

# **Welsh Government: Devolution, Democracy and Delivery: White Paper on Reforming Local Government**

**A Submission by:**

**The Chartered Institute of Public  
Finance and Accountancy**

September 2014

**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 CIPFA welcomes the opportunity to respond to the Welsh Government's white paper on reforming local government, in particular the proposed strengthening of governance and reforming the relationship between communities and local government.
- 1.2 **A blueprint for public services:** Decisions on public services going forward will have to be of a different magnitude, and sustaining the level of services provided at reduced cost seems unlikely to meet the challenges ahead. CIPFA proposes a blueprint for public services in Wales focused around the following options:
- Redefinition of the relationship between state and individual;
  - De-layering of the public sector with more decisions taken locally;
  - More effective collaboration between public sector bodies; and
  - Performance management.
- 1.3 **A place-based approach** - While central government funding envisages a standard level of service to meet national priorities, local choices can result in variations in service provision. In making these choices, the link to accountability can be served by better understanding the reason for these local variations and implementing a 'place based' consideration of priorities and resources.
- 1.4 **Strengthening democracy** - Effective scrutiny and accountability is essential to improve the evidence base informing decisions on resource allocation and the achievement of outcomes, and to assure good stewardship of public money. Thus, it is essential that elected members and officers involved in the scrutiny process have access to appropriate information and the skills and capability required to undertake scrutiny.
- 1.5 **Performance management** - The current system of performance management in Wales is not a driver for service improvement in public sector organisations. Our blueprint envisages an integrated system of performance management and measurement which enables tracking of public performance from central government all the way to local delivery level.
- 1.6 **The future shape of local government** – Leadership and culture change are key drivers in achieving improvements in outcomes and service delivery. In terms of structural change, certainty over the future is required to enable medium and long term planning to ensure financial sustainability. Voluntary mergers may also represent a missed opportunity for the best solution in the absence of an overall strategy against which they can be assessed.
- 1.7 **Local government funding** – The current system of local government funding does not support the delivery of better outcomes. Responsibility for local taxation should sit clearly at a local level. It should promote accountability to local citizens for local choices and incentivise growth of the local economy, attract investment and deliver positive outcomes for the local area. CIPFA considers that a different focus on accountability is required which enables the true cost of services to be recognised. This could be achieved by greater use of the financial statements of local government.

## 2. THE FUTURE OF PUBLIC SERVICES

- 2.1 In 2009 CIPFA published *After the Downturn: Managing a Significant and Sustained Adjustment in Public Sector Funding*.<sup>1</sup> From our fiscal analysis and scenario development, we concluded that public spending cuts at a scale unprecedented in modern times would be required.
- 2.2 Against that background, the type of decision-making required going forward will be of a different magnitude than that of recent times. Public bodies should not expect to manage through the adjustment required by sustaining the same level and volume of service at a reduced cost.

### A blueprint for public services

- 2.3 CIPFA presented a blueprint for public services to the Commission for Public Service and Governance, to begin to create the foundation for the future financial sustainability of public services in Wales.<sup>2</sup> This blueprint recommended the following options for change:

- **Relationship Between the State and the Individual:** a 'core and options' approach to public services in which core tax funded services, with an emphasis on prevention, 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.
- **De-Layering of the Public Sector and Reducing Oversight:** accelerated reform of scrutiny and accountability frameworks 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<sup>3</sup>.
- **Better Horizontal Collaboration:** 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 public bodies.
- **Performance Management:** an integrated performance management framework which enables improved management of performance at government and organisational levels and which includes demonstrable evidence that benchmarking sits at the heart of performance improvement.

