

# National Assembly Finance Committee

Welsh Government Draft Budget  
2017-18

9<sup>th</sup> November 2016



WLGA • CLILC

## Summary

1. Local Government is a vital partner for the Welsh Government in delivering its broad social and economic outcomes. Following the publication of the programme for Government, there are clearly few areas where councils do not make a crucial contribution to national outcomes. Local services support healthy people living productive lives in prosperous and innovative local economies. Local services provide the bedrock of safer, more cohesive and more equal communities. Local services make an invaluable contribution to a resilient environment and a society with a vital sense of its own culture and heritage.
2. Councils have borne the brunt of austerity and the publication of the latest report from the Institute of Fiscal Studies (IFS)<sup>1</sup> on the Welsh Government Budget shows that local services are the most vulnerable to cuts. Continued austerity is putting local services, and the government's own objectives at serious risk, both now and in the future.
3. The build-up of unavoidable financial pressures such as the National Living Wage and the Apprenticeship Levy coupled with demographic demands and funding cuts mean that the smaller, discretionary local services are being hollowed out.
4. The Legacy Report of the previous Committee<sup>2</sup> focuses on prevention and the Wellbeing of Future Generations Act. The Act places duties on the whole public sector to demonstrate how they have applied long term, preventative, integrated and collaborative approaches in achieving the seven national well-being goals. As we stated in our evidence last year, this signifies a step change that will place sustainable development and the needs of future generations at the heart of public service delivery in Wales. The whole financial planning framework, including budget setting, needs to reflect that.

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<sup>1</sup> [Welsh Budgetary Trade-offs to 2019-20, Institute for Fiscal Studies 2016.](#)

<sup>2</sup> [Fourth Assembly Legacy Report, National Assembly Finance Committee 2016](#)

**(1) What, in your opinion, has been the impact of the Welsh Government's 2016-17 budget?**

5. The average reduction applied through the local government settlement was 1.3% and was not as difficult as the experience of the previous 2 years. The Welsh Government (WG) responded positively to our lobbying for a floor arrangement for those authorities subject to extreme reductions, and this was supported by the previous Finance Committee in its report on the 2016-17 Budget<sup>3</sup>. The Programme for Government<sup>4</sup> contains a formal commitment to 'provide funding to put in place a floor for future local government settlements'.
6. While the lack of a clear and consistent approach by Welsh Government to Medium Term Planning continues to undermine the plans of local authorities, the cumulative impact on local authority services since the onset of austerity has been drastic. The 2015-16 announcement was the third year in a row that the published indicative settlement had been significantly revised downwards. The Auditor General<sup>5</sup> has calculated that that between 2010-11 and 2016-17, there will be a real-terms reduction of £761 million (17%) in aggregate external finance (core grant).
7. The recently published CIPFA 2015 Manifesto<sup>6</sup> underlined that sound financial planning remains a concern across the public sector in the UK. Our major concern remains the inability to rely on any figures while attempting to introduce significant reductions in funding in a planned and rational way. This limits local government's ability to plan based on sound evidence and appropriate lead-in time. In England they operate a system of multiyear settlements that requires local government to produce efficiency plans.<sup>7</sup>
8. There is no doubt that local public services continue to bear the brunt of austerity in Wales. While overall expenditure has levelled off in cash terms the impact on unprotected or discretionary services is extreme.

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<sup>3</sup> [Scrutiny of the Welsh Government Draft Budget 2016-17, National Assembly Finance Committee 2016](#)

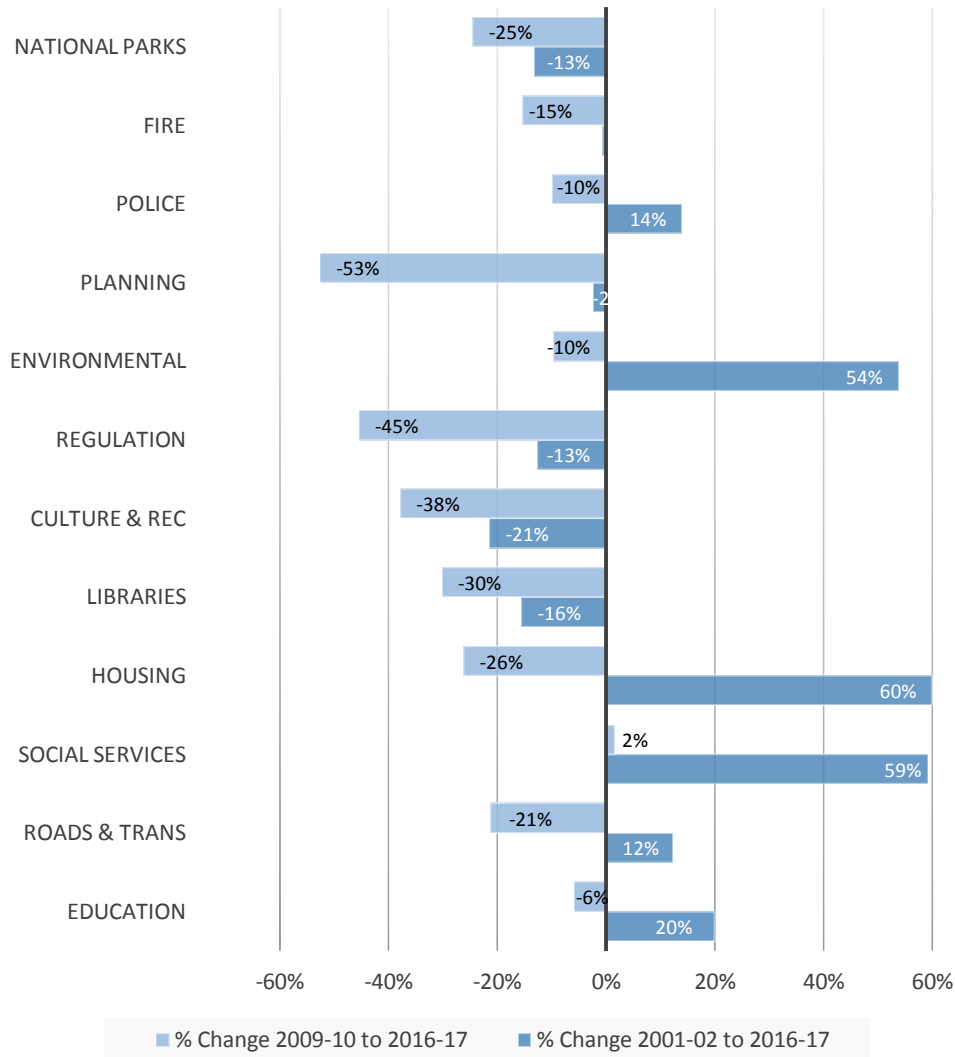
<sup>4</sup> [Taking Wales Forward, Welsh Government 2016](#)

