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Inquiry into - Welsh Government Draft Budget Proposals 2013-2014

Response from - Welsh Local Government Association

Written Evidence by the Welsh Local Government Association to the Finance Committee of the National Assembly for Wales **on the Welsh Government's Draft Budget Motion 2013-14**

Purpose

1. The purpose of this paper is to provide the Finance Committee of the National Assembly for Wales with a brief overview of the Welsh Local **Government Association's (WLGA) view of the indicative** budget allocations for 2013-14 and to highlight the key financial concerns, risks and opportunities facing local government in Wales.

Financial Context: the current financial year

2. The Comprehensive Spending Review 2010 presented the Welsh Government with an extremely difficult budget round for 2011-12 and beyond. The Capital allocation in particular was worse than had been anticipated and this has had significant consequences on some of its key **schemes such as the Twenty First Century Schools' programme.**
3. This is widely expected to continue through the next Spending Review period and possibly beyond. The Institute of Fiscal Studies is currently doing some work for the WLGA and we are happy to make that available when it is published.
4. The **UK economy's** return to recession in early 2012 confirmed that this level of austerity will be continued into the next spending review period and potentially beyond. Consumers continue to be very much focussed on finding value for money, the housing market remains subdued and business investment intentions suggest that the level of capital spending from the private sector will remain broadly unchanged over the coming twelve months¹.
5. The lack of capital funding remains a huge concern to local government, not only in terms of delays in much needed capital investment, but also the knock on effect on the local economy with construction output continuing to fall across the UK largely due to reduction in work for the public sector². The Local Government Borrowing Initiative is a good

¹ Bank of England Agents' summary of business conditions, September 2012

² Bank of England Agents' summary of business conditions, September 2012

example of local government and the Welsh Government working together to develop a scheme that allows Councils to address the capital investment needs of the roads network, that are a huge concern to their local communities while also providing a much needed boost to local economies, both issues that are high priorities for national and local government. There have been some discussions on expanding this approach to the education sector also, although there is a need for a note of caution in times of restricted revenue funding as borrowing costs must be managed alongside other revenue pressures..

6. In 2012-13, the local government revenue settlement increased by 0.2 per cent on average (£9.7 million). In 2012-13 Welsh councils report that they are managing over £173 million in growth or inflationary pressures in their budgets. In order to balance their budgets, authorities are making efficiencies and savings of over £132.3 million in the current year, equivalent to 2.6 per cent of their net budget. They have increased their net budgets by £36 million and it is estimated that the balance (£5.4million) will be drawn from reserves.

Balancing the 2012-13 Budget	£million
Required savings: Efficiency	73.7
Required savings: Service Transformation	28.3
Required savings: Service reductions	10.6
Required savings: Increases in fees and charges	3.7
Required savings: Other savings	16.0
Total	132.3

7. Significant progress is being made in the commitments made as part of the Simpson Compact, particularly on regional working in certain areas of Education and Social Service provision and while resource intensive at this stage, it is anticipated that this will result in reductions in ongoing costs.
8. Another significant factor in managing budgets is the pay freeze that has now been in place in local government for three years. However, concerns are mounting about the potential impact of further rounds of pay freezes partly in terms of the position of local government as a competitive employer in the future, but also in maintaining a motivated workforce. As the minimum wage level continues to increase the gap between this and the lowest wage in local government is narrowing.