- 2.4 The blueprint applies to all aspects of Welsh public services, including local government. Therefore, the principles recommended could easily be applied and incorporated into the future of local government. Further detail on these

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<sup>1</sup> CIPFA, [After the Downturn: Managing a Significant and Sustained Adjustment in Public Sector Funding](#), 2009

<sup>2</sup> CIPFA, [The Commission on Public Service Governance & Delivery: A Five Point Blueprint for Public Service Reform in Wales](#), September 2013

<sup>3</sup> As generally supported by [the Crerar Review](#) of scrutiny arrangements in Scotland, 2007.

recommendations and how they apply to Wales can be found in the original response.<sup>4</sup>

## 2.5 CIPFA recommends:

- **The Welsh Government should work with local government and the wider public sector to lead on taking forward the elements detailed within the blueprint for financially sustainable public services for the future.**

## 3. THE FUTURE OF LOCAL GOVERNMENT IN WALES

### A 'place-based' approach – linking national priorities to local decisions

3.1 Elected members in local government, act as agents in two different respects. They are expected to:

- represent and communicate the needs and expectations of local citizens to the Welsh Government; and to
- identify, with local citizens, the most appropriate means of reflecting national priorities in local service delivery decisions.<sup>5</sup>

3.2 Thus, decisions will reflect choices made at a local level, resulting in cost variations. Local variation is not inappropriate, but should be explainable. As an example an authority may adopt a different charging policy for leisure centres in area A as compared to area B for a number of reasons, for example to address health issues in a deprived area by encouraging more physical activity. Equally charges may vary dependent upon the client group of service users.

3.3 Being able to understand and communicate the reasons for local variations, and why they are suitable for the local population, should be central to implementing service decisions. This should assist communications with both the local communities and the Welsh Government, particularly where national priorities are affected, to identify whether local service variations are impeding the achievement of outcomes.

3.4 CIPFA has previously supported the adoption of a 'place based' model of horizontal collaboration.<sup>6</sup> The need to maintain fiscal sustainability in public services, taking account of the expected impact of demographic change, suggests that this approach needs to be more widely embraced as a key step in supporting local priorities, national outcomes and best value for the taxpayer.

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<sup>4</sup> CIPFA, [The Commission on Public Service Governance & Delivery: A Five Point Blueprint for Public Service Reform in Wales](#), September 2013

<sup>5</sup> CIPFA [Delivering Good Governance In Local Government Framework](#) (para 1.5). See also Code of Conduct for Councillors, 2010 (para 2.1) "*You have a duty to act in the interests of the Council as a whole and all the communities served by it and a duty to be accessible to all the people of the area for which you have been elected to serve, and to represent their interests conscientiously.*"

<sup>6</sup> CIPFA submission to [The Independent Budget Review](#) (April 2010)

3.5 A number of agencies on English local government are working on transformational projects across different boundaries.<sup>7</sup> These may serve as examples of how a more place-based approach could operate in Wales.

### **Community Governance**

3.6 As stated above, part of the role of local councillors is to identify, with local citizens, the most appropriate means of reflecting national priorities in local service delivery decisions. On taking up his role as Minister for Public Service Delivery, Leighton Andrews commented on the need to consider the roles of front and backbench councillors.<sup>8</sup>

3.7 The role of elected members can be a challenging one to fulfil. Existing advice and mandatory requirements for councillors<sup>9</sup> should be reviewed to establish whether amendment is necessary to emphasise the duties inherent in their role as a representative of local citizens. This could form part of an overarching planning approach to the proposed restructuring arrangements for Wales.

3.8 The COSLA Commission on Strengthening Local Democracy<sup>10</sup> found that  
*'...many people have little idea about who does what locally or about who is democratically accountable.*

...

*A simple more transparent governance of local services is needed and, in line with the principles of subsidiarity and transparency, and to help integrate public service delivery, we have concluded that all locally planned and delivered services should be under a single democratically elected public body.'*

3.9 The Commission also recommend that local government and all other public bodies providing local services are given a clear duty in law to support and resource community participation in all local decision making on tax, spend and service delivery priorities. Implementing a similar requirement in Wales could equally support and promote community engagement in local decision making.