<sup>5</sup> [Financial Resilience of Local Authorities in Wales 2015-16, Wales Audit Office 2016](#)

<sup>6</sup> [CIPFA Manifesto 2015, Chartered Institute of Public Finance and Accountancy 2015](#)

<sup>7</sup> [Four-year settlements for councils could include more grants, says DCLG, Public Finance September 2016](#)

**Figure 1:** Real terms reductions in service spend, 2001-02 to 2016-17



**Source:** WLGA, RO and RA returns

9. Figure 1 above shows that services which are vital to economic growth and preventative in nature have seen precipitous reductions. Some of the largest reductions have been in unprotected areas such as Planning and Regulatory Services which play a vital role in regeneration and preventative areas.
10. Many other areas of LG spend have shrunk by at least a fifth in real terms. Areas that had been relatively protected including education, social services and environmental services, have nonetheless also been contracting. The recently published report of the IFS, cited above, came to a similar conclusion while a report from the Public Policy Institute for Wales (PPIW) at the end of last year showed that the scale of reductions for some services in Wales is on a par with

those in England<sup>8</sup>.

11. One of the main features of the above graphic is that services in all but 6 areas are now been resourced at levels last seen at the end of the 1990s. The increased investment of the early 2000s has been wiped out. Most of the savings so far have been achieved through pay restraint and reductions in posts. Workforce surveys have shown that 15,000 posts have been lost since 2009-10. This is likely to continue through to 2019-20 on the same scale, effectively reducing the local government workforce by 20% over a 10-year period. Many of the initiatives for addressing budget shortfalls can be identified from local authorities' medium-term financial plans.
12. At the same time performance has been improving. The latest local government performance data<sup>9</sup> shows how those services performed in 2015-16 compared to 2014-15. At a Wales level, 65% (26) of the 40 indicators which are comparable between 2014-15 and 2015-16 show improvement. Moreover, the gap in performance (between the best and worst performing authorities) continues to narrow in 59% (23) of the indicators. For 41% (16) of the indicators, performance improved and the gap between the best and worst performing authorities narrowed. Of the 41 national performance indicators in place for 2015-16, 66% (27 indicators) were comparable to 2009-10. Of the 27 comparable indicators, 67% (18 indicators) had improved.

## **(2) What expectations do you have of the 2017-18 draft budget proposals?**

13. WLGA Leaders continue to emphasise the preventative nature of local services, especially social services. The letter at the annex was sent by the WLGA's Finance Spokesperson and the Spokesperson for Health and Social Care setting out the very real pressures that local authorities will experience over the next few years, not just 2017-18.
14. This derives from the increased demand for local public services and the increased cost of providing them. Demand pressures are largely demographic and are most acute in the larger budget areas of social services and education. The work done for Wales Public Services (WPS) 2025<sup>10</sup> demonstrated that pressures in social services budgets drive around 2.9% growth each year, which is around £43m annually up to 2019-20. This includes increases in Looked After Children as well as the elderly population. For Adult Social Care, a report commissioned by the Welsh Government from LE Wales<sup>11</sup> came up with a similar

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<sup>8</sup> [Coping with the Cuts: Lessons from English Councils' Responses to Budget Reductions, PPIW 2015](#)

<sup>9</sup> [Local Authority Performance 2015-16. Data Unit Wales 2016](#)

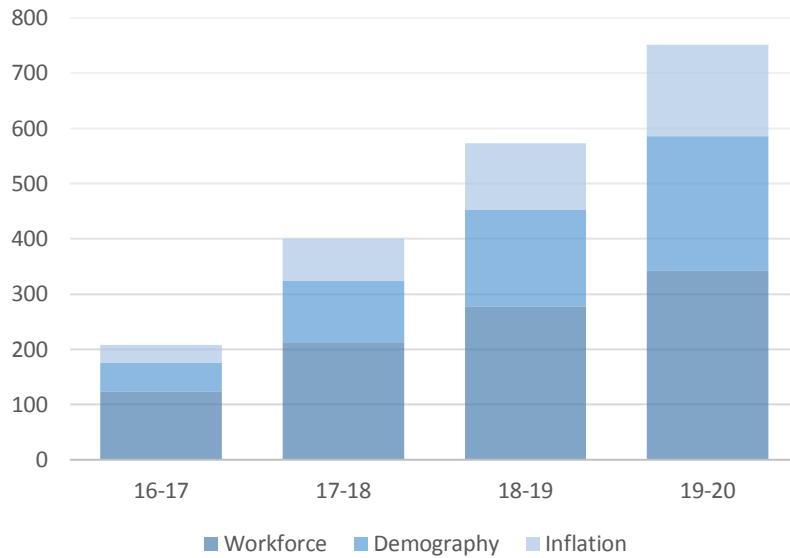
<sup>10</sup> [Future Pressures on Welsh Public Services, WPS 2025 2014](#)

<sup>11</sup> [Future of Paying for Social Care in Wales, LE Wales 2015](#)

figure.

15. Within education budgets, increased birth rates are starting to feed through to growth in pupil numbers. From 2015 to 2019, the ratio of growth of school-aged children to the general population will increase nearly threefold from 0.8 to 2.3. The resultant annual pressure increases from £9m in 2016-17 to £24m in 2019-20.
16. However inescapable cost pressures are now becoming a greater proportion of total pressures and they are felt across every service area, as well as social services and education. Last year local authorities were expected to absorb a £60m additional baseline cost due to the loss of the National Insurance rebate as a consequence the introduction of Single Tier Pensions. The introduction of the National Living Wage means that this level of inescapable pressure will be the same in every year from 2017-18 to 2019-20 as is was in 2016-17. Added to this £60m pressure in 2017-18 is a £18m pressure due to the introduction of the Apprenticeship Levy and another £42m for pay and the impact of the triennial pensions revaluation.
17. These unavoidable workforce costs, left unfunded, mean that local services would have to be cut, in order to fund them. Figure 2 below shows that workforce costs make up 46% of cumulative pressures by 2019-20. When inflation is also taken into account, the figure below shows the increased pressure from 2016-17 to 2017-18 is £192m followed by £172m in 2018-19 and £178m in 2019-20. The cumulative pressure by 2019-20 is £750m which is around £150m higher than last year's estimate and largely down to the combined effect of the National Living Wage, the Apprenticeship Levy and additional pensions contributions.

