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Mr Nick Ramsay AM
Chair, Public Accounts Committee
National Assembly for Wales
Cardiff Bay
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Dear Nick,

Auditor General for Wales: valedictory reflections

As you are aware, my last day in office as Auditor General for Wales will be Friday 20 July 2018.

As I approach the final weeks of my tenure, I thought that it might be helpful to the Public Accounts Committee if I were to set down in writing some 'valedictory' reflections and observations on my eight-year term of office, and offer my personal perspective on the challenges, risks and opportunities facing all those who strive to improve the governance, scrutiny and delivery of public services in Wales.

I shall be very happy to expand on the contents of this letter when I appear before the Committee to give oral evidence at its 16 July meeting.

The challenges facing public service delivery in Wales

Brexit presents both risks and opportunities for Welsh public services

A key part of the challenge facing Welsh public services, and indeed the Welsh economy more generally is the, as yet unclear, impacts of Brexit. The UK's upcoming departure from membership of the European Union poses a massive range of risks and opportunities, many of which are, as yet, either unknown or incompletely understood.

The terms of Brexit itself, both in the transitional period and in the eventual 'steady state' of our new relationship with the European Union are likely to remain unclear for some time yet. However, it is apparent that work is getting underway within the Welsh Government and many other public bodies across Wales to manage some of the more immediate challenges that the Brexit process and its continuing uncertainties are posing, notably in the area of workforce planning, albeit much of this is at an early stage. NHS Wales is, for example, developing plans to address a potential outflow of EU workers from the existing health workforce, and the Welsh universities are assessing how best to mitigate the potential loss of EU-funded research income that supports the employment of many academic and support staff.

Now that the Welsh Government and UK Government have reached an agreement on the constitutional implications of the EU Withdrawal Bill for the relationship between the National Assembly and Westminster, I am hopeful that this should help all parts of the Welsh Government

to turn their attention increasingly to the identification, assessment and management of the practical effects of Brexit on the people of Wales. My staff are currently preparing two related audit reports, for publication later this year, on how the Welsh European Funding Office and Welsh Government respectively are managing the EU Structural Funds and the Rural Development Programme in the context of Brexit.

The evolving constitutional arrangements in Wales provide opportunities for new thinking and doing things differently

The introduction of the 'reserved powers' model for the devolution settlement under the Wales Act 2015 is having an increasing effect on Welsh administration and politics.

The Welsh Government has taken on responsibility for elements of fiscal policy and the Welsh Revenue Authority commenced operations in April. The National Assembly now has the power to legislate to create new taxes, and the introduction of the Welsh Rate of Income Tax (WRIT) from April 2019 has the potential to generate a very different type of policy debate between the political parties who will be contesting the 2021 Assembly elections.

The Welsh Government has also gained substantial capital and revenue borrowing powers for the first time, and it is looking at options to introduce various forms of innovative finance. It is also finalising the extent of its new powers in the transport sector (notably on rail franchising).

All of these enhancements of the powers of the National Assembly and the Welsh Government introduce greater complexity and challenge for policy-makers and legislators alike, but they also pose opportunities to do things differently in a way which works for all of the people of Wales.

Both austerity and rising service demands are placing increasing strains on the Welsh public finances

Throughout my term of office as Auditor General, the over-riding challenge that has faced all public bodies in Wales has been the need to grapple with the impacts of sustained austerity against a backdrop of rising demand for public services. This has been most notable in health and social care, where the demographic pressures posed by an aging population, coupled with advances in medical technology and significant rises in drug costs etc have continued to place ever-increasing demands on NHS Wales, on our local authorities and also on the third sector. I have covered many of these issues in some detail in my 'Picture of Public Services' reports, in 2011¹ and again in 2015².

The Westminster Government's approach to the UK's public finances has resulted in reductions in the Welsh block of around 10.5% in real-terms since 2010, and this has posed some very significant challenges for the Welsh Government in its annual budget-setting process. The share of the Welsh revenue budget allocated to healthcare has risen from 43% to 49% over the last eight years, and such a continuing trend poses significant challenges for the Welsh Government and the sustainability of non-NHS services in Wales.