### **3.10 CIPFA recommends:**

- **The reasons for existing or proposed local variations in service delivery priorities are investigated and appropriately communicated.**
- **A place-based approach to establishing local priorities and public service delivery options is undertaken, informed by information on the gross public resources for each locale.**

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<sup>7</sup> DCLG, [Can-do' councils leading transformation of local government](#), 2013

<sup>8</sup> BBC News, [Leighton Andrews back in government after quitting](#), 11 September 2014

<sup>9</sup> Such as [The Code of Conduct for members of local authorities in Wales Guidance from the Public Services Ombudsman for Wales for members of county and county borough councils, fire and rescue authorities, and national park authorities](#), 2012

<sup>10</sup> COSLA Commission on Strengthening Local Democracy, [Effective Democracy: Reconnecting with Communities](#), August 2014.

- **The role of local councillors in local decision making should be considered and strengthened if necessary to support community representation.**

#### **4. STRENGTHENING DEMOCRACY**

##### **Scrutiny and accountability in local government**

- 4.1 In the current climate of tightening budgets and increased demand for services, CIPFA considers that effective scrutiny of public spending and service delivery is essential to improve the evidence base informing decisions on resource allocation, the achievement of outcomes and to assure good stewardship of public money.
- 4.2 Over the years many reports and reviews have highlighted deficiencies in local government scrutiny.<sup>11</sup> However, a recent report by the Wales Audit Office (WAO) found that: *'local government scrutiny in Wales is improving but councils need to do more to develop consistently rigorous scrutiny to increase public accountability in decision-making.'*<sup>12</sup> However, the report finds that a number of challenges remain, including:
- although scrutiny practice is improving, the impact is not always clearly evident;
  - most councils consider that there is a supportive environment for scrutiny, although there is some lack of clarity of roles and responsibilities which limits the effectiveness of holding the executive accountable;
  - better planning, more effective chairing, and improvements to the range, quality and use of information are required to improve scrutiny;
  - council scrutiny is not always aligned with other improvement processes, nor built on external audit, inspection and review; and
  - more effective engagement with the public and partners would improve scrutiny and increase public accountability.
- 4.3 CIPFA considers that access to relevant information is essential to good scrutiny.<sup>13</sup> In particular, financial and performance information, which can be linked to the priorities of service delivery, is essential to assess whether outcomes are being achieved and value for public money is being delivered. In turn, the information generated as a result of good scrutiny should inform decisions on future service delivery and resource allocation.
- 4.4 The provision of information alone is not enough, such information must be fit for purpose, and understandable to those undertaking the scrutiny function. Financial and performance information can be complex and difficult to interpret and link to

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<sup>11</sup> [Beyond Boundaries: Citizen Centred Local Services for Wales. Review of Local Service Delivery: Report to the Welsh Assembly Government](#), 2006. CSSIW, [Chief Inspector's Annual Report 2010-2011](#), 2012. [Estyn Annual Report 2009-2010. Local Government \(Wales\) Measure – Explanatory Memorandum](#), July 2010.

<sup>12</sup> WAO, [Good Scrutiny, Good Question](#), 2014

<sup>13</sup> Also suggested in Centre for Public Scrutiny, [Raising the Stakes: financial scrutiny in challenging times: A guide for Welsh local authorities](#), June 2014.

service delivery. Therefore, financial information provided to support scrutiny should be specifically designed for that purpose.

