

CIPFA BRIEFING

April 2016

public finances in Wales

The central and simple principle between the use of public money and public services is the need to optimise outcomes for the people of Wales from the resources available. Yet, the link between taxpayer funding and how those public services are provided for the people of Wales is not readily understood.

This paper complements CIPFA's examination of the assets and liabilities of devolved public services in Wales.¹ We explain how public resources are used to provide services for the people of Wales and in doing so we seek to enhance the understanding of all public service stakeholders in Wales.

The importance of strong financial management is highlighted. The prospect of future devolved taxation powers for Wales also emphasises the need for a clear and transparent financial framework and powers to properly manage Welsh public resources.

Why do we have public services?

Significant political and media focus is placed on public spending plans. Despite that attention, one fundamental question is rarely directly addressed. That is ‘why do we have public services?’

The ability to ‘make a difference’ for the public good is the basis for providing public services. CIPFA focuses on outcomes as the primary reason for public services.² The outcomes sought may affect many different areas, including economic, societal and environmental aspects.

How should outcomes for the people of Wales be achieved?

The proper and appropriate control of public resources, including the management of assets and liabilities, is a central element of good governance and the achievement of outcomes.

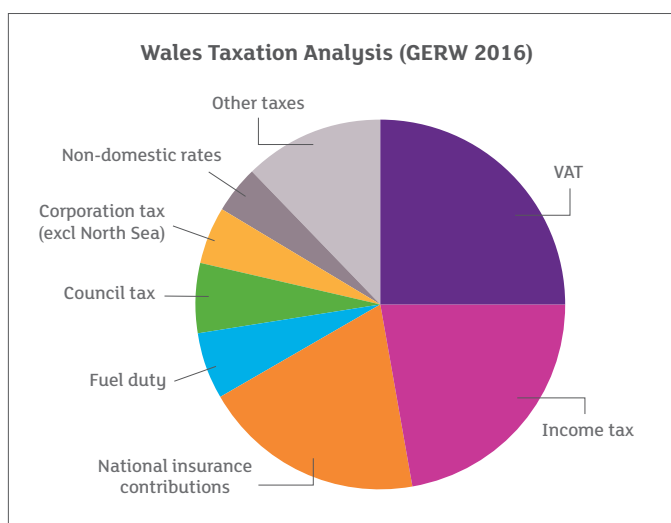
In Wales around £38bn³ is spent on public services. Consequently good financial management practices should be a key support in delivering the optimum outcomes for the people of Wales from the resources available.

Where does the money for public services come from?

The majority of resources for public services come from past, current or future taxpayers. For the UK as a whole around 86%⁴ of UK public services funding is from taxation.

How much of this taxation is raised in Wales?

Taxation revenue in Wales is approximately £21bn.⁵ This is around 3.5% of the total for the UK as a whole.



Data Source: [GERW 2016](#)⁶

How are taxation funds allocated to Welsh public services?

The main basis of allocation which many people have heard of is the Barnett formula. This is outlined in the [Statement of Funding Policy](#) (Nov 2015) which details the UK funding arrangements for the devolved administrations. The process however has a number of further elements.

The relationship between the UK government and the Welsh Government is covered by the [Memorandum of Understanding](#). Taxation resources for Wales are generally provided for public services in Wales through the following routes:

1. UK government spending decisions.

The UK Government outlined its spending plans and allocations for UK departmental spending and its support for devolved administrations in the [UK Spending Review 2015](#).

UK government department expenditure on non-devolved services for Wales primarily relates to the Department for Work and Pensions.⁷

2. UK taxation resources allocated to the National Assembly for Wales for devolved matters.

The [Government of Wales Act 2006](#)⁸ details the public services that the Welsh Government has responsibility for. This includes health, social welfare, education, local government, economic development, fire and rescue, transport and other services.⁹

The taxation resources allocated to Wales in the [UK Spending Review 2015](#) were some £14.4bn.¹⁰

3. Taxes raised by Welsh public service organisations such as

- Council tax as set by [each local authority](#), totalling £1.06bn for 2014/15.¹¹
- Non-domestic rates as [set by the Welsh Government](#). This is then redistributed to local authorities as part of the annual [local government revenue settlement](#). This totalled some £0.9bn for 2014/15.¹²

What about fees and charges for Welsh public services?

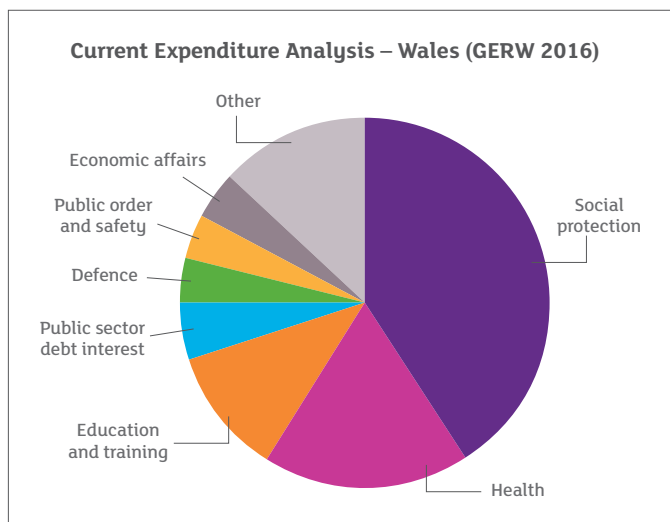
Fees and charges can also be a source of income used to support public service provision.

