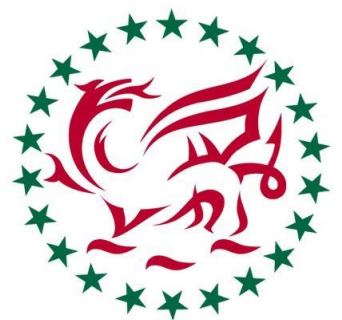




Local Government Budget Pressures - Finance Sub Group

12th July 2017



WLGA • CLILC

Summary

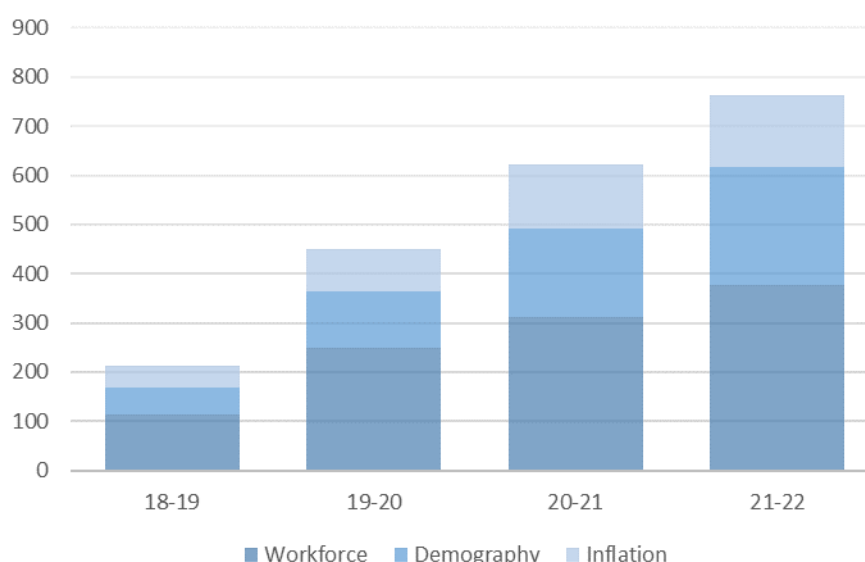
1. This paper summarises the main pressures facing local authorities across Wales. It is produced in the seventh year of austerity when local public services have faced at least £1bn in cuts across Wales and our remaining workforce subject to the policy started in 2010, first with a two-year pay freeze, then with a 1% cap over the last five years. In this setting the WLGA's new Leader, Cllr Debbie Wilcox, has argued that "the philosophy of austerity that has dominated political discourse since 2008 has collapsed, to the point where hardly anyone still believes it."
2. WLGA fully recognises the scale of the cuts to the Welsh Government budget over this period. We also recognise the grave concerns of the Cabinet Secretary for Finance and Local Government surrounding the prospect of further deep cuts to follow and potential for a further £3.5 billion of cuts to come. If this was actioned, it would have an £175m impact on the Welsh budget. With massive service pressures the financial position is becoming unsustainable. Councils are using their medium term financial strategies to plan for future savings requirements but there are clearly risks in terms of financial resilience, not least the burgeoning costs of social care.
3. It is because of this the WLGA is firmly of the view that the current levels of financial stress faced by councils cannot continue. The Cabinet Secretary has expressed an ambition for greater financial certainty and the principle of 3 year financial settlements that will have to be balanced against UK-level uncertainty. This is vital in the next period as cuts become more difficult to deliver and the construction of a deal on this principle would be welcomed by WLGA.
4. Faced with the biggest budgetary challenges of any part of the Welsh public sector, local authorities have continued to demonstrate good financial management, effective stewardship of public money and the delivery of efficient public services. However, this process cannot be indefinite. For example, if the inescapable costs attributable to payroll that are highlighted in this report are realised then there will be inevitable cuts to frontline services, and this will be evident to the public.
5. Considering the above it is vital that Finance Sub-Group working with the Cabinet Secretary constructs a clear pathway forward over the next period to mitigate the potential of further cuts. This has been recently confirmed by the Wales Audit Office who their report [Savings Planning in Councils in Wales](#) concluded that *"concern(s) which we have raised in previous years' reports that failure to achieve planned in-year savings places a strain on budgets which may be unsustainable. With the majority of future savings likely to come from service change and new ways of working, which are harder to achieve and require longer lead-in times, this situation may worsen and compromise councils' financial resilience in the longer term."*