- 4.5 In 2007, the Audit Commission produced a framework for better data quality to support decision making in the public sector.<sup>14</sup> This sets out that information provided must be: accurate, valid, reliable, timely, relevant and complete. These criteria apply equally to information provided for scrutiny purposes, but in addition to this it must also be understandable to those interpreting it, both those undertaking scrutiny and wider civic society.
- 4.6 A recent report by the Public Accounts Committee examining local government funding in England concluded that the Department for Communities and Local Government did not know whether the local accountability system ensures value for money is achieved in local government.<sup>15</sup> The Chair of the Committee stated:  
*'The Government believes that the best way to ensure that councils spend our money wisely is to rely on local residents and councillors to provide scrutiny. However, there is no convincing evidence that 'armchair auditor' members of the public are being empowered to hold local authorities to account for how they spend the £36.1 billion in funding they receive every year. Councillors do not always have the skills or time to fulfil this role, which involves scrutinising the delivery of complex services such as adult social care provision. If this system of local accountability is to work effectively, residents and councillors must have access to relevant and comprehensible information. Yet while local authorities are required to publish data such as expenditure over £500, senior salaries and land holdings and building assets, this data is presented in a way which does not make for easy and effective scrutiny by the public.'*
- 4.7 The Commission on Public Service Governance and Delivery also picked up on the information and skills required for scrutiny, recommending that: *'Local authorities must make appropriate support available, at officer level, to develop co-ordinated scrutiny plans, identify gaps in expertise on the committees and provide proportionate and understandable information to committee members...Mandatory training must be provided to all members and chairs of local government scrutiny committees.'*<sup>16</sup> The recommendation on training for chairs and members to enable them to undertake effective scrutiny is echoed in the WAO report.<sup>17</sup>
- 4.8 CIPFA has been working with the National Assembly for Wales for two years, to develop and deliver a tailored programme of training and support for financial scrutiny, for AMs, officers and support staff. This has covered a range of aspects of financial scrutiny relevant to the work of the Assembly and its Committees. In addition to this Cardiff Council engaged CIPFA at the end of 2012, to support the

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<sup>14</sup> Audit Commission, [Improving information to support decision making: standards for better quality data](#), March 2007

<sup>15</sup> HoC, Public Accounts Committee, [Local government funding: assurance to Parliament](#), September 2014

<sup>16</sup> [Commission on Public Service Governance and Delivery Report](#), January 2014 (Recommendation 32)

<sup>17</sup> WAO, [Good Scrutiny, Good Question](#), 2014

development of its scrutiny capability and processes for both officers and elected members.

- 4.9 These programmes are currently being further developed to tailor them for the local government scrutiny environment, in partnership with the Centre for Public Scrutiny. This should provide a programme of assessment, support and training for financial scrutiny in local government to build capacity and capability of both elected members and officers supporting scrutiny functions.

#### 4.10 CIPFA recommends:

- **The Welsh Government continues its existing programme of support for scrutiny, focussing particularly on the challenges identified by the WAO for local government in Wales, specifically:**
  - **Access to information which is fit for purpose for scrutiny, and to facilitate access to services, with a focus on improved financial and performance information to enable scrutiny of outcomes and value for public money;**
  - **Building capability and capacity of both elected members and officers through scrutiny training. This is particularly important in times of tightening budgets.**

## 5. PERFORMANCE MANAGEMENT AND IMPROVEMENT

- 5.1 In our submission to the Commission for Public Service and Governance,<sup>18</sup> CIPFA concluded that the current system of performance management is not a driver for service improvement in public sector organisations, and that in the absence of an integrated and effective system of performance management, differing levels of performance will prevail.
- 5.2 Given the combination of austerity and lower performance by Wales in areas like health and education,<sup>19</sup> 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.
- 5.3 CIPFA's blueprint envisages an integrated system of performance management and measurement which enables tracking of public performance from central government level all the way to local delivery level. Key elements of that system include:

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<sup>18</sup> CIPFA, [The Commission on Public Service Governance & Delivery: A Five Point Blueprint for Public Service Reform in Wales](#), September 2013

<sup>19</sup> [How the devolution settlement could be modified to better serve the people of Wales: an evidenced-based assessment of the exercise by the National Assembly for Wales of their principal economic powers](#), Welsh Institute for Research in Economics and Development, Cardiff University (James Foreman- Peck).