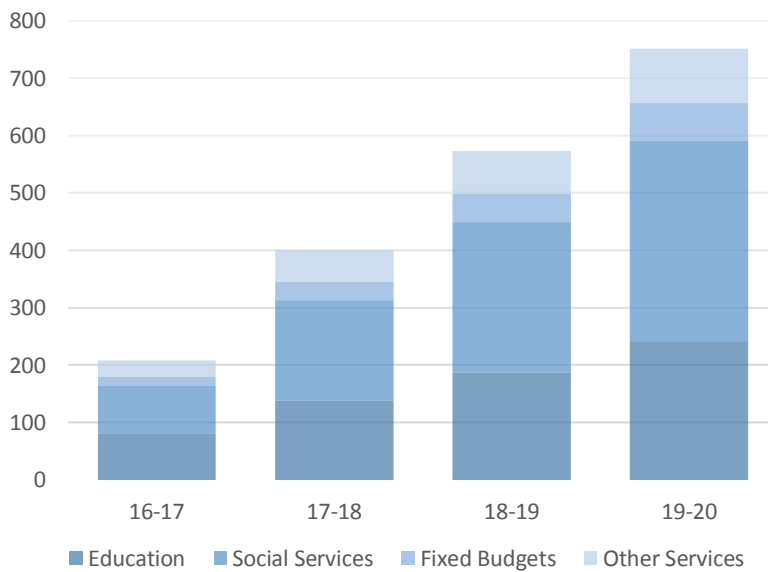
**Figure 2:** Cumulative impact of pressures up to 2019-20, £m



**Source:** Base estimates: RO and RA returns (2014-15 to 2015-16), NLW impact: WLGA Survey (2016)

18. An alternative way of looking at these pressures is to base them on services and other elements of the overall budget. Figure 3 shows the pressures broken down in this way. Over 80% of the pressures are attributable to the largest services of social services and education, a proportion that remains consistent through to 2019-20.

**Figure 3:** Cumulative impact of pressures up to 2019-20, by budget, £m



**Source:** Base estimates: RO and RA returns (2014-15 to 2015-16), NLW impact: WLGA Survey (2016)

19. While Council tax continues to be an important source of income for local authorities, future increases are nowhere near enough to fund the pressures highlighted above. Assuming funding stays flat in cash terms, council tax would have to increase by nearly 15% every year up to 2019-20.

**(3) How financially prepared is your organisation for the 2017-18 financial year, and how robust is your ability to plan for future years?**

20. In his most recent report on the financial resilience of local authorities<sup>12</sup>, the Auditor General has recognised that 'local authorities are improving their strategic planning arrangements but are having difficulty in developing and delivering the savings and changes to services at the pace required to ensure future financial resilience.' There is clearly work still to do.

21. While local authorities can make sound estimates of future expenditure pressures, second guessing the scale of funding reductions in the future has become a quest for the grail. This is not helped by the WG's approach to its own budget setting.

22. The WG has retreated from a sound medium-term approach which it had at the outset of the 2010 Spending Round. The budget cycle has returned to an annual incremental approach accompanied by a complete withdrawal of the system of multiyear settlements for local government that had been developed as far back as 2007. However, we do understand that the uncertainties of Brexit make planning ahead for this year one of the most difficult so far but as that uncertainty recedes we really need to see a return to proper financial planning framework.

23. One guide to the future is the information published by the Office for Budget Responsibility. At the time of the Budget in March 2016 it published its own forecast of local authority funding and spending up to 2021<sup>13</sup>. Published figures in the supplementary tables show increases in central government current grants to local authorities between 2015-16 and 2020-21 are set to rise by 8% in Wales or 1.5% on annual basis.

24. However, the Spending Review documentation does provide estimates for the Welsh Block Resource DEL (RDEL). Along with assumptions about growth in business rates, these estimates can assist in modelling a number of scenarios<sup>14</sup> for the Welsh Government Budget and the impact on local government's core grant in the remaining years of the Spending Review.

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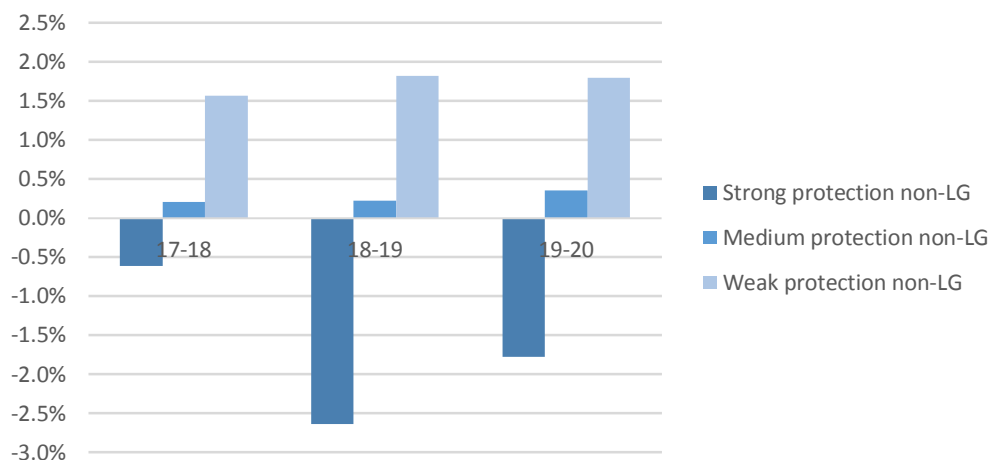
<sup>12</sup> [Financial Resilience of Local Authorities in Wales 2015-16, Wales Audit Office 2016](#)

<sup>13</sup> [Table 2.29 in the Economic and Fiscal Outlook Supplementary Fiscal Tables](#), OBR, 2016

<sup>14</sup> Based on modelling taken to Society of Welsh Treasurers in January 2016 and updated to reflect the outcome of the March Budget.



