

## **WELSH GOVERNMENT DRAFT BUDGET PROPOSALS 2020/21 - CALL FOR INFORMATION:**

### **RESPONSE TO THE NATIONAL ASSEMBLY'S FINANCE COMMITTEE FROM NEATH PORT TALBOT COUNTY BOROUGH COUNCIL**

#### Introduction

1. This paper was finalised in discussion with Elected Members following the UK Government's Spending Round announcement on 4 September<sup>1</sup>; but prior to any Welsh Government funding announcements and a careful analysis of the implications will be required later this autumn when more information is available. The response is also focussed more upon the issues raised in the Committee's Stakeholder Engagement event as opposed to the consultation questions.
2. There is some commonality between the two; but as regards several of the latter, the Council either has no firm view (e.g. how the Welsh Government should use new taxation and borrowing powers – although there is one comment below); it is too early to be definitive (e.g. the influence of the Well-being of Future Generations Act and the climate emergency declaration) or we simply don't know at the time of writing (e.g. Brexit).

#### Essential Background

3. The key budgetary figures for Neath Port Talbot Council (looking forwards and backwards) are as follows:
  - There has been a real terms cut of £90 million or 37% in our revenue budget since 2010 (the budget for the current year is £288m);
  - The Council's workforce has reduced by approximately a quarter over the same period;
  - Education (including Leisure) and Social Services account for two thirds of the total – thus other services are squeezed hard;

<sup>1</sup> The headline figures for Wales from HM Treasury were an increase of £600 million for 2020/21 equating to a 2.3% increase adjusted to take account of tax devolution.

- We have a projected cumulative gap of over £40m to 2022/23 - £15m for next year (2020/21);
  - Pay and pensions now represents the single greatest pressure based on a 2% inflation provision. Unless fully funded, this will result in job cuts (including schools). Council Tax is assumed to rise annually by 5% to 2021/22<sup>2</sup>. In parenthesis, there is frequently pressure to in-source services. Whatever the merits of such arguments, they are financially unrealistic in the current climate given pay pressures;
  - We have Specific Reserves of nearly £40m and General Reserves of £21m; but we have been using them to help balance the budget; and
  - For us, every 1% variation equates to £2m of Welsh Government funding; £1.7m in terms of pay awards and 530k net on Council Tax.
4. The cumulative impact of this is a significant reduction in financial resilience, higher thresholds and growing inequity in access to services.

### Analysis

5. In this Council's view, the Welsh Government should take some credit for protecting local government expenditure to a greater extent relative to England in recent years. But on the other hand the reality is that, despite frequent claims to the contrary in other quarters, there is only one funding priority in Wales: the NHS. The Welsh Local Government Association (WLGA) estimate that since 2009/10 NHS Spending has risen by some 21% whilst Local Government Aggregate External Finance has reduced by approximately the same amount. In terms of the choices facing Elected Members here it is not yet quite a zero sum game; but it's not far off.
6. Prioritising the NHS is a perfectly legitimate political choice; but it leads to two tensions. First, lobby groups, the media and politicians often campaign for "investment" in various other services in isolation, oppose cuts to them or claim that they are priorities also. This is frequently unrealistic as not everything can be a priority and there needs to be a more mature acceptance of the reality. Austerity has not ended – despite recent announcements.
7. Second, local government is sometimes accused of holding out the begging bowl. There is some justification for that; but Councils would not be unique

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<sup>2</sup> This is an officer working assumption, not a figure determined by Elected Members. Thus it has no status.

in that regard? This Council has actively supported our Trade Unions' "Fair Funding" campaigns (and will continue to do so); but there is an important difference - linked to the first point above - between the begging bowl and pointing out the inevitable consequences of budgetary decisions in Whitehall and Cardiff Bay, which those decision makers often find uncomfortable.

8. There have been many dire warnings in recent years of a "breaking point" and the delivery of some services has undoubtedly suffered seriously. However, there are other Councils (mainly the rural authorities) habitually at the bottom of the funding table year on year, who probably have more acute pressures. Either way, this Council has long since accepted that the primary/only real source of help is ourselves. We are still standing and the regulators seem satisfied with the services delivered. So what have we done/are doing about it all?
9. Basically, there is no silver bullet; but a range of actions to mitigate against the impact of austerity have been put in place and are ongoing:
  - **Changing the way we deliver services:** for example, in the social services area we have remodelled, recommissioned or re-procured a range of services including day services; homecare/direct payments and learning disabilities. Previous models were both operating at less than optimum efficiency and out of date in terms of the needs of service users. The adoption of earlier intervention and strengths-based approaches in working with children and families has resulted in improved outcomes for many families and also a substantial reduction in the number of Looked After Children and other cases open to Children's Social Services. The result has been a balanced budget position on social services; better delivery and acceptance by the regulators of the rationale for change;
  - **Investing in Digital Services:** we are now into the second substantive phase of this rollout with a particular emphasis on automation and, artificial intelligence, including adoption of voice and face recognition technology. The point is to keep pace in delivering services with technological advances that citizens use elsewhere in their daily lives. Otherwise our communication channels risk becoming redundant and irrelevant over time.

