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Auditor General for Wales



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The governance challenges posed by indirectly provided, publicly funded services in Wales

A discussion paper published by the Auditor General for Wales – presentation to EURORAI

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What is Wales like?

- Area 8,030 sq miles (20,779 sq km); 870 miles (1,400 km) of coastline.
- 7 UNESCO World Heritage sites; 3 National Parks; 5 Areas of Natural Outstanding Beauty; 540 beaches; 640 castles.
- 3 million people; distinct Welsh language and culture.
- Welsh Economy around £54 bn (€67 bn); Welsh exports to EU countries account for 61% of all exports (UK 50%).
- Unemployment rate is 3.8% (UK 4%), Weekly wages are 90% of UK average. Workplace Gross Value Added is 72.7% of UK average; Household income is 81% of UK average.
- Welsh Government established in 1999, but some powers retained by UK Government.
- Welsh public sector employs 293,000 people, 9.4% of population (UK 8.1%).

What is the Wales Audit Office?

- Auditor General's remit covers around £19 bn (€23.7 bn) of public money:
 - Welsh Government £14.95 bn (€18.67 bn), about half spent on health and social care.
 - EU £2 bn (€2.49 bn).
 - Non domestic rates £1 bn (€1.24 bn); council tax receipts £1 bn (€1.24 bn); and devolved tax revenue £288 m (€ 359 m).
 - 22 unitary local authorities and 10 health bodies, 11 Welsh Government sponsored bodies; 7 commissioners & regulators; 4 Welsh Government companies.
- Gives audit opinion on accounts, provides assurance, offers insight and promotes improvement by considering how Welsh public bodies are:
 - using public money for approved purposes (regularity).
 - conducting public business properly (propriety).
 - making arrangements to secure value for money (economy, efficiency, effectiveness).
 - setting and meeting well-being objectives under the Well-being of Future Generations (Wales) Act 2015.
- Wales Audit Office employs around 270 staff.

What is the discussion paper?

- A discussion paper, not a typical audit report and not a guide or a manual [<http://www.audit.wales/publication/discussion-paper-governance-challenges-posed-indirectly-provided-publicly-funded>].
- Intended to be neutral rather than judgemental.
- Draws upon evidence from previous WAO audit work.
- Intends to support improvement by promoting constructive debate.
- Supported the WAO Good Practice Exchange (GPX) programme throughout 2017-18:
 - February – paper publication.
 - April – first of a series of Webinars.
 - Autumn – workshop events in North and South Wales.
- Discussion paper has achieved impact. The Auditor General intends publishing similar ‘insight’ papers on other issues.

What does the paper look at? (1)

➤ Public expectations of good governance in relation to public money used by:

- public bodies to procure goods and services for themselves.
- public bodies to provide services to the public directly
- services provided to the public indirectly via subsidiary, private and third sector (charities and not-for-profit) bodies.

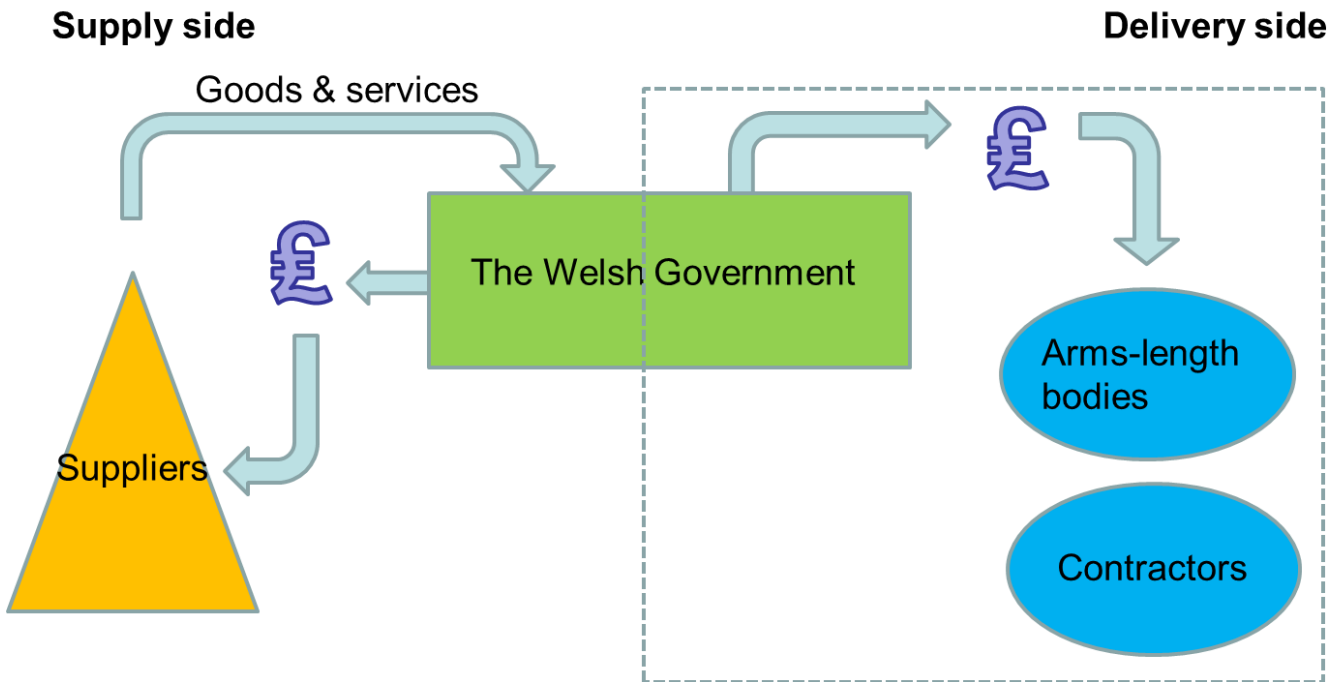


➤ Public concerns about:

- conflicting priorities, risk and reward, senior pay, value for money, ethics and behaviour.



