, its subsidiaries and indeed all who are involved in delivery of public services in Wales; however, where private entities and individuals are involved, personal interests and the profit motive may conflict with selflessness, user focus and wider public responsibility.
 - c) oversight: the absence of clear and consistent guidance creates confusion in the minds of public officials as to the scope and nature of their responsibilities for overseeing the activities of arms-length providers of public services.

‘The history of the Welsh Government’s management of its relationship with AWEMA raises a more general question about how the Welsh Government can best exercise due diligence to satisfy itself that each of the organisations it funds operates in accordance with principles of good governance, while not interfering in the running of those organisations. This is not just about being able to demonstrate regular monitoring activity. It is also about ensuring that monitoring activity is appropriately targeted, proportionate and that it leads to robust action in response to any issues of concern.’

Source: **The Welsh Government’s relationship with the All Wales Ethnic Minority Association** (AWEMA), October 2012

‘...This degree of active involvement by the observer in the conduct of RIFW’s business potentially jeopardised the arms-length status of RIFW and also may have created the impression of tacit Welsh Government approval for the terms of the sale in the minds of the RIFW Board members and their advisors.’

‘A review commissioned by the Welsh Government has identified weaknesses in the governance arrangements that it established for RIFW that are also relevant to other arms-length agencies.’

Source: **The Regeneration Investment Fund for Wales** (RIFW), July 2015

Exploring key terms (2): 'public service governance'

- 1.13. Governance relates to how authority is exercised in pursuit of the body's objectives and also to how those who exercise authority are held to account for how they have exercised it by those who have entrusted them with assets and resources. A range of regulation in areas such as employment, health and safety, environmental and social responsibility affects both public and private sector bodies and so governance systems in both sectors need to ensure compliance.
- 1.14. However, governance, the arrangements associated with it and how effective governance can be demonstrated are generally broader and more complex matters for public service bodies than in private organisations. This is because public bodies are usually subject to wider forms of accountability to a variety of stakeholders (including parliaments, governments and taxpayers), than the directors of private companies owe to their shareholders and the wider community under Company Law.
- 1.15. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines governance as:
'Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.'¹³
CIPFA states that:
'To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity's objectives while acting in the public interest at all times.
'Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.'
- CIPFA describes **public service governance** as:
'How public bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, cultures and values, by which public bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.'
- 1.16. The Independent Commission on Good Governance in Public Services¹⁴ defined public service governance as:
'...the leadership, direction and control of organisations... the action, manner, or fact of governing; government... the exercise of authority through formal and informal traditions and institutions for the common good.'

¹³ CIPFA/IFAC, **International Framework: Good Governance in the Public Sector, 2014**

¹⁴ Quoted in the Commission on Public Service Governance and Delivery (the Williams Commission), **Full Report**, January 2014.

- 1.17. From a public audit perspective, the three pillars of public service governance are:
- a) **regularity**: acting reasonably¹⁵, fairly and lawfully within rules, powers and delegated authority;
 - b) **propriety**: conforming to standards of public conduct, behaviour or morals, including acting with integrity, exercising appropriate judgement and meeting expectations of transparency; and
 - c) **value for money**: achieving economy, efficiency and effectiveness in the use of public resources.

Exploring key terms (3): 'public service ethics'

- 1.18. Ethics relates to moral principles and rules of conduct which ascribe moral values to human actions within a social group or culture, with respect to the rightness or wrongness of actions and the goodness or badness of motives and outcomes. In public governance terms, ethical conduct and decision making are wider in scope than simply procedural correctness. The notion that actions and decisions should be based on what best serves the public's interests, as opposed to an official's personal interests, is fundamental to the concept of **public service ethics**.¹⁶
- 1.19. Public bodies are expected to adhere to an ethos based upon public sector values and standards, particularly in relation to openness and integrity in decision making, conduct and stewardship of money. Whilst these values and standards are not exclusive to the public sector, public service stakeholders have higher expectations of those whom they regard as being public servants, delivering public services or spending public money.

'These failings permeated the whole of the operations of the Partnership and suggest that those charged with responsibility for governance had little regard to recognised standards in public life or the need to achieve value for money from public funds.'

Source: **Plas Madoc Communities First**, March 2010

¹⁵ The 'Wednesbury reasonableness test' was established in case law by the Court of Appeal in 1948. A decision is unreasonable (or irrational) if it is so unreasonable that no reasonable person acting reasonably could have made it. Good public governance requires more than the minimum standard of reasonableness established by the Wednesbury test.

¹⁶ Institute of Local Government, **Understanding Public Ethics Law – Principles and California Law**, 2013

1.20. As well as serving the interests of a wider range of stakeholders than private bodies, public service bodies are required to deliver a wide range of political, economic and social goals and outcomes, many of which are qualitative and not directly measurable. In contrast, private organisations are driven by market forces and have a clearer profit motive, directly linked to the commercial interests of their funders and investors. Whilst private and public bodies both consider the interests of customers and staff as well as the organisation's reputation, private bodies primarily consider them in relation to their contribution to competitive advantage, profit generation and shareholder value, rather than to the public good.

Exploring key terms (4): 'public servants'

- 1.21. Employment status can affect whether in addition to their employer's terms and conditions, staff are bound by the Civil Service code¹⁷ or subject to a professional code of conduct. The employment and legal status of individuals involved in public services affects expectations of their conduct and also the potential consequences for them if their conduct falls short of the obligations placed upon them. The status of staff within the public sector who are performing similar functions can vary because they are employed by different types of public body. For example:
- a) administrative staff employed within the Welsh Government's Directorate for Health and Social Services are civil servants, whereas administrative staff employed by local health boards and trusts are not.
 - b) local health boards employ a range of health professionals. However, dentists, opticians, pharmacists and General Practitioners (GPs) provide services to the public under contractual agreements with the local health boards, but are not employed by them (although they are subject to external professional regulation).
 - c) where a local authority outsources a service, its employees will be transferred to a private provider. Although they may continue to perform the same function and role and aspects of their previous employment, terms and conditions may be protected; they will no longer be subject to the local authority's policies and procedures.