We are also investing much effort in data analytics with the objectives of targeting services and expenditure where it is needed most, including as an anti-poverty weapon to address the impact of the cuts on the most vulnerable and the consequential increase in demand for

local services. However, we are also about intervening differently with people who have complex needs (the cohorts of which are increasing in number and the nature of complexity) to reduce the incidence of multiple contacts between public bodies to provide a more integrated public service response. This also reduces the cost of meeting the needs of these service users who consume a disproportionate level of resources (the 80/20 syndrome) and encouraging rather more self-help;

- **Cutting Waste:** there are a huge range of efficiencies (large and small) that have been taken; but saving money on pencils does not balance the budget. There are big changes that have been made and we have more to do; but tackling surplus places in our schools, for example, through the 21<sup>st</sup> Century Schools programme (secondary schools in particular) means that more funding is now being targeted more effectively at pupils, not empty desks. This has been done despite strong opposition from some communities and others;
- **Raising income:** this was a particular priority of the current Council administration when elected in 2017. We are now focussing on a range of business cases including CCTV and alarm monitoring services; the commercial potential for developing the Council's services and more generic support to develop commercial skills and capacity across the Council. To give one example, we have increased revenue generation at Margam Park by some 25% in two years and more or less halved the Council subsidy over the last five years; and
- **Changing our approach to budgeting:** we have made a rudimentary start on participatory budgeting. Some £640,000 has been allocated in from reserves to a Members Community Fund to be invested in priority projects within each of the Council's 42 Wards.

In consultation with community groups, Councillors can bid for between £500 and a maximum of £10,000 for any one or a combination of projects. Submissions demonstrating how Council funding will be used to lever in additional resources in support of Council policies and priorities are encouraged. There are guidance notes for Members on eligibility, legal requirements and proposals are scrutinised to ensure they are credible, feasible and properly costed; but the priorities are essentially originated and sanctioned locally – not centrally by the Council. In other words, if communities have their own priorities, we are providing (admittedly very modest) resources to make these choices.

## A response to Stakeholders

10. Turning to some of the points raised in the Committee's Stakeholder Event, this Council is entirely convinced of the benefits of preventative spend – on health and social care in particular. It was a key plank of our recovery strategy from significant problems in the delivery of Children's Services some years ago. The challenge is to make sufficient investment to make an impact on the growing number of people who find themselves needing more intensive or crisis services.
11. However, it is difficult to disaggregate preventative expenditure (because there is not yet a common service level definition<sup>3</sup> and early intervention can be exercised across a spectrum of need); but we agree that additional costs/austerity has very probably led to a real terms cut in preventative spending including those areas listed in the Committee's document.
12. We believe that there is a cause and effect relationship between cuts to these services and the negative impact on communities e.g. cuts to the Youth Service and an increase in anti-social behaviour and cuts to community services, such as toilet attendants, and increasing drug-related threat and risk now alarmingly evident in too many communities. We can also see the impact of persistent poverty on drug-related deaths and suicide rates. On the other hand, we have been able to avoid the closure of leisure facilities so the picture is inevitably mixed.
13. Thus money is obviously important (and some services are close to or at the irreducible minimum if they are to function); but equally throwing money at a problem is not the answer either if the service delivery or commissioning model is structurally unsound. This is an issue across public services in Wales, not just local government e.g. mental health services.
14. There is also a tension between the statutory obligation upon the Council to provide services (which are essentially reactive) and the desire to expand the preventative variety – notwithstanding the benefits of the latter.
15. On two other issues highlighted under the preventative heading:
  - We very much agree that additional costs have been imposed as a consequence of recent Welsh legislation. For example, notwithstanding

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<sup>3</sup> Although a high level one has been agreed between the Welsh Government and the Future Generations Commissioner around four levels of primary, secondary and tertiary prevention plus acute spending.

some earmarked additional investment, the Welsh Government expected the Additional Learning Needs Bill to be “*cost-neutral for local government and other organisations within the period of this Assembly*”<sup>4</sup>. It isn’t. This Council has needed to earmark a minimum of £500,000 per annum additional expenditure for each of the next three years. Thus it represents a significant financial pressure and there is even greater concern about the capacity constraints in our schools, where the number of pupils to be assessed could increase by up to five-fold. The Violence Against Women, Domestic Abuse and Sexual Violence Act is a further example of legislation that has not been fully costed. The Council has already invested circa £150,000 to meet the new partnership/training duties contained within the Act and guidance. We have also had to invest additionally in services for those at greatest risk as additional demand is being generated, yet there is no corresponding investment in the services that need to respond to that demand.