Indicative Budget Allocations for 2013-14 – Strategic Concerns

9. **Local government's key concern is** the scale and potential impact of the legislative programme in the current financial climate. There are a wide range of legislation and regulation scheduled to be enacted or to come into effect over the coming financial year and beyond. Often the policy objectives are supported by local government but our concern is that these will add to the responsibilities and duties placed on local authorities without the provision of adequate resources to enable them to be implemented. Some examples include:
 - The Social Services Bill, which intends to consolidate the current **legislation but also includes a proposal to identify “people in need”** and a duty to maintain and enhance their wellbeing. It is clear that this Bill does not simply apply to Social Services but has implications for the wider public sector also.
 - The School Standards and Organisation (Wales) Bill 2012 – this will place a duty on local authorities to publish a plan for the provision of Welsh Medium education, including assessing the demand for Welsh medium education within a local authority area.
 - Sufficiency of Play draft guidance (under the Children and Families (Wales) Measure 2010 – places a duty on LAs to assess the sufficiency of play opportunities in their area for children
10. There needs to be a coordinated approach to new legislation that encompasses proposals from all parts of the Welsh Government and also takes account of the impact of any UK government legislation within Wales.
11. Alongside the scale of the legislative programme, it is crucial that the regulatory impact assessment process is robust and effective, particularly around the financial impact of new legislation, and recent experience suggests that this process could be improved upon.
12. The WLGA welcomes the incorporation of a record number of specific grants into the unhypothecated settlement although this does bring with it some distributional turbulence which needs to be managed. It is also crucial that the services currently funded by specific grant are fully funded when the grant is transferred into the settlement.

Welfare Reform

13. The Welfare Reform Agenda has the potential to have a significant effect on the poorest and most deprived areas of Wales. Local Government will be at the forefront of the need to respond to this and it is crucial that the **Welsh Government's budget reflects the support that will be required to** assist with this. Living in poverty can affect life chances fundamentally and **the Welsh public sector's role is to protect and support those who are** most vulnerable while implementing policies that help to reduce the levels of poverty and deprivation within Wales.
14. Early attempts to identify the risks facing both those currently in receipt of benefits and council services that will need to support these people have highlighted a range of issues that will affect local government, either due

to a direct reduction in income or due to an increase in demand for support services across housing, education and social services. There is also the impact of reducing household incomes on local economies to take into account.

15. Crucially, the abolition of Council Tax Benefit will take effect from 31 March 2013 when it is replaced with a more locally determined Council Tax Support scheme. The funding to be transferred from DWP will be reduced by 15% to 20% on the current year's levels. When growth of claimants is taken into account, the real terms cut could be much higher. LG, WLGA and WG have worked together to devise a CTS scheme that will be applied across Wales but the funding available for this will not be **known until the Chancellor's Autumn Statement at the earliest**.
16. It seems likely that Councils in Wales will be asked to foot most of the bill for implementation (up to £2m) and will have to manage an expected fall in Council Tax collection of up to 2% (£26m).
17. The impacts of other changes to Housing Benefit, the introduction of Personal Independence Payments and Universal Credit have not been quantified.

Indicative Budget Allocations for 2013-14 – Specific Concerns

Education

18. The improvement of Educational attainment in Wales is a key priority for both local government and the Welsh Government. Improving educational attainment is a key factor in addressing deprivation and raising families out of poverty and the additional funding provided through the protection of education budgets to date is welcomed, although the inevitable consequence is that other local government budgets are squeezed further. However, It is not simply a question of additional revenue resources but also the need to reconfigure the way in which services are currently provided including school reorganisation.
19. There continue to be concerns about the impact of reduced capital funding resulting in delays to the Twenty-First Century Schools programme and the knock on effects this delay has on schools re-organisation, the removal of surplus places and the consequent freeing up of revenue funding. It is hoped that discussions on expanding the Local Government Borrowing Initiative will help in this regard.

Social Services

20. Consultation to date on the Social Services Bill is largely couched as being cost neutral, but this is not a view subscribed to by local government. The WLGA, the Association of Directors of Social Services (ADSS) Cymru and the Society of Welsh Treasurers (SWT) are working together to provide evidence of the financial implications of the bill.
21. **WLGA and ADSS Cymru developed a joint response to “Sustainable social services: A framework for Action” in December 2011 which commits local government to service reform in areas such as collaborative procurement**

and commissioning, workforce development and service re-modelling. The annual budget survey undertaken by ADSS Cymru in February 2012 shows an anticipated overspend on Social Services in local authorities across Wales of **£25.3 million. £17.5 million of this is within Children's** services where the numbers of children subject to care proceedings or being taken into care by local authorities continues to rise.