¹⁷ Staff of the National Assembly (Assembly Commission) are bound by the Staff Code of Conduct; Welsh Government staff are bound by the Civil Service code.

- 1.22. Offences under the Bribery Act 2010 apply to anyone, whereas the common law offence of misconduct in public office applies only to holders of public office. There is no simple definition of who is or is not a 'public officer;' each case is assessed individually, taking into account the nature of the role, the duties carried out and the level of public trust involved. Public functions can be carried out by private employees and therefore a private employee may be a public officer for the purposes of the offence. The courts recognise the potential for unfairness if a public employee would be subject to a legal sanction whereas a private individual exercising the same function would not. Factors such as how the individual was appointed and whether they are paid or unpaid do not necessarily determine whether they are considered to be a public officer. Statutory and crown appointees as well as trustees do not have contracts of employment but are considered to be public officers. A factor that may point towards an individual being a 'public officer' is whether they have responsibility for 'public funds'. However, there is no clear definition of what constitutes 'public funds'.
- 1.23. Individuals appointed to be non-executive board members of public bodies are not usually employees of the body¹⁸. Conflicts of interest may arise for individuals who are appointed as board members of public bodies established as companies or as limited liability partnerships. This is because under company law, directors of all companies have a primary duty to act in the best interests of the company and must put the interests of the company before those of the sponsoring body. In most cases, the interests of both parties will align but situations can arise in which they do not. This issue may be particularly problematic where civil servants are also board members because their duty to the company may conflict with their responsibility to a minister under the Civil Service code.

'RIFW Board members' legal responsibilities were insufficiently aligned with the Welsh Government's expectations of their collective accountability to Welsh Ministers.'

Source: **The Regeneration Investment Fund for Wales** (RIFW), July 2015

- 1.24. The position of 'whistleblowers' (people who raise issues of public concern about wrongdoing, risk or malpractice that they are aware of through their work) and the degree of legal protection afforded to them under the Public Interest Disclosure Act 1998, is the same, whether or not they are an employee and whether or not their employer is in the public or private sector. It is good practice for public sector bodies to have whistleblowing policies. Where public bodies are commissioning health and social care services, it is also good practice to extend their policy to encompass their contracted private and third sector service providers.

¹⁸ The Wales Audit Office has a statutory board which includes two elected employee members.

1.25. However, well-publicised scandals brought to light by whistleblowers, such as the abuse of vulnerable residents at Winterbourne View¹⁹ and the failings at Mid Staffordshire NHS Foundation Trust²⁰, highlight issues about the treatment of whistleblowers. Without an appropriate organisational culture, people may be afraid to raise concerns and employers may fail to respond. Recent trends in employment practice towards zero-hours and fixed-term contracts may mean that due to the fear of victimisation, such staff could be less likely to raise issues of concern about working practices or inappropriate conduct by senior staff.

¹⁹ Department of Health, **Transforming care: A national response to Winterbourne View Hospital**, December 2012

²⁰ **Report of the Mid Staffordshire NHS Foundation Trust Public Inquiry** [The Francis Report], February 2013

Part 2

2. What are the key trends affecting the governance of indirectly provided, publicly funded services in Wales?

- 2.1. The growth of indirectly provided, publicly funded services in Wales is itself a response to wider political, economic, social and technological changes:
- a) the continuing climate of reductions in public spending is adding impetus to the already established trend towards exploring new models for delivering public services as a means of driving service improvements and reducing costs;
 - b) the dual pressures of rising demands and declining resources are encouraging policymakers to explore innovative ways of harnessing private and third sector expertise and capacity to meet these challenges; and
 - c) new information and communications technology provides opportunities for changing radically how services to the public or to government are accessed and how providers shape their organisations to deliver them, as well as raising ethical issues around information governance.
- 2.2. These changes interact to produce a dynamic and uncertain environment,²¹ which drives innovation and decisions across Welsh public services to:
- a) establish new entities
 - b) procure services under contract
 - c) engage in partnerships
- 2.3. In Wales, since 1999 there has been less emphasis on competition, ‘purchaser/provider’ commissioning arrangements and privatisation than has been the case in England. Instead, the Welsh Government’s focus on partnership working and co-production has led to an increasingly diverse range of entities and individuals becoming involved in delivering Welsh public services as subsidiaries, agents, contractors or partners. The range of such organisations includes:
- a) arms-length agencies, including Welsh Government-owned companies such as Finance Wales PLC and its subsidiaries;
 - b) agents such as private sector fund and investment managers;
 - c) third sector organisations in receipt of grant funding;
 - d) not-for-profit organisations, such as leisure services trusts; and
 - e) private providers, such as care homes.

²¹ The Auditor General set out the key financial challenges facing the Welsh public services in his report **A Picture of Public Services 2015**, published in December 2015.

- 2.4. The public services landscape in Wales is continuing to change, whilst at the same time public expectations are increasing in relation to service quality and also the standards of conduct exhibited by all organisations or individuals involved in public services and with public money. However, Wales is a small country and, in the complex landscape of public service provision, it is inevitable that actual or potential conflicts of interest will arise. Many individuals from the private sector participate in boards that commission and oversee publicly funded services; and because of their expertise, staff can move from holding policy or procurement responsibility within government to employment with private company suppliers.
- 2.5. Changes to policy and delivery system design increase the risk of that conflicts of interest may arise, for instance where both commissioner and provider functions are operated from within the same organisation. The Welsh Government has also emphasised local authorities' role in promoting social entrepreneurship, co-production and community initiatives, as exemplified in its 2015 draft Local Government (Wales) Bill. Such initiatives can result in local authorities entering into a variety of joint arrangements involving public, private and third sector individuals and entities. However conflicts, whether real or perceived, should always be managed effectively through measures that mitigate or eliminate them.

'The Welsh Government did not put in place effective compensating controls to mitigate a conflict of interest, and other governance around the decision to purchase was weak.'

Source: **The Welsh Government's acquisition and action to dispose of the former River Lodge Hotel, Llangollen**, June 2012

'Parties involved in executing the sale transaction had relationships with the buyer and the seller that gave rise to potential conflicts of interest.'

