

Llywodraeth Leol a Chymunedau  
Local Government and Communities

Cyfarwyddwr Cyffredinol • Director General



Llywodraeth Cymru  
Welsh Government

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

Our ref: A6808412

18 March 2014

Dear Chair

### **Meeting the Financial Challenges Facing Local Government in Wales**

Thank you for your letter of 19 February seeking a response from the Welsh Government to the report published by the Wales Audit Office on *Meeting the Financial Challenges Facing Local Government in Wales*.

The Welsh Government welcomes the report as an independent assessment of how Local Government in Wales is responding to the financial challenges it faces.

The report provides a helpful insight into some of the approaches individual Authorities are taking and the effectiveness of those approaches. It portrays a mixed picture in terms of the adequacy of financial planning by Local Authorities.

It is important to recognise each Authority is a separate, democratically accountable body which provides a wide range of services both statutory and discretionary. The well established funding and accounting framework provides Authorities with a large degree of flexibility to design the provision of services in a way which takes account of the needs and priorities of the particular Authority. Consequently each Local Authority has a wide range of tools at its disposal to support it in delivering its responsibilities. In addition to being able to raise council tax, each Authority can raise income through fees and charges hold reserves and undertake borrowing. The legislative provisions and the

requirements to follow proper accounting practices and governance arrangements ensure these tools are used in a prudent and appropriate manner and those responsible for such decisions are required to do so transparently and are accountable for the decisions they take. Ultimately, there is a fiduciary duty on the responsible Treasurer or Section 151 Officer to ensure an Authority's financial plans are sustainable and to report any unlawful financial activity or failure to deliver a balanced budget.

The report recognises Local Government in Wales has been protected from the worst of the cuts which have been applied to Local Government in England over the past three years. It makes it clear, between 2010-11 and 2013-14, revenue funding for Local Government in Wales increased whilst in England, funding for Local Government has been cut by around 10% in cash terms. In protecting the funding provision for Local Government during this period, Welsh Ministers made clear Authorities were to use the time and resources available to prepare for the challenges ahead.

The Report recognises there continues to be considerable variability between Authorities in their approaches to meeting the financial challenges. This, and previous WAO reports looking at transformational change, have recognised there is evidence of councils pursuing collaboration, taking steps to redesign services, introducing alternative delivery models and adopting other innovative approaches to secure the necessary savings. Nevertheless, the overall message from the Report is Authorities have not taken full advantage of the opportunities presented by the better financial settlements in Wales to prepare for the reductions in funding and more needs to be done.

This is consistent with our own assessment of the situation and with the central messages of the Report of the Commission for Public Service Governance and Delivery. This work identifies the need for real and lasting change and for improvement in the delivery of services provided by Local Government and the wider public service.

The Minister for Local Government and Government Business has made clear she expects Local Authorities to continue to focus on continuous improvement in all areas and to consider all reasonable options for securing efficiencies and value for money. This includes working together, with other public services across Wales, to improve their performance through collaboration, share good practice and better joint commissioning of services where appropriate.

Whilst none of the recommendations within the Report makes specific reference to the Welsh Government, paragraphs 2.9 and 2.10 of the Report make specific reference to the timeliness of information on the funding settlement for Local Authorities for 2014-15. The Welsh Government has consistently provided Authorities with future indicative settlements in line with the published indicative

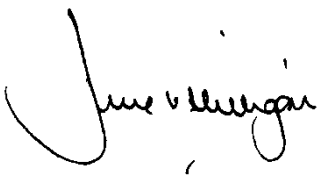
Welsh Budget. In the case of the most recent Budget, indicative allocations for individual authorities for 2014-15 were published alongside the announcement on the 2013-14 settlement. This was consistent with the Welsh Budget being published up to 2014-15. The subsequent reductions to the Welsh Budget as a consequence of changes to the UK Government Budget arising from the 2012 Autumn Statement, March 2013 Budget Statement and June 2013 Spending Round announcement meant Welsh Ministers needed to revisit the 2014-15 budget plans.

The Minister for Local Government and Government Business wrote to Local Authorities in May 2013 to set out the circumstances and to be as clear as possible about the implications for the 2014-15 settlement indicative allocations, recognising the need for Authorities to take account of this in their financial planning. I attach a copy of the letter for your information. This was followed up through discussions the Minister for Local Government and Government Business and the Finance Minister had with the leadership of Local Government in Wales in the meetings of the Finance Sub Group of the Partnership Council. The Finance Sub Group will continue to provide a formal mechanism for engaging Local Government in future funding considerations.

