

# CIPFA BRIEFING

November 2015

## a balance sheet

for Wales Public Sector

Public finances and funding for the Welsh Government are entering a period of change. The implementation of the Wales Act 2014 and the UK Government Draft Wales Bill which was presented to the UK Parliament in October 2015 will result in further fiscal devolution to Wales. With that comes the need to strengthen the financial framework which governs the management and administration of public finances in Wales.

The wider background is the debate on funding for public services in Wales. The continuing effort of the UK government to reduce the UK deficit will have a direct impact on that part of the budget that remains funded through the Barnett formula arrangements.

The starting point to consider strengthening the management of public finances in Wales and to support future financial planning is to understand what the financial position is now. At present the Welsh Government produces a consolidated set of financial statements for its central government functions but is not required to publicly report the overall financial position of the Welsh public sector. So what is the financial position of the devolved public sector in Wales? and what challenges do Wales's public services face going forward?

## Introduction

A balance sheet is a basic management tool which is essential for any organisation, government or country.

CIPFA considers that the overall financial position of the devolved public sector in Wales should be clearly reported to the people of Wales. At the heart of this would be a balance sheet, as part of a significantly enhanced set of consolidated accounts for Wales, which demonstrates the assets and liabilities under the control of public bodies in Wales. Both the National Assembly's Finance Committee and the Wales Audit Office have previously supported the development of National Accounts for Wales.<sup>1</sup>

To provide a further stimulus for this debate CIPFA has considered what the Balance Sheet for Wales would look like and this briefing paper sets out for the first time what the scale of the devolved assets and liabilities in Wales are.

Consequently, our challenge to politicians, policy makers and to public service professionals is to engage in the debate to improve transparency in financial reporting in Wales.

## Why a Balance Sheet?

The public sector owns assets in the form of plant, property or equipment including its investment in infrastructure such as roads, hospitals or schools. Other assets include IT systems, investments and cash held.

Liabilities include financial commitments entered into such as finance leases, provision for compensation claims and borrowing.

Both assets and liabilities are classified by timescale; those expected to be settled within one year (current) and those which extend over a longer timescale (non-current). This enables identification of what is owned/owed in the current financial year and what is owned/owed into the future as a result of past activities.

The balance of the assets against the liabilities is the net financial position and in a public sector context this is referred to as taxpayer's equity as ultimately all public services are funded by the taxpayer.

Each public sector body produces financial statements, which may include the publication of group accounts, but there is no requirement to produce financial information at a combined level for the Welsh public sector as a whole.

In order to produce this briefing paper, CIPFA has analysed recent, available audited financial information for individual public bodies.

A balance sheet provides a snap shot of an organisations financial position at a point in time. It shows what is owned by way of assets and what is owed by way of liabilities.

Policy makers need clear information in order to make decisions that secure the fiscal sustainability of services and they will also need to provide transparency to the electorate on why such decisions are necessary. A balance sheet would be a starting point to achieve this and would provide a platform for what is affordable and achievable in service delivery in the longer term.<sup>2</sup>

## Assets owned by Wales

CIPFA estimates that the total Assets owned by the wider public sector in Wales amount to £42.0bn. While these assets are used in the delivery of services rather than the creation of profits, it does provide an indicator of the scale of investment that has been made to support public services in Wales. The asset base includes assets held for the long-term to support service delivery and short-term assets expected to be utilised within one year.

Wales owns £38.5bn of long-term assets, which includes £15bn of 'network' assets including roads held by the Welsh Government and £15bn of assets held by Local Councils. The long-term assets also include student loan debts amounting to £2bn.

Investment of this scale in assets underlines the importance of continuing to drive the strategic management and development of infrastructure planning for the public sector as recommended by the Welsh Finance Committee<sup>3</sup> and delivered through the Welsh Infrastructure Investment Plan.<sup>4</sup>

The public sector in Wales also controls £3.5bn of current assets including short-term investments, inventories and available cash and cash equivalents.

## Liabilities owed by Wales

CIPFA was able to estimate that total liabilities recognised by the Welsh Public Sector amount to £23.6bn.

Long-term liabilities owed by Wales amount to £20.4bn. Within this figure pensions liabilities recognised in Wales amount to 14.7bn. These are split between Police Services £7.0bn, Local Councils £6.0bn and Fire and Rescue Authorities at £1.5bn. Liabilities for the pension entitlements of civil servants, NHS staff and teachers are not under the control of the Welsh Government. These pension schemes are administered by bodies reporting to the UK Government and the scheme liabilities for Wales are not separately identifiable. The amounts recognised in the Welsh Government consolidated financial statements of £104m relate to pension liabilities for Government staff who remain in schemes outside of the main civil service pension scheme.

Other longer-term liabilities of £4.6bn includes long-term borrowing by Local Councils and other long-term commitments such as PFI arrangements owed by both Central

and Local Government bodies. The Welsh public sector also recognises £1.1bn in provisions, the majority of which (£742m) relate to Health Sector related claims and provisions.

Current liabilities due within one year for short-term borrowing and payables amount to £3.2bn, leaving a net current asset position of £300m (£3.5bn assets less £3.2bn liabilities).