**Figure 4:** Modelled changes to Aggregate External Finance (AEF) to 2019-20, under 3 scenarios



Source: WLGA

25. Under the most optimistic scenario there is 'weak' protection for non-Local Government Budgets. Under this scenario, the NHS receives future increases based on a 'consequential' of the increase to the English NHS through the lifetime of the Parliament. All other budgets are held cash flat, allowing AEF to increase by 1.6% in 2017-18, 1.8% in both 2018-19 and 2019-20. This scenario roughly aligns with the OBR forecast.
26. A less favourable scenario is to assume that there is 'medium' protection for non-Local Government Budgets. This time the NHS receives more generous uplifts based upon general (GDP) inflation over the SR period. All other budgets are held cash flat, allowing AEF to reduce by 0.2% in 2017-18, 0.2% in 2018-19 and 0.4% in 2019-20.
27. An even more pessimistic scenario could be envisaged where, as above, the NHS is protected for inflation, and so are all other non-LG budgets. AEF reduces by 0.6% in 2017-18, 2.6% in 2018-19 and 1.8% in 2019-20.
28. None of these scenarios can take account of the additional resource that Welsh Government Ministers will need to fund the Programme for Government. There are some big ticket items in this but at the time of writing we do not know how much the programme will cost.
29. The Committee should also be aware that WLGA and CIPFA recently joined forces to appoint an Independent Commission to look at the future of Local Government

Finance<sup>15</sup> in Wales which is chaired by Professor Tony Travers. The Commission was not tasked with evaluating specific issues such as the funding formula but did take a broader view of the system and also on whether funding may be better incentivised or even localised. A balance needs to be struck between a system that better incentivises and one that fully equalises and reflects need. In the WLGA manifesto<sup>16</sup> we make a case for more localisation and the corollary to this is greater fiscal devolution. A summary of the recommendations of Professor Travers' Commission is set out at Annex I.

#### **(4) Specific areas in the scrutiny of the budget**

##### Approach to preventative spending and how is this represented in resource allocation

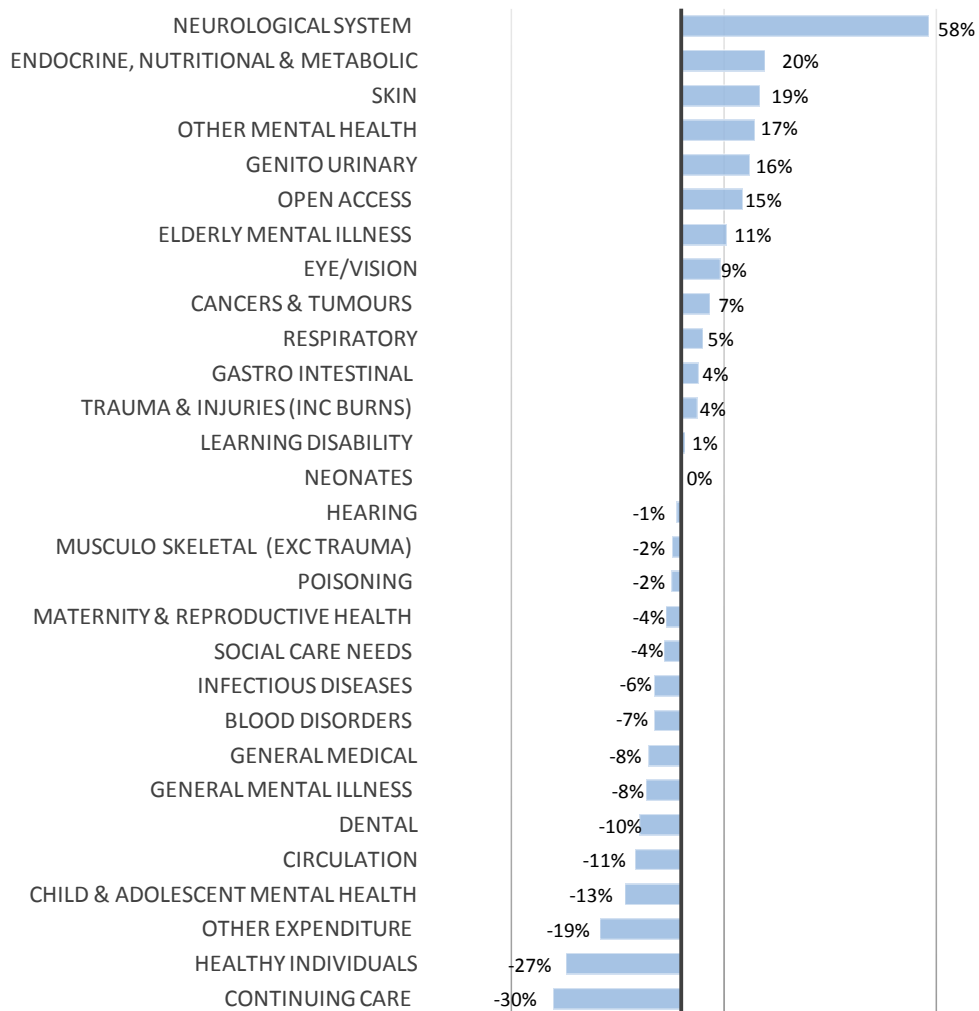
30. The WLGA agrees with the recommendations on prevention contained in the Legacy Report. The term is neither well defined nor does it have much influence in resource allocation. In figure 1 it is clear that for local public services, areas of preventative spend are synonymous with areas of unprotected spend and therefore subject to the largest reductions.
31. There is some evidence that something similar is happening within health budgets. The breakdown of NHS Programme Budgets collected centrally shows many areas of spend that are preventative in nature suffering large reductions after adjusting for inflation. However, funding for Public Health Wales is not included here as the organisation did not exist in 2009-10.

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<sup>15</sup> [Ambition for Change: Aiming Higher, Independent Commission on Local Government Finance Wales 2016](#)

<sup>16</sup> [Localism 2016-21: A Plan for Public Services in Wales, WLGA 2016](#)

**Figure 5: Real terms spending in NHS programme areas, 2009-10 to 2014-15**



**Source:** StatsWales & HMT (GDP Deflators)

Welsh Government policies to reduce poverty, mitigate welfare reform and prepare for an aging population

32. We have made a submission to the Equalities, Local Government & Communities Committee on their future work programme and that submission should be read in conjunction with this.