- **Clarity of Government purpose and outcomes:** The Programme for Government (PfG) 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.
  - **Translation of Government purpose and outcomes into delivery plans:** Public service organisations must be required to show 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.
  - **Performance measurement strategy:** We note that each chapter of the PfG annual report includes a series of performance indicators that set out to demonstrate how well the outcomes are being delivered. This is welcome, but we would suggest that the indicators should be an agreed set of metrics which are used across the whole system to evidence progress against the purpose and outcomes.
- 5.4 The Welsh public sector does not use benchmarking on a consistent basis, either to drive challenge and best practice or, to report to the public in an open and transparent way.<sup>20</sup> CIPFA recommends that the measurement strategy, should require public bodies to make use of benchmarking.

### Local, national and public accountability systems

- 5.5 The drive for improvement must be local.<sup>21</sup> Therefore, local systems of staff performance must ensure that performance is judged in terms of contribution to outcomes, thus demonstrating accountability. Performance of local management structures must be judged by local delivery boards in terms of how well they have contributed to outcomes.
- 5.6 To allow the wider public to judge performance of the government and its delivery bodies, there must be a system in place which allows government and delivery bodies to demonstrate performance to the general public. We would encourage Wales to consider developing a transparent national performance system which clearly links resource allocations to outcomes.

### Resources and outcomes

- 5.7 The required clarity on outcomes, together with a new approach to service delivery introduces scope for a different relationship between resources applied and our public finance system. CIPFA has undertaken research in the area of whether our public finance system is fit for purpose and ready to meet the challenge of outcomes and a focus on prevention.<sup>22</sup>

<sup>20</sup> CIPFA, [The Commission on Public Service Governance & Delivery: A Five Point Blueprint for Public Service Reform in Wales](#), September 2013

<sup>21</sup> CIPFA, [Public Finances: at the edge of chaos and ready for outcomes? The CIPFA Conversation](#), March 2013

<sup>22</sup> CIPFA, [Public Finances: at the edge of chaos and ready for outcomes? The CIPFA Conversation](#), March 2013

5.8 We found that fundamentally, the most important governing factors were the local choices that were made rather than the means of funding or distribution. In practice, this means that the real and practical drivers for change in Wales will be the development of a more mature 'budget choice' mechanism at local levels.

**5.9 CIPFA recommends:**

- **The development of an integrated framework for a system of public performance management in Wales which enables performance measurement at both central and local government levels, as well as the wider public sector.**
- **A focus on comparative benchmarking information should be included in the framework.**
- **Consideration of a national transparent performance framework.**
- **Modernisation and increased local discretion over budget choice mechanisms.**

## **6. THE FUTURE SHAPE OF LOCAL GOVERNMENT**

6.1 In relation to the integration of health and social care in Scotland, CIPFA highlighted that leadership is a key ingredient for the success of improved outcomes and service delivery, and concluded that efforts to empower local leadership are a stronger instrument of change than legislation or structural change.<sup>23</sup> The Commission for Public Service Delivery<sup>24</sup> and the earlier Christie Commission (Commission on the Future of Public Services)<sup>25</sup> also made similar observations.

6.2 CIPFA believes that the same applies to local government and the wider Welsh public sector, in that structural change is not likely to be sufficient, in isolation, to improve services and outcomes. Rather what is required is strong leadership and culture change. The innovative approaches proposed in our blueprint for public services, with the need for a shift in thinking about how services are delivered, together with a place-based approach to service delivery could empower such change.