22. Authorities are managing these pressures through a combination of use of reserves, action plans to control and reduce spend and transfers from other service areas. Trend analysis undertaken by Newport City Council indicates that the combination of increasing caseloads and demographic growth within the elderly population will see local authority budgets being dominated by Social Services expenditure to the extent of squeezing out other services over the medium to long term.

Economic Regeneration

23. The UK economy has returned to recession in 2012 and this period of slow growth or small falls is expected to continue throughout 2012. It has been estimated that the output of the economy is now as much as 10% smaller as a result of the recession and its aftermath. The squeeze on household incomes continues and will be exacerbated by the forthcoming squeeze on council tax benefits / support and proposed changes to the welfare system.
24. The latest European Union GDP data indicate that figures for West Wales and the Valleys and East Wales fell from their 2008 level. It is anticipated **that West Wales and the Valleys will be placed in the "less developed regions" category (current Convergence) and East Wales will be placed in the "more developed regions" category (current Competitiveness) for future funding programmes post 2013.**
25. Increasing employment, particularly amongst the long term unemployed, continues to be a high priority and several initiatives such as the Work Programme, Jobs Growth Wales and European Structural Funds are focussed on this.

Waste and Environment

26. With the broad policy and legislative framework for future waste services largely in place, the focus in 2011/12 has been on implementation. **Collaborations of "hubs" for food waste and "consortia" for residual waste** have been progressing the procurement of treatment facilities and are at various stages on the competitive dialogue path with potential partners.
27. Recycling and composting targets³ became law from April 2012 under the Waste (Wales) Measure 2010. The first statutory target is to reuse, recycle or compost 52% of municipal waste collected by local authorities in 2012-13 and Wales as a whole is in on course to achieve this. They may then be subject to fines of £200 a tonne by Welsh Government (WG), although the Minister has the power to waive these fines.

³ Delivery against these targets for recycling and composting are now also reported on the same basis in relation to Performance Indicators for the waste sector.

28. Other significant future developments are the policy direction from Brussels (calling for separate collections of recyclable material streams for paper, glass, metal and plastic) and a judicial review brought against both DEFRA and WG in relation to the regulations interpreting the revised Waste Framework Directive.
29. The Sustainable Waste Management Grant (SWMG) continues to be instrumental in allowing local authorities to develop waste strategies that will meet WG and European targets.
30. Local authorities are also now having to pay for their Carbon Reduction Commitment (CRC) Scheme allowances (reflecting their usage in 2011-12) however the current system is extremely burdensome and complex. The Department of Energy and Climate Change (DECC) has consulted on proposals aimed at streamlining and simplifying the CRC and reducing the administrative burden currently experienced.
31. Flood risk continues to be a high priority for local authorities and WG with funding provided from both WG and Europe to support the initial implementation of the Flood and Water Act requirements and to support the development of Local Flood Risk Management strategies.

Addressing Housing Needs and Aspirations

32. The changes to Housing Benefit as a result of Welfare Reform are having a significant impact on the affordability of housing for low income households. With the support of the Welsh Government, every Authority in Wales has developed a plan to mitigate the impact of the housing benefit changes, with actions ranging from highlighting the impact of the changes to claimants to providing households with support to find cheaper accommodation.
33. Implementation of the recommendations of the Review of the Supporting People Programme⁴ is leading to many changes in how Supporting People Services across Wales are administered, including combining Supporting People Grant (SPG) and Supporting People Revenue Grant (SPRG) into a new single grant – Supporting People Programme Grant (SPPG) to be paid to local authorities. It will also further increase regional and national collaboration, improve services and generate efficiencies.
34. Supported housing initiatives generate considerable savings and improved outcomes across the wider public services. The Matrix Report (2006) estimated that every £1 spent on providing housing related support in Wales saved public services £1.68, However, the need for housing support services outstrips the ability of Authorities to provide them, yet these services are vital in preventing homelessness thereby reducing the need for more intensive health, social care and criminal justice intervention. Generally, the number of households accepted as homeless fell from the peak in 2004-05 through to the end of 2009 but have since been increasing.