Source: **The Regeneration Investment Fund for Wales (RIFW)**, July 2015

'A conflict of interest was appropriately declared but this should have been handled more robustly by the Welsh Government.'

Source: **Establishment and oversight of the Wales Life Sciences Investment Fund**, February 2016

2.6. Well-managed risk taking is an important component in public service delivery systems. Overall, there is a pressing need for assurance that commercial approaches towards risk taking are being well managed when applied to using public resources and to delivering public services, regardless of the legal form of the entities involved or the status of their officers. Politicians, the media and the public all rightly expect that private entities and individuals involved in funding, procuring, managing, delivering and scrutinising publicly funded services will place the interests of service users and value for money in relation to public funds at the forefront. However, in some instances our audit work has indicated that the development of robust governance arrangements has failed to keep pace with innovation in delivery models and in working practices.

'We are concerned that high profile examples of poor grants management share common and recurring weaknesses. Key weaknesses we have identified have included a failure to adequately consider the viability, capacity and capability of recipients. In many instances, clarity of criteria and objectives has been lacking. We have also noted numerous instances of failure to adequately assess and mitigate risk. Weaknesses in ongoing monitoring also feature prominently in the list of recurring issues. Significantly, funders have failed to act on lessons learned when designing new schemes.'

Source: **Grants management in Wales**, November 2011

'The Welsh Government followed its procedures for approving and monitoring grant funding of the Project. However, the procedures at that time were less robust than those in place now and were unsuited to a project of this scale, complexity and risk. Although the Project achieved its main objectives, problems arose when the fish farm began operating which caused pollution and nuisance.'

Source: **Public funding of Penmon Fish Farm**, December 2013

'The project was always likely to fail because of flawed income assumptions and a lack of clarity over what the Centre was meant to offer, both of which were not adequately challenged by funders... Decisions to provide grant funding were based on highly flawed assumptions, particularly with regard to projected income levels... Funders did not identify and address all of the key risks and placed too much emphasis on the potential benefits of the project, and collaboration between funders was inadequate to support effective decision making.'

Source: **Public funding of the Cywain Centre, Bala**, April 2014

- 2.7. The Welsh Government seeks to learn lessons from individual governance failures, such as those highlighted in this paper, to ensure that they do not reoccur. However, the conceptual and practical difficulties involved in encouraging good governance in indirectly provided, publicly funded services indicate that a wider debate is timely.

Part 3

3. How might implementation of the Well-being of Future Generations (Wales) Act influence the ethical governance of publicly funded services in Wales?

- 3.1. Recent legislation has placed increased requirements upon the conduct of Welsh public bodies, public servants and public services. The WFG Act provides a governance framework for decision making which aims to strengthen governance in Welsh public bodies, which must improve:

‘The economic, social, environmental and cultural well-being of Wales by taking action in accordance with the sustainable development principle’. Acting in accordance with the sustainable development principle ‘means that the body must act in a manner which seeks to ensure that the needs of the present are met without compromising the ability of future generations to meet their own needs’.
- 3.2. The WFG Act requires the public bodies named within it to carry out sustainable development. The defining features which distinguish sustainable development from business as usual are:
 - a) an understanding of the long-term implications of decisions;
 - b) a recognition of environmental limits; and
 - c) an integrated approach to economic, social, environmental and cultural well-being.
- 3.3. The Act also places a well-being duty on those public bodies to set and publish well-being objectives in relation to their functions, designed to maximise their contribution to the seven national well-being goals. They are required to take all reasonable steps to meet those objectives, in accordance with the sustainable development principle. The sustainable development principle is defined through five ways of working. These are integration; collaboration; long-term thinking; involvement; and prevention.
- 3.4. The focus in decision making upon thinking long-term and considering prevention, whilst balancing resource pressures, will require a fundamental shift in the roles, skills and behaviours of many professionals. Public bodies must also involve service users and the wider public in taking an integrated and collaborative approach. All of these challenges pose ethical governance dilemmas, especially for those engaged in commissioning private sector providers to deliver public services.

Exhibit 2: the Welsh Government's objectives for the well-being of future generations