Key cost pressures

6. Social services continue to account for the greater proportion of pressures which are now well documented by the Health Foundation and Wales Public Services 2025. Prolonged austerity has meant that pressures in social services budgets are being met from reductions in other local services. 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. In short local government services are inextricably linked to the programme for government.
7. Both the 2016-17 and 2017-18 settlements left local government to absorb over £350m worth of pressures. As with past pressures, the future pressures will arise from the increased demand for local public services and the increased cost of providing them.
8. 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 2025](#) demonstrated that pressures in social services budgets drive around 2.9% growth each year, which is around £47m annually up to 2021-22. This includes pressures in Children's services. Within education budgets, increased birth rates continue to feed through to the growth in pupil numbers. Population projections show that the number of school-aged children (under 16) will increase from 523k to 534k, an increase of 2.1% by 2021. The resultant pressure increases from £7m in 2018-19 to £49m in 2021-22.
9. A large part of the supply side is attributable to either direct workforce costs for councils, or indirect costs of third party providers. In previous years, there have been substantial cost increases such as £60m in employers' National Insurance payments as a consequence the introduction of Single Tier Pensions in 2016-17, and £18m for the Apprenticeship levy in 2017-18. Looking forward, there are significant pressures from both increased employer contributions to the Local Government Pension Scheme (£100m by 2021-22) and to the Teachers' Pension Scheme (£19m by 2021-22).
10. While the future of public sector pay is currently a matter of national debate, anticipated 1% pay increases are compounded by the National Living Wage. The potential impact of the Pay Spine Review could add a combined 2.5% to the costs of payroll each year over a two-year period depending on the negotiations between Employers and the Unions. Altogether payroll costs will be £378m higher by 2021-22.

11. There is also more general inflation and pressure generated through the Council Tax rises on the Council Tax Reduction Scheme. The former may be increasing due to systemic inflationary effects in the economy due to commodity price increases and Brexit.
12. Figure 1 below shows the current assessment of expenditure pressures for local government. Total expenditure pressure for 2018-19 is higher than previous estimates at £212m. Just over half of this is the unavoidable financial pressure of pay and pensions. By 2021-22 this is estimated to rise to £762m with workforce pressures (£378m) higher than demographic pressures (£239m). Other inflationary pressure will account for £145m at the end of the same period.

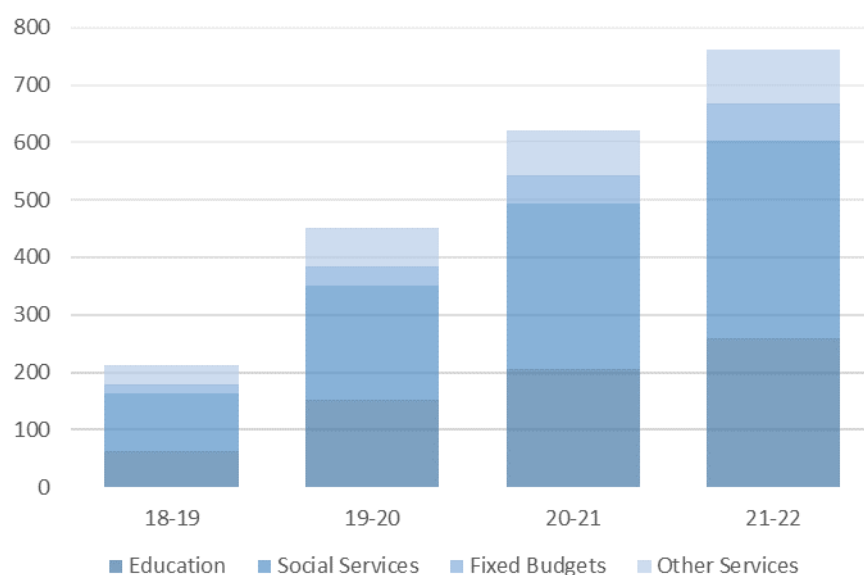
Figure 1: Cumulative pressures up to 2021-22, by source, £m



Source: Base estimates: RO and RA returns (2014-15 to 2015-16)

13. Figure 2 below shows that greater proportion of pressure is building up in social services. An additional pressure of £99m next year becomes £344m by 2021-22. Cost drivers in the education service rise from £64m next to £258m over the same period. Fixed elements of the budget – capital financing, fire levies and the Council Tax Reduction Scheme (CTRS) – rise from £17m to £66m by the end of the period. The remaining services are the ones most at risk and areas that have borne the brunt of austerity.
14. Additional costs for what remains of these services will rise from £33m to £94m by 2021-22. However, these are the services that are currently being squeezed. They currently account for around 15% of net revenue spend. To accommodate the pressures highlighted in this report, that would drop to 5% under certain funding assumptions.

