

The Welsh Government
White Paper - Reforming Local
Government: Resilient and Renewed

A Submission by:

The Chartered Institute of Public
Finance and Accountancy

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CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

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1. Executive Summary

- 1.1 At its heart the White paper is concerned with the reform of the Local Government Sector in Wales. CIPFA advocates that a wider view of the way public services are delivered and integrated is required in order to change future outcomes and to provide for the future financial resilience of public services. Structural reform of one sector alone will not necessarily fully achieve more preventative service interventions leading to better long-term outcomes.
- 1.2 To enable consideration of the way services should be reformed and delivered, CIPFA urges the Welsh Government to consider creating the foundation for the future financial sustainability of all public services based on a five point blueprint for future financial sustainability for public services in Wales.
- 1.3 Within any new configuration of services, CIPFA supports the adoption of appropriate tests to determine and underpin financial resilience CIPFA has developed six tests that seek to ensure that service planning is effective and supports long-term service sustainability. CIPFA would advocate supplementing the proposed tests for regional working in the White Paper with these tests to support medium-term financial planning and to ensure financial resilience in collaborative working arrangements.
- 1.4 The proposals for voluntary mergers of councils contained within the Whitepaper do not consider the significant costs of council mergers. CIPFA's previous work has highlighted the significant costs that can be incurred through the merger process. Based on a 12 council model, this assessment identified merger costs ranging between £159m to £268m at the upper end of estimates.
- 1.5 The White Paper notes that wider reforms to the system of finance within Welsh Local Government will be subject to future consultation. CIPFA would advocate that these wider changes to the overall system of funding should be considered before settling on the methods and mechanisms for funding regional working.
- 1.6 CIPFA supports the development of a governance framework for regional and collaborative working based on the CIPFA/IFAC International Framework for Good Governance in the Public Sector.

However, this framework needs to be principles based enabling local bodies to determine the appropriate service interventions in support of long-term outcomes.

2. Regional and collaborative working

- 2.1 The Welsh Government's white paper¹ recognises that public services will need to work differently and work together to meet the future challenges. Underpinning this is the need to deliver outcomes and well-being goals contained within the Well-being of Future Generations Act.
- 2.2 When seeking to establish a footprint or range of functions for regional working and collaboration, CIPFA would urge the Welsh Government to take a wider view of services delivered locally. Delivery of local services is not always solely a local government matter. Services to local areas are commonly delivered by a range of central and local government bodies. Charities and private sector organisations will also be involved.
- 2.3 Taking a wider view of services delivered locally will also support the potential to maximise the use of the public sector asset base. This can include for example, co-location and co-investment opportunities or merely freeing up underused assets for further investment in areas of need.
- 2.4 CIPFA believes that all services to the public, irrespective of the type of organisation or sector that delivers them, are local public services. When looking to collaborate over a regional or geographical footprint, it is therefore important to recognise and map the range of services and resources available within that local delivery landscape.²
- 2.5 Mapping the delivery landscape can assist in taking more informed decisions about collaboration and aligning service delivery, such as:
 - Aligning policy and service objectives where they overlap or are in conflict between different partners;

¹ Welsh Government: White Paper, Reforming Local Government: Resilient and Renewed, January 2017

² CIPFA: Aligning local public services – Mapping the delivery landscape (para 39 – 50),

- streamlining policy and service objectives that are common to different partners and;
 - aligning the delivery approach where partners have differing approaches to the same customer groups
- 2.6 Focusing on the structural reform of Local Government as a means to drive forward regional and collaborative working fails to put in place the enablers to full horizontal service collaboration based on preventative approaches rather than building reliance on services. If the achievement of outcomes and future financial resilience is to be achieved, there must be an approach taken to provide a citizen centred approach to services.³
- 2.7 That approach should have its foundations in the five point blueprint for services (*Appendix 1*) and incorporate improved horizontal collaboration across sectors and services. Traditional sectoral barriers must be secondary to the needs of citizens. It must also eliminate duplication and waste while also considering the appropriate level of oversight and scrutiny.
- 2.8 CIPFA has previously advocated a five point blueprint⁴ (*Figure 1*) to create a framework for future financial sustainability of public services in Wales. This framework incorporates the following elements:

Appendix 1 details specific information relating to each element:

³ CIPFA: Our call to the new Welsh Government, April 2016

⁴ CIPFA Submission: The Commission on Public Service Governance and Delivery, A five point blueprint for public service reform in Wales – September 2013

Figure 1:



2.9 Working within the five point blue print, CIPFA recommends:

- a core and options approach to Welsh public services in which core tax funded services, with an emphasis on preventative spend, are provided free at the point of delivery to the people of Wales. Any additional services or service enhancements would be subject to user charges.
- Accelerated reform of a proportionate scrutiny and accountability framework (including regulation) from government to and across public sector bodies. This is likely to require a single scrutiny body and integrated models of scrutiny in each public body.
- More effective horizontal collaboration across the public sector, to integrate citizen centred service delivery and improve efficiency without diminishing safety and quality. Wales has a good record of collaborative working but there is a crowded landscape of more than 900 public bodies.

- Commencement for a state of readiness for the implementation of further devolved powers, which provide the Welsh Government with additional leverage to manage public services including tax raising and borrowing powers.
- An integrated performance management framework which enables improved management of performance at government and organisational levels and which includes demonstrable evidence in support of outcomes and well-being goals at the heart of performance improvement.

2.10 The White Paper notes the Welsh Government request to the Effective Services Group to develop a set of 'Prudent Public Service Principles.' Those principles can be used by organisations across the public service to help recast the role and relationship between services and individuals.

2.11 CIPFA supports the development of prudent principles and would advocate that these principles must consider three key variables in the relationship between the citizen and the state:⁵

- The public services provided by the state;
- the people to whom they are provided; and
- the way in which they are funded

2.12 CIPFA would welcome the opportunity to provide input into the development of new principles by the Effective Services Group.

2.13 Shared services are referenced within the White Paper in relation to both administrative services, joint procurement and other services. CIPFA supports consideration of shared services models to achieve efficiency and reduce duplication and enhance skills in particular areas. However, proposals for shared services must articulate the costs and benefits. They must be supported by a clear statement of the drivers for change accompanied by an assessment of any barriers to be overcome.

2.14 In summary, CIPFA would advocate that the Welsh Government take a wider view of the need to reform the way public services are

⁵ CIPFA Submission: The Commission on Public Service Governance and Delivery, element 1 from the five point blueprint for public service reform in Wales – September 2013

delivered. This will be required to support outcomes delivery as well as provide for future financial resilience.

- 2.15 The Welsh Government should consider setting in place the overall framework and policy to enable and encourage regional and collaborative working using the five point blue print for services. This approach should not be targeted, mandated or be sector specific. Instead it should be driven by locally identified need.

3. Governance and Accountability

- 3.1 The White paper sets out a preferred option of strengthened joint committees to provide the governance arrangements underpinning regional working. However, this method of working envisages Local Authorities working collaboratively rather than ensuring public services consider collaborative working across sectors where such collaboration would achieve improved outcomes.
- 3.2 In considering the proposals in the White Paper, CIPFA note the current role played by Public Service Boards in Wales. The stated purpose of the Boards is to improve the economic, social, environmental and cultural well-being in its area by strengthening joint working across all public services in Wales.⁶
- 3.3 It is likely that Public Service Boards, Strengthened Joint Committees and Local Government bodies would be covering some of the same work. There may also be areas where scrutiny of performance in delivering outcomes is duplicated between Public Service Boards, Joint Committees as well as Local Authorities themselves. This represents a complex, and in some areas, overlapping set of arrangements for governance and scrutiny.
- 3.4 The Welsh Government should maintain policy setting and overall responsibility for setting governance frameworks. Local bodies should be allowed to operate within the economic framework in which that national oversight occurs. They should have clear accountability for service performance, measurement and associated scrutiny.

⁶ Welsh Government: Overview of Public Service Boards, November 2016
<http://gov.wales/topics/improvingservices/public-services-boards/?lang=en>