These pressures are being felt across the public sector; but also in the third sector. Whilst it is accepted that precise cost estimates are not always straightforward, there is nothing to prevent the Welsh Government making a commitment to fund actual costs (at least in the short term) if legislation is to be properly implemented?

- We also concur with the sentiments expressed by some stakeholders that the affordability of universal services should be revisited. They may be free to the service user; but they are not really “free” as there is an increasing cost involved – often met by local authorities and the gap between actual cost and the funding provided has widened in several areas e.g. Concessionary Fares. There is also a significant opportunity cost involved.

We therefore welcome as realistic the recent announcement by the Economy and Transport Minister that the age and eligibility criteria for free bus passes is to be reviewed in the context of the Public Transport (Wales) Bill. This is very much linked to the wider provision of public transport - a key issue identified by Members here, particularly in our Valley communities. The current system is clearly unsustainable as services have been reduced to the point where some/many have a bus pass; but hardly any buses to travel on.

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<sup>4</sup> NAW Finance Committee: Financial implications of the Additional Learning Needs and Education Tribunal (Wales) Bill – May 2017.

16. Under the heading of long-term planning and strategies, this Council is in favour of joined up working and we undertake extensive collaboration with our local health board, the third sector and a number of other partners; but it is certainly no antidote to austerity. The financial dividend of collaboration has never materialised – except perhaps at the extreme margins.

17. So, whilst favouring productive collaboration, this Council is somewhat sceptical about what might be described as “default regionalism”. In some cases, a compelling rationale has been set out for such arrangements [e.g. in the context of the Public Transport (Wales) Bill]. However, in other areas the rationale is weak to non-existent and there is:

- Little or no independent evidence that such arrangements have improved service delivery and outcomes;
- Some/much evidence that there is a significant cost to these arrangements which diverts resources from the frontline and consumes a disproportionate amount of Member and officer capacity; and
- A weakening of accountability insofar as increasingly large sums of money are no longer in the same place as the statutory responsibility to deliver a service - and diluted democratic oversight of the attendant arrangements.

18. The school improvement consortium; the (Substance Misuse) Area Planning Board and some aspects of the Regional Planning Board fall into these categories. At the time of writing, the Welsh Government’s latest proposals on local government reform were anticipated imminently. This will provide the context for further discussion.

19. It is also the case that for many years policy makers in Wales have boldly asserted that certain initiatives would produce major financial benefits. Procurement is one area (see below) and shared services another; but it largely hasn’t happened and no compelling business cases have been shared with us. The reality is these savings often depend on job cuts for the most part, which trade unions understandably resist. Instead, we believe we should be focusing our collaborative efforts in areas such as digital services in terms of both improving services and saving money. An example of that is a recent contract between the Council and Arvato to deploy robotic process automation technology across our HR service, where we expect to reduce the cost per transaction by up to 95 per cent – and free up Council officers to spend more time on greater value added activities.

20. It is certainly the case that long-term planning is difficult. Local government has had a succession of single year settlements (with one or two exceptions) in recent years. The idea of more “*disruptive budgets*” may have some merit in theory; but we cannot get away from the fact that the local government must continue to deliver on its statutory duties. It is interesting that stakeholders introduced the notion of competition whereas for the last decade or more the emphasis has been on collaboration. Thus there is perhaps a case for an independent evaluation of the outcomes of the collaboration agenda pursued in Wales now for well over a decade since the Beecham report in 2006?