Figure 2: Cumulative pressures up to 2021-22, by service, £m

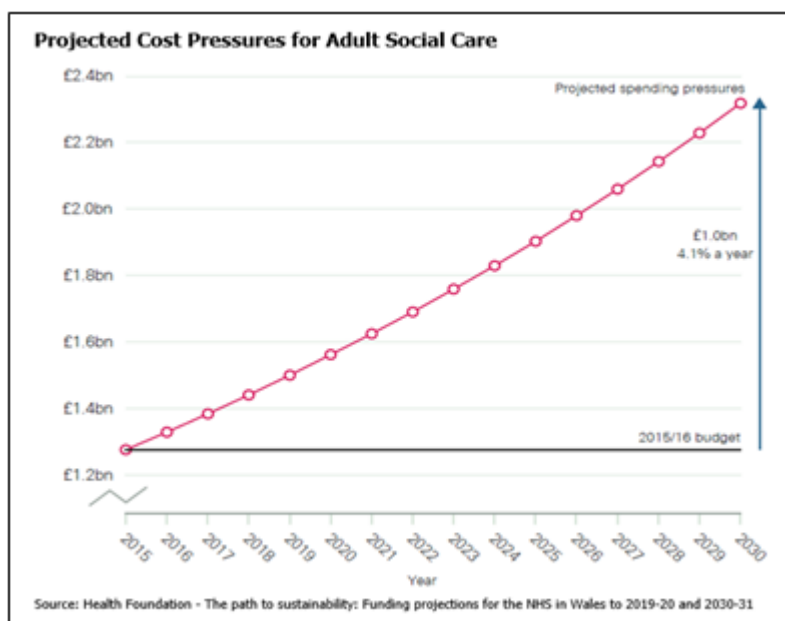


Source: Base estimates: RO and RA returns (2014-15 to 2015-16), NLW impact: WLGA Survey (2016)

Social Care Pressures

15. Pressures due to social care continue to pose the most risk to council sustainability in the medium to long term. Indeed, there is a consensus across parties that social care amounts to such a significant challenge that new thinking on funding is required. The recent paper for the IWA, [Solving Social Care](#), both Professor Gerry Holtham and Tegid Roberts suggest a common insurance fund to pay for the growing costs into the future. Another suggestion by the [Financial Times commentator](#), Merryn Somerset Webb proposes capping the fees of the asset management industry to free up funds for social care. Both are welcome interventions into this debate and need serious examination.
16. Population projections estimate that by 2035, the number of people aged over 65 living in Wales will increase by 35%. The largest increase will be in the number of people aged over 85 which is forecast to rise by 113% according to the Institute of Public Care's [Daffodil](#) system. Several authorities are also reporting a big spike in the number of looked after children due to increased referrals and court judgements.
17. The work undertaken for [Wales Public Services \(WPS\) 2025 on Future Pressures](#) demonstrates that pressures in social services budgets drive around 2.9% growth each year. 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, Future of Paying for Social Care](#), came up with a similar figure.

18. The £10m funding for social services announced for 2017-18 to help meet the extra costs associated with the introduction of the national living wage have been welcomed and any addition to it from the additional £20m announced in May. However, if part of this additional funding is for new responsibilities then it cannot be said to be funding any existing pressure.
19. The recent Health Foundation report [*The path to sustainability: Funding projections for the NHS in Wales to 2019-20 and 2030-31*](#), recognises that the health of the population depends on far more than just the quality of health care services. Key determinants of health are largely outside the control of health services and so the quality of, and spending on, social care has one of the strongest impacts on the demand for health care.
20. The Health Foundation report found that, the quality of social care and the resources invested have a significant impact on the demand for health services. It has been estimated that pressures on adult social care alone will rise by around 4.1% a year in real terms between 2015 and 2030-31, due to demography, chronic conditions and rising costs. This will require the budget to almost double to £2.3bn by 2030-31 to match demand, as shown in the graph below.