- 3.5 It should be noted that public service interventions can operate at many levels from simply sharing assets and expertise to setting up specific joint service delivery vehicles for major investments. There are existing examples of collaborative working across local government with partners to deliver investment projects and improved services in the form of City Deals.⁷ As the range of these collaborations increase the governance arrangements will need to be consistent, flexible and based on established principles of good practice.
- 3.6 In Local Government organisations accountability for financial matters is the responsibility of the Section 151 officer. In more flexible collaborative arrangements this can be unclear and more complex. The role of the Accountable Officer should be included in the development of financial and governance frameworks for regional and collaborative working.
- 3.7 CIPFA believes that any governance framework should be principles based rather than based totally around practice at an organisational level. The fundamentals of good governance remain the same for both the individual entity and its partners in delivering local public services. The same principles contained in the International Framework⁸ can be applied to private and third sector partners in delivery.
- 3.8 By implementing the Well-being of Future Generations Act, the Welsh Government have placed a duty on public bodies to deliver outcomes. Setting out a governance framework supporting collaborative working should allow local service providers and partners to determine the service need and policy objectives, agree the vision and strategy and determine the best delivery vehicle and funding arrangements to provide the services. Within this framework there is an underlying need to ensure local accountability is maintained for locally elected representatives.
- 3.9 In summary, the Welsh Government should set out an appropriate principles based governance framework supporting joint and collaborative working in public services. The framework needs to

⁷ For example: Cardiff Capital Region City Deal <http://www.cardiffcapitalregioncitydeal.wales/>

⁸ CIPFA and the International Federation of Accountants (IFAC); International Framework: Good Governance in the Public Sector.

recognise that service interventions can take many forms and involve a wide range of partners.

4. Financial Framework and resilience

- 4.1 CIPFA supports the White Paper in its proposals to develop a financial framework surrounding the funding of joint working. Further, CIPFA supports the need for any formal entities created to facilitate regional and joint working to be obligated to produce a medium term financial plan.⁹
- 4.2 CIPFA believes that medium term financial planning is currently under developed within the UK public sector.¹⁰ CIPFA acknowledges that financial planning over the medium to longer-term can be difficult in the current public sector financial climate, due to ongoing uncertainties about political, economic and resourcing factors. However, this does not diminish the need to strategically plan resources in support of outcomes over the longer term and to support future financial sustainability and resilience of service provision.
- 4.3 Given the wider view of public service delivery, CIPFA advocates that any financial framework in support of regional and collaborative working should contain some flexibility for carrying reserve balances. This will be required to plan for projects and interventions spanning more than one financial year and to provide for smoothing of financial obligations occurring during the financial planning period. It will also avoid any conflict between differing sets of public sector financial regulations, some of which allow the maintaining of reserve balances and others that do not.
- 4.4 An important aspect of sharing resources between partners is the need to understand the risks that can be associated with aggregation and disaggregation of budgets. Any financial framework will need to be clear between the partners of the costs, and income, to be included within the activities that need to be funded within the collaborative arrangements.

⁹ Welsh Government White Paper, Reforming Local Government: Resilient and Renewed – para: 2.8.6

¹⁰ CIPFA Insights: Looking Forward, Medium Term Financial Strategies in the UK Public Sector – October 2016

4.5 To support flexibility in this framework as well as ensuring longer-term financial resilience, CIPFA would advocate putting in place six tests for financial resilience. These tests would supplement the tests for the appropriateness of regional working. The aim being to provide assurance to funding partners that medium term financial planning is effective.¹¹ The tests include:

- Information – is it good quality, timely data, modelling and analysis?
- Investment – are you utilising tangible and intangible assets to create investment, growth and the development and delivery of strategy and policy objectives?
- Revenue – are you maximising tax yield and income if applicable?
- Pressures – are you mitigating pressures and future liabilities?
- People and Governance – is there capable, focused, and effective leadership that makes the decisions needed for strong stewardship, performance and transformation?
- Plan – is there a compelling and credible savings or transformation plan that balances the budget and aligns with the Medium-term Financial Strategy?

4.6 With any collaborative or regional working arrangement, there will need to be consideration of the formal accounting and audit requirements within the framework. A key part of these arrangements is having a formal accounting officer, similar to the role of the Section 151 Officer in Local Government, responsible for public financial management. This is likely to be a role for any lead partner in the arrangements. However, if the working arrangements are set up under a separate formal organisation structure, an officer, either directly employed or from the funding partners, should be appointed as accounting officer with appropriate responsibilities.

¹¹ CIPFA, financial resilience advisory report - <https://www.cipfa.org/services/advisory-and-consultancy/financial-resilience-advisory-report>

- 4.7 The White Paper notes the range of possible funding methods for regional working arrangements. At the same time the White Paper also notes that wider reforms to the local government finance system will be explored and consulted upon.¹²
- 4.8 The recent report from the Independent Commission on Local Government Finance in Wales¹³ made a number of recommendations for reform of the Local Government Finance System. These recommendations were aimed at facilitating the pursuit of the seven goals of the WFG Act in an integrated way; and encouraging councils to be free to respond to local issues flexibly and creatively.
- 4.9 CIPFA would advocate that the current proposals for regional funding should not be mandated until the wider reforms to Local Government Finance have been consulted upon and considered.