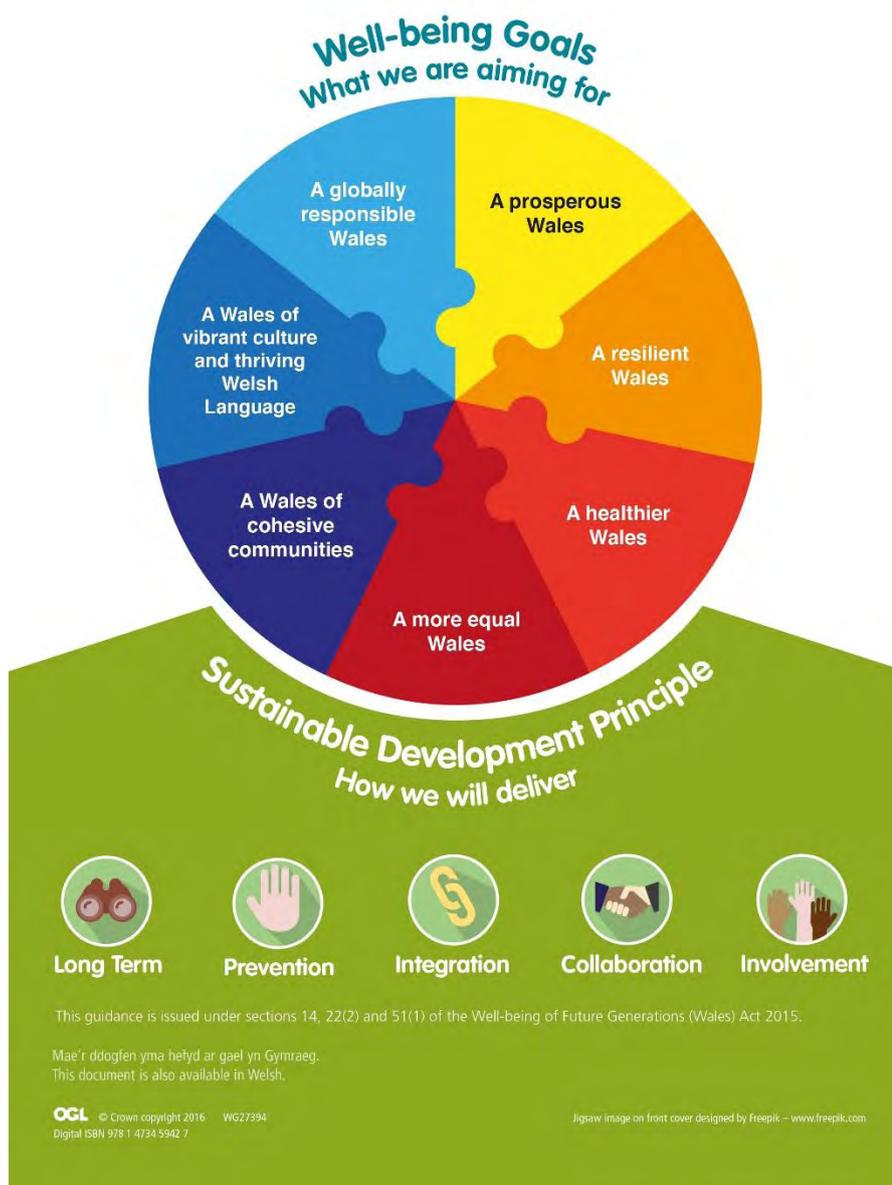


Exhibit source: Welsh Government, **Shared Purpose: Shared Future: Statutory guidance on the Well-being of Future Generations (Wales) Act 2015**

- 3.5. The WFG Act lists 44 public bodies delivering devolved services in Wales to which it applies, but the list is not comprehensive; for example, the Wales Ambulance Service Trust, Estyn and also the Public Services Ombudsman for Wales are not 'Welsh public bodies' for the purposes of the WFG Act. The four Welsh police forces are also not included, because policing is not a devolved function²².
- 3.6. The duties upon bodies named within the act do not extend explicitly to subsidiary bodies or to contractors. However, bodies named within the WFG Act will need to demonstrate that they are discharging their own statutory duties by acting in ways that are consistent with their well-being objectives. When providing funding, awarding grants or procuring services, a body named in the WFG Act may set remits, frame grant conditions or negotiate contract terms that are consistent with its well-being objectives and so have the effect of extending the WFG Act's scope beyond the public bodies defined within the WFG Act. However, it is unclear how implementation of the WFG Act will influence the ethical governance of:
- a) public bodies in Wales not named in the act;
 - b) subsidiaries of Welsh public bodies; and
 - c) private or third sector providers of publicly funded services.
- 3.7. An inherent tension exists between the WFG Act's requirement for the bodies named within it to take a longer-term view and annual funding, budgeting and accounting cycles in operation across Welsh public bodies. Implementing the WFG Act's requirements is likely to increase the internal and external governance focus upon and scrutiny of strategic plans and medium-term financial plans, as is already happening in NHS Wales. In order to meet their responsibilities under the WFG Act, many Welsh public bodies are pressing the Welsh Government to give them greater certainty in relation to future funding, as well as financial flexibilities similar to those of NHS bodies²³. Or at least, greater clarity in relation to funders' priorities and the range within which their funding decisions may lie.

²² Public service boards established under the WFG Act are required to invite the chief constable and police and crime commissioner to participate in the partnership for the local authority area covered by the board.

²³ Financial duties differ between the seven Welsh local health boards and the three Welsh NHS trusts. Local health boards must not exceed their spending limits over a three-year rolling period. Failure leads to a qualified external audit opinion. Trusts have a duty to break-even over a rolling three-year period but failure to do so does not lead to audit qualification. The financial duties for NHS bodies differ from those of most Welsh public bodies, which are required to break-even each year.

'NRW informed us it finds annual budget allocations from the Welsh Government restrictive but manages the impact through its financial planning and modelling. However, there is a risk that budget cuts require an even greater prioritisation of work with difficult decisions to be made, particularly given uncertainty over any additional funding for new statutory responsibilities. NRW considers that the expected level of budget cuts will require fundamental changes to the purpose and structure of NRW.'

Source: **The development of Natural Resources Wales (NRW)**, February 2016

- 3.8. Rising citizen expectations of Welsh public services, reflected in the WFG Act's seven well-being goals, require fundamental changes in all Welsh public bodies' processes, performance management systems and culture. The existing emphasis upon historical information based upon centrally driven performance indicators, budget administration and external financial reporting requirements will no longer be sufficient. Instead, there is a clear need for qualitative improvements in forward-looking performance and financial information that supports business cases, options appraisal, strategic planning and decision making. In essence, modelling the impacts of changes in activities, costs, incomes and demands, together with robust outcome monitoring, will be key to achieving each body's well-being objectives.
- 3.9. For private sector organisations engaged in commercial activity, the quality of management information is generally an internal matter, although business analysts and private investors take a keen interest. However, when private and third sector organisations are involved in providing public services, then sponsor access, quality assurance and the public transparency²⁴ of management information should be stipulated in:
- a) procurement contracts
 - b) partnership agreements
 - c) grant conditions
- 3.10. Accomplishing these changes is likely to require public bodies to acquire or develop the necessary skills, technology and capacity to gather, analyse and use the information. The growth of digital data technology presents many opportunities, but also raises information governance issues in areas such as the ethics of data capture, sharing, retention, use, transparency, access and security.

²⁴ The National Audit Office urges adoption of 'open-book accounting' practices which provide transparency of payments, performance and profits in relation to outsourced services, as a fundamental condition of doing business with the public sector. [National Audit Office, **Open-book accounting and supply-chain assurance**, June 2015].