In keeping with previous years, Authorities in Wales received their detailed provisional allocations in October 2013 for the financial year 2014-15. This is well in advance of equivalent announcements in Scotland and England and the final settlement announcement in Wales coincided with the provisional announcement in England. It is also important to be clear, whilst the revenue settlement provided by the Welsh Government is a key component for Authorities' financial planning, it is not the only part. Authorities need to draw up their own planning assumptions taking account of a wide range of funding and spending factors.

I hope this provides the Committee with the information it needs.

Yours sincerely

A handwritten signature in black ink, appearing to read 'June Milligan', with a large, sweeping initial 'J'.

**June Milligan**  
Cyfarwyddwr Cyffredinol / Director General



Eich cyf/Your ref:  
Ein cyf/Our ref: MB/LG/2300/13

23 May 2013

Councillor Aaron Shotton  
WLGA Spokesperson for Finance & Resources

Dear Aaron

Thank you for your letter of 18 April regarding Central-Local Finance discussions.

I should be grateful if you would share this letter with all members of the WLGA Coordinating Committee which, I understand is meeting tomorrow.

I welcome your commitment to move forward the public service reform agenda and give greater emphasis to ways in which Local Government can enhance economic growth in Wales.

Collectively, public services in Wales face significant challenges in relation to the future funding outlook. This underlines the need for greater collaboration, innovation and transformation in the way services are delivered and the need to embed best practice across Wales. Our approach to the financial dimension of this is central to how we respond to these unprecedented challenges.

I agree we should complete the work set in motion as part of the review of the Partnership Council for Wales to reconfigure the arrangements for the formal discussion of finance matters. The new Finance Sub Group will have a remit to discuss key aspects of Local Government finance and to provide robust governance regarding the work on the distribution of the main local government settlement. It will also need to be firmly rooted in the agenda and governance for public service reform.

It is important to recognise the Group will not replace the need for Local Government to hold discussions about specific financial matters, and other aspects of policy development and delivery, with other portfolio Ministers and their officials. This is the only way in which fully informed and detailed discussions around, for example, demand pressures or legislative changes, can take place. Nor would it negate the need for discussion of financial matters with wider public service partners at the Partnership Council, including discussion about major schemes such as the council tax reduction scheme.

It is critical we share a common view as to the financial pressures Local Government faces. Our discussion at the recent meeting of the Reform Delivery Group was useful, but I want to be sure we have a shared understanding of the seriousness of the financial situation next year and into the future.

This Government has been committed to supporting Local Authorities in their aspirations and efforts to change. This was one of the principles set out clearly in the Simpson Review which we followed with three financial settlements which gave a cash increase over the period.

However, recent UK Budgets have removed funding from our baselines and the next UK Spending Review is certain to reduce our budget further. Against this background, we will not be able to protect Local Authority budgets as we have in recent years. As I said in the meeting, the funding reductions experienced by Local Government in England signal the future financial reality for us in Wales.

Whilst I understand we set out indicative figures for 2014-15 as part of last year's Settlement exercise, the changes to the Welsh Government Budget we have already seen – and the further adjustments we are likely to see in June – mean those figures have been overtaken by events. Consequently, they can no longer be considered as a basis on which to plan.

Authorities need to engage immediately in decisive and radical short-term financial and service planning so as to align public services quickly to the lower levels of resources available in the future. In the longer term, the significantly lower levels of resource must drive deep transformational change which crosses geographical and organisational boundaries.

In this context, getting the right membership of the new group will be vital for effective governance, as well as providing the necessary balance of political, regional and sectoral representation. Members must be able to have an effective debate and reach conclusions that lead to clear action.

I suggest we arrange a first meeting ahead of the summer recess to discuss the Terms of Reference for the group and the future funding outlook. A further meeting towards the end of September would provide the opportunity to receive and consider the report of the Distribution Sub Group ahead of the preparation of the provisional settlement.

My officials have prepared draft Terms of Reference and I will ask them to liaise with yours to make arrangements for an initial meeting of the group and to draw up an agenda. In light of the discussions at Reform Delivery Group, I am copying this letter to the unitary authority members of the Group.

A handwritten signature in cursive script, reading "Lesley Griffiths", enclosed within a rectangular border.

**Lesley Griffiths AC / AM**

Y Gweinidog Llywodraeth Leol a Busnes y Llywodraeth  
Minister for Local Government and Government Business