

From Firefighting to Future-proofing – the Challenge for Welsh Public Services

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Mae'r ddogfen hon hefyd ar gael yn Gymraeg.

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Introduction

- 1 As Auditor General, I am entirely independent of government. I am also in the privileged position of being the external auditor of most of the devolved Welsh public sector. Though public bodies must make their own decisions about how they manage their affairs, audit work provides early warning of problems arising, highlights opportunities for improving value for money, and supports good governance and financial management.
- 2 Welsh public services face enormous financial, demand and workforce pressures. Taking this as my starting point, this article draws on the work of Audit Wales to reflect on the way our public bodies are governed and managed, the importance of minimising losses through fraud and error, the complexity of the public service landscape, and challenges around workforce capacity, digital transformation, and planning for the long term. It emphasises too the need more than ever to ensure value for money in public spending.
- 3 Our work shows that by addressing these themes, government and public organisations could achieve more with what they already spend. Quite how much will depend on the extent to which bodies prioritise the issues I identify. I am convinced, however, that they would amount to a material contribution to the financial challenge faced by our public services. They are also essential if we are to see a shift from relentless firefighting of today's immediate challenges to the delivery of sustainable public services that are fit for the future.



Adrian Crompton

Auditor General for
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The financial outlook for public services

Welsh Government budget pressures in 2023-24

- 4 This year has seen high inflation erode the Welsh Government's spending power. Public sector pay rises have been a significant factor. Construction price inflation and higher interest rates have hit capital programmes for infrastructure investment. Higher demands, including pent-up demand from the pandemic and widening inequality, are adding to the pressure on many frontline services.
- 5 In response, the Welsh Government has identified savings across departmental budgets, acknowledging that some of these have likely negative impacts¹. It has also drawn on its reserves, planned for use of consequential funding expected from the UK government, and requested a switch in funding from capital to revenue.
- 6 While these steps may ease some immediate pressures, they are unlikely to be a sustainable strategy for managing expenditure over the longer term.

Looking to 2024-25 and beyond

- 7 The Welsh Government's draft 2024-25 budget allocates £26.4 billion, up from £25.2 billion in 2023-24².
- 8 In real terms, day-to-day revenue funding is 0.4% higher than this financial year. The capital budget is 1.7% higher. In October 2023, the Welsh Government swapped some of its capital spending to revenue. Without that swap, there would have been a real-terms reduction to capital in the 2024-25 budget and a larger increase in revenue.

1 Welsh Government, [Update on 2023-2024 financial position: summary of main changes](#), October 2023

2 Welsh Government, [Welsh Government draft budget 2024-25](#), December 2023. The figure for 2023-24 reflects the changes made by the Welsh Government on 17 October 2023.

- 9 Beneath the headline figures, the draft 2024-25 budget indicates:
- an 8% real-terms increase to the health and social care revenue budget³ compared to the budget originally set for 2023-24. The budget statement in October allocated an additional £425 million to the NHS in 2023-24. Compared to that revised position, the real-terms increase is 2.6%.
 - other than health and social care, every Welsh Government main expenditure group budget sees a real-terms decrease in revenue compared to the October reset position for 2023-24.
 - within the budget for finance and local government, we calculate the Welsh Government has increased core funding to local authorities by 1.4% in real terms.
 - the rural affairs budget sees the largest real-terms revenue cut, falling by 10.5% compared to the October reset position for 2023-24.
- 10 Indicative UK Government plans beyond 2024-25 point to continued constraint. However, the position for Wales will depend on whether the UK Government stays on the same course after the general election and how its spending priorities affect the Welsh Government's budget through the Barnett formula.

The picture across the sectors we audit

- 11 Financial pressures affect all organisations involved in public service delivery, including our further and higher education institutions and the third sector. My remit provides me with a closer view of the impacts for the organisations whose accounts I audit across the NHS and local government, and in central government.

3 The health and social care allocation does not include the vast majority of funding for social care, which the Welsh Government allocates separately through the core funding for local government.

The NHS

- 12 The NHS is the largest single area of spending, accounting for more than half of the Welsh Government's revenue budget. Nevertheless, I have noted previously that spending on health in Wales relative to England has never matched the higher levels of need in Wales, nor the higher levels of funding Wales receives to support devolved services.
- 13 The NHS faces significant cost and demand pressures, including from a growing population of older people, medical advances and waiting list backlogs that were worsened by the pandemic. At the end of 2022-23, six of the seven health boards failed to meet their statutory duty to break even over a three-year period. The overall picture across NHS Wales was a £150 million deficit, compared with a £47 million deficit in 2021-22. Our NHS finances data tool provides more detail⁴.
- 14 In October 2023, the Welsh Government allocated an additional £425 million to help manage in-year pressures. However, the current in-year picture points to there still being a deficit in 2023-24, with six of the seven health boards working to 'controlled' year-end deficits that total £123 million. Their forecasts indicate that even achieving those control totals will be very challenging, and for some unlikely.
- 15 The situation has prompted a renewed national focus on efficiencies, value and sustainability with an expectation that financial opportunities identified by national workstreams will be delivered locally by NHS bodies. The extent to which this will happen remains to be seen. Recent years show a mixed picture of success in delivering against savings plan targets.
- 16 Despite a real-terms budget increase for 2024-25, without sustained improvement in productivity the NHS will struggle to make significant progress in key areas such as tackling waiting list backlogs. A particular challenge will be access to capital funding to secure necessary improvements to the NHS estate. Data from NHS Wales Shared Services Partnership recorded a total backlog maintenance figure of £793 million across all NHS bodies in 2022-23.