Local health board financial arrangements

33. Our comments on the NHS-Social Care Interface can be found in paragraphs 53 to 55 below.

### Preparation for the UK to leave the EU

34. The timing and likely impact of the UK leaving the EU are uncertain. Under Article 50 an agreement for withdrawal has to be negotiated. EU requirements will cease to apply from the date the agreement comes into force or, failing that, two years after the UK notifies its intention to leave. The recent report from the IFS explains the impact in two distinct components: the mechanical effect and the national income effect.
35. In terms of the mechanical effects, the withdrawal agreement has to address the phasing-out of EU financial programmes. Until those negotiations have taken place it is unclear whether any EU financial support will continue after departure (e.g. up until the end of current programmes in 2020) and/or the extent to which any shortfall will be made up from domestic funding. The UK Government has already guaranteed that financial support from the Treasury will be provided for EU Structural and Investment-funded projects signed before this year's Autumn Statement and for any Horizon (R&D) projects signed before the UK leaves the EU. As far as the 2016/17 budget is concerned there is likely to be limited impact and the greater uncertainties relate to the tail end of the current programme up to 2020, and beyond.
36. However, there is pressure to agree as many projects as quickly as possible and match funding will need to be in place for all approved projects. This may result in the profile spend on European projects being more 'front-loaded' than would otherwise have been the case. On the other hand, the uncertainty surrounding later years' funding is causing uncertainty and could result in some multi-year projects not being taken forward and/or some projects finding it difficult to recruit/retain the calibre of staff needed for successful implementation.
37. The national income effect is more profound in the medium to long term and public finances are sensitive to national income. The IFS estimates that if national income drops by more than 0.6% then this would be enough to outweigh the positive of the £8bn that the UK currently contributes to the EU. The IFS cautions that the medium to longer term outlook for the economy will still be unclear. In the shorter term the UK Government has announced that it will not aim to reach a surplus by 2019-20 which may ease austerity a bit but push its end date well into the early 2020s.

### Low carbon budgeting and preparing for the Future Generations Act

38. Carbon budgeting is being introduced in Wales via the Environment Act. It links to the Well-being of Future Generations Act in the sense that the latter requires a

long term perspective that acknowledges the risks associated with dependency on carbon-based fuels. These risks relate to health impact, long term climate change and future energy security. Carbon budgets are a monitoring tool intended to help ensure regular progress is being made towards long-term emission reduction targets (80% by 2050 compared to 1990 levels for the UK as a whole, under the Climate Change Act 2008).

39. Whilst covered by the Climate Change Act, the devolved administrations can introduce their own climate change policies and that is what is being done in the Environment Act up to 2050. Interim targets will be set for 2020, 2030 and 2040. The budgetary periods are 2016 to 2020, and then each succeeding period of five years, ending with 2046 to 2050. The targets for the first two periods have to be set by Welsh Government before the end of 2018. The budgets for the third and later periods must be set at least five years before the start of the period in question.
40. As 2016-17 and 2017-18 are the first two years of the initial carbon budget, local authorities' progress in each of these years is of relevance. That is the case even though the first target may not be known until the end of 2018. Moreover, the first statement of progress will not have to be produced until up to two years after the interim target year (i.e. 2022). However, it is clear that Welsh Government will depend on local authorities who manage the largest portfolio of properties in the public sector in Wales and other partners to meet the carbon reduction targets for Wales. It makes sense for authorities to be taking steps to reduce their carbon emissions in any case. It would be surprising if it was not an objective in their Well-being Plans and there may well be cost savings - or even income - from energy efficiency measures and return on investment in renewable energy technologies. Such measures often require significant capital investment.
41. WG's Green Growth Wales is currently providing financial support for authorities and that includes advice and support under the RE:FIT programme (an energy performance contracting arrangement) and for the introduction of renewable energy. Continued support will be vital if progress is to be maintained. There is scope to widen such support to include transport, which will have to make more of a contribution over the coming years if the overall carbon reduction goals are to be met. Schemes like the Metro – if based on electrification using renewable sources – could make a significant contribution, as could support for infrastructure for electric and/or hydrogen vehicles.

#### Preparation for the impact of further devolution included with the Wales Bill

42. The Independent Commission on Local Government Finance chaired by Professor Travers recognised that by 2021 it is possible that nearly a third of public spending in Wales could be financed by taxes raised within Wales. One of its

recommendations was that as the Welsh Government achieves greater fiscal devolution this should flow through to the local level.

43. We would argue that this kind of 'double devolution' applies as in a functional or sense than is does in a fiscal sense. This means that not only should local government be considered to collect and retain devolved taxes (or as Travers concluded, the City Regions as well) but they should be considered to deliver newly devolved services where it is appropriate to do so at a local (or regional) level.
44. One of the issues we've highlighted in our Manifesto is the creation of an independent Office for Budget Responsibility that is accountable to the National Assembly. This could provide independent scrutiny of WG forecasts of receipts and economic determinants from taxes devolved to Wales as well as broader economic and fiscal forecasting. By March 2016 the Scotland Act 2016 and associated Fiscal Framework were agreed between the Scottish Government and UK Government.

Impact of the Welsh Government's legislative programme and whether its implementation is sufficiently resourced

45. Our experience of new legislation and associated impact assessments is mixed. Where there is good and early engagement with local government, generally satisfactory outcomes in terms of implementation are being achieved. The Housing Bill was a good example of where Welsh Government and local government have worked together on ground-breaking legislation.
46. With regard to the Social Services & Wellbeing (SSW) Act, the WLGA was very supportive but the costs were underplayed and benefits oversold. The very nature of this enabling legislation meant that it was difficult to analyse with any degree of rigour as we found out when commissioning the Institute for Public Care<sup>17</sup> to analyse the implications of the SSW Bill along with the NHS Confederation and the WCVA.
47. The RIA for the Wellbeing of Future Generations Bill came in for a more thorough evaluation by the Wales Audit Office<sup>18</sup>. It raised an important point about opportunity costs where costs have to be absorbed. Where the costs do have to be absorbed and activity is displaced from elsewhere, the WAO were critical of the WFG RIA and stated (p.8):

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<sup>17</sup>[Transitional and longer-term implications of the Social Services and Well-being \(Wales\) Bill 2013, Institute of Public Care 2013](#)

<sup>18</sup>[Review of the Regulatory Impact Assessment of the WFG \(Wales\) Bill, WAO 2016](#)

*In relation to the Welsh Government's view that additional costs of the Bill may need to be absorbed within existing resources, as expressed during the Environment and Sustainability Committee's evidence session on 29 September 2014, we consider it unhelpful that the Regulatory Impact Assessment does not make this intention clear. The absorption of costs within existing resources is an opportunity cost, in terms of the other activity forgone. The intention to fund additional costs in this way should be explicit in the Regulatory Impact Assessment.*

48. In conclusion what we would like to see is a return to the protocol where Welsh Government funded the costs of new legislation, a reinstatement of the Essex-Jones agreement. We call for this in our manifesto.