6.3 Both the second report of the Silk Commission and events surrounding the result of the Scottish referendum raise the possibility of further devolution of powers to Wales. CIPFA considers that it is imperative that such devolution does not stop at Cardiff, and that powers should be allowed to flow to local level where appropriate

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<sup>23</sup> [CIPFA response to the Scottish Parliament's Health and Sport Committee inquiry on the Public Bodies \(Joint Working\) \(Scotland\) Bill](#), August 2013

<sup>24</sup> [Commission on Public Service Governance and Delivery Report](#), January 2014

<sup>25</sup> [Commission on the Future Delivery of Public Services Report](#), 2011

## Impact of uncertainty

- 6.4 Against the backdrop of reductions to public spending and ever tightening budgets, the need for medium and long term financial planning is essential at both central and local government levels, to ensure that service delivery is financially sustainable for the future. Although, a recent report by the Wales Audit Office suggested that few local authorities in Wales adequately plan for the medium and long term.<sup>26</sup>
- 6.5 CIPFA believes that the extended period of uncertainty over local government structures that could arise would not be supportive of the ability to plan over the medium and long term. Such uncertainty will also impact on a wide variety of stakeholders including service recipients, taxpayers, elected councillors, partner organisations and local government employees.
- 6.6 Extended uncertainty may also lead to resources not being used to best value while uncertainty over future structures remains. For example while the proposal to restrict the use of reserves<sup>27</sup> may prevent the inappropriate use of public funds, there may also be delays in appropriate investment in the future delivery of public services, via capital spending or service re-design. This is further added to by the uncertainty over the associated costs and benefits of restructuring and where these be met from or accrue to.

## An overarching framework for mergers

- 6.7 The white paper states that reducing the number of authorities via mergers avoids many of the complexities associated with reviewing boundaries, and that *'We do not believe there is sufficient time to develop, plan and legislate for a full programme of mergers before the next National Assembly elections in 2016'*.<sup>28</sup>
- 6.8 Whilst CIPFA agrees that mergers raise fewer complexities and challenges, and that timing is a challenge, we believe that the proposals for initial voluntary mergers could expose taxpayer funds to some risk unless accompanied by a clear overarching strategic direction for the future shape of local government. This appears to be supported by the recommendation from the Commission on Public Service and Governance, which refers to a 'programme' of voluntary mergers.<sup>29</sup>
- 6.9 In particular early decisions by some authorities to merge voluntarily may consequentially limit the merger options subsequently available to authorities which participate in the process in the latter stages. This may result in a sub-optimal outcome when viewed from a wider perspective.
- 6.10 A clear overarching strategic framework, against which voluntary mergers could be assessed, would mitigate the risk that voluntary mergers may not be those

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<sup>26</sup> Wales Audit Office, [Meeting the Financial Challenges Facing Local Government in Wales](#), January 2014

<sup>27</sup> Welsh Government, [Devolution, Democracy and Delivery White Paper – Reforming Local Government](#) 8 July 2014 (para 109)

<sup>28</sup> Welsh Government, [Devolution, Democracy and Delivery White Paper – Reforming Local Government](#), 8 July 2014.

<sup>29</sup> [Commission on Public Service Governance and Delivery Report](#), January 2014 9(para 3.118)

which deliver the best solution. It could also decrease the uncertainty for those authorities which do not choose to undergo voluntary mergers as the proposed 'map' of mergers in the white paper may change as a result, leaving some councils unsure of their future.

- 6.11 To expedite the merger process, the suggestion of the Commission that local authorities could *'begin to align their structures and operations in advance of their merger; and to make joint rather than separate appointments where appropriate'*<sup>30</sup> could be followed. As long as these alignments followed the overarching plan for mergers, then this would enable authorities to begin the process of merging and realising some of the associated gains sooner.
- 6.12 We note that the white paper refers to changes to Local Service Boards (LSBs) under the Future Generations Bill, in particular the intention to place them on a statutory basis.<sup>31</sup> However, it is unclear how they are proposed to fit into the arrangements for restructuring local government. CIPFA considers that this presents a potential disconnect, as LSBs will clearly be impacted on by local government restructuring. The role of LSBs should be considered early in the restructuring process and incorporated into an overarching plan for potential mergers.
- 6.13 We also consider that it would be prudent to consider again the findings of the Simpson Review<sup>32</sup> and to build upon these as part of the restructuring process, thus helping to reconsider the relationship between the state and the individual and at what level services are best delivered.
- 6.14 In the current environment the costs of structural reform of local government should not outweigh the benefits gained. This applies in both financial and non-financial terms. CIPFA therefore suggests that it is important that the overarching strategy and criteria for voluntary mergers includes a cost/benefit evaluation. The benefits envisaged should be clearly stated to ensure that they are fully realised in practice.