4 Audit Wales, [NHS Wales Finances Data Tool](#), updated September 2023 for data to 31 March 2023

Local government

- 17 For over a decade, we have pointed to the growing pressures in local government. Some service areas have experienced significant real-terms funding reductions already over that period, while long-standing trends in demand in areas such as social care and housing have exacerbated the funding position.
- 18 One indicator of financial resilience is the level of reserves councils have to weather the pressures. The level of usable reserves at the end of 2022-23 was significantly higher than before the pandemic. At the end of March 2020, the usable reserves held by councils totalled approximately £1.1 billion. By the end of March 2022, the figure was approximately £2.1 billion and £2.0 billion at the end of March 2023.
- 19 As I have commented on previously, some councils are better placed than others to respond to the financial challenges ahead. At the end of March 2023, councils' usable reserves⁵ varied considerably, with the highest as a proportion of the net cost of services delivered being 40% and the lowest 12%. The latest update to my Local Government Financial Sustainability Data Tool provides more detail⁶.
- 20 We are also beginning to see the impact of cost pressures on school balances. While school reserves overall increased significantly during the pandemic, they reduced by around 31% between March 2022 and 2023, from £301 million to £208 million⁷. However, overall school balances remained significantly higher than pre-pandemic levels, which were £32 million at the end of March 2020.
- 21 Both the Welsh Local Government Association⁸ and Cardiff University⁹ have projected significant funding gaps for local government for both 2024-25 and beyond, based on current demand and funding trajectories.

5 We define usable financial reserves as reserves usable for revenue costs, where the purpose is not protected by law. This is the total of the general fund, earmarked reserves and schools' balances. It excludes Housing Revenue Account reserves, capital receipts and capital grants unapplied.

6 Audit Wales, [Local Government Financial Sustainability Data Tool](#), updated January 2024 for data as at 31 March 2023

7 Welsh Government, [Reserves held by schools](#), updated October 2023 for data as at 31 March 2023

8 Welsh Local Government Association, [Resourcing local services 2024-25](#), December 2023

9 Wales Fiscal Analysis, [The medium term fiscal outlook for local government in Wales](#), October 2023

- 22 In England, Section 114 notices¹⁰ have been issued in several councils in recent years and more may be issued this year. The situation in Wales still compares favourably, however, the risk of a Section 114 notice being issued in a Welsh council inevitably increases in 2024-25 and beyond unless there is a significant change in the funding outlook.

Central government bodies

- 23 The central government bodies I audit vary in size and activity. The Welsh Government itself is looking to reduce running costs, including a 9% real-terms reduction in the budget for staff costs compared to the budget set for 2023-24.
- 24 Bodies in the culture sector face an obvious challenge. For Arts Council of Wales, Sport Wales, Amgueddfa Cymru – National Museum Wales, and the National Library of Wales, the draft budget sets out real-terms revenue cuts of between 8% and 11%. These cuts come on top of funding reductions in earlier years. The budget shows an even bigger 21% real-terms revenue reduction for Cadw, which looks after heritage sites and is part of the Welsh Government.
- 25 Some bodies are likely to pass reductions on to the external organisations they fund, with impacts for local communities. Ultimately, the scale of reductions may necessitate hard questions about priorities and whether they can sustain services at a level to fulfil their functions effectively.

10 Under the Local Government Finance Act 1988, a Council's chief finance officer must issue a Section 114 notice in given circumstances, including if it appears to them that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure. This has the effect, among other things, of placing restrictions on new expenditure. It also usually means that a council is likely to seek significant cuts to expenditure, and therefore potentially services, to restore its financial position.