5. Mergers and their costs

- 5.1 The White Paper asks for Local Authorities to give serious thought as to how to organise themselves to maximise the impact they have. This includes provision to bring forward voluntary merger proposals. Once a final merger proposal is accepted, the Welsh Government will bring forward regulations to enable the merger to happen. At present there is no acknowledgement in the white paper of the potential costs of the merger process.¹⁴
- 5.2 CIPFA has previously completed assessments of the impact of council reform and mergers in Wales, considering the aspects of costs of mergers and the ability to finance those costs. CIPFA's report¹⁵ for the Welsh Local Government Association (WLGA) contained an assessment of the transitional costs of reform of Local Government in Wales. This report, based on a 12 council model, suggested a cost

¹² Welsh Government White Paper, Reforming Local Government: Resilient and Renewed – paras: 2.8.6 and 2.9.1 respectively

¹³ Independent Commission on Local Government Finance Wales, Ambition for change: Aiming higher – March 2016

¹⁴ Welsh Government White Paper, Reforming Local Government: Resilient and Renewed – Section 3, para: 3.1.1

¹⁵ CIPFA Report for the Welsh Local Government Association, Report on the Transitional Costs, Benefits and Risks of Local Government Reorganisation – November 2014

range of between £159m at the lower end of estimates to £268m at the upper end of estimates.

- 5.3 Further to the above report for the WLGA, CIPFA completed an assessment of the ability of Local Government in Wales to finance such a merger programme from its own resources, i.e. available un-earmarked usable reserves.¹⁶ This assessment identified only £196.3m of available funds at the 31 March 2015. The assessment also highlighted that that figure had fallen from £207.3m in 2014 (down £11.0m).
- 5.4 CIPFA's previous review of the Welsh Government draft budget 2016/17 announcement showed that local government is dealing with a 2.0% reduction in its allocation for 2016-17.¹⁷ The key areas of reduction in the budget come from reduction to funding support from the Welsh Government to local government of £55m and reductions to the allocations for local government service improvement, collaboration and democracy of £32m. The latter reduction comes at a time when local government is considering reform and reorganisation and where there will be financial pressure to fund the reform and deliver on potential efficiencies and savings in the future.
- 5.5 In regard to the basis of merger proposals, the White Paper states that the Welsh Government will not set out a long list of specific criteria that any voluntary merger proposal must meet. The emphasis is on the Local Councils involved to state clearly the opportunities and benefits in support of the merger.¹⁸
- 5.6 CIPFA believes that in keeping with the need to take a wider view of how services are delivered across sectors for shared clients. It would be important for the Welsh Government to expect that proposed mergers would need to demonstrate an ability to deliver an effective and optimum level of public services.
- 5.7 The Welsh Government should ensure that any voluntary merger proposals are considering elements of the five point blue print for

¹⁶ Taken from the Welsh Government's Whole of Government Accounts 2014-15 Local Authority Reserves (LG/WGA/02) –October 2015

¹⁷ Welsh Government – Draft Budget 2016/17, Draft Budget Action Tables December 2015
<http://gov.wales/funding/budget/draft-budget-2016-17/?lang=en>

¹⁸ Welsh Government White Paper, Reforming Local Government: Resilient and Renewed – Section 3, para: 3.1.2

service reform. In particular demonstrating that the issues of de-layering and reducing oversight as well as better horizontal collaboration to support outcomes have been fully understood.

Appendix 1. Overview of Five Point Blue Print Elements

1: the Relationship between the Citizen and State

This element of the blue print requires a radical review and reconsideration of three key variables:

1. public services provided by the state;
2. the people to whom they are provided; and
3. the way in which they are funded.

Aimed at reducing spending, existing services could be radically reduced or even discontinued. Some services could be maintained but the population entitled to receive them could be radically reduced in size. The development of this option could lead to a 'core' and 'options' approach to some public services in which a core tax funded service is provided free at the point of delivery.

