



Picture of Public Services 2021

Report of the Auditor General
for Wales

September 2021

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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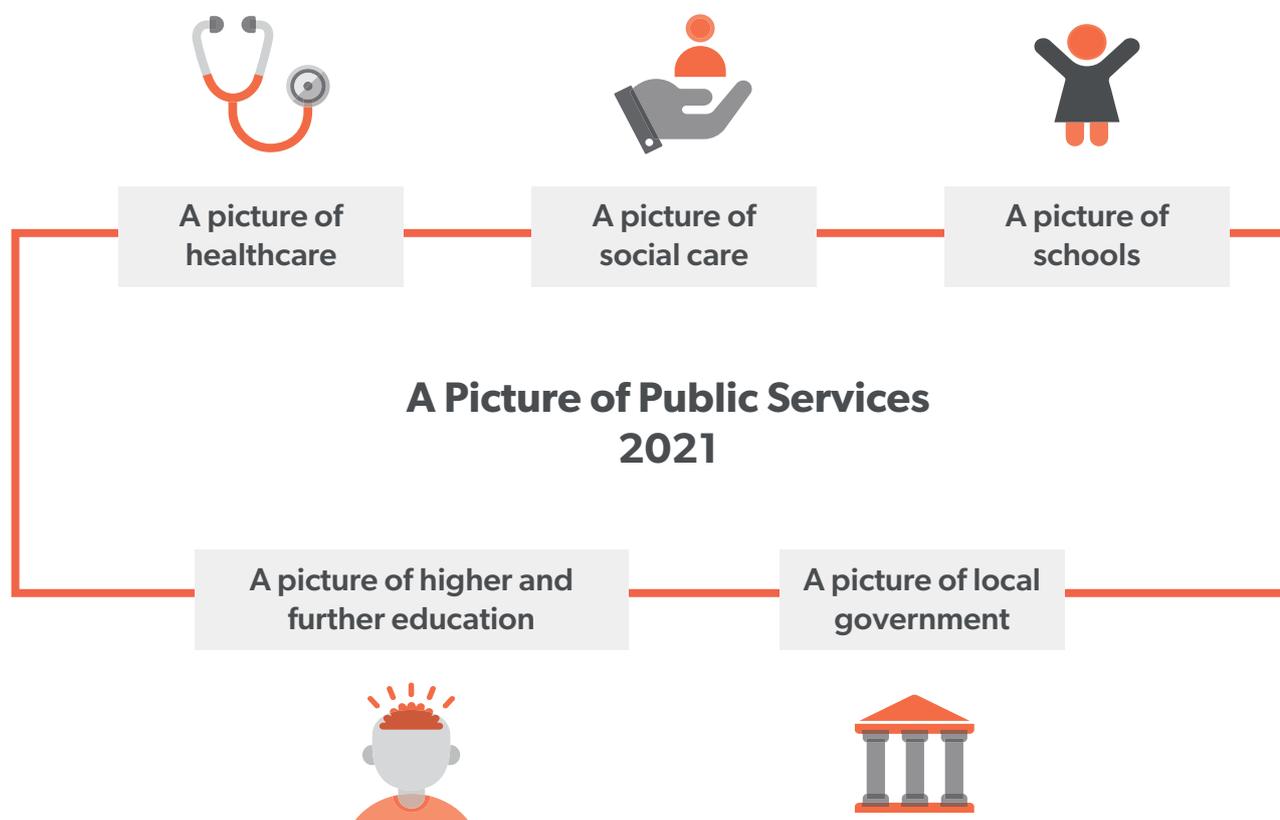
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About this report

This report is part of a series of Picture of Public Services 2021 outputs (**Exhibit 1**). It summarises some key trends in public finances and sets out our independent perspective on some of the key issues for future service delivery. Our aim in producing this report is to support scrutiny of public services in the Senedd, within individual public bodies and in wider society. It also provides insight that can help with collective planning of public service delivery.

The report draws on our published work and research by other organisations (**Appendix 1**). Underpinning this report is a series of sector-specific summaries setting out some key facts and analysis, which we will publish during September and October 2021.

Exhibit 1: Picture of Public Services outputs





Auditor General's foreword

- 1 The COVID-19 pandemic has had a devastating impact on many families and communities, yet it has also brought out much of the best in our public services. All of us at Audit Wales pay tribute to the dedication and extraordinary efforts of public servants across Wales through this tumultuous period.
- 2 As we emerge from the pandemic, public services in Wales face many challenges. They are grappling with three over-arching crises of global proportion: the public health crisis of COVID; the environmental crisis of climate change; and an economic crisis.
- 3 After a long period of austerity and the economic hit from the pandemic, the coming years will offer little respite for the public finances. For services already stretched before COVID-19 hit, the pandemic has created new challenges like its longer-term health impacts, backlogs of patients on waiting lists and lost learning in schools, colleges and universities. As they respond, there is expectation that public services will also address some of the big issues of inequality in our society. And they must do so at a time when an emerging set of constitutional issues post-Brexit may complicate the response, especially to the economic challenges in Wales.
- 4 Yet this daunting agenda is not without opportunity. The pandemic has demonstrated great strengths in the public service in Wales. The opportunity now is to build on the progress made in rapidly transforming the way services are provided during the pandemic to tackle the long-standing challenges that have pre-occupied Welsh public services for some time.
- 5 In these circumstances, it is essential that public services get the most value out of the available resources. Value is not just about delivering more outputs more efficiently. Value for money is also about outcomes: making progress in improving the wellbeing of individuals and communities. As Auditor General, I will report on the performance of the public services in delivering that value from the public money they use.
- 6 This report is by no means the full story of what has happened over the past decade, or of what is to come. But it sets out some of the most important areas for public service delivery where I will be expecting to see progress in the coming years (**Exhibit 2**).

Exhibit 2: key areas of public service transformation

	Systems and culture to support new approaches to service delivery
	Purposeful collaboration
	Long-term financial and service planning that supports a rigorous and realistic approach to prevention
	Harnessing digital technology to make services more accessible
	Using data and information to learn and improve across the whole public service system



Adrian Crompton
Auditor General for Wales

Key facts

£17.6 billion

total funding available to Wales through the block grant in 2019-20 (before the impact of the COVID-19 response)

+16%

increase in funding for healthcare, 2010-11 to 2019-20



-3%

reduction in the revenue funding available to the Welsh Government, 2010-11 to 2019-20

-17%

reduction in core Welsh Government funding for local government, 2010-11 to 2019-20

-3%

reduction in schools revenue spending, 2010-11 to 2019-20

ZERO

net carbon emissions the Welsh Government wants to achieve in Wales by 2050 at the latest

52%

proportion of the Welsh Government's 2019-20 revenue budget allocated to health



- 26,000 (8%)

fall in size of the public service workforce in Wales, 2010 to 2020

£1.20

amount Wales gets for devolved public services for every £1 spent on equivalent services in England

£5.1 billion

amount the Welsh Government allocated to the COVID-19 response in 2020-21

£600 million to £900 million

amount the Education Policy Institute estimates could be needed to support education recovery over three years

£152 million to £292 million

amount Wales Fiscal Analysis estimates the NHS will need each year for four years to address the waiting list backlog



+ 126,000 (74%)

forecast growth in people aged 80 and over living in Wales, 2018 to 2043





This report is split into three parts

- 1 Read about what happened with public services in 2010-11 to 2019-20
- 2 Read about the response to COVID-19 in 2020-21
- 3 Read about some of the key challenges and opportunities for public services in the coming years

After a decade of squeezed budgets and rising demands, many services were already stretched before the pandemic hit

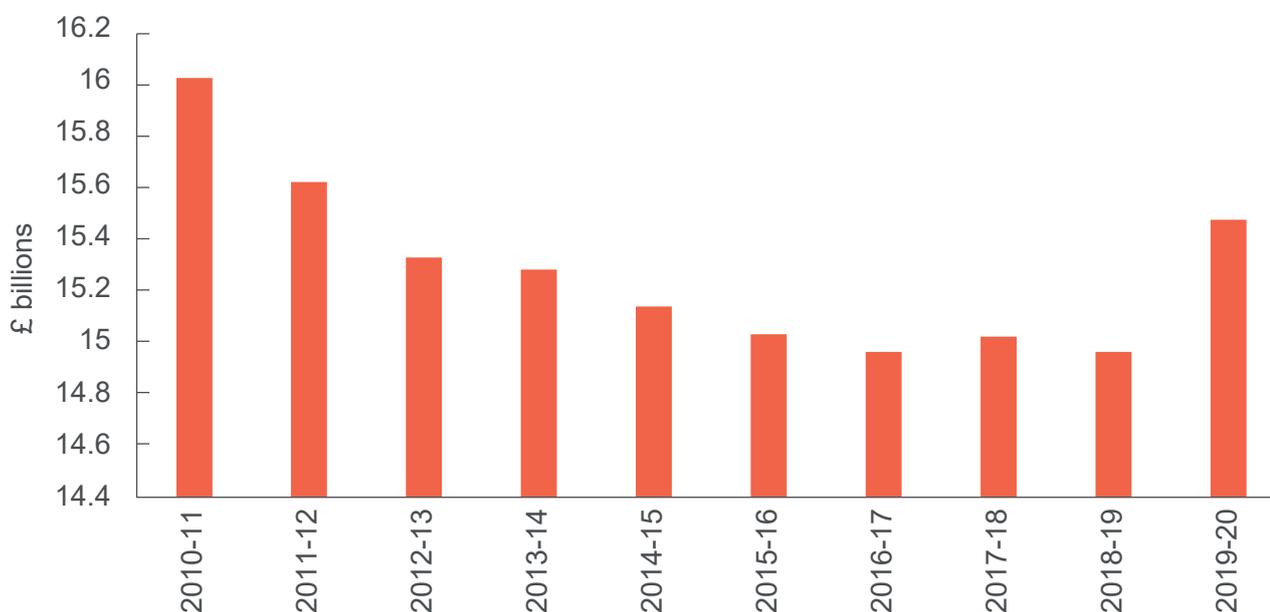
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1.1 This part of the report looks at the position of public services in the period 2010-11 to 2019-20: before the COVID-19 pandemic started. It provides important context around trends in public finances, priorities, demand pressures and capacity constraints. These trends help to explain why some public services were already stretched before the pandemic hit.