**(5) The previous Welsh Government have highlighted that the Draft budget 2017-18 will be aligned with national indicators for Wales.**

49. A report will be published every year by the Welsh Government on progress made in Wales in achieving the seven well-being goals, using the national indicators. This will be called the Annual Well-being Report, the first will be published in the financial year following the publishing of the national indicators. i.e. March 2017.

50. It can be assumed therefore that the first report will be a reference/baseline against which to determine improvement and progress. If budgets will be aligned to the national indicators, on what basis? Will the budgets for those indicators relating to Health, Education and Social Services be 'ring-fenced'? Will weightings be applied? What criteria will be applied i.e. if there is a lack of progress towards one or more of the goals is it the intention to 'divert' monies to improve the progress against one or more indicators to the detriment of another? The 7 Well-being Goals are of equal value, interrelated and inter-dependent e.g. you cannot have a prosperous Wales if the workforce is unhealthy.

51. Preventative spend requires an understanding of the root cause of the problem and tackling that, not just the symptoms of the problem. If there is a lack of understanding and a lack of willingness to address the root causes of the high incidences of say Diabetes, Cardiac conditions, obesity then the health service will be faced with a never ending and increasing number of these cases for future generations. Simplistically common root causes of diet high in sugar and fats, lack of exercise, if not addressed, will exacerbate the situation AND if addressed and funded there will still be the 'backlog' of those currently affected by the illnesses which also needs funding, until the preventative measures have their full effect.

52. In our evidence to the Williams Commission in 2012 we advocated the outcomes framework that the Scottish Government adopted in 2007. Outcomes-based budgeting is not a new phenomenon and will not immediately improve resource allocation. There will be difficulties attributing outcomes to large delegated budgets within the WG Budget, but the WG should take a lead in embedding it across public services and issue the kind of guidance that the Scottish Government has issued<sup>19</sup>.

**(6) What spending commitments and priorities would you like to see in the 2017-18 draft budget in order to ensure that progress is being made on preventative spending and, in particular, the area of health and social services?**

53. In Wales, significant progress has been made through partnership working in terms of enacting the Social Services and Wellbeing Act 2014, and in the introduction of initiatives such as the intermediate care fund (ICF). This progress has been significant, however we have also seen the policy developments and investments that have taken place in England which point to an ambitious agenda.

54. For example, Greater Manchester's proposals for a combined health and social care budget will see a £6bn pooled budget between the NHS and local government. It will be important that the work of the Committee ties in with the Parliamentary Review into the long-term future of Health and Social Care in Wales announced by the First Minister, but we believe that an inquiry looking at the progress made to date; and assessing the impact of Welsh Government policies and legislation on integration of health and social care services should be one of the priorities for the Committee.

55. One of the key issues for the new Welsh Government will be how to shift the priorities from hospitals to prevention and public health. It has been the WLGA's policy that the latter function should be located in local government as is the case in England. Once again the WLGA has felt compelled to write to WG Ministers on the issue of funding for social care, this is set out at Annex II. The premise is simple: if we wish to avoid the problems facing the English Health and Social Care system as a whole then then we need to fully fund aspects of inescapable pressures, and ensure that councils have the freedom to set charges and fees at a level that best suits local circumstances.

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<sup>19</sup> [Outcomes-based Approach: Guidance for Scottish Public Bodies, Scottish Government 2011](#)



**(7) What spending commitments and priorities would you like to see in the 2017-18 draft budget in order to ensure that progress is being made on reducing poverty and preparing for an aging population?**

56. See our recent submissions to the Health and Social Care Committee and the Equalities, Local Government & Communities Committee on their respective work programmes.

**(8) Do you feel that allocations made by the Welsh Government are sufficiently evidence based?**

57. We feel we answer this question as part of our comments on preventative spend, the quality of evidence in Regulatory Impact Assessments and funding for new burdens or responsibilities.

**(9) What changes to allocations and priorities do you feel need to be reflected in the draft budget 2017-18 and subsequent years as a result of the vote to leave the EU?**

58. At the point EU funding is terminated there is an expectation, following pledges made before the referendum, that the UK government will provide 'replacement' funding. It is important that the opportunity is taken to review current programmes of financial support and to consider whether a more appropriate regional policy that can be put in place, tailored to meet the needs of Wales. For example, the 'West Wales and the Valleys' geographic area was devised with EU funding in mind – is it the best configuration to support economic development across Wales? Levels of funding have also been weighted towards that region as opposed to 'East Wales'.

59. Whilst that reflects the level of need it may not always reflect the 'geography of opportunity'. Given that travel to work patterns frequently cross the West Wales and the Valleys/East Wales border a more strategic approach might deliver better outcomes. Any such regional policy should take account of work already underway at regional level via City Deal, City Regions, Growth Deals etc.

60. WLGA in its Manifesto called for a statutory economic development duty for LAs, properly resourced and capable of being discharged at a regional level, delivered alongside Welsh Government support. This has received a positive response from Welsh Government to date and, if the idea is to be progressed, it is important that it starts to feed into budgetary plans.

**(10) What long term planning is carried out to fully deliver on preventative spending strategies and how do you plan for this within short term budget periods?**

61. While medium-term financial planning is firmly embedded and improving in local authorities, longer term thinking is still at a nascent stage. Saying that there are positive signs the WFG Act is proving to be a useful lens through which to view future service provision. Some authorities are starting to undertake strategic programmes of 'whole-authority' work. For example, 'Future Monmouthshire' aims to pose a set of questions about the authority's core purpose, relationships with communities, citizens and stakeholders and its appetite for economic growth and local prosperity.
62. One of the aims of programmes like this is to develop a new operating model in order to equip authorities to meet their goals amidst increasing change and uncertainty. The new operating model will have a clear purpose: to create the capacity and foresight to develop solutions to some of the biggest challenges, ensuring that authorities understand the shifting needs and priorities of communities and positioning themselves as enablers for change.
63. As an Association we think that long-term planning is under-developed in the Welsh public sector and this is one of the reasons that we collaborate with a number of other public sector bodies to fund Wales Public Services (WPS) 2025.