The role of Government would be to manage equity by defining and specifying the guaranteed minimum core service to which everyone would be entitled. Alternatively the core and options approach could focus upon the responsibility of the citizen and consider whether user charges should be applied to individuals whose life style choices have led to self-inflicted conditions. The role of government would be to lead by redefining existing public expenditure to ensure that positive outcomes, rather than negative outcomes would be met. One of the means to achieve this is a shift to preventative spend

2: De-Layering of the Public Sector and Reducing Oversight

This element takes the view that cuts in public services are best determined at local level where regard can be had to local needs and circumstances. For it to have practical effect, local public bodies must have the flexibility to make judgements about the public services which are right for their area. Local bodies should be allowed to operate within an economic framework in which national oversight, inspection, target setting and performance measurement are limited to levels which are essential for effective service

delivery. Reliance should be on local accountability rather than national oversight to highlight shortcomings.

The objective should be to increase effectiveness but to also reduce cost. A radical interpretation of this option would also include significant de-layering within local agencies. Front-line staff should be clear about the extent of their authority and should be encouraged to take decisions accordingly. Similarly they should be clear about decisions which require management approval and the procedures to access such approval efficiently. Effective leadership and management will remain critically important ingredients in the overall chemistry of organisations.

3: Better Horizontal Collaboration

This option is predicated on the assumption that the complexity of public sector structures in Wales and a prevalence of silo thinking which leads to significant inefficiencies. Efficiency programmes typically focus on improving efficiency within public bodies rather than across public services as a whole. This raises the challenge for more effective 'horizontal' collaboration between public bodies.

In many cases public bodies work together for reasons other than efficiency and do so with conspicuous difficulty. At worst, the actions of one body may impact adversely on another. This makes the case for more effective collaboration even more compelling.

This element also encourages public bodies to collaborate in commissioning services with the prospect of achieving savings from greater scale and a more strategic approach. In turn this may lead to greater understanding of the interdependencies which exist between public bodies providing related services or sharing the same clients. In such circumstances there should be a shared commitment to find solutions which deliver high quality service to the citizen and best use of resources from the perspective of the overall public purse. Activities like 'cost-shunting' which give priority to the financial interests of individual organisations at the expense of the public purse as a whole may be addressed constructively under this element providing that there is the political and managerial will to do so.

The creation of linkages and development of close collaborative relationships between bodies which have no history of joint working raises

the hope that not only will cost be reduced but that innovation can be unlocked. For example, service redesign around the needs of shared clients.

4: State of Readiness for new Fiscal Powers

The Welsh Assembly and Government should ensure it has access to expert advice to assist it in planning for the changes it will require to make to its present financial systems and processes as a result of additional fiscal powers.

The capacity and skill base required to financially manage the new fiscal powers via the new Welsh Revenue Authority should be assessed at an early stage.

5: Performance Management

A recurring theme in our examination of public service performance management in Wales was that the current system of performance management is not a driver for service improvement performance of public service organisations.

In its submission to the Silk Commission, the Welsh Institute for Research in Economics and Development (WIRED), Cardiff University reported that the performance of health and education services in Wales across a range of indicators has been lower than that of England.

It is difficult to escape the conclusion that in the absence of an integrated and effective system of performance management that differing levels of performance as instanced in the report will continue. Given the combination of austerity and lower performance by Wales in areas like health and education, it is vital that the best use is made of the public resource available. It is our view that there are a number of key system developments which will help Wales to focus better on its performance and ensure accountability for the achievement of an agreed set of outcomes.

Our blueprint envisages, an integrated system of performance management and measurement which enables tracking of public

performance from government level all the way to local delivery level. The following are the key elements of that system:

1. Clarity of Government Purpose and Outcomes

The Welsh Government Programme for Government is the Welsh Government's roadmap for the current Assembly term. Each chapter of the report includes a series of performance indicators that set out to demonstrate how well the outcomes are being delivered.

2. Translation of Government and Outcomes into Delivery Plans

Public service organisations must be required to show the logic of how public money is supporting the achievement of better outcomes. They must demonstrate coordinated multiagency strategies and collaboration with individuals and communities. Clarity about outcomes is a vital element in improving public services.

3. Performance Measurement Strategy

CIPFA would suggest that the indicators must be an agreed set of metrics which are used across the whole system to evidence progress against the purpose and outcomes. In addition, we would recommend that the measurement strategy, should require public bodies to make use of benchmarking.