Austerity defined the previous decade for public services, although cuts were less severe than expected

1.2 Austerity was a defining feature of the previous decade for public services. Funding was tight, although not as challenging as expected when we reported in 2015¹. At that time, UK government spending plans showed the Welsh Government's budget falling by 4% in real terms between 2015-16 and 2019-20. Actually, the Welsh Government's day-to-day revenue funding rose slightly: it was 3% higher in 2019-20 than 2015-16, reflecting a significant uplift in 2019-20 (Exhibit 3). Even so, the 2019-20 revenue budget was 3% below 2010-11 in real terms.

Exhibit 3: Welsh Government revenue budget, 2010-11 to 2019-20 (real terms, 2019-20 prices)

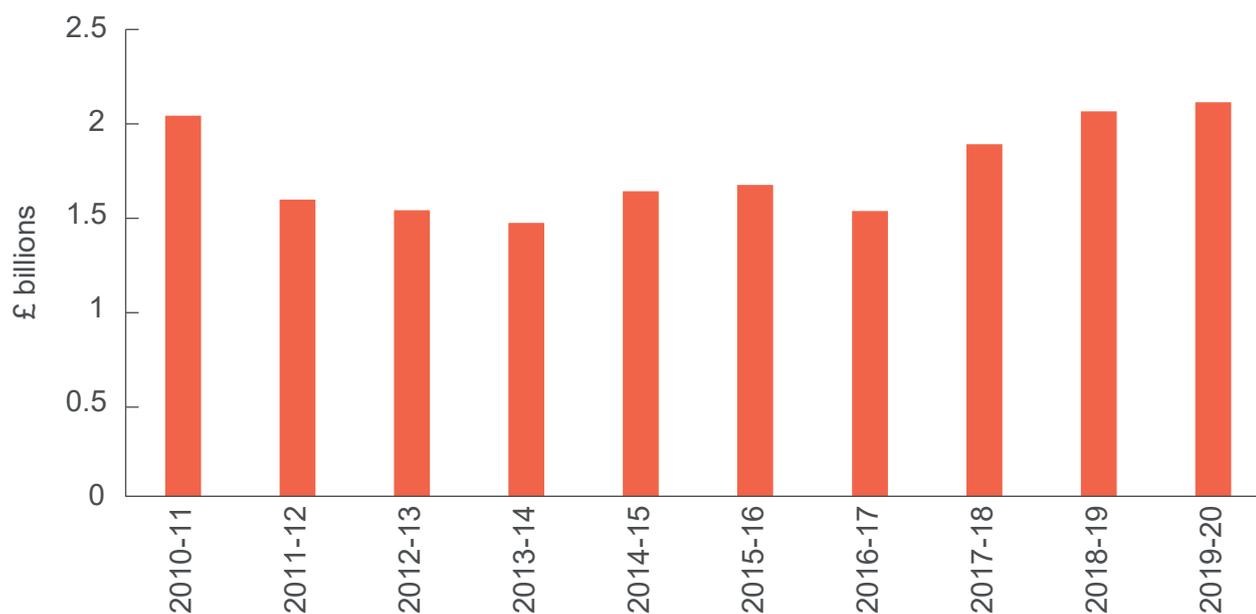


Source: HM Treasury Public Expenditure Statistical Analyses, StatsWales and the Welsh Government's budget

1 Auditor General for Wales, A Picture of Public Services 2015, December 2015

- 1.3 For capital spending to pay for investments in infrastructure, the picture is different. The Welsh Government's 2019-20 capital budget had increased by 27% compared to 2015-16 (**Exhibit 4**). By 2018-19, the capital budget was higher than 2010-11.

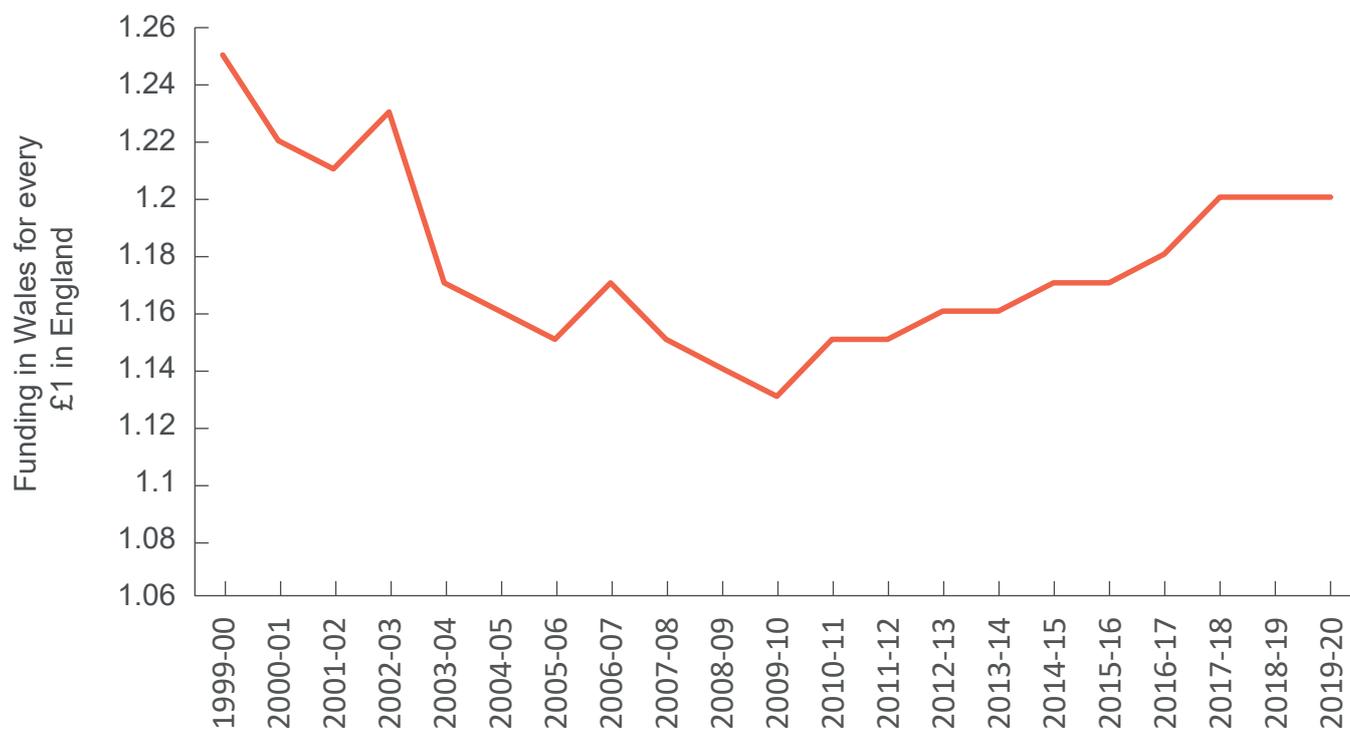
Exhibit 4: Welsh Government capital budget, 2010-11 to 2019-20 (real terms, 2019-20 prices)



Source: HM Treasury Public Expenditure Statistical Analyses

- 1.4 Funding for Wales and the other devolved nations is determined by the Barnett formula². Prior to 2010-11, the way in which the formula worked meant that levels of funding per person for devolved services in Wales and England were gradually getting closer together. Since 2010-11, the picture has reversed: in 2019-20, Wales had around £1.20 per head for every £1 for equivalent services in England (**Exhibit 5**).

² The Barnett formula allocates funding to the devolved administrations. It is based on a combination of changes in spending in England, the relative size of the population and, in Wales, a 'needs-factor' that aims to ensure Wales always gets at least 115% of funding for equivalent services in England.

Exhibit 5: devolved funding per head of population relative to England, 1999-00 to 2019-20

Note: this chart shows the amount of funding per head of population that the Welsh Government gets to spend for every £1 for equivalent services in England.

Source: the agreement between the Welsh Government and the United Kingdom Government on the Welsh Government's fiscal framework (also known as the Fiscal Framework)

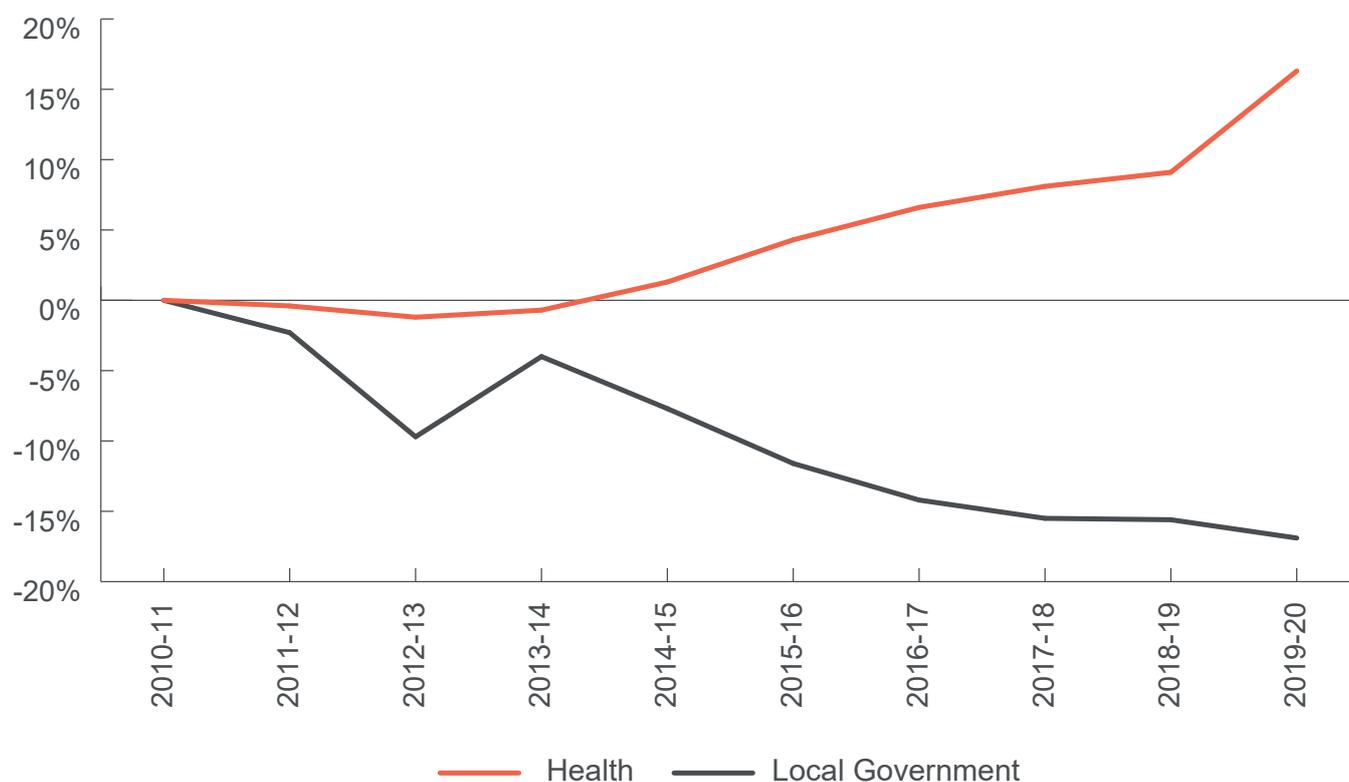
Funding for the NHS and social care has increased while most other areas have seen reductions