Responding to the challenge

The cost of failure in governance and financial management

- 26 On occasion, I have cause to report on weaknesses in financial management and governance, including most recently at Amgueddfa Cymru – National Museum Wales and in Betsi Cadwaladr University Health Board. What is always striking in such cases is the high cost of responding to the underlying issues.
- 27 Some of this cost is more readily identifiable, for example, hundreds of thousands of pounds or more spent on legal services or consultancy. Add to this the thousands of hours of lost time taken up by the issues within the bodies concerned or across other organisations, including costs involved in public accountability through the audit process, wider scrutiny and, where relevant, government intervention. But perhaps the biggest detrimental impact is how these issues can deflect organisations from their core objectives and services to the public.
- 28 As financial and human resources become stretched, the risk of governance and/or other service failings increases. This is not just about systems and processes; it is also about behaviours and the importance of demonstrating a clear commitment to the Nolan principles of Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty, and Leadership. These should guide the behaviour of all in senior positions of authority and influence.
- 29 Where standards slip, further costs will follow, along with an erosion of public trust and confidence. Every time the public see the kind of behavioural and governance failures I have reported on, their trust in those leading our public services is damaged. That, in turn, makes it harder to win public support where more radical changes need to be made.

Tackling fraud and error

- 30 While the debate about public finances often focuses on spending cuts and/or raising taxes, relatively little is said about fraud and error. Yet it continues to be a blight on public services. The Public Sector Fraud Authority estimates there is at least £33 billion of UK taxpayers' money (including tax and welfare) subject to fraud and error every year.
- 31 The opportunities are significant, therefore, if there is the will to pursue them. Moreover, if those looking to commit fraud sense a lack of vigilance from organisations, the risks could increase. We have seen, for example, where extra time and effort following up on checks relating to business support during the pandemic has borne fruit.
- 32 I fear it is too easy for public bodies to think of their investment in counter-fraud work as a luxury rather than a necessity amid other pressures. Our own work in this area includes facilitating the National Fraud Initiative (NFI) in Wales – part of a UK-wide data sharing and matching exercise. While most NFI participants display a strong commitment to the exercise, some appear not to recognise its importance or are unwilling to allocate the necessary resources to investigate matches.
- 33 Other data matching work that we have undertaken on community pharmacy also raises questions about whether fraud and error risks are getting the attention they deserve.

The complex public service landscape

- 34 In 2018, my predecessor reflected that 'for a country the size of Wales, the complex organisational structure of public services hampers co-ordinated service design and efficient delivery'. More than five years on, and ten years since the 'Williams Commission' highlighted similar concerns, the landscape has become even more complex.
- 35 We have seen more bodies created, and new legislation that impacts on how public bodies plan and deliver services. As our previous work has shown¹¹, these changes do not always align or reflect the practical and capacity realities of implementation.

11 Auditor General for Wales, [Better law making: the implementation challenge](#), September 2020

- 36 I recognise that there will be positive intent behind the creation of new stand-alone bodies or additional legislative requirements. However, these come at a cost. For stand-alone bodies, that includes the overheads that go into running organisations and the accountability framework in which they operate. In some cases, those overheads are a substantial proportion of bodies' overall operating expenditure.
- 37 Amid continued financial pressures, it is essential to ask whether the landscape of public services in Wales and the expectations placed upon them is sustainable. Whatever landscape exists, those responsible for it must demonstrate that it is providing good value for money for citizens. This includes getting the best from new ways of working as some bodies look increasingly to UK government managed programmes, alongside funding from the Welsh Government, to support delivery of their objectives.

The workforce of the future

- 38 Last year, the Welsh Parliament's Finance Committee described the public sector workforce as '...embattled, under-resourced and under too much pressure'¹². I recognise this picture from our own audit work.
- 39 We see public bodies facing increasingly stiff competition for often scarce skills. In the NHS, we have highlighted high turnover and an increasing reliance on typically more expensive temporary staff that are only adding to the financial pressure. We have seen marked turnover in senior positions at some public bodies since the peak of the pandemic and challenges for recruitment at those levels too. And as new generations enter the public service workforce, and hybrid working becomes the norm for many, public bodies are learning how a more flexible employment model affects productivity and employee engagement.
- 40 As much of the work of Audit Wales shows, there must be focus on long-term workforce planning across sectors and professions. However, simply imagining the workforce of the future is not enough. It must be backed up with concerted action to invest in and incentivise careers in public service. In the meantime, public bodies need to work together to make best use of existing capacity and expertise.

12 Welsh Parliament Finance Committee, [Scrutiny of the Welsh Government Draft Budget 2023-24](#), February 2023

Upping the bandwidth on digital transformation

- 41 Technology already exists to transform service delivery, reduce costs and improve the user experience. As our work often shows, however, this requires replacement of antiquated IT systems, improvement in the quality and shareability of data, and recruitment and retention of scarce skills in high demand.
- 42 I am concerned, therefore, about the overall pace of progress in harnessing digital technology to improve public services. The financial pressures I have already described present challenges for digital investment, even though such solutions should result in more efficient or effective services.
- 43 Alongside contractual difficulties and delays with some ICT projects, we are not always seeing clear evidence that significant investment in new systems is reaping the intended rewards.
- 44 For all its potential benefits, our increased reliance on digital systems also leads to increased risks. We have seen this in learning we have shared with public bodies from recent cyber-attacks in Wales and elsewhere. Much as with counter-fraud, our audit work on cyber resilience has discovered variable priority and practice. Public bodies need to recognise the potentially devastating impacts of a cyber incident and plan accordingly, with small organisations no less of a target.
- 45 Spending on infrastructure and systems also needs to be balanced with work to tackle digital exclusion. Without this, we risk creating a two-tier society when it comes to access to public and other services.