'As an audit body, we are particularly concerned to encourage development of the finance profession in Wales. Some of our recent reports have commented on the lack of financial capacity and capability in many of the bodies we audit. The finance function has traditionally been about budget setting, control and compliance. In some cases, the finance function is seen as a barrier to innovation and change where it is averse to risk. In the future, finance professionals will have a greater role as a strategic partner to services, offering insight for example to support business plans for new ways of working. Finance and other professionals will need to take a long-term view of the costs and benefits of changes in the round.'

Source: **A Picture of Public Services 2015**, December 2015

- 3.11. There are also governance challenges in relation to sponsor, executive and non-executive oversight and scrutiny, as well as for regulation and audit. The WFG Act created the office of the Future Generations Commissioner (a corporation sole at arms-length from government). The commissioner's role is to support the 44 public bodies named in the act, including the Welsh Government, to work towards achieving the Welsh Government's well-being goals and to monitor and report on their progress. The WFG Act also set up new public service boards²⁵ to undertake a baseline assessment of local well-being, produce area well-being plans and to report on progress. In addition, the WFG Act placed a duty upon the Auditor General to provide a report to the National Assembly during each assembly election cycle, on the extent to which the bodies named in the WFG Act have applied the sustainable development principle in setting and meeting well-being objectives.
- 3.12. In order to mitigate the risk of increasing the quantity of regulation and assessment of public bodies, as well as the risk of conflicting or contradictory conclusions and recommendations, the Auditor General and the Future Generations Commissioner have agreed to co-operate in relation to their respective responsibilities under the WFG Act. This co-operation provides an opportunity to develop a more streamlined, seamless and coherent assessment of public bodies whilst also ensuring that everyone involved in these functions has the necessary skills and interpretive insight to critically appraise information placed before them and to judge how much reliance to place upon it.
- 3.13. Implementing the WFG Act will clearly impact upon the governance of the bodies named within it and has implications for audit and regulation. However, at present, the implications are less clear for public bodies not named within it, including subsidiaries, and also for private and third sector bodies who provide public services.

²⁵ Public service boards established under the WFG Act in each local authority area in Wales are statutory partnerships but are not entities in their own right.

Part 4

4. How can greater clarity be achieved in relation to the attitudes and behaviours expected of individuals and entities involved in Welsh public services?

- 4.1. The two traditional approaches to strengthening governance can be categorised as being primarily either principles-based or rules-based. These differing approaches are not mutually exclusive and may work in tandem; 'rules' can be used to specify when and how 'principles' should be applied. However, neither approach alone is appropriate in all circumstances because:
- a) principles set out broad expectations whilst providing flexibility in practice. However, it may be unclear whether they should apply, how they should be applied and how any tensions between different principles should be resolved.
 - b) rules are specific and prescriptive. Writing rules into regulations and agreements may be more easily enforceable than principles but, whilst rules leave less room for interpretation, they invariably give rise to some situations that are not explicitly covered.

Principles-based approaches to strengthening governance

- 4.2. Across the UK public sector, the principles-based approach to governance is encapsulated within the Nolan Principles²⁶ of:
- a) selflessness
 - b) integrity
 - c) objectivity
 - d) accountability
 - e) openness
 - f) honesty
 - g) leadership

²⁶ The Nolan Principles were set out in 2013 by the Committee on Standards in Public Life, chaired by Lord Nolan, in its **Fourteenth Report**. They are listed in full in Appendix 1.

- 4.3. Within Wales, Academi Wales has emphasised the importance of a public service ethos:

‘...whilst diversity and new ways of working are embraced and encouraged, common values and standards are understood and applied across the public service in Wales.’

Although Academi Wales recognises that:

‘There is no hard and fast definition of the Welsh public service...’

The academi endorses:

‘...the Welsh Public Service Values, the Nolan Principles, and Citizen-Centred Governance Principles for Wales.’²⁷

And it proposes that these:

‘...apply to any organisation that delivers public services to the people of Wales and/or utilises Welsh public funding directly or indirectly.’²⁸

- 4.4. Importantly, the Westminster Parliament’s Committee on Standards in Public Life has stated that there should be a wider application of the Nolan Principles of conduct in public life (hitherto applied to all appointed or elected public servants) and has invited debate on how the principles should be extended to all those involved in publicly funded services²⁹. The chair of that committee, Lord Bew, has also commented that:

‘...any organisation providing any public service should ensure that such [ethical] standards form part of its culture and behaviour and are demonstrated in practice from start to finish... It is the responsibility of the Welsh Government to ensure that this is achieved, regardless of who is providing the service.’

- 4.5. **Managing Welsh Public Money** (MWPM) is the Welsh Government’s primary guidance³⁰ on the proper handling of public funds. It aims to provide a reference guide to be applied by the Welsh Government and by the bodies it sponsors on how to handle public funds with probity and in the public interest. MWPM stresses the application of the Citizen Centred Governance Principles for Wales to public service organisations funded by the Welsh Government and the Nolan Principles to individuals working for the public service in Wales.

²⁷ These principles are set out in Appendix 2.

²⁸ Academi Wales, **The Good Governance Guide: Doing it right, doing it better**, Draft, January 2016

²⁹ The Auditor General’s February 2016 report on the Welsh Life Sciences Investment Fund cites both the January 2013 and June 2014 reports of the Committee on Standards in Public Life, which has identified this area as requiring further careful consideration.

³⁰ Updated and re-published in February 2016.