- 1.5 The Welsh Government chooses how to allocate the overall budget between its various spending departments and then to individual programmes. In 2019-20, health and social care took up just over half (52%) of the total revenue budget.
- 1.6 Between 2010-11 and 2019-20, Welsh Government revenue funding for NHS Wales has increased 16% in real terms while revenue funding to local government³ fell by 17%. Over the same period, many of the Welsh Government sponsored bodies have also had reductions in their funding from the Welsh Government. We looked at four of the larger sponsored bodies that have been in place for that period⁴ and found that they saw an average cut in grant in aid of 18%.

3 Welsh Government revenue funding for local government includes the core revenue support grant, the distribution of non-domestic rates and other non-specific grants. These fund the core services offered by local government, such as schools and social care. The figure does not include grants for specific programmes and projects which go to local government.

4 These were National Museum of Wales, the Arts Council of Wales, the National Library of Wales and Sport Wales. The largest sponsored body is Natural Resources Wales, which was set up in 2013, and is not included in our overall calculation. Its accounts show grant in aid from the Welsh Government fell by 29% in real terms between 2015-16 and 2019-20, but with part of the context being an expectation that merging multiple bodies to form Natural Resources Wales would lead to cost savings.

Exhibit 6: change in core Welsh Government revenue funding for health and local government, 2010-11 to 2019-20 (real terms, 2019-20 prices)



Note: the local government funding is adjusted for 2010-11 to 2013-14 to reflect changes to the council tax support scheme. The local government funding has not been adjusted to reflect 'de-hypothecation' where previously stand-alone grants have been included into the core funding.

Source: Audit Wales analysis of Welsh Government budgets and StatsWales

- 1.7 To lessen the impacts of reduced Welsh Government funding, councils have significantly increased the income they raise through council tax. The total amount raised by council tax increased by 35% on top of inflation between 2010-11 and 2019-20.

- 1.8 Nonetheless, total revenue expenditure across local government fell by 8% over the period. These cuts have not fallen equally across local services. Real terms spending⁵ on social care for families has increased by 43% and for older people by 14%. Spending on schools fell by 3%. The deepest cuts have come in leisure and culture and library services which have seen cuts of over 40% and regulatory services, such as development control, building control, trading standards and consumer protection which have seen cuts of over 30% over that period.
- 1.9 Choices made by the governments in Wales and England are reflected in the cuts experienced by different parts of the public services in the decade prior to the pandemic. Our analysis of HM Treasury spending data⁶ shows that spending per person by local government in England fell by 24% between 2010-11 and 2019-20 compared to 10% in Wales. Spending per person on health in Wales increased by 7% over the same period but went up by 10% in England.

With demand, cost and other pressures, many public services were already stretched when the COVID-19 pandemic hit

Across many service areas, funding has lagged behind demand and cost pressures over the past decade

- 1.10 All public services face cost pressures each year. These arise from a combination of factors, such as inflation on the price of goods and services they buy, wage rises and rising demand. Independent reviews in 2014 and 2016⁷ showed that the NHS faces cost pressures of around 3-4% each year on top of inflation. Between 2010-11 and 2019-20, funding for the NHS increased by an average of 1.7% a year, in real terms. These demand and cost pressures are part of the story that explains why, despite increased funding, the NHS has had to improve productivity and deliver cost savings each year and some health boards have struggled to live within their means.

5 In this report, our analysis of local government spending on services uses the 'gross' expenditure figure. This is the total amount spent without deducting income from fees, charges and other sources.

6 We have used the HM Treasury Country and Regional Analysis dataset. These figures are on a per head of population basis, cover revenue and capital and are calculated on a different basis from our analysis of Welsh Government revenue funding to health and local government in paragraph 1.6.

7 Nuffield Trust, A decade of Austerity in Wales? The funding pressures facing the NHS in Wales to 2025/26, June 2014; and Health Foundation, The path to sustainability: funding projections for the NHS in Wales to 2019/20 and 2030/31, October 2016

- 1.11 Local government faces cost pressures across a range of areas. For example, the social care sector faces rising demands in care for older people and children and families and pressure to increase the sometimes very low wages of social care staff⁸. The Health Foundation estimated pressures of 4.1% a year in adult social care. Since 2010-11, social care spending has gone up by an average of 2% a year in real terms. There is variation within that overall figure: spending on services for children and families went up by an average of 4.1% a year compared to an average increase of 1.5% for services for older people and a 0.9% rise for services for adults under 65.
- 1.12 Other sectors and service areas have also faced cost pressures. The fact that most have seen real terms cuts strongly suggests that, right across public services, funding has not matched cost pressures over the period of austerity.

Comparison to England in terms of need and spend shows some interesting and perhaps unexpected patterns

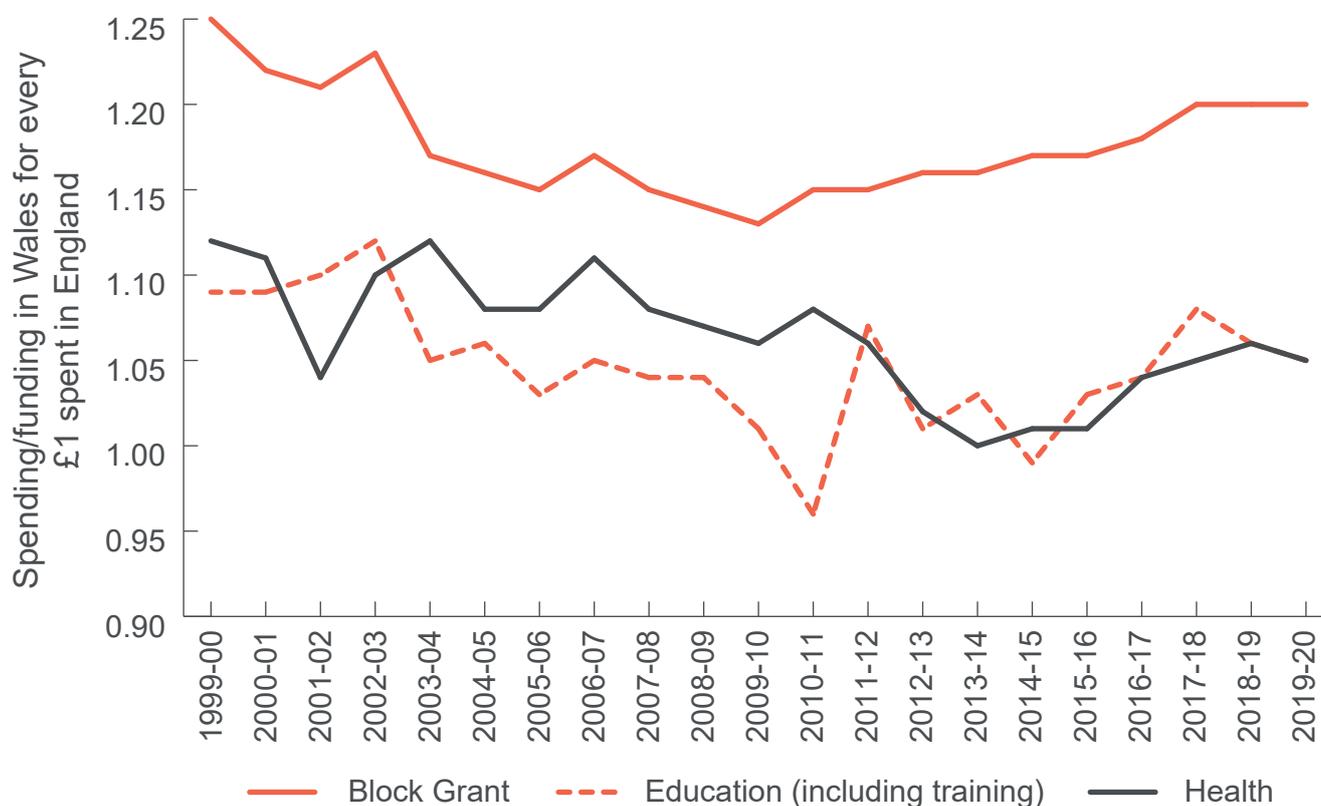
- 1.13 The assessments of annual cost pressures referenced above consider how much funding is required to sustain existing levels of service but do not ask whether standing still is sufficient to meet needs. Experts tend to calculate need relative to England, in part because England, through the Barnett formula, is the benchmark for levels of funding. Wales has higher levels of need for public services than many other parts of the UK.
- 1.14 In 2010, the Holtham Commission estimated Wales' level of need compared to England to be around 115%⁹. In other words, for every £1 spent on services in England, per head of population, £1.15 would be needed for Wales. In our 2019 report on public spending trends, we estimated Wales' relative needs for healthcare compared to England were around 118%¹⁰.
- 1.15 Since the start of devolution, the Welsh Government has received at least 115% of funding per head in England, with the exception of 2008-09 and 2009-10 when funding dropped to 114% and 113% respectively. In 2019-20, Wales received around 120% of funding per head of levels in England (**Exhibit 7**).