Part of the response across the Welsh public service to the pressures generated by austerity, in common with the rest of the UK, has rightly been an increased focus on driving efficiency improvements in service delivery. This has helped mitigate some of the effects of annual budget reductions, but there does come a point beyond which further marginal efficiency gains start to diminish, unless either the quantum or quality of service delivery are also reduced. Any such reductions will invariably impact on citizens and may well impact more heavily on those who are

most vulnerable. Public services in Wales therefore need to think more radically about how services are delivered, with a focus on outcomes rather than structures.

For a country the size of Wales, the complex organisational structure of public services hampers co-ordinated service design and efficient delivery

In my view, what has been conspicuously absent so far across the Welsh public service has been a cohesive response to austerity and rising demand pressures that goes beyond the traditional sectoral-based tactics of economy and efficiency. I believe that there are real opportunities to reshape services and re-design delivery models in ways which enable genuine transformation and place the citizen at the centre, through working collectively in ways which transcend our inherited organisational structures. Done well, such joined-up thinking, planning and partnership working can deliver cost-efficient, sustainable and higher quality outcomes for service users. Successful implementation of the Well-Being of Future Generations Act 2015, embodying the five ways of working, will be one of the keys to success here, and my recent 'Year 1' commentary report³ on the implementation of that Act identified several promising examples of emergent good practice across Wales for others to draw on.

In the past, the debate on doing things differently, whether in health or local government, has generally concentrated on structural changes which have promised much, but which all too often have delivered only in part. Whilst some reforms of public bodies have delivered, too many have simply repackaged the existing problems and people within new sets of organisational boundaries.

There are of course many examples of well-intentioned change. One of these has been the creation of the four regional education consortia, to deliver improvements across schools. This can be viewed as a reasonable approach to tackling issues that prevent children reaching their full potential, and may provide better resilience in the system. However, at present the consortia are adding to the complexity of the picture, rather than necessarily streamlining planning and delivery, as the 22 unitaries have retained their statutory responsibility for these services. I would add that I find it remarkable that our education services are delivered separately by 22 unitary authorities serving a population of 3.1 million people whereas, for example, Kent County Council delivers those same services to a population of 1.5 million people.

In recent years, Wales has certainly not found itself short of diagnostic reports by myself and others (such as the Williams Commission⁴) which clearly set out the nature of the systemic problems that need to be fixed – and these are generally now well understood. But I find myself both frustrated and increasingly concerned that the many clarion calls for action that Wales has heard over the last decade or so have not yet generated the tangible changes that are now urgently needed, and that we have not used devolution as an opportunity for fundamental rethinks.

I shall be watching developments over the next few years with keen interest, and hoping that the right lessons are learned from the many previous reorganisations of health and local government bodies across Wales. Whatever the eventual organisational footprint of local government may be, I strongly believe that the key to the desired 'transformational' change in public service delivery will be effective partnerships and collaboration, underpinned by clear and robust governance and accountability arrangements

Conflicting priorities and the existing focus on short-term thinking risk compromising the health and well-being of future generations

Whilst many public bodies have taken conscious decisions to scale back on their activity levels, these have often been driven by short-term financial imperatives at the expense of other considerations such as long-term preventative approaches. The reductions have also tended to fall in those areas of service delivery that are discretionary or non-statutory, such as library and parks facilities. Rationing of service supply, either on a 'first come, first served' or other basis, has also been used as a measure to avoid over-spending. However, all too often this can lead to either the shunting of cost pressures between public bodies (for example from the care sector back into the NHS, via bed-blocking in wards) or, in the case of delays in treating worsening health conditions, to increased overall treatment costs and potentially adverse clinical outcomes.

Earlier this month, the Welsh Government published 'A Healthier Wales: our Plan for Health and Social Care'⁵, as its response to the Parliamentary Review of Health and Social Care⁶. It appears to me that implementation of the various actions set out within 'A Healthier Wales' will pose some very real challenges to entrenched attitudes and ways of working across all parts of NHS Wales. Its success will also depend on both politicians and the public being willing to accept and support new and transformative approaches to service design and delivery. I am encouraged to see that the Welsh Government has not shied away from the Parliamentary Review's call for actions to be undertaken at pace, and that there are some challenging delivery targets and milestones within the action plans.