- 4.6. The Citizen Centred Governance Principles for Wales are aligned with the requirements of the WFG Act. The WFG Act adopts an approach based upon the sustainability principle³¹ rather than a prescriptive approach, which provides opportunities for Welsh public bodies (as defined in the act) to ensure that their response is proportionate, so that they can fulfil the WFG Act's requirements in ways which are tailored to the scale of the organisations' activities and expenditure.
- 4.7. In addition to the Nolan Principles and the Citizen Centred Principles for Wales, other principles are relevant to Welsh public bodies. These include NHS in Wales Core Principles and Values and also Procurement Principles³². The **Wales Procurement Policy Statement** sets out ten principles for procurement for all Welsh 'public sector' organisations. This policy adopts the Sustainable Procurement Task Force (in **Procuring the Future**, 2006) definition of procurement:
- 'the process whereby organisations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organisation, but also to society and the economy, whilst minimising damage to the environment.'
- 4.8. The various sets of principles are not fully aligned but neither are they incompatible. It is left to bodies themselves to draw the various principles together from diverse sources. For example, the **Wales Procurement Policy Statement** (which contains the procurement principles) states that the Welsh public sector will promote fair payment terms; a commitment which is compatible with the public sector payment policy target and with the WFG Act. However, the public sector payment policy target itself³³, is not explicit within the policy statement.
- 4.9. The consistent application of principles is problematic, because there is no consensus about the extent to which the various principles can, or should be, applied in practice:
- a) there is a plethora of differing sets of principles, many of which aim to apply universally to the public sector, public services and/or public money (see **Appendices 1 and 2**);
 - b) terms such as 'Welsh public funding' and 'public services' are not defined consistently or clearly (see **Part 1**); and

³¹ See also Appendix 2.

³² Contained within the **Wales Procurement Policy Statement**, published by the Welsh Government in 2012, updated and republished in 2015. See Appendix 2.

³³ The standard terms for UK government contracts is for payment within 30 days. Whenever possible, central government bodies will pay within 10 days.

- c) the status of different sets of principles is variable and it is unclear which principles have legal status through either statute³⁴ or case law³⁵, and which are merely advisory.

4.10. There may be conflicts between different principles and sets of principles. For example, circumstances may arise in which there is a tension between value for money for the organisation and potential wider social benefits from sourcing within the local economy. In such cases, decision-makers will need to be able to demonstrate that they have taken reasonable steps to apply principles and have taken all relevant matters into account when reaching their decision, otherwise they may be exposed to the risk of successful judicial review.

Rules-based approaches to strengthening governance

- 4.11. Rules may be legislative, administrative, contractual or a combination of these. They can relate to how a body is established, how it operates and how individuals within it are held accountable for its performance and for their actions. The Companies Act 2006 places a statutory responsibility on the directors to maintain a reputation for high standards of business conduct, to avoid conflicts of interest, to declare interest in a transaction or arrangement and not to accept benefits from third parties for being a director, or for doing, or not doing anything as a director. The board, its directors, employees and those funded by the company must not act or take decisions in order to gain financial or other material benefits for themselves, their family or their friends. They must declare any interests and relationships. Whilst these responsibilities are applicable to companies in government and are analogous to the Nolan Principles, the prime responsibility of directors is to the entity, not to the wider public (see also [paragraph 1.23](#)).
- 4.12. At present, the UK Government is tidying up arms-length bodies, classifying them and producing rules for establishing new ones. In Scotland, the Scottish Government maintains a single register of all devolved public bodies, including details of their funding, staffing and chief executives' pay. In Wales, the Welsh Government is cataloguing public bodies, producing governance guidance and ethical standards for subsidiary companies and publishing MWPM along with principles for the public sector.

³⁴ For example, the WFG Act.

³⁵ For example, the principle of reasonableness established in case law by the 'Wednesbury reasonableness test' (see also [paragraph 1.17](#)).

4.13. Business cases under which the Welsh Government seeks to establish any new public bodies in Wales are reviewed by the Welsh Government's Corporate Governance Unit which provides financial and legal advice. The Corporate Governance Unit's review includes checking the rationale for setting up a new body. However, at present there is no clear framework within which new public bodies in Wales (whether by central or local government) must be established. Establishing new bodies within a framework of guidelines that are departed from only by exception and with clear justification, would allow for flexibility whilst increasing clarity, consistency and predictability.

'In establishing RIFW's governance arrangements, the Welsh Government failed to make explicit the oversight mechanism for RIFW as an arm's-length body.'

Source: **The Regeneration Investment Fund for Wales** (RIFW), July 2015

'In establishing RIFW's governance arrangements, the Welsh Government failed to make explicit the oversight mechanism for RIFW as an arm's-length body.'

Source: **The Regeneration Investment Fund for Wales** (RIFW), July 2015

'Plas Madoc Communities First [PMCF] is a company limited by guarantee and a registered charity... The audit investigation found a fundamental lack of financial control and governance at PMCF.'

Source: **Plas Madoc Communities First**, March 2010

4.14. In its 2013 publication, **Standards Matter**, the Committee for Standards in Public Life stated:

'Public servants designing and commissioning services should, in a consistent and proportionate way, address ethical issues throughout the procurement process. Contractors and others should acknowledge the particular responsibilities they bear when delivering public services, paid for by public money, to individuals who may not have the choice of going elsewhere. Unless the principles are clearly translated into contracts and clear guidance, it is unlikely that private contractors in particular will believe that they are unambiguously applicable to them (given the likelihood of conflicts between the motives of private profit and public service), or spend time deducing from the principles how they are supposed to behave. There is therefore a responsibility on public office-holders to specify particular and proportionate ethical requirements in the contracts they let on behalf of the public sector unless the public sector does specify ethical requirements in its contracts it is unlikely that the market will operate to drive up ethical as well as quality standards and value for money.'

- 4.15. Ultimately the only way of ensuring that organisations providing outsourced public services operate to the standards of conduct expected of public bodies is by introducing additional contractual requirements within procurement and commissioning processes. Public bodies can also write the requirement for private sector bodies to follow public sector practices into grant conditions and loan agreements.
- 4.16. The Welsh Government's standard grant conditions require applicants to comply with legal requirements and regulations, and also require all necessary permits and consents to be in place. However, Welsh Government grant conditions do not routinely include any general requirement for the grant recipient to comply with standards of conduct in business. If the Welsh Government was able to develop an enforceable condition that covered such requirements, its inclusion would help to safeguard public funds used for grant-funded projects. It would also mitigate potential risks to the Welsh Government's reputation, through association with recipients which did not meet the requirements of such a condition³⁶.

'The Welsh Government identified potential risks when it approved grant funding for the Project, but did not put in place grant conditions that would have helped mitigate the risks.'