8 London Economic Wales, Short to medium term operational and cost pressures affecting social care in Wales: Final report to the Welsh Government, March 2020 Table 2

9 Independent Commission on Funding and Finance for Wales, Fairness and accountability: a new funding settlement for Wales, July 2010

10 Auditor General for Wales, Public Spending Trends in Wales 1999-00 to 2017-18, October 2019

Exhibit 7: spending on health and education per head of population in Wales and overall devolved funding relative to England, 1999-00 to 2019-20



Source: Audit Wales analysis of HM Treasury Country and Regional Analysis data and the agreement between the Welsh Government and the United Kingdom Government on the Welsh Government's fiscal framework (also known as the Fiscal Framework)

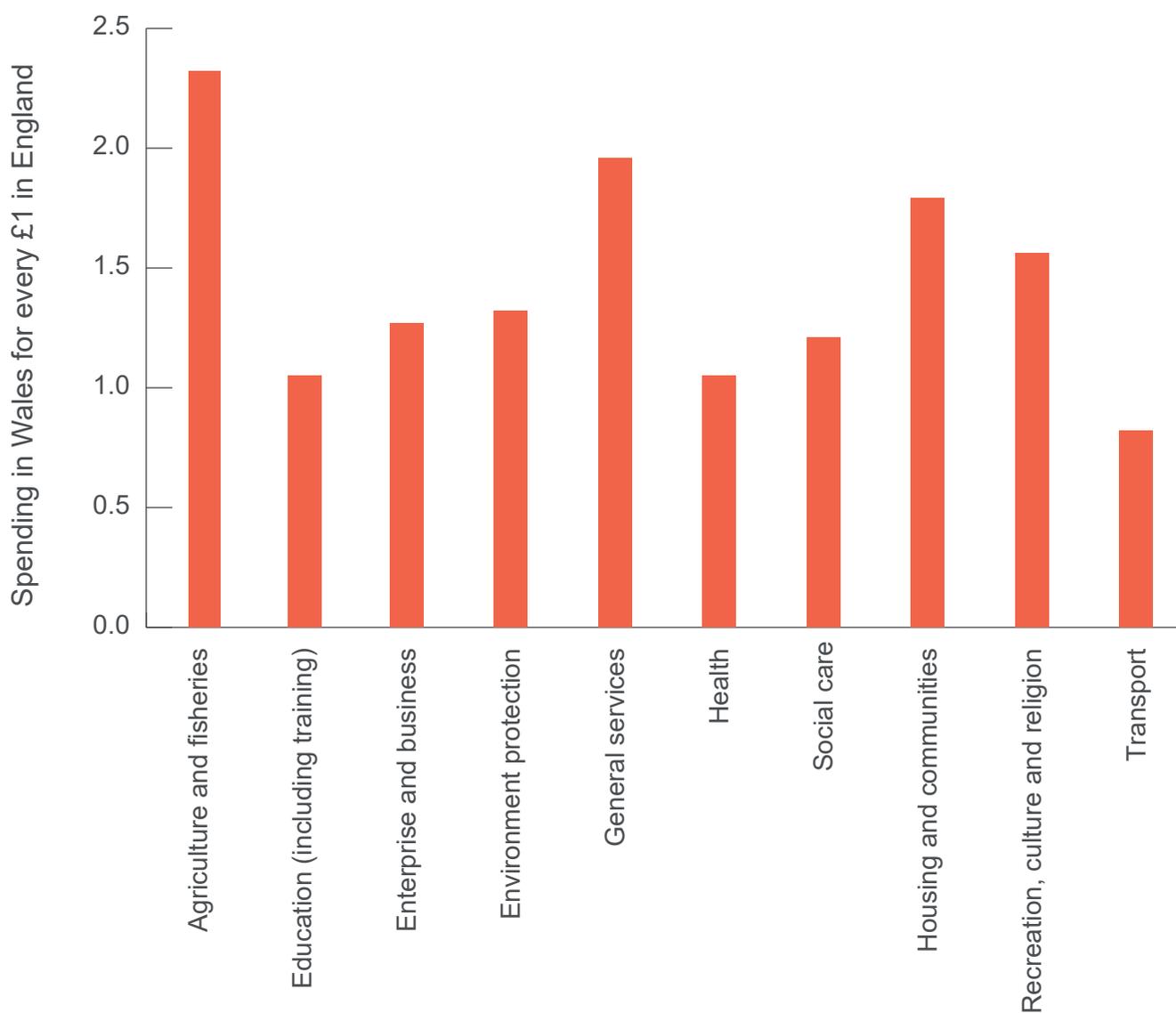
1.16 The relative level of funding has not translated through to equivalent levels of spending on the two largest service areas: health and education. In 2019-20, Wales spent £1.05 for every £1 spent on health and education¹¹ in England (**Exhibit 7**).

1.17 The wider international context is OECD data showing that spending on health in the UK is the second lowest of all the G7 countries¹². The flip side of different spending priorities on health and education is that spending in Wales on other areas of service is much higher than in England. **Exhibit 8** shows significantly higher spend, per head, in Wales on social care, agriculture, general services, economic affairs, housing and community and culture, recreation and religion.

¹¹ Comparative analysis by the Institute for Fiscal Studies shows that spending per school pupil in Wales is lower than spend per pupil in England.

¹² Organisation for Economic Co-operation and Development, Health at a Glance 2019, November 2019

Exhibit 8: comparative spending per head of population in policy areas which are mostly devolved, Wales and England, 2019-20



Note: these figures cover mostly devolved spending but may include some direct UK government expenditure, for example on transport where there is a mixture of devolved and non-devolved spending. More detail on the categories can be found in our [Public Spending Trends data tool](#).

Source: Audit Wales analysis of HM Treasury, Country and regional analysis, November 2020

Capacity in many services was stretched before the pandemic hit

- 1.18 Many public services had stretched capacity before the pandemic hit. Office for National Statistics data shows that the total public sector headcount in Wales, including non-devolved services, fell by 26,000 (8%) from 324,000 to 298,000 between 2010 and 2020¹³. As we highlight below, within that overall picture there are specific workforce challenges facing different sectors. There have also been challenges with other aspects of capacity such as hospital beds, school places, and care home infrastructure in social care.
- 1.19 The NHS has seen a rise in overall staffing levels but has recruitment challenges and has been reliant on agency and temporary staff. For many years, bed occupancy has been above the recommended level of around 82% to 85%. Before the pandemic, Wales had amongst the lowest levels of critical care beds per head of population in international comparisons¹⁴.
- 1.20 When the pandemic hit, the NHS created extra bed capacity by stopping non-urgent activity and repurposing existing capacity, such as operating theatres and recovery rooms, as critical care units. As our September 2020 report on planned care noted, stopping all non-urgent planned care was not entirely novel. Health boards have done it in a planned way to manage winter pressures in emergency care and in an unplanned way by cancelling operations at short notice.
- 1.21 There is a widespread and long-standing recognition of the need for social care reform. The challenges of rising demand, particularly from older people and children's services, are compounded by low financial margins in care homes for older people and difficulty finding placements for children and young people who are taken into care. The sector faces multiple staffing issues including low pay, high turnover rates, and falling staff numbers in some areas. Equally, there is widespread recognition that the pandemic has revealed the limitations of the social care system.
- 1.22 Schools have struggled with mismatched capacity; surplus places in some schools while others are over-subscribed. However, the number of surplus spaces has reduced since 2009. There are shortages in staff in some subjects and particularly for the Welsh-medium sector. The system for initial teacher training has been overhauled but the number of trainee teachers has been lower than required in each of the last six years to 2019-20. Over the last ten years, staffing levels and full-time student numbers in further education have remained broadly stable, but part-time provision has fallen dramatically due to funding constraints. However, in higher education, student numbers have increased at a greater rate than staffing levels.

13 Office for National Statistics, Public Sector Employment dataset, July 2021

14 In 2019-20, there were 154 critical care beds – the lowest per head of the population in the UK and amongst the lowest in Europe: Faculty of Intensive Care Medicine and Intensive Care Society, Guidelines for the Provision of Intensive Care Services, Edition 2, June 2019

- 1.23 Over the last ten years, staffing numbers in local authorities have fallen and skills deficits have emerged. Office for National Statistics data shows that the headcount in local government in Wales reduced by 19% from March 2010 to March 2020¹⁵. Our work has identified that staffing reductions mean councils do not have adequate numbers of staff with expertise in cross cutting policy and planning areas, and planning authorities lack staff with specialist skills, such as in design and infrastructure.
- 1.24 There is a similar picture in the Welsh Government. Between 2010 and 2020, the average number of full time equivalent Welsh Government staff decreased by 8%. Our work has identified that staff shortages have impacted on the Welsh Government's policy delivery in some key areas in recent years, and we have highlighted that gaps were created when staff were redeployed to deal with the challenges of Brexit. There have also been reductions in staff at the larger Welsh Government sponsored bodies (**paragraph 1.6**), ranging from 3% to 19%.

15 Office for National Statistics, Employment in local government in Wales, March 2008 to December 2020, May 2021

Public services had to adapt rapidly to the pandemic and the Welsh Government allocated over £5 billion in 2020-21 in response

02

- 2.1 This part of the report covers 2020-21, with a particular focus on the response to the COVID-19 pandemic. It describes some of the ways in which public services have adapted to the pandemic. It sets out the funding allocated to the response by the Welsh Government, breaking that down by different areas of spending. It also summarises the overall picture of aspects of the response set out in some of our recent audit work.