**(11) What baseline evidence is used to measure preventative outcomes?**

64. We are not convinced that there is a particular issue with baseline assessments but there are wider issues around planning horizons and the quality of evaluation. Preventative strategies tend to come with bold statements about the costs or negative social outcomes (or both) that will be avoided in the future. They rely on some subjective assessment of what 'otherwise would happen' in the future.
65. For example, the UK Government's Troubled Families programme was a flagship preventative initiative. It initially aimed to "turn around" 120,000 households at a cost of around £400m. A second wave of the Troubled Families programme was announced in June 2013, and began to roll out in April 2015. It covered another 400,000 families at a further cost of £900m.
66. By the time a thorough-going evaluation saw the light of day, the evidence showed that there had been no discernible effect on unemployment, truancy or criminality.

67. A major issue with the programme was that local authorities were over-reporting successes in order to gain vital funding that made up for drastic funding reductions. It is an indictment of 'payment by results'.

68. Another issue is the time that it takes to realise significant savings or improvements in social outcomes. One of the few studies that attempts to quantify the preventative impact of the Social Services and Well-being Act is the LE Wales' *Paying for Social Care* report cited above. Over a 24-year period the costs of Adult Social care are estimated increase by 114% in the base line scenario and under the preventative scenario, they increase by 108%. Preventative savings are definitely worth realising, but relative to cost and demographic pressures, in the longer run they may potentially be modest.

**(12) How can good examples of service transformation and innovation be encouraged and shared nationally across key agencies and what is the role for the Welsh Government here?**

69. Welsh public services organisations are currently working collaboratively to support innovation and service transformation through providing opportunities for practitioners to acquire knowledge and skills and share experiences and connections. This collaborative approach has proved valuable in cross fertilisation of ideas across service areas and sectors and alignment with national priorities or legislation such as the Wellbeing of Future Generations Act and Social Services and Wellbeing Act.

70. National partners work together via the Good Practice Wales partnership to share information, identify practice and plan programmes of activity either through case study development via the Good Practice Wales website or shared learning events:

- Good Practice Wales: a single access online portal to Welsh Public Services good practice and knowledge. The site currently signposts to over 3000 case studies and key resources such as Co-production Catalogue for Wales, Alternative Models of Service Delivery etc. as well as hosting national programmes such as Together 4 Children and Young People, All Wales Continuous Improvement Network etc. The WLGA are the co-ordinating partner. <http://www.goodpractice.wales/>
- Shared Learning events over a range of themes such as the Behaviour Change, Joint Commissioning for Integrated Health & Social Care, digital services, open data, etc. Many events are organised or coordinated via the Wales Audit Office's Good Practice Exchange <https://www.wao.gov.uk/good-practice> or are coordinated by the WLGA via Good Practice Wales.

- Professional networks and communities of practice actively share practice and learning. Communities of practice have been established for continuous improvement and the Welsh co-production network has recently received funding to expand its activities.
- Other Wales and UK-wide partners or programmes such as NESTA, Carnegie, Y Lab, Wales Cooperative Centre also work with Wales-based partners through Good Practice Wales to stimulate and support innovative ideas and solutions.

71. The Welsh Government participates in the work of Good Practice Wales, but its role should not be any more than a partner or a facilitator; practice is best developed, owned and shared through communities of practice or through sector-led activity coordinated by national partners rather than via the Welsh Government; a sector-led and partnership-based approach tends to encourage a more organic, flexible and responsive approach to sign-posting and sharing innovation compared to previous Welsh Government initiatives.

72. The Welsh Government should however provide additional resources and support to service transformation and innovation, through capacity funding for ongoing initiatives such as Good Practice Wales and shared learning events and funding to support service transformation and innovation in priority areas; the WLGA's 2016 Manifesto called for the creation of a new £20m capacity fund for local government to merge services, digitalise delivery where applicable and explore alternative delivery models such as mutuals, cooperatives and social enterprises.

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**Cleared by: Cllr Aaron Shotton (Finance) & Cllr Huw David (Health & Social Care)**

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## Recommendations of the Independent Commission on Local Government Finance

The Commission recommends full localisation of business rates, with 100% of business rates and business rate growth being retained by local government. In the year of implementation measures would need to be put in place – such as adjustments to grants receipts or pooling arrangements - to ensure that no authority is better or worse off financially than in the previous financial year.

The Commission commends the fact that Wales is the only nation in the UK to have undergone a council tax revaluation exercise, and recommends that since even in Wales, properties are taxed based on a 2005 valuation base, a further revaluation needs to be undertaken, with commitment to this being done on a five yearly basis in the future.

The Commission recommends that the Welsh Government introduce legislation to make it possible for city regions, or other sub-national groupings of authorities, to reform bandings and the ratio of council tax payable from band to band.

The Commission recommends that the incoming government should devolve to local authorities the setting of council tax discount and the power to determine who receives council tax support.

The Commission recommends authorities be given a suite of permissive powers that can be introduced locally, depending on local circumstances. Examples of powers to be conferred would be the introduction of a tourism tax. There should be a logic in choosing to levy these taxes, with money raised to be utilised according to related priorities, so tourism tax to assist with local development/ regeneration which would aid the tourism industry.

From April 2017, the Welsh Government will also assume responsibility for the replacements for Stamp Duty Land Tax and Landfill Tax with the proposal for partial Income Tax devolution by 2020. As the Welsh Government achieves greater fiscal devolution from the UK Government the Commission recommends that this should flow through to further devolution to the local level.

The Commission recommends a substantial reduction in the number, scope and scale of specific grants. It is the Commission's belief that specific grants force councils to use resources on services that may not be a local priority and are a challenge to local autonomy, service users and good government, whilst adding additional administrative burdens with each grant. The Commission's view is that specific grants should only be used for a national priority, or for a national function for which the local authority is an agent. Innovation grants should be limited to a maximum of three years. All existing specific grants should be folded into the RSG unless there is special justification. The Commission also recommends that any further specific grants should be reviewed on a two yearly basis to ascertain if the case for hypothecation remains valid or to decide if the grant is to cease or be incorporated within the RSG.

The Commission recommends that the incoming government commits to full and clear multi-year settlements to enable effective long-term planning for local authorities and other public services. The Commission would urge rolling three yearly settlements to allow effective planning and appropriate consultations for required service changes.

The Commission supports councils having the freedom to determine fees and charges locally.

The Commission recommend that councils are given greater freedom on capital expenditure by de-hypothecating capital grants.

The Commission recommends the establishment of a Welsh equivalent of the UK Office for Budget Responsibility (OBR): an advisory, Assembly sponsored public body to provide independent economic forecasts and analysis of the public finances in Wales. It would produce fiscal and economic forecasts and report on the Welsh Government's taxation and expenditure assumptions. It would work alongside the UK OBR. Other duties could include scrutiny of the Government's policy costing and assessing the long term sustainability of the public finances in Wales. The finances of Welsh local government would be reviewed as part of this process.

