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Education and Public Services Group



Llywodraeth Cymru  
Welsh Government

Mr Darren Millar AM  
Chair  
Public Accounts Committee  
National Assembly for Wales  
Cardiff Bay  
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Dear Chair

## **FINANCIAL CHALLENGES FACING LOCAL GOVERNMENT**

Thank you for your letter of 8 July welcoming me into my new post as Deputy Permanent Secretary of Education and Public Services Group. I look forward to engaging with the Committee. Your letter asked for further information regarding the financial challenges facing local government in Wales. The following goes into some detail but it is important we establish a clear, common understanding of the issues.

First, you asked for the Welsh Government's assessment of the scale of funding reductions faced by Local Government. Annual Local Authority general revenue spending each year is some £7 billion excluding that raised through service fees and charges. Supporting this spending, Welsh Government provides funding through Revenue Support Grant and Non Domestic Rates of £4.1 billion in 2015-16 which equates to about 58 per cent of the spending. Other sources of finance include council tax, specific grants from the Welsh Government and from other bodies (including the UK Government). In addition, Local Authorities also set fees and charges and raise income, including through borrowing arrangements and drawing on reserves. So, whilst Welsh Government funding is an important component of Local Authority funding, it is by no means the only source. It follows that the Welsh Government is only able to comment on the scale of funding reductions in relation to the resources it provides.

In answer to the point about reductions in Welsh Government funding, Ministers maintained the Revenue Support Grant Settlement in cash terms between 2010-11 and 2013-14. This was a radically different position to that in England where authorities faced very significant reductions. The settlements for 2014-15 and 2015-16 are a matter of record – reductions of £149 million and £145 million respectively equivalent to a reduction of 3.4 per cent in each year on a like for like basis. Nonetheless, the Committee will wish to note that taking into account the full range of funding available to Authorities, general expenditure is budgeted to be more than £177 million more in 2015-16 than it was in 2010-11.



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Looking to 2016-17, the absence of published UK Government baselines mean that the Welsh Government is no better placed to assess the possible scale of future funding reductions on its grant than Local Authorities themselves at this stage. To meet their medium term financial planning obligations, Local Authorities are engaged in developing working assumptions based on the range of forecasts and data that is publicly available. We will continue to work with Authorities through the Society of Welsh Treasurers to inform a common understanding of the future financial outlook wherever we can.

The Committee is aware that each Authority is a separate, democratically accountable body which is subject to statutory duties around setting and managing its budgets. Therefore, the range of information which Authorities require to plan, budget and manage effectively is necessarily much broader and more detailed than simply that relating to future levels of Welsh Government funding. Nonetheless, we are acutely aware that early data about indicative levels of general grant funding is an important piece of information to support Authorities' planning and our record of publishing Settlement figures before both England and Scotland is very good.

Turning to the issue of specific grants and ring fencing. In absolute terms, we agree that the value of specific grants is substantial. We also agree that the specific grant regime incurs a level of administrative cost for all organisations involved which, during a period of reducing budgets, should be minimised so far as possible. The Auditor General's work in this area has provided a valuable contribution to our thinking. Likewise, Ministers continue to balance carefully the need for ring fencing with assurance around delivery of priorities and are considering how to make further progress in this area.

As a percentage of general revenue spending, specific grants account for 10 per cent. This is not a significant proportion and is in keeping with arrangements elsewhere in the UK. A good deal of progress has been made in recent years and Welsh Government has transferred £189 million into the RSG since 2010-11. Most recently, the Minister for Public Services has announced he will transfer a further £31 million from the Outcome Agreement programme. Significant progress has been made too, in aggregating smaller grants together, notably in the Education portfolio.

You asked about the Welsh Government's assessment of the proportion of Local Authority budgets which are committed to statutory responsibilities, or to Welsh Government policy priorities, and the proportion which is not "ring-fenced".

The law relating to Local Authorities and Local Authority services and functions is complex. All Local Authority functions are set out in, and limited by, law and no Authority can do anything without the appropriate legal provision. However, there is a distinction between the services and functions Authorities must provide and those where Authorities have the legal power under which they can choose to provide a service or function. How they provide a particular service in practice, and the extent of that service, is a matter for the Authority itself to determine taking account of local needs and priorities, hence the variability in service models and coverage across the 22 Authorities.

Defining and quantifying the proportion of each Local Authority budget attributable to each function (again, bearing in mind the range and timing of funding sources involved) would be a highly complex and contestable exercise. Preparing even a rudimentary analysis would require the Welsh Government to collect substantial additional information from Authorities who would incur further administrative work and cost at a time when the aim is to minimise management overheads. The Committee will appreciate the paradox in this approach.

You wanted to explore the use made by the Welsh Government of information collected on Local Authorities' use of reserves, currently standing at some £1.4 billion. Between 2011 and 2015 the total stock of Reserves increased by 10 per cent. The purpose of gathering the data was to assess the accessibility and clarity of information on reserves which would enable effective scrutiny by elected Members. The Committee will understand that openness and transparency are vital to good scrutiny; and that effective scrutiny leads to more informed and better decisions, which is especially important in relation to financial and spending matters at the current time.

The survey data showed considerable variation exists in the presentation and disclosure of data. We provided the information to Chief Finance Officers and followed that with discussions so as to highlight areas of best practice. Early indications suggest there have been improvements in the presentation of information on reserves in the latest statutory accounts of some Authorities which is a positive step forward. We will keep the situation under review.

More generally, Ministers continue to be interested in the levels of reserves held by Authorities. They recognise that the size of reserves is determined according to a set of local needs, service priorities and spending plans and there will inevitably be variation between Authorities. There will be occasions when Ministers wish to understand the reasons for the variation in the composition of a set of reserves, or the cash levels themselves and, in those circumstances, we believe it is reasonable to seek further information.

Finally, you asked whether Welsh Government is satisfied that Local Government appreciates the collaborative process in setting the funding formula and whether the process allows the best decisions on allocations to be made rather than those that most readily find consensus.

We have previously provided detailed information to the Committee about the consultative arrangements on Local Government finance which form some of the most comprehensive processes within government in the UK. They rely on effective joint working between Local Authorities and the Welsh Government primarily through the Finance Sub Group of the Partnership Council and its technical working group, the Distribution Sub Group. The arrangements have been in place for several years and operate according to a clear set of agreed principles.

So far as making sure the outcome is the most effective distribution of funding rather than the one which most readily funds consensus, proposals on distribution are fully evidenced when put forward and detailed information on methodology and the development of the formula is made widely available. That evidence needs to be well founded in order to convince the twenty two Authorities of the merits of any changes, respecting that each Authority has different needs and priorities. It is also worth noting that we do not always achieve consensus in these technical discussions.

I hope this information addresses the Committee's requests.

Yours sincerely



**Owen Evans**