Fees and charges are unlikely to be set purely on a ‘cost recovery’ basis. Decisions regarding policy, the prioritisation of services, considerations of inequality and the impact on the people of Wales can all be factors in deciding if, and how much, income from fees and charges is appropriate.

Where does the money go?

Whatever the source of the income, it is used to provide public services in Wales. The use of those funds is critical in securing positive outcomes for the people of Wales. The [‘Government Expenditure and Revenue Wales 2016’](#) paper estimates that public expenditure for Wales in 2014/15 was £38.0bn¹³, of which £34.5bn was current expenditure, with the balance being capital investment.

The largest single element of current expenditure for the people of Wales is social protection (£14.2bn, 41%¹⁴), which includes pensions, social security benefits, personal social services and other items. Other significant current expenditure includes health £6.2bn (18%) and education £3.9bn (11%).



Data Source: [GERW 2016](#)¹⁵

What influences what the money is spent on?

The democratic process provides elected representatives, at all levels, with the responsibility for making decisions within their remit about the relative priority of different services for Wales. For example the Welsh Government sets out its policy intentions in the [Programme for Government](#). This also affects local government as the Welsh Government directly controls around 84% of the taxpayer resources used to support Welsh local authority services.¹⁶

Once these decisions are made the maximisation of outcomes and benefits for the people of Wales from the use of the funding should be the key priority for organisations provided with the funding.

What will future public services for the people of Wales look like?

In common with the rest of the UK, Welsh public services face a changing landscape.

Examples of changes that Welsh public services and organisations will need to adapt to include:

- UK government spending plans to reduce the deficit¹⁷
- the potential effect of the EU referendum
- [Forecast changes to the Welsh population, including age profile changes](#)¹⁸
- further changes to the Wales devolution arrangements, with possible changes to the block grant received from the UK Government and increased reliance on taxes raised in Wales
- implementation of the [Social Services and Well-being \(Wales\) Act 2014](#)¹⁹
- The [Well being of Future Generations Act 2015](#), and the role of the Future Generations Commissioner
- [Welsh local government reform plans](#) and the [Local Government \(Wales\) Bill](#)
- The [Cardiff City Deal](#) which sees the UK Government, Welsh Government and ten local authorities working in partnership
- Under powers in the [Wales Act 2014](#) from 1 April 2018 the Welsh Government will also have responsibility for setting Land Transaction Tax and Landfill Disposal Tax.

References

- 1 See CIPFA Briefing A Balance Sheet for Wales (November 2015) which is available at www.cipfa.org/cipfa-thinks/briefings
- 2 As set out in the [International Framework: Good Governance in the Public Sector](#) (IFAC/CIPFA, July 2014) which states “*The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest at all times*”
- 3 [Government Expenditure and Revenue Wales 2016](#), Wales Governance Centre/Cardiff University, April 2016 page 49. £38bn includes £3.5bn of capital
- 4 See [Whole of Government Accounts](#) (HM Treasury) 2013/14 page 51, £555.8bn taxation revenues out of £648.5bn total revenue
- 5 [Government Expenditure and Revenue Wales 2016](#), Wales Governance Centre/Cardiff University, April 2016 page 27 excluding non-tax items. A separate disaggregation of UK tax revenues was published by HMRC ([A disaggregation of HMRC tax receipts between England Scotland, Wales and Northern Ireland](#), October 2015)
- 6 [Government Expenditure and Revenue Wales 2016](#), Wales Governance Centre/Cardiff University, April 2016, table 2.1
- 7 Based on [HM Treasury Country and Regional Analysis Nov 2015](#) using the Interactive Tool for 2014/15 data (Dept of Work and Pensions £8.53bn (68%) of £12.46bn UK department identifiable spend in Wales)
- 8 See particularly Schedule 7
- 9 The [Welsh Government Consolidated Accounts for 2014/15](#) provide information on the use of public resources for services and the different bodies WAG uses to support services
- 10 The 2015/16 baseline DEL figure excludes depreciation, one-off and time limited expenditure. Figures are based on [UK Government Spending Review 2015](#) Tables 2.1 and 2.2 – Resource DEL £12.9bn plus Capital DEL £1.5bn
- 11 Per [Ambition for Change](#) Appendix 2, net of council tax reduction
- 12 Per [Ambition for Change](#), Appendix 2 NNDR net of discretionary relief
- 13 [Government Expenditure and Revenue Wales 2016](#), Wales Governance Centre/Cardiff University, April 2016 page 49.
- 14 See [Government Expenditure and Revenue Wales 2016](#), Wales Governance Centre/Cardiff University, April 2016 table 4.2 Current spend 2014/15
- 15 [Government Expenditure and Revenue Wales 2016](#), Wales Governance Centre/Cardiff University, April 2016 – Table 4.2
- 16 Figures relate to 2014/15, see Appendix 2 of [Ambition for Change](#)
- 17 See the [UK Government 2016 Budget](#) which states “The government remains committed to continuing the job of returning the public finances to surplus by 2019/20” (para 1.48, see also 1.52 and 1.62)
- 18 Refer to data from the Office for National Statistics and [forecasts made by StatsWales](#)
- 19 See also the [Welsh Government’s summary papers](#)



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