The importance of independent public audit in supporting effective scrutiny of the executive

Since taking up my post in 2010, I have consistently expressed my support for 'well-managed risk-taking'. Too often in the past, we have all seen reluctance amongst the leaders of public bodies to pioneer new ways of working – both within their organisations and across sectoral boundaries. A fear of scrutiny and criticism has been allowed to permeate executive teams, and an over-cautious mind-set (often expressed as 'the auditor wouldn't like it..!') has possibly held back much-needed improvements and innovations in service delivery. Such misguided fears have on occasion been cited to me as an excuse for inaction and the maintenance of the status quo.

I have been very clear throughout my tenure as Auditor General that whilst independent public audit most certainly has a key role in supporting effective local and national democratic scrutiny by challenging and **holding to account**, it also must play an equally important part in **providing insight** and thereby **supporting improvement**. Whilst I have never held back from the need to 'speak truth to power' (and have sometimes felt like Thomas Becket when doing so), my most critical audit reports have been relatively rare and issued only when I have thought it absolutely necessary. These have tended to relate to poor governance, such as:

- My 2011 Special Inspection Report on Anglesey County Council⁷, which resulted in commissioners being sent in by the Welsh Government to take over the operations of an entire local authority for the first time in the UK;
- My 2012 report on AWEMA⁸ which, together with several other critical audit reports, prompted wholesale changes to the Welsh Government's management of its £2.6 billion annual grants expenditure;

- My 2013 joint review⁹ with Healthcare Inspectorate Wales of the governance arrangements of Betsi Cadwaladr University Health Board, which was a precursor to that body being placed in Special Measures;
- My 2015 report on the Regeneration Investment Fund for Wales (RIFW)¹⁰, which sold public land at a significant undervalue and may have lost the taxpayer tens of millions of pounds; and
- Cardiff and Vale University Health Board's mismanagement of a consultancy contract, on which in 2017 I issued my first Public Interest Report¹¹ on an NHS Wales body.

However, effective parliamentary scrutiny requires more than simply an independent public audit function that tells it like it is - the National Assembly itself also needs the inherent capacity and capability to scrutinise both expenditure and legislation effectively. We in Wales are very well-served by the Westminster-style committee models and ways of working that the National Assembly has generally adopted. I am also pleased to note that my published audit reports are increasingly being used to inform the work of other committees of the Assembly, as well as by the Public Accounts Committee itself. An excellent recent example of this has been the Finance Committee's consideration of my two reports on fiscal preparedness, published in 2016¹² and 2017¹³. I hope that my 'Guide to Welsh Public Finances'¹⁴, which I will be publishing before I end my term as Auditor General, will similarly help other scrutiny committees – in the National Assembly and beyond – to carry out their roles in scrutinising budget decisions.

But ever since my membership of the Richard Commission¹⁵ in 2002-04, it has been clear to me that an increase in the number of Assembly Members is necessary in order for the Assembly itself to continue to be able to scrutinise the executive effectively. With the ever-increasing range of powers being devolved to Wales under the 2015 Act, most notably in tax-raising, innovative finance mechanisms and transport, I consider that the need for additional Assembly Members is now becoming acute, a point I stressed in my recent response to the Assembly's February 2018 consultation 'Creating a Parliament for Wales'.

One related area of concern for me is the way in which the Welsh Government has fallen behind the pace being set by Whitehall government departments in facilitating effective Parliamentary scrutiny, via the publication of timely and full performance information. The Welsh Government's 'Annual Report and Accounts' document published each summer has, to date, contained comparatively little information on its achievements against its strategic ambitions and performance measures. In contrast, the annual report and accounts of each UK government department includes a self-assessment of its annual performance against its objectives, which is then used by the relevant House of Commons select committee to inform its scrutiny of the department.