The COVID-19 pandemic severely disrupted public services and the wider social, economic and cultural life of Wales

- 2.2 COVID-19 has had a tragic impact on individuals and communities. As at mid-June 2021, more than 5,500 people had died with COVID. More than two-thirds of those deaths happened during the second wave in the autumn and winter of 2020-21. Almost half (45%) of those who died lived in the area covered by Aneurin Bevan and Cwm Taf Morgannwg University Health Boards. As at mid-June 2021, Wales had the highest number of deaths with COVID-19 on the death certificate, per 100,000 population, in the UK.
- 2.3 As set out in **paragraph 1.20**, the NHS stopped all but the most urgent non-COVID activity. Operating theatres and wards were repurposed to create extra critical care space for the most ill patients. GPs and other primary care services moved to online or telephone where possible. In social care and in the NHS, visits to patients and residents were severely curtailed.
- 2.4 The education system changed drastically. The Welsh Government lifted the requirement on schools to deliver the full national curriculum in March 2020. Students and pupils have had periods of online learning. Some have also had periods in the classroom and lecture halls with measures in place to mitigate against the spread of the virus, restricting some learning opportunities such as extra-curricular activities, trips and laboratory experiments. Schools have been transformed with classrooms re-arranged to encourage distancing, start times, end times, playtimes and lunchtimes all re-arranged to reduce mixing of pupils and parents.
- 2.5 Other local services, from leisure to waste and recycling facilities, have also experienced periods of stopping and re-opening with protective measures in place. Some staff from closed services have been re-deployed to other aspects of the COVID-19 response, such as preparing and delivering food parcels for vulnerable and isolating households. Inside the civil service, staff have been redeployed to support the response in various ways.

The Welsh Government allocated £5.1 billion on the COVID-19 response in 2020-21

2.6 In 2020-21, the Welsh Government created a £6 billion funding pot specifically for COVID-19-related activity. Over the year, it received an extra £5.7 billion in revenue through the Barnett formula due to COVID-19 spending in England. The Welsh Government added to UK government funding by re-prioritising £256 million from existing departmental budgets¹⁶. Some of the key movements in funding into the COVID-19 pot were:

- £50 million which was intended to improve NHS waiting times;
- £30 million previously set aside for the Childcare Offer for Wales;
- £16 million for higher education funding; and
- £12 million apprenticeship funding.

2.7 The Welsh Government allocated¹⁷ around £5.1 billion of this extra money in 2020-21 on services to respond to the public health crisis, to support businesses and communities, to replace lost income for some public services and to prepare the ground for the recovery (**Exhibit 9**). Of the remaining funding in the COVID-19 pot, the Welsh Government converted £305 million into capital¹⁸ and carried forwards £485 million into 2021-22¹⁹.

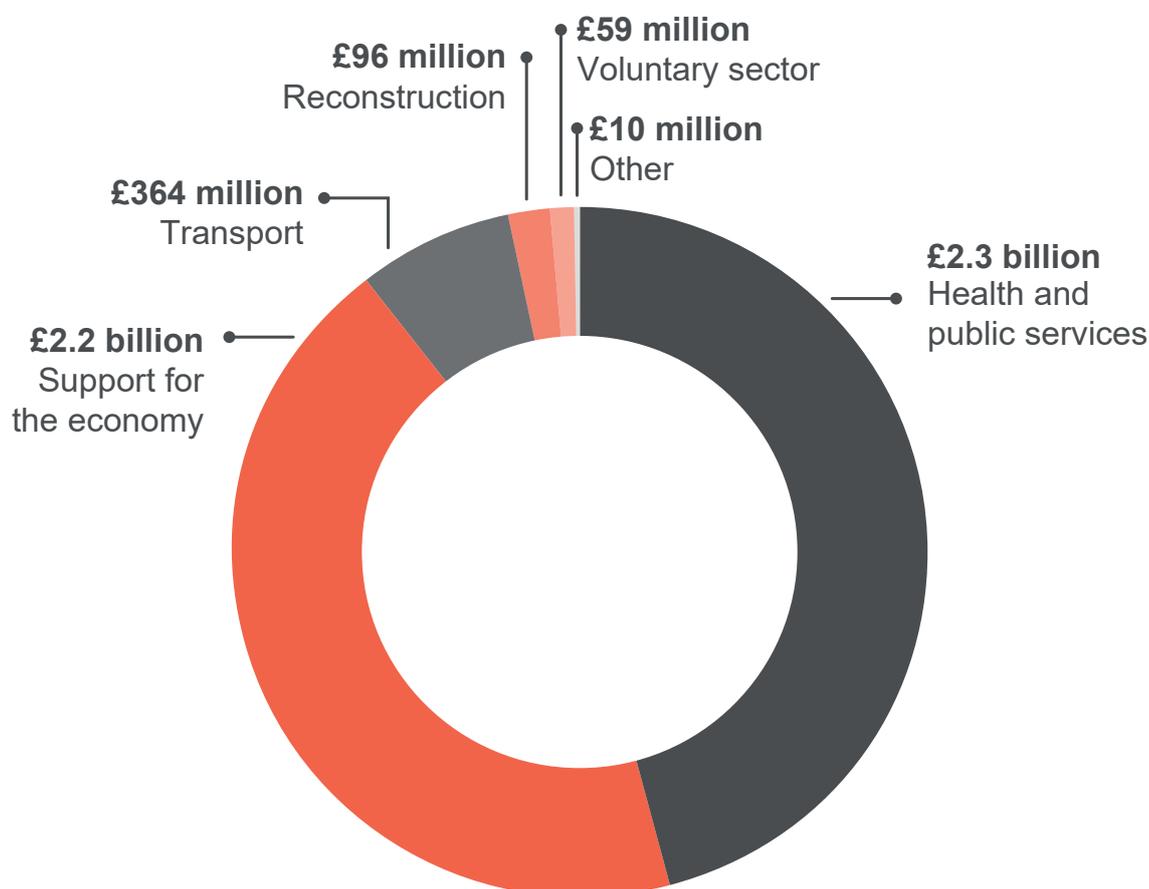
16 In the first supplementary budget the Welsh Government had re-prioritised £245 million of EU Structural Funds to support the response but once the full funding from the UK government came through, it decided it no longer needed this funding for the COVID-19 response in 2020-21.

17 Here we set out the funding 'allocated' by the Welsh Government, by which we mean the sum set aside for specific areas of spending. In some cases, the actual spend, or outturn, may be different by the end of the year.

18 The £305 million capital was included as part of a wider £772 million allocation of capital funding in the third Supplementary Budget. The allocation included £188 million capital to support the COVID response and 'reconstruction' and a £270 million allocation to the Development Bank for Wales.

19 The UK government announced additional funding through the Barnett formula late in 2020-21 and agreed that the devolved administrations could carry this money into the following financial year.

Exhibit 9: split of the Welsh Government's £5.1 billion COVID-19 allocation to services for 2020-21



Note: 'Reconstruction' covers several funding pots the largest components of which relate to education (**paragraph 2.10**).

Source: Audit Wales analysis of Welsh Government data

2.8 The Welsh Government has allocated £2.3 billion to supporting the NHS and other public services in dealing with the pandemic. This figure includes an £800 million stabilisation fund for the NHS alongside specific funding for programmes such as vaccinations, Test, Trace and Protect and PPE. The funding also includes a £660 million²⁰ Crisis Fund for local government, which covers a range of general costs as well as specific items such as free school meals, additional costs in social care, and supplementing the loss of income from fees with services closed.

²⁰ Although the Welsh Government allocated £660 million, by the end of the financial year it reports having spent £587 million.

- 2.9 The Welsh Government allocated £2.7 billion to support the economy, the transport sector and the voluntary sector. This funding includes around £1 billion for the Economic Resilience Fund, around £730 million in grants related to non-domestic rates for small and medium businesses, £350 million in rates relief for retail, hospitality and leisure businesses and £130 million to support the higher education and further education sectors. The Welsh Government also allocated £170 million to support rail services and £95 million for bus services. The Welsh Government has allocated £59 million to support voluntary services. This includes £29 million for Third Sector Support, £15 million for the Discretionary Assistance Fund and £13 million towards provision of food for people who were shielding.
- 2.10 The Welsh Government allocated £96 million in 2020-21 to support what it is calling 'reconstruction'. This is made up of a range of smaller pots of funding, the largest being £11 million to cover free school meals during the holidays, and £10 million for three education programmes: to support children during exam years; to support the further education sector; and for mental health, student support and a hardship fund for the higher education sector.
- 2.11 Compared to the UK government's equivalent spending in England, Wales Fiscal Analysis notes that the Welsh Government has spent less of its COVID-19 funding on the NHS while spending more supporting businesses and communities²¹. In part, these differences may be down to the Welsh Government being able to secure better value for money. For example, on Personal Protective Equipment and Test, Trace, Protect, the Welsh Government appears to have got similar or better results compared to England while spending proportionately less.

²¹ This comparison does not include the furlough scheme which is run and funded by the UK Government.

Our COVID-related work paints a broadly positive picture of aspects of the way Welsh public services responded but this is not necessarily indicative of the overall management of the pandemic

- 2.12 In response to the pandemic²², our key initial piece of work was a COVID-19 Learning Project. This involved gathering emerging intelligence on good practice from public services' response and sharing learning in real time through a combination of blogs and updates to our audited bodies. Examples included public bodies working together and with communities to deliver food parcels, provide information to the public on how and where they could get tested and a range of other practical responses. As the pandemic progressed and the first wave came to an end, we identified examples and lessons for public services as they started to re-open services to the public. In November 2020, we produced a short report on the work to provide free school meals to pupils while at home²³.
- 2.13 Since early 2021, we have published more detailed reports on areas of the response: the Test, Trace and Protect programme, the supply and procurement of PPE, NHS governance arrangements during the pandemic, and the rollout of the vaccinations programme²⁴. All these reports paint a broadly positive picture of aspects of the response, although all highlight lessons to learn as well. They show public bodies rapidly putting in place collaborative systems and flexible governance arrangements.
- 2.14 These reports reflect only aspects of the response to COVID-19 in Wales. While our reports paint a positive picture of aspects of the management and governance of individual programmes, they should not be taken as a positive view on the response in the round. Our report on the supply and procurement of PPE, for example, highlighted some of the weaknesses with the pre-pandemic preparations and that we cannot ignore the views expressed by some of those on the frontline about their own experience.
- 2.15 The UK government intends to set up a public inquiry in due course, which is likely to take a much broader and more in depth look at the overall pandemic response. The Welsh Government has stated its view that the Welsh response should be reviewed as part of that inquiry.