Source: **Public funding of Penmon Fish Farm**, December 2013

All funders had recognised, to varying degrees, the unsupported and unrealistic assumptions that underpinned the business case for the Centre. However, they approved grant funding without putting in place fully effective measures to mitigate and manage the risks to the project they had identified... Grant conditions, the main mechanism for managing the risks identified, were not always comprehensive or realistic.'

Source: **Public funding of the Cywain Centre, Bala**, April 2014

³⁶ Auditor General for Wales, **Public Funding of Penmon Fish Farm**, December 2013

- 4.17. There is no particular obstacle to including contractual requirements for standards of conduct. The real difficulty lies in how to articulate public sector values as contractual requirements in a way which is unambiguous, measurable, capable of being monitored and enforceable. This is an area in which significant development is needed. The Westminster Parliament's Committee for Standards in Public Life outlined a number of procurement/contractual mechanisms which purchasers/commissioners should consider in relation to:
- a) contract design/tendering
 - b) contractual requirements³⁷
- 4.18. Model contract terms and conditions in respect of governance and accountability arrangements and anti-bribery and fraud and corruption have already been developed and are included in the UK Government's Legal Service Model Contract terms. The National Audit Office has recommended that to ensure transparency in relation to contracted-out services, a requirement for 'open-book accounting' should be written in to all contracts³⁸. Companies, social enterprises and charities wishing to bid for public service contracts above a nationally agreed contract size, value threshold and political sensitivity should accept this condition or simply not bid. However, it is important that transparency should not be a burden or a barrier to small organisations or result in disproportionate costs.

³⁷ These include The Merlin Standard which was designed to recognise and promote sustainable excellence within supply chains and provide guidance to those seeking to achieve it. It is built upon four fundamental and integrated principles: supply chain design, commitment, conduct and review. These principles were designed to examine key areas of the relationship between a prime contractor and its supply chain partners. The Merlin Standard was originally developed by the DWP. A large number of suppliers are already Merlin accredited and all accredited main contractors are required to ensure they and all subcontractors comply with the DWP code of conduct. [Committee for Standards in Public Life, **Ethical Standards for Providers of Public Services** – guidance, December 2015]

³⁸ 'Open-book accounting' provides the public with the same transparency of payments, performance and profits for outsourced services as would be the case if the services were provided 'in-house' by the public sector. [National Audit Office, **Open-book accounting and supply-chain assurance**, June 2015]

- 4.19. There are also a number of non-contractual mechanisms which the public sector can use to encourage providers of public services to comply with high standards of conduct. These include:
- a) ethical codes for providers
 - b) standards for, and assessments of, supply chains
 - c) 'mystery shopper' arrangements
 - d) analysis of user complaints
 - e) effective commissioner-provider relationships
 - f) process of corporate renewal and development of 'good corporate citizen'
 - g) open publication of contract availability
- 4.20. Regardless of whether governance expectations that reflect the public sector ethos are expressed as principles or as rules, mechanisms are necessary to embed them in all commissioners and providers of public services; to provide compliance standards and monitoring measures. These must not be so burdensome as to intrude unnecessarily, constrain innovation, drive down efficiency or to undermine sustainability. However, they must constitute a framework that provides clarity whilst embracing diversity and which supports accountability, incentivises improvement, and mitigates inherent risk.

Encouraging the right behaviours

- 4.21. Any governance system, whether based on principles or rules, will fail to be effective if those charged with governance are not familiar with what is expected of them or fail to give the area sufficient attention. Training, awareness and clear, readily available guidance are key in supporting all those who deliver public services to do so in a manner which enables them to achieve their objectives and to live up to the values expected of them.

Appendix 1

The Nolan Principles

In its **Fourteenth Report**, the Committee on Standards in Public Life (2013) emphasised that standards of behaviour matter and are particularly important where public money is being spent on public services or public functions. The principles are universal:

- **selflessness:** holders of public office should act solely in terms of the public interest.
- **integrity:** holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.
- **objectivity:** holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
- **accountability:** holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.
- **openness:** holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.
- **honesty:** holders of public office should be truthful.
- **leadership:** holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

Appendix 2

Welsh public service values and behaviours

Public service values and behaviours for Wales

The Welsh Government has set out an ambitious agenda to unify public service endeavour across Wales with a common set of values, bringing together the responsibilities of the Future Generations (Wales) Act 2015:

- behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- ensuring openness and comprehensive stakeholder engagement;
- defining outcomes in terms of sustainable economic, social and environmental benefits;
- determining the interventions necessary to optimise the achievement of the intended outcomes;
- developing the entity's capacity, including the capability of its leadership and the individuals within it;
- managing risks and performance through robust internal control and strong public financial management; and
- implementing good practices in transparency, reporting, and audit to deliver effective accountability.

Procurement principles for Wales

The **Wales Procurement Policy Statement**, published by the Welsh Government in 2015, sets out ten principles for procurement for all Welsh 'public sector' organisations:

- **strategic:** procurement should be recognised and managed as a strategic corporate function that organises and understands expenditure; influencing early planning and service design and involved in decision making to support delivery of overarching objectives.
- **professionally resourced:** procurement expenditure should be subject to an appropriate level of professional involvement and influence, adopting the initial benchmark of a minimum of one procurement professional per £10m of expenditure across the wider public sector.
- **economic, social and environmental impact:** Value for Money should be considered as the optimum combination of whole-of-life costs in terms of not only generating efficiency savings and good quality outcomes for the organisation, but also benefit to society, the economy, and the environment, both now and in the future.

- **community benefits:** delivery of social, economic and environmental benefit through effective application of Community Benefits policy must be an integral consideration in procurement.
- **open, accessible competition:** public bodies should adopt risk based, proportionate approaches to procurement to ensure that contract opportunities are open to all and smaller, local suppliers are not precluded from winning contracts individually, as consortia, or through roles within the supply chain.
- **simplified standard processes:** procurement processes should be open and transparent and based on standard approaches and use of common systems that appropriately minimise complexity, cost, timescales and requirements for suppliers.
- **collaboration:** areas of common expenditure should be addressed collectively using standardised approaches and specifications managed by the National Procurement Service (NPS) to reduce duplication, to get the best response from the market, to embed the principles of this Policy Statement for the benefit of Wales; and to share resources and expertise.
- **supplier engagement and innovation:** dialogue with suppliers should be improved to help get the best response from the market place, to inform and educate suppliers, and to deliver optimum value for money.
- **policy development and implementation:** deployment of policy which supports the achievement of the seven well-being goals for Wales as set out in the Well-being of Future Generations (Wales) Act (2015).
- **measurement and impact:** in accordance with good management practice, procurement performance and outcomes should be monitored to support continuous improvement, and examples of good and poor practice openly shared.