Transport

⁴ Aylward, M (2010) Independent Review of the Supporting People Programme in Wales Welsh Assembly Government

35. Last year it was reported that the percentage of **principal (“A”) roads considered to be in “poor” condition had increased from 4.4% to 5.0%** between 2008-09 and 2009-10, whilst the percentage of unclassified roads in poor condition had increased from 8.3% to 10.1%. This deterioration was expected to increase as a result of the severe winter of 2010-11. The development of the Local Government Borrowing Initiative (LGBI) has enabled local authorities to begin a programme of substantial new investment in carriageway and footway schemes during 2012-13. Further investment in bridges and street lighting will follow in 2013-14 and 2014-15.
36. This investment is complemented by further development of the National Transport Plan and a greater emphasis on regional working as set out in the Simpson Compact.
37. WG funding for bus services is the focus of much attention at present. At the start of the financial year WG announced that it would be cutting the Bus Service Operators Grant (paid to bus operators as a fuel duty rebate) by 25% and the Local Transport Services Grant (paid to Local Authorities to subsidise non-commercial services) by 27%. The late notification took bus operators and local authorities by surprise. Discussions with the Minister led to agreement for a delay in implementing the cuts to allow time for alternative working arrangements to be identified. The WLGA and local authorities agree that there is a need for the work on bus funding to be considered alongside other strategic discussions taking place, including the renegotiation of the rail franchise and the Compact work to ensure there is a coordinated approach across all of highways and transport.

Community Safety

38. Funding for Community Safety Partnerships has reduced sharply over the last two years, with the Home Office Community Safety Fund grant allocation for 2012-13 being just 40% of the funding provided in 2010-11. The Welsh Association of Community Support Officers highlight the loss of ground suffered by Community Safety Partnerships (CSPs) across Wales over this period as the loss of direct grant funding has been compounded by reductions in funding from partner organisations as they seek to minimise the impact of funding cuts on their core services..
39. Fire and Rescue Services (FRSs) are also concerned about the reductions in direct grant funding for community safety but also arson reduction and youth work which have been extremely effective in preventative work to date. There is no scope within existing budgets to make up the shortfall should these grants be discontinued resulting in the service being stopped.
40. The three Fire and Rescue Services in Wales have set up a National Issues Committee (NIC) to review and prioritise all collaborative projects across the three services to gain all the benefits and efficiencies of one FRS whilst maintaining three local FRSs to meet local risks.
41. The most significant development for the Police service in Wales is the introduction of Police and Crime Commissioners (PCCs), with the elections taking place on 15th November 2012. PCCs will have a range of

responsibilities, including appointing the Chief Constable and holding them to account for the running of their force; setting out a five year Police and Crime Plan based on local priorities; setting the annual local precept and annual force budget; and distributing policing grants from central government. This will involve major changes in current practices.

Expectations, Commitments and Priorities

42. The ability to depend on the existing indicative revenue budget allocations enhances local government and the wider public sector's **ability to deliver** cost reductions in a planned and strategic way. The most recent local government settlement extended the provision of indicative allocations to capital funding also enabling local government to plan the investment in their capital assets over a longer time frame. However, specific grants remain an area where allocations are subject to change at short notice, or reduced levels of funding are announced very late in the budget planning cycle, sometimes not until the financial year has already begun.
43. However, in addition to greater certainty around budget allocations, in order to be able to plan the provision of local services in a strategic way in the medium term, local government also needs a commitment that no new responsibilities or burdens are placed upon it without the necessary additional funding. Too often there is an expectation that additional services can be provided from within existing resources, without a thorough and robust financial impact process that clearly identifies the resources required and the impact of diverting these resources from the services that they currently fund. Local Government understands the current state of public sector finances and that additional funding is often simply not available. It is not acceptable however to transfer unfunded responsibilities to local government.
44. Our understanding is that the settlement announcement on the 16 October will show the total allocation for RSG for 2013-14 and 2014-15 will be unchanged from the indicative announcement last year. This is welcomed by Local Government and helps with medium term financial planning.
45. With the review of the Partnership Council last year there is now no Consultative Forum on Finance or Expenditure Sub Group process to assess budget pressures going forward. Welsh Government have signalled a desire for a more strategic approach and we will work with them in the run up to the next Spending Review.