22 At the start of the pandemic, we significantly adjusted our work programmes, recognising the impact on our own capacity and to ensure we could contribute to public services' response while not adding to the pressures public services were facing.

23 Auditor General for Wales, Providing Free School Meals During Lockdown, November 2020

24 Auditor General for Wales: Doing it Differently, Doing it Right?, January 2021; Test, Trace, Protect in Wales, March 2021; Procuring and Supplying PPE for the COVID-19 Pandemic, April 2021; Rollout of the COVID-19 vaccination programme in Wales, June 2021



Public services need to manage the ongoing response to the pandemic and start to recover while adapting to new demands

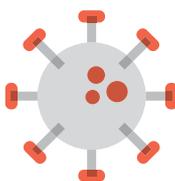
3.1 The previous decade threw up many challenges for public services and there will be little respite in the near future. This part of the report looks at some of the key issues for public services in the coming years and important aspects of service transformation where we will be focusing our attention (**Exhibit 10**). This section is not intended to be comprehensive in setting out all the areas public services need to address, and other review bodies will have their own perspective on the key issues.

Exhibit 10: some key opportunities and challenges for public services



A changing world

- Climate change: achieving a fair and just transition
- Equalities: responding to demands for a fairer and more equal society
- Constitution: managing the opportunities and risks of new relationships within the UK



The ongoing pandemic

- Direct costs of response
- Economic hit knocks-on to public finances
- Legacy costs of long-term impacts



Transforming service delivery

- Systems and culture to support new approaches to service delivery
- Purposeful collaboration
- Long-term planning and prevention
- Harnessing technology where appropriate
- Using data to learn across the whole system

3.2 Several of these areas, particularly in relation to a changing world, are reflected in the Welsh Government's Programme for Government for 2021 to 2026²⁵. Our commentary builds on some of the messages in our 2020 report on implementation of the Well-being of Future Generations (Wales) Act 2015²⁶.

25 Welsh Government, Programme for Government, June 2021

26 Auditor General for Wales, So What's Different? Lessons from the Auditor General's Sustainable Development Examinations, May 2020

The Welsh Government has at least an additional £2.6 billion to support the ongoing pandemic response in 2021-22

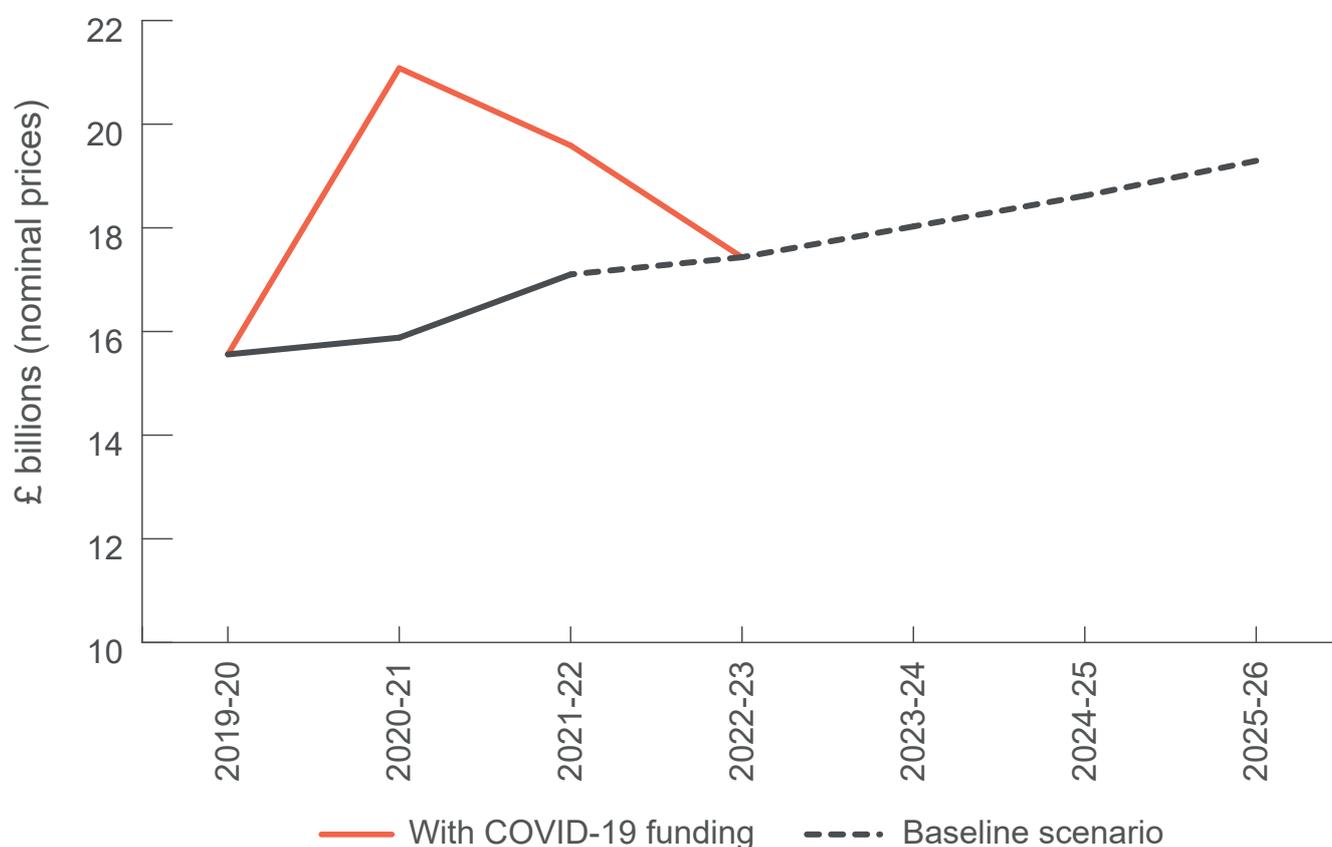
- 3.3 The pandemic is not over, and further public spending will be needed in 2021-22. As at July 2021, the Welsh Government had received a total of £2.1 billion additional funding related to COVID-19 for 2021-22. In addition, it has the £485 million carried forward (**paragraph 2.7**), taking the extra funding in 2021-22 to £2.6 billion on top of an increase in the core non-COVID budget.
- 3.4 As of July 2021, the Welsh Government's internal plans show it had allocated £1.5 billion, with £884 million to health and public services, £470 million to support the economy, £107 million for transport and £14 million for the third sector and communities. The situation remains fluid and, depending on the path of the pandemic and the UK government response, further funding may be announced in the coming months.

The UK government has promised no return to austerity, but funding is still likely to be tight given the cost pressures facing public services

The economic hit from the pandemic means public finances are likely to be tight for some time

- 3.5 The funding position beyond 2021-22 is unclear but UK public finances are in a challenging position. Economic activity fell during the pandemic, with companies and individuals paying less tax. Coupled with higher spending, the UK's overall debt and the annual deficit – the gap between income and expenditure – have grown significantly.
- 3.6 The UK government has said there will not be a return to austerity as it seeks to reduce the level of debt. It revised its spending plans downwards in March 2021 but still intends for overall public spending to grow in real terms. Wales Fiscal Analysis projected the Welsh Government's revenue budget to 2025-26 based on the UK government's March 2021 plans (**Exhibit 11**). It shows a 1.5% a year real terms budget increase between 2021-22 and 2025-26, excluding COVID-specific funding. It is possible these projections will change when the UK government produces a fuller spending review later in 2021.

Exhibit 11: projected funding for Welsh Government day-to-day spending, 2019-20 to 2025-26



Note: The Wales Fiscal Analysis projections in this chart are on a nominal basis, which means they are not adjusted for the impact of inflation. Figures for 2020-21 reflect a fall in non-domestic rate revenues associated with the rates relief, a budget switch to capital spending and the transfer of farm subsidies to the Welsh budget. The 2021-22 figure does not include additional funding, mostly for the COVID-19 response, set out in the Welsh Government's June 2021 Supplementary Budget.

Source: Wales Fiscal Analysis, Welsh Election 2021: Fiscal outlook and challenges for the next Welsh Government, April 2021

Cost pressures from the pandemic and demographic change will mean difficult choices for public funding

3.7 Life for public services remains far from normal and that is likely to remain the case for some time. Once the pandemic is fully over, public services face a huge job of recovery. They will need to catch up on activity that was paused and deal with new problems created by the pandemic. The most obvious challenges are in the NHS where there are backlogs of patients on waiting lists and, unquantified pent-up demand from people who have put off seeking help.

- 3.8 There are other backlogs, for example the challenge of making up lost learning for pupils and students across the education system. These backlogs all have a significant cost attached: Wales Fiscal Analysis calculated that addressing the backlog in planned care would cost between £152 million and £292 million a year over four years²⁷. Applying the Barnett formula to its estimates for England, the Education Policy Institute has estimated that an extra £600 million to 900 million could be needed over three years to support education recovery in Wales²⁸.
- 3.9 Some, or even all, of the requirements around social distancing, wearing PPE, ensuring adequate ventilation in indoor spaces may be with us for some time, depending on policy choices and public health advice. These restrictions affect the productivity of public services. The shift to online and telephone-based services may offset some of the effect of these restrictions on productivity. But many services, notably surgery and other personal interventions, cannot take place online. As a result, public services need either more capacity or to find ways to reduce demand and activity just to stand still, let alone address backlogs.
- 3.10 There are potential longer-term implications. The long-term direct health implications of COVID-19 are still being studied. The extent to which these will create new demand and cost pressures on the NHS is unclear. There is evidence of an impact on the mental wellbeing of households, which may increase the need for ongoing health and social care support. There are also other as yet unknown impacts on the public service workforce: there is speculation that some staff may not wish to continue as before or may accelerate retirement plans after the pandemic²⁹, creating potential capacity and/or pay pressures, for example if gaps need to be filled by expensive agency or locum staff. There may also be costs involved in helping parts of the public service workforce recover from what has been a traumatic experience.