With the advent of fiscal and borrowing powers for the Welsh Government, I believe that more should be done to enhance transparency and to provide a more rounded picture of the Welsh public finances. I therefore repeat my previous call¹⁶ for the preparation and publication by the Welsh Government of an annual 'Whole of Government of Wales' account, to enable the National Assembly and its committees to gain a rounded appreciation of the collective income, expenditure, assets and liabilities of all devolved public sector bodies across the country. I note that my colleague the Auditor General for Scotland has made similar calls in recent years, and in my view her audit report on the Scottish Government's 2016-17 Annual Report and Accounts¹⁷ sets out a

clear and well-argued rationale (Note 1) that is equally applicable to Wales, and which would be entirely in keeping with the spirit of the Well-being of Future Generations legislation..

Turning now from the largest of the Welsh public bodies to the smallest, the 743 Town and Community Councils. Whilst many of these bodies spend only a few thousand pounds a year, collectively their reserves exceed £41 million. I have too often seen the conduct of officers and members falling below the high standards that the public has a right to expect.

In my latest national report on town and community councils¹⁸, my auditors identified that 81 councils did not meet the statutory timetable for submitting their 2016-17 accounts for audit. Of those, 21 had still not submitted their accounts five months after the deadline for council approval. For the same year, I qualified my audit opinion on the accounts of 175 councils. I am currently considering issuing several reports in the public interest where, for example, town and community councils have failed to submit accounts on a timely basis or have failed to register their employees for PAYE. The majority of councils do get this right, but too many still do not. In my view, a move to having fewer, larger community councils would create the capacity and capability that is necessary to deliver meaningful and well-governed services.

Enhancing the impact, efficiency and effectiveness of the Wales Audit Office

Finally, I should perhaps say a little about my leadership of the Wales Audit Office itself. From the outset, I have been hugely impressed by the energy, talent and commitment of its staff, and I am grateful to them all for the invaluable support that they have provided to me throughout my term of office. Indeed, being Auditor General has in many ways been the high point of my 48 years in public service.

Both I and the Board of the Wales Audit Office are acutely aware that we must indeed ‘practice what we preach’, in order for my audit recommendations to others to carry due weight and credibility. To that end, I have been pleased to oversee our delivery of significant year-on-year efficiency savings whilst both the quality and impact of our audit work has been maintained and enhanced. The effectiveness of our Good Practice Exchange¹⁹ in promoting public service improvement is highly valued by our audited bodies and is recognised as an exemplar internationally.

Indeed we have increasingly been flying the flag for Wales. Because of our size, audit offices in countries such as Kosovo and Malta find that they relate more easily to us than to larger countries and have looked to exchange experience with us. We have regularly contributed speakers at meetings of EURORAI and other international forums, as well as providing audit services for some smaller Commonwealth countries such as Anguilla.

Our 2017-18 audited accounts, laid in the National Assembly just ten weeks after the year-end, record that the gross operating cost of the Wales Audit Office in 2017-18 was just under £21 million. This compares with over £26 million in the year before I took up my post in October 2010, which equates to a real-terms reduction in operating costs of some 30 per cent during my tenure. With continued support from the Finance Committee, I remain very hopeful that changes to some

Note 1: See paragraphs 36-46 of this Audit Scotland paper, which articulate the case for a ‘Whole of Government of Scotland account’.

specific aspects of the Public Audit (Wales) Act 2013 can be made, supporting a drive within the Wales Audit Office for further cost efficiencies and potential real-terms fee reductions.

The introduction in 2014 of the Wales Audit Office Board, including two elected staff members, has undoubtedly helped in strengthening our governance, and we are currently making some significant changes in culture and working practices, including recent investments in data analytics, finance trainees and apprenticeships which promise well for the future. We have also taken great satisfaction from the results of our latest staff survey, which placed the Wales Audit Office in the top 10 per cent of UK public sector bodies as regards our level of staff engagement.

I should conclude these remarks by making clear that this letter represents my personal views as Auditor General, and not necessarily those of the Wales Audit Office. I am also keen to ensure that I do and say nothing in my final weeks that could be construed to fetter the statutory audit independence and actions of my successor – it will of course be for Adrian to determine his own programme of audit work, and I wish him every success as he commences his term of office. In doing so, I know that he will be able to count on the full support of your Committee, together with the Board and staff of the Wales Audit Office.

I am copying this letter to Simon Thomas AM, Chair of the Finance Committee.

Yours sincerely,

HUW VAUGHAN THOMAS CBE

Auditor General for Wales

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