Citizen Centred Governance Principles for Wales

- putting the citizen first: putting the citizen at the heart of everything and focusing on their needs and experiences; making the organisation's purpose the delivery of a high quality service.
- knowing who does what and why: making sure that everyone involved in the delivery chain understands each other's roles and responsibilities and how together they can deliver the best possible outcomes.
- engaging with others: working in constructive partnerships to deliver the best outcome for the citizen.
- living public sector values: being a value-driven organisation, rooted in Nolan Principles and Welsh Public service values. High standards of public life and behaviour, including openness, customer service standards, diversity and engaged leadership.
- fostering innovative delivery: being creative and innovative in the delivery of public services – working from evidence, and taking managed risks to achieve better outcomes.

- being a learning organisation: always learning and always improving service delivery.
- achieving value for money: looking after taxpayers' resources properly, and using them carefully to deliver high quality, efficient services.

The NHS in Wales – principles and core values

The NHS **Governance e-Manual** identifies a number of core values for the NHS in Wales, namely:

- putting quality and safety above all else
- integrating improvement into everyday working
- focusing on prevention, health improvement and inequality
- working in partnership
- investing in staff

These core values are designed to support good governance and the achievement of high standards of care. Alongside these, specific codes of conduct for board members and NHS managers have been developed which incorporate the Seven Principles of Public Life (the Nolan Principles). In addition, there are policies on specific areas, including whistleblowing and compromise agreements described within Openness and Business Conduct.

The NHS in Wales – standards for services

Doing Well, Doing Better – Standards for Health Services in Wales contains 26 standards that set out the requirements of all services in all settings in the NHS in Wales. These standards were introduced in 2010, replacing the previous ones launched in 2005.

The standards framework is underpinned by supporting guidance for individual standards and how to guides which give practical advice on how to implement them. A Governance and Accountability module provides NHS boards with a framework to monitor performance against the standards. This largely takes the form of self-assessment against maturity matrix descriptions.

At the time of preparing this briefing, the Welsh Government was undertaking a review of the Standards for Health Services in Wales.

The Standards for Health Services in Wales sit alongside a number of other mechanisms that set out what is required in delivering services to patients. These include a suite of delivery plans for specific conditions such as heart disease, stroke, diabetes, respiratory health and eye health amongst others. These plans typically set out the key actions that need to be taken to improve healthcare outcomes for patients. Many of these delivery plans have replaced national service frameworks that had previously been developed for these conditions.

Governance in the NHS in Wales

Other key mechanisms for setting out patient-care requirements comprise:

- the range of professional standards and regulations that apply to specific health professions and services.
- **Fundamentals of Care** guidance which was produced by the Welsh Government in 2003 and contains a set of indicators that cover fundamental aspects of quality that are important to anyone receiving health or social care.
- the National Institute for Health and Care Excellence standards, guidance and advice on a wide range of health and care service areas in Wales.
- the Quality and Outcomes Framework for GPs is a voluntary framework that aims to reward GPs for providing good practice. Practices are awarded points for providing evidence of good practice covering four domain of general practice: clinical, organisational, patient experience and additional services.

Notes:

- NHS Wales, [Governance e-Manual: Codes of Conduct](#)
- NHS Wales, [Governance e-Manual: Openness and Business Conduct](#)
- Welsh Government, [Doing Well, Doing Better: Standards for Health Services in Wales](#), 1 April 2010

Appendix 3

Selected further reading

Auditor General for Wales' reports:

- **Plas Madoc Communities First**, March 2010
- **Grants management in Wales**, November 2011
- **The Welsh Government's acquisition and action to dispose of the former River Lodge Hotel, Llangollen**, June 2012
- **The Welsh Government's relationship with the All Wales Ethnic Minority Association (AWEMA)**, October 2012
- **Public funding of Penmon Fish Farm**, December 2013
- **Public funding of the Cywain Centre, Bala**, April 2014
- **Governance in the NHS in Wales**, Memorandum for the Public Accounts Committee, April 2015
- **The Regeneration Investment Fund for Wales (RIFW)**, July 2015
- **A Picture of Public Services 2015**, December 2015
- **Establishment and oversight of the Wales Life Sciences Investment Fund**, February 2016
- **The development of Natural Resources Wales (NRW)**, February 2016

National Audit Office reports:

- **Open-book Accounting and Supply-chain Assurance**, June 2015
- **Department's oversight of arm's length bodies: a comparative study**, July 2016

National Assembly Public Accounts Committee report:

- National Assembly for Wales Public Accounts Committee, **Senior Management Pay**, November 2014

Publications produced or commissioned by the Welsh Government:

- The Welsh Government, **Wales Procurement Policy Statement**, 2015
- The Commission on Public Service Governance and Delivery [The Williams Commission], **Full Report**, January 2014
- The Welsh Government, **Shared Purpose: Shared Future: Statutory guidance on the Well-being of Future Generations (Wales) Act 2015**
- The Welsh Government, **Managing Welsh Public Money (MWPM)**, updated and re-published February 2016

Other relevant material:

- Department of Health, **Transforming care: A national response to Winterbourne View Hospital**, December 2012
- **Report of the Mid Staffordshire NHS Foundation Trust Public Inquiry** [The Francis Report], February 2013
- CIPFA/IFAC, **International Framework: Good Governance in the Public Sector**, 2014
- The Committee for Standards in Public Life, **Ethical Standards for Providers of Public Services – guidance**, December 2015
- Academi Wales, **The Good Governance Guide: Doing it right, doing it better**, Draft, January 2016

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