21. As regards, the economy, business and the third sector, we would offer two observations.

- First, procurement is a hardy perennial. Frankly, recent policy initiatives have not produced tangible benefits, notably the National Procurement Service (NPS) - the reasons for that have been documented by the Auditor General<sup>5</sup> - and it is regrettable that in several areas the NPS has produced additional costs, not the savings originally promised. For local authorities, there also remains the tension/balance to be struck between providing value for money and supporting local business. We would like to think that we are making progress in this area and we work very hard on our local supply chains to ensure that they benefit to the maximum extent possible from programmes such as the 21<sup>st</sup> Century Schools; but there is more to do.
- Second, the Welsh Government has set out its strategy to promote the economy<sup>6</sup>. There are numerous “tools in the box” (organisationally and financially); but what is now needed is delivery. In our view, the public sector has an important role in delivering or facilitating large projects to promote jobs and growth. The stakeholder comment that Wales should not be engaging in innovative and unproven technologies was depressing in its lack of ambition. Moreover, too many projects in Wales do not get off the drawing board and the decision making process is often too lengthy and bureaucratic. This leads to significant abortive costs and unfulfilled expectations in communities.

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<sup>5</sup> Auditor General for Wales: Public Procurement in Wales (October 2017) and The National Procurement Service (November 2017).

<sup>6</sup> National Strategy (Taking Wales Forward 2016 – 2021) “Prosperity for All” plus “The Economic Action Plan” <https://gov.wales/sites/default/files/publications/2017-08/taking-wales-forward.pdf>  
<https://gov.wales/topics/businessandconomy/economic-action-plan/?lang=en>



This Council therefore believes that more managed risk needs to be undertaken. For example, we are particularly keen to advance the Swansea Bay City Deal - not least as a response to the climate change emergency. The process has been far too slow and bureaucratic hitherto (notwithstanding recent difficulties around governance). Frequently, the biggest risk is doing nothing – particularly when faced by major setbacks such as the Ford closure.

22. On education funding, it is very easy – at a high level or as an abstract statement - to suggest that the education budget needs to be “*clarified and simplified*”; but how? This Council has changed its local distribution formulae more than once in recent years to make it as equitable and efficient as possible and will be seeking Member approval this autumn to do so again in relation to secondary schools. However, beyond a point quickly reached, we are essentially slicing a shrinking cake in different ways. In contrast, the national distribution formulae have remained essentially unchanged in twenty years; do not necessarily represent need as the quantum and its individual elements have been cut consistently<sup>7</sup>. Previous protection for education budgets is long since gone.
23. Perhaps there is a wider and more fundamental issue here in that any change to national distribution formulae inevitably produces winners and losers? For this reason, we detect no real appetite on the part of policymakers to undertake significant reforms in the face of lobbying by sectoral interests. There is a similar story to education on the Supporting People programme where the redistribution exercise was halted<sup>8</sup> and funding is therefore still being largely distributed on the basis of historical spend dating back to the late 1990s and not on the basis of need.
24. On local services, the concern expressed about the transfer of services from principal local authorities to town or community councils is legitimate at one level - as are the capacity constraints on the latter. However, the choice here is often a stark one – transfer or close. It is easy to suggest the transfer of the services needs to be supported by “*adequate*” funding; but what is adequate and where is it going to come from?

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<sup>7</sup> NAW Children, Young People and Education Committee: report on School Funding in Wales (July 2019) – recommendation 4.

<sup>8</sup> Auditor General for Wales: The Welsh Government’s Supporting People Programme – August 2017.

25. This is also a by-product of the lack of substantive progress on the local government reorganisation/reform agenda over the past decade, where the role and function of Town/Community Councils remains an unresolved subplot despite a recent review<sup>9</sup>. Meanwhile, the Auditor General regularly identifies significant capacity and governance issues in Town and Community Councils and there is far from complete coverage across Wales (e.g. the former Neath Borough Council area has them; but Port Talbot does not).
26. On housing, we are one of half the local authorities in Wales that has transferred its housing stock. We work well with Registered Social Landlords and are looking to develop new funding models with them to complement well-structured Welsh Government funding programmes (e.g. the Innovative Housing programme); but it is undoubtedly the case that the availability of affordable housing is a real challenge. A major constraint remains the difference between cost and value. The position here will be assessed in the context of our Local Development Plan review in 2020 and it is hoped that the recent announcement on a National Development Framework from the Minister for Housing and Local Government<sup>10</sup> will provide a basis for moving forward.
27. As regards transparency and scrutiny, there is instinctive sympathy here for the argument around the “*unfairness*” of funding for health services and the seemingly infinite capacity of the NHS to spend money. However, with health now accounting for half the total Welsh budget, it is probably something of a dead-end in the sense that complaining about it doesn’t help pay the bills in local government. Again, not everything can be a priority.
28. Similarly, in relation to equality and vulnerable groups, the comment about poverty as a core factor in budget decisions is accepted at one level (and we are investing a great deal of effort in this); but there is a danger that everything – and therefore nothing - becomes the litmus test: Poverty? Protected Characteristics? The Future Generations Act? Other legislation? Local Authority statutory functions?
29. Finally, taxation. This is a big issue in the medium term e.g. in the context of how to fund social care<sup>11</sup>. We understand that the Inter Ministerial group will

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<sup>9</sup> Independent Review Panel on Community and Town Councils in Wales (October 2018).