### **Restructuring and outcomes**

- 6.15 The Commission on Public Service Governance and Delivery recommended that there should be a *'programme to review outcome by outcome how services could best be re-designed to achieve national key priority outcomes'*.<sup>33</sup>
- 6.16 CIPFA considers that such a programme should be built into the Welsh Government's plans for restructuring local government and the future of service delivery, in order that opportunities are not missed in the process which may

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<sup>30</sup> [Commission on Public Service Governance and Delivery Report](#), January 2014 (para 3.118)

<sup>31</sup> Welsh Government, [Devolution, Democracy and Delivery White Paper – Reforming Local Government](#) 8 July 2014 (para 54)

<sup>32</sup> [Local, Regional, National: What services are best delivered where?](#) 2011

<sup>33</sup> [Commission on Public Service Governance and Delivery Report](#), January 2014 (para 4.130)

result in better delivery of outcomes, both local and national. The national performance measurement framework should incorporate an assessment of progress on this basis.

#### **6.17 CIPFA recommends:**

- **The Welsh Government focus on developing strong leadership and culture change across public service delivery organisations as a means to secure effective change.**
- **The Welsh Government should have an overarching transparent strategy against which voluntary mergers, including the related costs and benefits, can be assessed.**
- **The recommended strategy should consider the role of LSBs within the restructuring of local government and should also consider and build upon the findings of the Simpson Review.**
- **Local authorities should begin to collaborate on aligning structures and operations, as suggested by the Commission on Public Service and Governance, as long as such alignments are in agreement with the overarching plan.**
- **Proposals for restructuring should be informed by a review of how service delivery should be redesigned to achieve priority outcomes. These should be reported on in the national performance framework.**

## **7. FUNDING LOCAL GOVERNMENT**

### **Arrangements for financing local government**

- 7.1 In Wales, central government funding still includes a significant proportion of specific grant. The Welsh Government has committed to reducing the number of specific grants to local authorities together with a move towards accountability for delivering government priorities through Outcome Agreements.<sup>34</sup> A review of funding flexibilities for local government has also been commissioned.<sup>35</sup>
- 7.2 The Commission on Public Service Governance and Delivery<sup>36</sup> recommended that *'funding arrangements must be simpler and focused on outcomes'*.<sup>37</sup>
- 7.3 CIPFA agrees with the Commission that the current system of local government funding does not support the delivery of better outcomes, and have previously

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<sup>34</sup> Welsh Government, [Outcome Agreements](#)

<sup>35</sup> National Assembly for Wales, Finance Committee, [Welsh Government's response to scrutiny of the Draft Budget 2014-15](#), December 2013

<sup>36</sup> Welsh Government, [Commission on Public Service Governance and Delivery](#)

<sup>37</sup> [Report of the Commission on Public Service Governance and Service Delivery](#), January 2014

suggested that in order to deliver better outcomes across the public sector a more holistic means of funding public services should be considered.<sup>38</sup>

- 7.4 The existing arrangements for local government funding may have been largely driven by central control at the UK level, and more recently influenced by the continuing austerity agenda and its impact on local funding. However, the reform of local government and wider public services in Wales as a result of the Commission's report, as well as constitutional changes throughout the devolved administrations presents the opportunity to reconsider the nature of local democracy.
- 7.5 In England, CIPFA and the Local Government Association (LGA) have formed an independent commission to consider local government funding.<sup>39</sup> The commission will produce impartial, balanced advice on how best to ensure that the funding system for local government can move towards a settlement that is fair, locally accountable and sustainable in the long term. Many of the reasons for the introduction of the independent commission are also relevant to Wales. It is likely that the emerging messages from the work of the commission will be of direct interest to both the Welsh Government and to local authorities.
- 7.6 In relation to the link between local taxation and accountability the COSLA Commission on Strengthening Local Democracy<sup>40</sup> concluded that, in Scotland: *'The most singular limitation on local democratic choice identified by the Commission is the lack of fiscal powers at local level. This seriously limits the tax and spend choices available to local citizens, and with no real choice available to communities, it also holds back their participation'*.