The Commission has received a great deal of evidence about the formula for the RSG being based on outdated data, complex and lacking in transparency. The Commission therefore recommends the existing grant regime is frozen and, for the immediate future, used as the basis for the rolling three year settlements proposed above. This change would provide temporary stability and predictability, allowing councils to plan effectively and assist planning with partner organisations. To improve the system in the longer term, an Independent Grants Commission should be set up to commence work on a more effective and fairer formula for the future. The Commission also believe the Grants Commission should be asked to comment on the use of local authority grants by the Welsh Government and to undertake a periodic review of specific grants. As the Grants Commission would be independent, it would be possible to separate the legitimate role of the Welsh Government in setting the quantum of grant from decisions about grant distribution.

The Commission recommends that the City Regions are given the power to add a supplementary business rate, whose sole purpose would be to assist in paying for large capital projects (similar to the way the Crossrail scheme in London has been funded). These powers should be available to other regions as they evolve.

In the longer-term, the Commission see merit in the idea of a locally-retained share of Welsh Government income tax, or a purer form of local income tax. But in the short term, we are mindful of the fact that any such recommendations would be complicated by the fact that the Welsh Government itself is in the early stages of seeing the devolution of income tax to Wales. Consequently, we recommend considering this issue again in the next five years.

The Commission query whether Wales currently has a suite of outcome performance measures that can effectively judge good performance for councils. The Commission therefore recommends that robust outcome measures are devised to provide a way of ensuring that increased devolution of tax powers can be seen to improve performance.

## ANNEX II



**Our Ref/Ein Cyf:** JR/AS HD  
**Your Ref/Eich Cyf:**  
**Date/Dyddiad:** 6<sup>th</sup> September 2016  
**Please ask for/Gofynnwch am:** Steve Thomas  
**Direct line/Llinell uniongyrchol:** 029 2046 8610  
**Email/Ebost:** steve.thomas@wlga.gov.uk

**Mark Drakeford AM**

Cabinet Secretary for Finance and Local Government

**Vaughan Gethin AM**

Cabinet Secretary for Health, Well-being and Sport

**Rebecca Evans AM**

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Dear Ministers,

### **Local Government Provisional Settlement 2017/18**

We would like to thank you for the ongoing dialogue with WLGA since you assumed the new role of Cabinet Secretary for Finance and Local Government. Your direct contact both nationally and locally with individual authorities has been warmly welcomed. It is this level of dialogue that allows us to move forward in partnership and navigate the difficult challenges ahead.

Inevitably with the announcement of the Draft Welsh Government Budget on 18<sup>th</sup> October and the Chancellor's Autumn statement to follow in November/December, councils are now fully focused on delivering Medium Term Financial Plans. It is not our intention to rehearse again the arguments we made in the WLGA paper to the Finance Sub Group but we feel it important to highlight some fundamental points for your consideration.

**We retain a firm belief that investment in preventative services must be the core priority for Welsh Government, in line with the**

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**philosophy of the Wellbeing and Future Generations Act and in terms of sound budgetary policy.** You clearly recognised and responded positively to this when you were Minister for Health and Social Services.

The case of England is illustrative. Draconian cuts to social care across Offa’s Dyke has led to a crisis that threatens the delivery of secondary care. Councils are now spending 10 per cent less on adult social care than in 2009-10. Figures show that at least a million people are not getting the basic care they need. The consequence is that one million hospital days were lost due to delayed discharge in 2015, costing the NHS £2.4bn. It is estimated that the money spent by the NHS on excess bed days due to people awaiting homecare could fund 5.2 million hours of homecare.

We note with interest (and some irony) the view of the Conservative MP, Dr Dan Poulter who has recognized that “On the hospital wards I often see people who are medically fit to go home, but who are forced to stay in hospital because of difficulties arranging their social care package or because of a lack of appropriate housing. Good healthcare cannot be delivered without properly funded social care”.

We are seeking your continued support to maintain investment in preventative services and avoid the problems faced by our English colleagues and service users. The burdens of pressures on social care are enormous and some of these are clearly set out in the study commissioned by the previous Welsh Government from LE Wales. Taking the impact of demographics and combining this with unavoidable payroll pressures such as the National Living Wage adds just over £90m to existing budgets next year. This is just under half of the overall pressures of £189m that will face local government in 2017-18.

**Example - Living Wage**

In a medium size council like Conwy in 2017/18 it is estimated that a 45 pence increase in the hourly rate (from £7.20 to £7.65) would increase costs as follows:

Residential/Nursing	£0.6m
Domiciliary	£0.3m
Supported Living	£0.3m
<b>TOTAL</b>	<b>£1.2m</b>

By 2020 the increase to £9.30 per hour will mean that Conwy’s costs will be £5.6m higher than they are now.

In terms of service issues a number of authorities are also reporting a big spike in the number of looked after children due to increased referrals and court judgements. All authorities also recognise the fragility of large parts of the residential/nursing care sector. The reality is that



with figures such as those highlighted the option of running to stand still and meeting these costs from existing budgets is unrealistic. **Fundamentally the solution is a significant uplift in the RSG and accepting the principle when it comes to pressures like the Living Wage that the approach applied to the NHS workforce in Wales by Welsh Government must equally apply to the low paid social care workforce.**

Finally, we are conscious that again while this letter majors on the arena of social care, it is evident that other services such as housing, environmental health, youth services, leisure and transport all play a considerable role in terms of prevention. These are the same “unprotected” services which have faced the brunt of the cuts over the past years. A holistic approach to budget formation as envisaged in the Wellbeing and Future Generations Act would recognise that investment in these services falls firmly in the principle of “taking action to try and stop problems getting worse - or even stop them happening in the first place”.

We fully recognise the scale of challenges for Welsh Government in funding Welsh Public Services. We have readily supported the recent record investment into the NHS and are keenly aware of the challenges it faces. However, as the English situation demonstrates if more resource is channeled to one part of the system without changing anything else, it is likely to result in a major crisis.

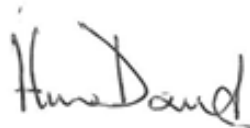
Thank you for your active consideration of the issues in this letter which we written on behalf of our colleagues across the 22 Councils.

Yours sincerely,



Councillor Aaron Shotton

**WLGA Spokesperson for  
Finance and Resources**



Councillor Huw David

**WLGA Spokesperson for  
Health and Social Care**