<https://gov.wales/review-community-and-town-councils>

<sup>10</sup> <https://gov.wales/consultation-launched-20-year-vision-development-wales>

<sup>11</sup> E.g. the proposals from Gerald Holtham for a system of enhanced social insurance to meet the escalating costs of social care - <https://www.iwa.wales/click/2017/05/solving-social-care-besides/>

publish some options/analysis shortly; but it seems unlikely that decisions will be taken prior to the Assembly elections in 2021, so the budgetary pressures will remain short/medium term. Separately, some stakeholders were “*keen on the idea of a Tourist Tax*”. However, the sector itself – in these parts at least – is not.

## Conclusions

30. The WLGA has clearly set out the case for funding local services sufficiently – and the consequences of not doing so. It is not our objective to duplicate that message or deluge the Committee in more statistics (of which there is no shortage from multiple sources).

31. However, on the basis that the NHS will very probably remain the funding priority for the Welsh Government going forward, this Council would seek the following:

- More effective financial scrutiny of legislation in the National Assembly to ensure that additional, unquantified, financial pressures are not imposed on local authority budgets from new legislation – and where those pressures are identified, the funding is provided (on an actual cost basis where appropriate). Legislation – of itself - does not guarantee good services;
- A step change in the transfer of specific grants into the Revenue Support Grant; but coupled to more freedom for local authorities to set appropriate levels of service delivery with those resources (rather than an explicit or implicit continuation of Welsh Government expectations that the same levels of service will be maintained in all areas notwithstanding a transfer into the settlement). There are 64 specific grants worth some £866m currently in existence compared to 41 worth £825m in 2013/14 – so we are going in the wrong direction. Many are very small and it is quite possible/probable that in some cases the administration costs exceed the value of the grant<sup>12</sup>. It is also said that Ministers are reluctant to transfer specific grants without assurances from local government on the delivery of outcomes. It is a reasonable point; but we often do not know what assurances are being sought or they are unclear at least;

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<sup>12</sup> One recent example is a grant offer of up to 16k per Council area to be spent by 31 March next year to “*mitigate the potential impact of Brexit on parental and family relationships*” with an “*an overarching plan*” and “*an end of year report*” both required. Whatever the intrinsic merits (or otherwise) of the policy, the impact is likely to be limited to non-existent.

- Where specific grants are maintained, timelier notifications of the details to provide local authorities with financial certainty as quickly as possible in any given financial year. For example, earlier this year initial announcements of grant funding did not include significant grants which underpin Council services, including sixth form funding, raising school standards, adult community learning and the Sustainable Waste Grant. In the past, it has not been uncommon for the Council to receive the final notification of a grant quantum in the second half of the relevant financial year;
- A revisiting of the Welsh Government/National Assembly budget timetable announced on 16 July – and we welcome the indication from the Finance Minister on 15 August<sup>13</sup> that this will be done. If further details (whatever they are) of the UK Government Spending Round are known this month, there is no case for the Welsh Government delaying its funding announcement until December. If the date of the final budget remains at 3 March 2020, effectively this Council would have less than 24 hours or so to assimilate the information and finalise a budget report<sup>14</sup>. In these circumstances, Elected Members would have no real democratic choices to make. That would be bad governance. It would also have a knock on effect e.g. delaying the issuing of budgets to schools by some weeks, making the task facing governing bodies and head teachers all the more difficult; and
- Commence a fundamental review of whether the Local Government Finance system in Wales is fit for purpose. In addition to some of the detailed issues identified in this paper, there is a sense that it is increasingly ill-equipped to deal with new challenges facing our communities, notably County Lines, and tinkering at the edges is no longer enough. The WLGA has made a coherent argument for a more place-based finance system underpinned by further fiscal devolution.

13 September 2019

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<sup>13</sup> <https://gov.wales/written-statement-welsh-governments-response-uk-governments-plans-conduct-one-year-spending-round>

<sup>14</sup> There is a legal obligation upon Councils to set a budget by Tuesday 10 March 2020; but the “three (working) day rule” for the publication of reports would require the report to be published on Wednesday 4 March – the same day as the final local government settlement would issue from Welsh Government.