What does the paper look at? (2)



- The Paper focuses on devolved government in Wales rather than on Welsh local government but the governance risks are the same.
- Companies are just one of the legal forms used to deliver Welsh public services indirectly.

What's the problem? (1)

The designers and operators of governance arrangements for Welsh public services face challenges and risks:

- Complexity; public service landscape shaped by evolution rather than design.
- Change; direction and increasing pace of change are testing boundaries.
- Public services increasingly delivered at arms-length through subsidiaries*, partners or contractors and involve public sector, private sector and third (charity / not-for-profit) sector organisations.
- Differences in expectations around ethics and behavior.
- Potential for conflicting priorities and imbalance between risk and reward.

* Subsidiaries can take different legal forms, including limited companies and limited liability partnerships.

What's the problem? (2)

- EU law requires accounting classification of public and private bodies. The UK Office for National Statistics (ONS) bases classification on Government control over: funding; appointments; and operations.
- Welsh Government identifies over 3,000 public bodies in Wales, including: 22 unitary local authorities; and 47 'arms-length' bodies.
- Common understanding is difficult because:
 - lack of strategic approach, no clear rationale, no consistent system of classification.
 - the landscape is complex - huge variety of different models used and form doesn't match function.
 - commonly used terminology doesn't match reality – 'public sector,' 'public money,' 'public services,' 'public servant.'
 - legal definitions (in different pieces of legislation and in case law) are inconsistent.
 - legal status, accounting treatment and arrangements for oversight are variable
 - difficult to achieve an appropriate balance between control and independence.

What's the problem? (3)

- Problems applying governance rules and principles in practice.
- Difficult for those involved to understand their governance relationships with:
 - their organisation.
 - the public.
 - the Welsh Government.
- Variable accountability for:
 - how well public resources are used.
 - how well services are delivered.
 - what outcomes are achieved.
 - conduct and behaviour.
- Also, some public bodies in Wales perform non-devolved functions.

What do audit case studies show? (1)

- Established for a variety of valid reasons:
 - Operational independence from Government.
 - Access to specialist knowledge and expertise.
 - Commercial and financial freedoms.
 - Quick and flexible response to an issue.
- Some common themes and frequently recurring problems identified in audit reports:
 - ineffective oversight and monitoring.
 - imbalance between independence and intervention.
 - a lack of transparency and accountability.
 - inconsistent ethical standards and inappropriate conduct.
 - poorly managed conflicts of interest.
 - risks not well-managed.

What do audit case studies show? (2)

- The Regeneration Investment Fund for Wales (RIFW)
<http://www.audit.wales/publication/regeneration-investment-fund-wales>
- Established by Welsh Government in 2009 to invest £55M (€69M) fund in urban regeneration projects [EU £25M, Welsh Government £9.4M cash, £20.5M property for disposal].
- Wholly-owned, limited liability partnership (LLP), registered with Companies House. Appointed a Board; 3 external + 2 officials, and also external advisors.
- Intended to make investments independent of Government, recycle funds and attract a private investment partner. Not covered by WFG or Fol Acts.
- Sold property portfolio in 2012 for £21.7M (€27M), based on existing use, without valuation or open market sale.
- Some property had potential for development and increased value – total losses to Welsh Government could be > £100M (€125M).

What is the Well-being of Future Generations (Wales) Act 2015 [the WFG Act]?

- Welsh legislation requiring a framework for decision-making to strengthen governance and ensure actions are taken in accordance with the sustainable development principle.
- 44 Welsh public bodies named in the Act must seek to ensure the needs of the present are met without compromising the ability of future generations to meet their own needs.
- Some omissions (Ambulance Service, Estyn, Public Services Ombudsman for Wales). Doesn't apply to subsidiary bodies or cover non-devolved bodies, such as Police Forces, DVLA, BBC, S4C.
- Implications may extend beyond public bodies named in the Act.
- Named bodies may discharge their statutory duty by setting remits, imposing funding conditions or negotiating contract terms consistent with their own well-being objectives.
- Could result in changes to management information – governance, assurance, scope, transparency, access.

What does the paper propose?

Effective governance of indirectly provided publicly funded services should:

- Be flexible and dynamic.
- Underpin expectations of standards.
- Enable holding to account for conduct, behavior and delivery.
- Take account of complexity and diversity.
- Balance autonomy and intervention.
- Spread learning from good practice.
- Support implementation of the WFG Act.

But there are no easy answers...

What does the paper want debate about?

- What can be learned from existing approaches.
- How good governance can be incentivised without stifling innovation.
- How risk and reward can be balanced and to what extent pay and profits should be moderated when public money is involved.
- How implementation of the Wellbeing of Future Generations Act can influence ethical governance of indirectly provided, publicly funded services in Wales.

**IF YOU HAVE ANY QUESTIONS OR HELPFUL EXAMPLES OF GOOD PRACTICE,
PLEASE CONTACT**

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