Zeroing in on the sustainable development principle

- 46 The Well-being of Future Generations (Wales) Act 2015 provides a framework to help public bodies address complexity and break cycles of short-term decision making. The Act's 'sustainable development principle' requires that public bodies balance what they need to achieve today with what they and future generations need to achieve in the future. If they do not, they risk reducing wellbeing and increasing costs over the long term.
- 47 We are seeing examples of public bodies understanding what the Act requires and acting more in line with the sustainable development principle. But long-term planning remains a challenge for many, linked in part with issues around the degree of certainty in budget setting even for the medium term.
- 48 Where bodies are planning further ahead, we are not always seeing a clear assessment of financial resources that may be required to achieve their stated objectives and the prospect of those resources being secured. For example, we have emphasised previously that public bodies need to get a stronger grip on how investment in decarbonisation will be supported¹³.
- 49 Fundamentally, public bodies are still struggling to demonstrate a shift in resources towards prevention amid short-term pressures. Some existing systems of accountability incentivise narrow or short-term thinking. This needs to change if Wales is to realise the ambitions of the Act and avoid higher costs in the future.
- 50 By way of example, in its draft 2024-25 budget the Welsh Government recognises that it has not been able to fund some preventative health policies as originally planned and in line with demand. It acknowledges that this could 'impact the capacity of prevention services such as smoking cessation, weight management and exercise support'.
- 51 Another example lies in how public bodies manage their asset base. Changing ways of working affect long-term estate requirements. This opens the door to running cost and carbon emission reductions, additional income streams, capital gains from disposals, and opportunities to support wider regeneration objectives. Nevertheless, the asset base of public services and its associated cost remains significant, and the sort of maintenance backlog I referred to previously for the NHS is simply storing up problems for the future. Concerns about the concrete used in some of our public buildings similarly highlight the importance of maintenance and renewal of the public estate as a component of overall efficiency.

Putting value for money to the test

- 52 While audit work can examine value for money, auditors cannot be everywhere. The accountability for considering value for money rests with public bodies and their senior decision-makers.
- 53 Consistent with the sustainable development principle, public bodies need to consider value for money with a broad perspective that recognises possible costs and benefits in the round and in the interest of the long-term wellbeing of the communities they serve. But they must also strike an appropriate balance between analysis and paralysis, being prepared to demonstrate the sort of well-managed risk taking that my predecessor often emphasised.
- 54 Setting clear, measurable outcomes at the outset of key projects and programmes, combined with effective monitoring and evaluation, provides the basis for assessing whether value for money has been achieved. Evidence from that monitoring and evaluation should inform future decision-making. Taxpayers have a right to see that evidence too, through improved public reporting.
- 55 While we are living in an increasingly data-driven age, my audit work continues to highlight weaknesses in these arrangements on an all too frequent basis. I am concerned that financial and capacity constraints will lead public bodies to cut corners even further in their appraisal of spending decisions and in their work to monitor and evaluate the impact of that spending. That would be a clear false economy.

From firefighting to future-proofing

- 56 We see every day how public servants work tirelessly to deliver services on which we all rely. But the long-term sustainability and affordability of current services and policy commitments are being tested.
- 57 Investing now to address longer-term issues – including the net zero agenda, the impact of demographic change, and inequalities in our society – will be hugely challenging when the purse strings are tight. But it is essential if public services are to escape from a spiral of short-term firefighting. Public bodies need to ensure they are maximising long-term value from their spending while bearing down on avoidable costs in the here and now.
- 58 We cannot rely on the way things have been done in the past to future-proof our public services and, if starting from a blank sheet, we would be unlikely to design things the way they are. It will require a bold vision to reimagine what public services might look like and courage, drive, and a long-term commitment to implement change.
- 59 Doing things differently will also require the confidence and trust of the public. Ensuring a strong focus on standards of governance and financial management, transparency around decision making, and the standards of behaviour the public has a right to expect, are therefore essential. I will continue to shine a light where that is not the case, and where I see opportunities to improve value for money for the benefit of all in society.
- 60 I hope that this article highlights themes that can help the public sector achieve more with the money it spends and enable a shift to more sustainable public services. I hope too that it assists the Senedd in exercising its vital parliamentary functions to hold the Welsh Government to account and to scrutinise its policy, budgetary and legislative proposals.



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