## Welsh Reserves

We have categorised Welsh Public Sector Reserves into what is usable by public bodies and what is restricted or unusable due to regulations or legislation. Excluding the Welsh Government general fund, which primarily relates to the amounts drawn down from the Welsh consolidated fund and payments for operating costs throughout the year, the balance of usable reserves is £2.2bn. The majority of usable reserves are held in Local Government bodies (£1.5bn).

Unusable reserves (net £4.2bn) include £11.3bn relating to revaluations of assets and a further £7.6bn set aside in Local Government Bodies for Capital Financing purposes. Set against this are negative reserves of £14.8bn relating to pensions and unpaid short-term employee benefits.

The ability of the Welsh Government to hold specific reserve balances is limited. With the devolution of further tax raising powers underway, the Welsh Government will need to manage increased volatility in its funding.

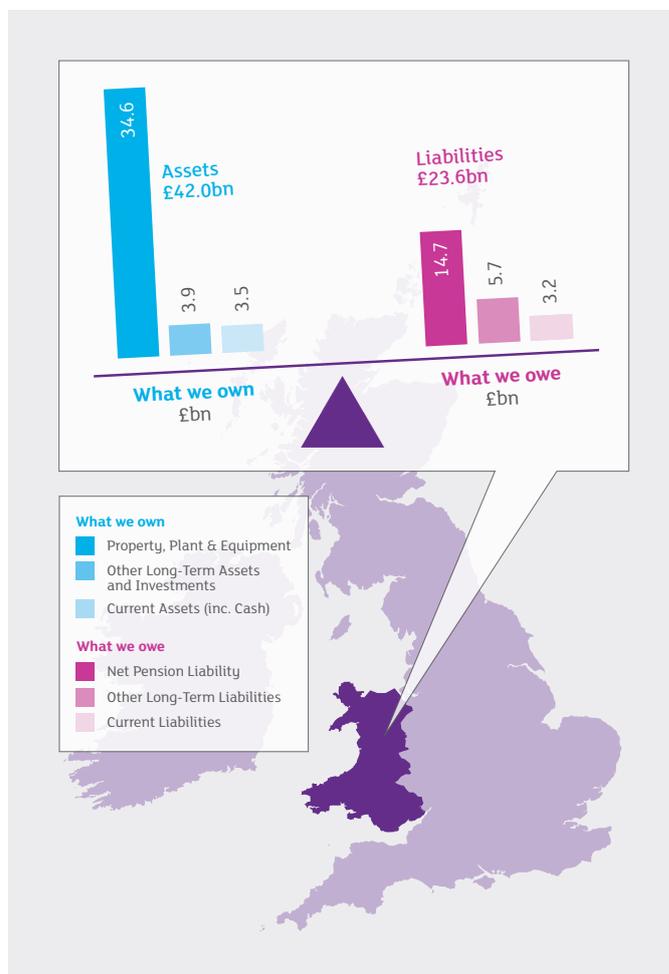
## A Devolved Balance Sheet for Wales

We can now use our estimates of a devolved Wales's assets and liabilities from the individual financial statements to begin to bring together these assets and obligations to form the foundations for a balance sheet.

Our analysis shows that Wales owns £42.0bn of assets and owes £23.6bn of liabilities. Pension liabilities for Civil Servants, are not included as they are reported only at a UK level.

NHS and Teachers pension liabilities are only reported as combined totals for England and Wales.

The capital asset base of Wales has been supported by capital resources provided from the UK Government. The related liabilities for financing the investment in the asset base and resulting public sector debt is recognised within the overall UK Governments financial position.



## CIPFA's Position on A Balance Sheet for Wales

- 1** CIPFA estimates that the devolved public sector in Wales owns or controls assets of around £42.0bn. We were able to recognise liabilities of around £23.6bn although this figure is understated.
- 2** The single largest single class of assets is network assets which is primarily related to road networks.
- 3** Public sector pensions form around 63% of overall liabilities currently recognised in Wales and are the most significant liability to be met in future. Not all the public sector pension liabilities are controlled by the Welsh Government. The Civil Service Pension Scheme is an England, Wales and Scotland wide scheme. The NHS staff and Teachers pension schemes are England and Wales wide schemes. Under current arrangements the liabilities which relate to Wales for all of these schemes are not readily identifiable.
- 4** The liabilities will also be understated by any financing of the asset base that has resulted in public sector debt which will be recognised on the UK Government Balance Sheet and financed by HM Treasury.
- 5** In order to manage further financial devolution to Wales, CIPFA believes that a wider range of financial powers are required to support strong financial management of public finances. These powers would include increased flexibility on holding reserves, increased borrowing powers supported by the appropriate controls and improved transparency in public sector financial reporting in Wales.
- 6** Clearer public financial reporting at a Wales level would provide a sound basis for assessing future commitments, ensuring good financial management and will provide transparency on public finances.

## References

- 1** National Assembly for Wales – Finance Committee report on its inquiry into Best Practice Budget Processes July 2014 – para 70 -75
- 2** CIPFA Manifesto 2015
- 3** National Assembly for Wales Finance Committee report: Asset Management in the Public Sector August 2013
- 4** Welsh Government: Wales Infrastructure Investment Plan <http://gov.wales/funding/wiipindex/?lang=en>



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