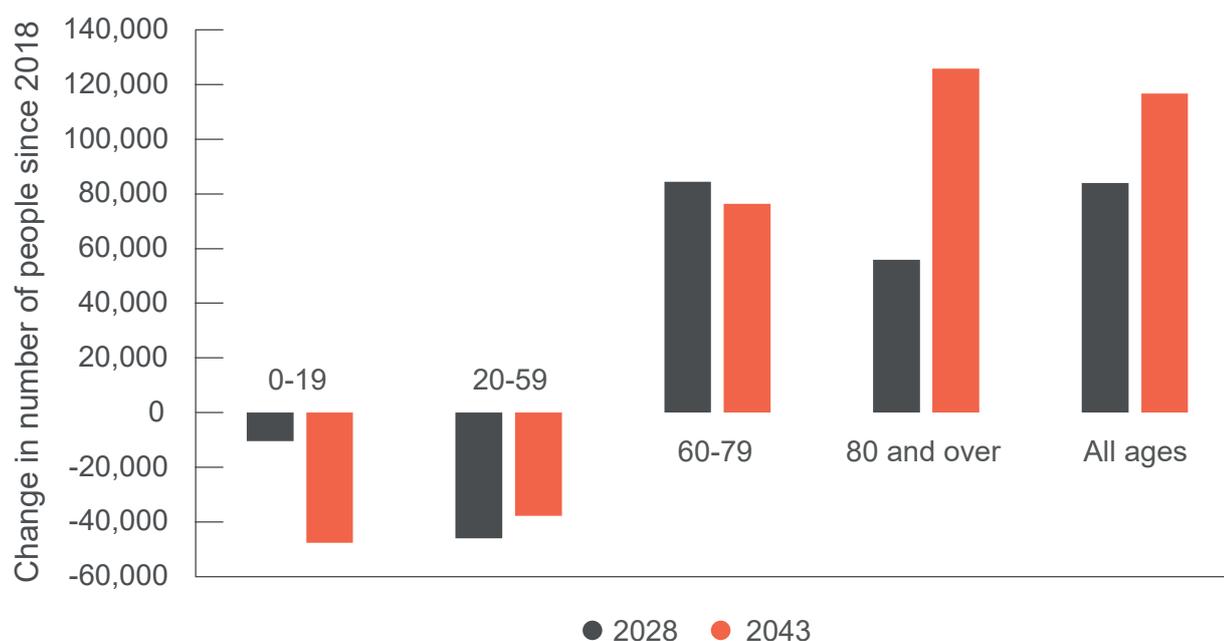
27 Wales Fiscal Analysis, The NHS and the Welsh Budget: Outlook and challenges for the next Welsh Government, April 2021

28 Education Policy Institute, Analysis Paper: Preliminary Research Findings on Education Recovery, April 2021

29 For example, evidence from a British Medical Association survey, which is based on a self-selecting sample, suggests more than a doubling of doctors considering early retirement and many considering reduced hours or a career break. British Medical Association, COVID-19 tracker survey snapshot, April 2021.

3.11 Cost pressures also arise from changes in the population. Currently, Wales' population is expected to increase by around 117,000 by 2043 (**Exhibit 12**). We do not know yet if changes such as increased remote working will be long lasting and potentially affect population trends. For public services, the bigger challenge will be from the change in the age profile because of birth-rates and migration within the UK and beyond. The proportion and number of children and young people is now expected to fall while the number of older people (60-79) and very old people (80 and over) increases. By 2043, it is estimated that 9.1% of the population will be aged 80 and over, compared to 5.4% in 2018. The overall number aged 80 and over is expected to increase by around 126,000 (74%).

Exhibit 12: population projections – change in age groups from 2018 to 2028 and 2043



Source: Office for National Statistics, Principal projection – Wales population in age groups, October 2019

3.12 The aging population is likely to increase demands for health and social care. While fewer children and young people may lead to less demand for some services; there are less obvious cost pressures. For example, in education, the cost of schooling per pupil tends to increase as the number children and young people falls because of the higher costs per head associated with providing small schools.

3.13 Given a likely tight funding settlement and ongoing cost pressures, the Welsh Government faces some difficult immediate choices on funding priorities. Wales Fiscal Analysis reports looking at the NHS (**paragraph 3.8**) and local government³⁰ suggest that the funding set to come to the government to 2025-26 seems unlikely to cover all the cost and demand pressures faced by these two large sectors. There are also demand and cost pressures in other areas of public service. The Welsh Government and other public services therefore face continued difficult choices about prioritisation.

Other factors including the climate emergency and the push for greater equality will affect public services in the short and long term

Public services face the challenge of achieving a just and fair transition to net zero

- 3.14 Since our last Picture of Public Services report, the Welsh Government and the majority of local authorities have declared a climate emergency. In March 2019, the Welsh Government's low carbon action plan³¹ drew together 100 ongoing and planned actions across government. In March 2021, the Senedd approved a net zero target by 2050 with an ambition to achieve the target earlier³². It also approved interim targets for 2030 and 2040 and carbon budgets.
- 3.15 The Independent Climate Change Committee's 2020 report³³ highlighted the scale of the challenge ahead for the Welsh Government and, by extension, other public bodies. The report showed that, in 2019, Wales' emissions have fallen 31% since 1990. This is less than the fall in the UK as a whole (41%). Achieving the Welsh Government's target of a 63% cut in emissions compared with 1990 by 2030 will require the same fall in the next nine years as has been achieved in the last 30 years.

30 Wales Fiscal Analysis, Local Government and the Welsh Budget: Outlook and challenges for the next Welsh Government, April 2021

31 Welsh Government, Prosperity for All: A Low-Carbon Wales, March 2019. Work to update and revise the plan is currently underway.

32 Under the 2008 Climate Change Act, Wales is required to contribute to the UK 2050 net zero target and the UK's carbon budgets. The Act committed the UK to an 80% reduction in carbon emissions relative to the levels in 1990, to be achieved by 2050. In June 2019, secondary legislation was passed that extended that target to 'at least 100%'. In April 2021, the UK government announced its intention to legislate for a target to reduce emissions by 78% by 2035.

33 The Independent Climate Change Committee is a statutory body established under the Climate Change Act 2008. Its remit covers the UK. It advises the Welsh Government on its targets and strategy. It reports progress against targets annually to the UK and Parliaments of the devolved nations. Climate Change Committee, Progress Report: Reducing emissions in Wales, December 2020.

- 3.16 As the Committee's report states, achieving net zero will require an integrated approach that puts climate mitigation and adaptation at the heart of public services in every sector. Some public bodies have produced plans for achieving net-zero by 2030. The Welsh Government is producing guidance for public bodies including a Public Sector Route Map to Net Zero and a common methodology for reporting emissions. We will be undertaking an ongoing programme of audit commentary on public sector action to address climate change. This will include a baseline review of action across the public sector during 2021-22.
- 3.17 Achieving these goals is also dependent on close working and coordination with the UK government: within the Committee's recommended pathway, around 60% of all the abatement in Wales in 2050 is in areas where key policies are mostly reserved to the UK government. Emissions in Wales fell by 20% in just two years (2016-2018) when the last coal-fired power station closed. However, this kind of major energy policy change is reserved to the UK government³⁴. The report concluded that public bodies need to make progress in devolved areas such as agriculture, land-use, forestry, buildings and surface transport.
- 3.18 The most vulnerable are more likely to be directly affected by climate change. However, as both our 2019 report on fuel poverty³⁵ and the Decarbonisation of Homes in Wales Advisory Group³⁶ found, there are some difficult trade-offs between social justice and carbon reduction goals. In our 2020 report on the Well-being of Future Generations Act, we drew attention to the challenge facing the Welsh Government and other public bodies to ensure a fair transition to a low carbon economy and protecting the most disadvantaged from the effects of climate change and biodiversity loss.

34 Large scale energy generation policy (over 350 megawatts) is reserved to the UK government.

35 Auditor General for Wales, Fuel Poverty, October 2019

36 Decarbonising Homes in Wales Advisory Group, Better Homes, Better Wales, Better World: Decarbonising existing homes in Wales, July 2019

Reducing inequality will require long-term action and investment

- 3.19 In 2018, the Equality and Human Rights Commission highlighted ways in which equality had improved in Wales, including a falling number of young people not in education, employment or training, increased employment and improved mental health services³⁷. It also documented more evident divisions in society and rising poverty particularly affecting disabled people, and some ethnic minority groups, in Wales compared to others. It called for a 'spotlight on race inequality' in Wales.
- 3.20 The COVID-19 pandemic has highlighted and deepened these existing inequalities. Young people, women and Bangladeshi workers are more likely to work in sectors shut-down. Disabled people have had the highest death rates from COVID and many experienced prolonged isolation. Progress towards equality in some areas has been reversed: for example, the gap in attainment of the highest grades between pupils eligible for free school meals and others and between those with additional learning needs and others has been stable or reducing in recent years but generally widened in 2019/20 at GCSE, AS and A level.
- 3.21 Black, Asian and Minority Ethnic people have been particularly affected by the pandemic with higher death rates. As concern increased, the First Minister commissioned work to look at the impact of the pandemic on Black, Asian and Minority Ethnic people. Professor Emmanuel Ogbonna's report³⁸ made 37 recommendations to tackle race inequality, focusing on the impact of long-standing racism and disadvantage and a lack of representation. The 'Black Lives Matter' movement has increased pressure for action. The Welsh Government has recently committed in its Programme for Government to funding and implementing the commitments in its draft race equality plan³⁹.
- 3.22 The Welsh Government commenced the 'Socio-economic Duty' in March 2021 requiring relevant public bodies to give due regard to the need to reduce inequalities that exist as a result of socio-economic disadvantage when taking strategic decisions. The Duty sits alongside other requirements in the Equality Act 2010 and the Well-being of Future Generations (Wales) Act 2015 to consider the impact of their decision-making on equality and community cohesion.

37 Equality and Human Rights Commission, *Is Wales Fairer?*, October 2018

38 Welsh Government, *First Minister's BAME COVID-19 advisory group report of the socioeconomic subgroup*, June 2020

39 Welsh Government, *An Anti-Racist Wales: The Race Equality Action Plan for Wales*, March 2021

3.23 At the start of the pandemic, the speed of decision-making meant that the Welsh Government did not conduct some equality impact assessments on key decisions⁴⁰. Others were not published for scrutiny. In some cases, these omissions have been rectified but, as a first step to addressing the unequal impact of the pandemic, public bodies will need to collect better, disaggregated data to understand the impact of previous as well as future decisions on disadvantaged people and communities.