### **Funding and local accountability**

- 7.7 CIPFA considers that whilst much attention in recent years has focussed on alternative systems of local taxation, there continues to be a need to provide a means of promoting local accountability and increasing flexibility for local spending decisions, and of incentivising local public bodies to promote investment in their local areas, and further grow the local economy for the benefit of all.<sup>41</sup>
- 7.8 The Layfield Report<sup>42</sup> contributed much to the debate on local accountability of local government, concluding that this had been weakened by the tendency for government grants to grow when compared to the contribution from local taxation. The Layfield view was that tax raising and spending together guarantees accountability.
- 7.9 Locally raised revenues provide one of the direct links from taxation to service provision, which makes local government directly accountable to its citizens. The

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<sup>38</sup> [The Commission on Future delivery of Public Services A Joint Submission by: The Chartered Institute of Public Finance and Accountancy & The CIPFA Scottish Directors of Finance Section](#), March 2011

<sup>39</sup> Public Finance, [CIPFA and LGA to launch local government finance commission](#), 23 January 2014

<sup>40</sup> COSLA Commission on Strengthening Local Democracy, [Effective Democracy: Reconnecting with Communities](#), August 2014.

<sup>41</sup> [CIPFA & Directors of Finance Joint Response to A Fairer Local Tax for Scotland](#)

<sup>42</sup> Committee of Enquiry into Local Government Finance Local Government Finance 1976. HMSO

higher the level of tax autonomy, the more incentive to ensure best value in use of taxpayer's money. We consider that local taxation is levied specifically to contribute to the delivery of local public services. This simple and central purpose ensures the link between local democracy and local accountability. The conditionality of elements of grant funding therefore distorts the balance of accountability and raises the question of who local government is accountable to, central government or local taxpayers.

### **Accounting for the true cost of local government services**

7.10 CIPFA considers that accountability is wider than just the level of taxation set, and funding provided by central government. Proper accountability should also focus on the actual level of resource used in public service delivery, which may be more or less than the actual level of income.<sup>43</sup>

7.11 The way in which the Welsh Government determines the funding requirement for local government, and the way in which budgets are set differ from the manner in which local authorities are required to account for their financial performance. The budget framework is determined by legislation, whereas financial reporting is based on internationally recognised professional accounting standards. Traditionally the financial reports have not been utilised to inform local government performance, decision-making or the required level of funding.

7.12 CIPFA therefore considers that there is opportunity for a different focus on accountability, which enables the true cost of services to be recognised.<sup>44</sup> This could inform funding decisions, and provide clear information on the inter-generational impact of local spending decisions.

#### **7.13 CIPFA recommends:**

- **That proposals for local government reform are accompanied by a review of the current approach to resourcing local government in Wales.**
- **This review should consider the proportion of resources which can be raised locally; as part of this:**
  - **Responsibility for, and control of local taxation should sit clearly at the local level; and**
  - **The level of resources raised from local taxation should promote accountability to local citizens for local choices and incentivise growth of the local economy, attract investment and deliver positive outcomes for the local area.**
- **As part of a revised system of funding there should also be consideration of the actual cost of services as shown by the financial statements of local government, to help inform funding decisions, and the sustainability and stability of local government finances in the future.**

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<sup>43</sup> As illustrated for local government in Scotland in [CIPFA submission to the Commission on Strengthening Local Democracy](#), December 2013