A new post-Brexit constitutional relationship poses a range of challenges as well as opportunities

3.24 Since 1999, the Welsh Government has taken on more powers, including over taxation, for the first time in over 800 years, in 2016. Following Brexit, the Welsh Government has taken on over 4,000 new functions from the EU while the UK government has taken on powers in areas such as immigration and border control. In the coming years, negotiations over the boundaries of these responsibilities will affect the Welsh Government and public bodies.

3.25 In the past, Wales benefitted from substantial EU funding – around £375 million per year during the 2014-2020 structural and investment funding period. The Conservative Party's 2019 UK government manifesto said that future funding would at least match the size of EU funds for each nation. This could lead to parts of Wales receiving more than comparable areas in England⁴¹.

3.26 At present, the Welsh Government manages EU funds within parameters set by the EU. In October 2020, the House of Commons Welsh Affairs Committee acknowledged that the Shared Prosperity Fund – which replaces EU funding – could be an opportunity to develop a funding system that better reflects Wales' needs than previous EU funding streams. However, the Welsh Government's role in decision-making was unclear at the time⁴².

3.27 Since the Committee reported, the UK government has announced that the Shared Prosperity Fund will be managed by the UK Treasury using powers under the Internal Market Act 2020 to spend directly on devolved areas of policy. The UK government is using the same powers for the Levelling Up Fund. It invited bids for the first round from local councils and other public bodies in January 2021: at least 5% of the fund is set aside for Wales.

40 Welsh Parliament, Equality, Local Government and Communities Committee, Into sharp relief: inequality and the pandemic, August 2020

41 Alex Davenport Samuel North David Phillips – Institute for Fiscal Studies, Sharing prosperity? Options and issues for the UK Shared Prosperity Fund, July 2020

42 House of Commons Welsh Affairs Committee, Wales and the Shared Prosperity Fund: Priorities for the replacement of EU structural funding, 20 October 2020

3.28 There is already a complex crowded partnership landscape in Wales (**paragraph 3.33**). Getting value for money from this new way of working, in which UK government works directly with Welsh public bodies, will need care to align with existing local provision and Welsh Government policies. The UK government said it will seek advice from the devolved governments in shortlisting bids for the Levelling Up Fund. The role of devolved governments in the Shared Prosperity Fund's governance is not yet clear.

The recovery from COVID-19 provides an opportunity to learn lessons and progress long-standing ambitions for transforming public services

3.29 The Welsh Government has long-standing ambitions to transform the way public services provide services to the people of Wales. As set out in various strategies and legislation, notably the Well-being of Future Generations (Wales) Act 2015, public services should be citizen-centred, using the principles of co-production to involve service users and communities in the design and delivery of services. They should be collaborative and seek to prevent problems before they escalate. As part of this, public services should be shifting their focus from outputs and activity – how much are they doing and how quickly – to outcomes and the things that matter to communities and individuals.

3.30 Our work suggests public services are moving towards these new ways of working but that there are some long-standing barriers still to overcome. Below are some of the key aspects of service transformation we will be focusing our attention on in the coming years.

Systems and culture to support new approaches to service delivery

3.31 Changing the way public services operate involves changing some of the thinking, management processes and governance arrangements that underpin the status quo. Underlying systems of governance and accountability can help or hinder progress towards new ways of working. They incentivise behaviours by setting out what people and organisations will be held to account for. In the past, governance and accountability have often been focussed on targets for delivery of timely outputs and activity. Different arrangements will be required to encourage a stronger focus on outcomes and wellbeing and to encourage greater experimentation with new approaches.

3.32 In response to the pandemic, many performance management and accountability arrangements have been suspended or modified. There is an opportunity to learn lessons from what happened when these arrangements were relaxed. In future, we will expect to see greater thought being given to how the approach taken to governance and accountability will support the ambitions for service delivery, including the sorts of behaviours and relationships these arrangements incentivise.

Purposeful collaboration

3.33 Collaboration between public services is essential to delivering resilient services that improve the wellbeing of the people of Wales. We have on several occasions raised concerns that the partnership landscape is overly complex and incoherent, with varying geographical coverage, and unclear and overlapping remits. Servicing partnerships occupies a significant amount of the time and energy of senior public servants. Similar concerns have also been expressed by the Future Generations Commissioner⁴³ and the Public Accounts Committee⁴⁴.

3.34 One of the key lessons from the pandemic has been how collaboration has involved getting the right people together working across organisational and professional boundaries towards a common purpose. With a sense of urgency and strong, common goals, public services have demonstrated how pragmatic and flexible partnership arrangements can work to great effect.

3.35 Looking ahead, we will be expecting public services to demonstrate that their partnership working and collaboration are purposeful and leading to tangible benefits for the significant investment of time and effort involved.

Long-term financial and service planning that supports a rigorous and realistic approach to prevention

3.36 Delivering the ambitions of the Well-being of Future Generations Act requires a shift in focus and resources from short-term needs to prevention. There is an inherent tension between the desire for long-term prevention programmes and short and medium-term financial planning cycles. It can be difficult to shift resources needed to manage short-term problems in the anticipation of uncertain benefits at some distant point in the future. This is particularly the case where there are immediate pressures such as gaps between demand and supply with people experiencing delays to services and harm as a result.

43 Future Generations Commissioner for Wales, Future Generations Report 2020, May 2020

44 Public Accounts Committee, Delivering for Future Generations: the story so far, March 2021

3.37 Our report on the findings from our sustainable development examinations (**paragraph 3.2**) highlighted that short-term budget setting remained a barrier to progress. We will be looking for all public services to demonstrate progress towards longer-term financial planning. However, there is a particular responsibility on the Welsh Government to provide longer-term clarity about its priorities and plans for funding.

Harnessing digital technology to make services more accessible

3.38 Our work has highlighted the potential benefits but slow roll out of digital services in the NHS and social care⁴⁵. However, the response to the pandemic has shown that public services can move swiftly to roll out and adopt new digital technology. From the outset, the public sector has used digital technology in new ways, including supporting staff working from home; online teaching for pupils and students; online committee and board meetings; digital needs assessments and virtual clinics and consultations (including telephone consultations).

3.39 The Welsh Government's vision for 'digital change' across Wales includes designing services around user needs to deliver simple, secure and convenient services⁴⁶. We will be expecting public services to demonstrate that they are pursuing opportunities to make services more effective and efficient by using new technologies, where it makes sense to do so. In particular, we will expect public services to be able to demonstrate that digital services are accessible, of a high quality and meet the needs and expectations of users in line with aspirations for holistic citizen-centred services. We will also expect public bodies to learn lessons from the use of digital services introduced during the pandemic, including lessons around their effectiveness and user experiences.

Using data and information to learn and improve across the whole public service system

3.40 Before the pandemic, public services had been grappling with how best to use data to understand how well they were doing. In particular, public services were trying to focus more on measuring outcomes and the wellbeing of the population. Measuring outcomes is hard in and of itself. Understanding what has caused those outcomes when there has been a complex mix of interventions from different bodies in different environments is even harder.

45 Auditor General for Wales: Informatics systems in NHS Wales, January 2018; Welsh Community Care Information System, October 2021

46 Welsh Government, Digital Strategy for Wales, March 2021

- 3.41 In our 2018 report on local government's use of data⁴⁷, we highlighted the challenge of local government sharing information with partners. With collaboration key to delivering better services and better outcomes, public bodies need to get better at sharing information with partners.
- 3.42 In the coming years, we will expect public bodies to strengthen their ability to understand and demonstrate how they are using their resources to impact on individual and population wellbeing. In particular, we will be looking for them to do more to understand how whole systems are working to achieve outcomes, including the role of the Welsh Government and other funders in setting the rules, and how services can collectively work better for service users and communities.

47 Auditor General for Wales, The maturity of local government in use of data, December 2018



Appendices

1 Audit approach and methods

1 Audit approach and methods

- 1 The report is based on a synthesis of our published work as well as research by other organisations. Our work includes:
 - the annual audit of accounts of the main devolved public bodies in Wales;
 - local work looking at governance, management and delivery of services by NHS bodies and local government bodies;
 - national reviews, looking at specific services and programmes as well as efforts to improve the wellbeing of particular groups of the population;
 - reviews of public bodies' application of the sustainable development principle in line with the requirements of the Well-being of Future Generations (Wales) Act 2015; and
 - data tools, which pull together information on particular sectors or areas of interest.
- 2 Underpinning this report is a series of sector-specific summaries, setting out some key facts and analysis, which we will publish during September and October 2021. We have not done a separate summary for the Welsh Government, as much of the analysis and key issues are covered in this report. We have also not sought to summarise the position across the many Welsh Government sponsored bodies and subsidiary companies. Where relevant, we refer in this report to some of the common issues and pressures they face.

3 Below are some of the key sources of data presented in this report.

- **Welsh Government funding:** for data to 2015-16, we have used the figures we used in our 2015 Picture of Public Services Report. The basis of data for 2015-16 to 2019-20 is the annual HM Treasury Public Expenditure Statistical Analyses dataset to which we have added data on revenues raised (or expected) from devolved taxation.
- **Health revenue:** This data is set out in our NHS Wales Finances Data Tool. It is based on the Welsh Government's final supplementary budget in each year and covers all health-related revenue budget lines from within the Department of Health and Social Services.
- **'Core' local government funding:** this comes from the Local Government Revenue Settlement dataset on StatsWales.
- **Local government spending on services:** this comes from the Local Government Outturn dataset on StatsWales and is based on 'gross revenue' expenditure on services.
- **Comparative UK spending analysis:** this primarily comes from the data that underpins our Public Spending data tool. We have carried out some further analysis using the underlying HM Treasury Country and Regional Analysis dataset, for example to look at social care expenditure.



Audit Wales

24 Cathedral Road

Cardiff

CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

We welcome telephone calls in
Welsh and English.

E-mail: info@audit.wales

Website: www.audit.wales