21. Wales Public Services 2025 have since produced another report [*A delicate balance? Health and Social Care spending in Wales*](#) focused on the difficulties local authorities are having keeping pace with spending. The report complements the findings from the Health Foundation analysis, recognising the twin challenges of financial and demand pressures faced by health and social care in Wales.
22. The report identifies that spending on social care for the over 65's is not keeping pace with the growth in the population of older people. The

increasing over-65 population in Wales means that whilst day-to-day spending on local authority-organised adult social services has remained broadly flat in real terms, spending per older person has fallen by nearly 13% in real terms over the last five years in Wales, inevitably leading to impacts on services for older vulnerable people. Spending per head would have to increase by at least £134 million (24%) between 2015-16 and 2020-21 to return to the equivalent level of spending in 2009-10, which amounts to a 3.7% year-on-year increase.

23. In addition to the demographic pressures suggested by these national reports, local authorities continue to highlight specific challenges being faced by both Adult and Children's Services which collectively add significant additional financial pressures. A survey has been undertaken of WLGA members and there are some common issues emerging:

Increases in the number of Looked After Children – A number of authorities are reporting substantial increases in the number of looked after children in their care which continues to place significant pressures on budgets. Additional pressures are seen around increases in cost for foster placements due to increased demand and increases to the national minimum allowance for foster carers. Local authorities are looking at different ways of mitigating these additional costs including the use of reserves and additional funding to support the development of preventative 'Edge of Care' Teams.

Price pressures associated with National Minimum Wage increases – This leads to upward price inflation to areas including residential / nursing home rates, domiciliary care rates and supported living rates. This pressure will continue to increase over the medium term. Whilst the additional £10m will help, there is still likely to be a significant shortfall which will add to the uncertainty already being experienced across the market for social care provision.

Pressures associated with changes to the Social Service Charging Framework - One local authority for example is anticipating a pressure of £100k associated with respite placements. Despite additional funding included in the WG settlement to meet changes in the residential care capital threshold some local authorities are forecasting potential shortfalls, which will increase as the capital limit rises in future years. One local authority is forecasting a potential shortfall of £175k for 2017-18.

Changes to Deprivation of Liberty Safeguards (DoLS) following the Cheshire West Judgement – This has resulted in a significant increase in the number of DoLS assessments required of people living in care homes and in the community. The settlement included additional funding of £184k to cover this additional responsibility, however some authorities have identified that this is insufficient to meet the additional costs.

Supreme Court decision on Funded Nursing Care costs – This relates to the issue of who (health or social services) should pay for the cost of a registered nurse in a care home when those nurses are not providing healthcare 100% of their time. The Court ruling is due to be announced at the end of next April, which may result in the requirement to fund going forward along with potential back pay. One local authority has estimated this could result in an additional budget pressure in their budget of £160k per year.

Education Service Pressures

24. Figure 2 on page 5 shows pressure in education services building up from £64m in 2018-19 to £258m by 2021-22. Demographic pressures will account for 11% of pressures in 2018-19 rising to 19% of the cumulative pressure by 2021-22. Cuts to school budgets are inevitable as they strive to absorb efficiency savings of just over 10% over the next 4 years.
25. On top of this there is huge pressure for specialist places for children with Additional Learning Needs. The demand for planned places far outstrips the supply with the result that many children are being educated in mainstream with a statement of special education needs and Teaching Assistant hours supporting the child. The main areas of concern at present is specialist places for children with Social, Emotional and Behaviour Disorder (SEBD) and autism at both primary and secondary school. This is exacerbated in some areas by the loss of ESF funding that has funded youth workers to support vulnerable children.
26. In terms of upcoming legislation around the Additional Learning Needs & Education Tribunal (ALNET) Bill, the position is both confusing and continuously changing. Initially WG suggested that the ALNET Bill would result in savings of around £14m over 4 years (of which £11.8m for local authorities) but that there would be significant transitional costs. Since the publication of the Bill, the savings estimates have gone down, the transition costs have gone up and there is less and less clarity about proposed funding.
27. We are waiting for the publication of a further Regulatory Impact Assessment after the Assembly Summer recess. In the meantime, the NAFW Committees that have considered this have suggested that WG looks again at the costs and proposals for post-16 learners needing specialist placements. We have suggested not putting this post -16 funding into the RSG until the full cost implications were known. This could potentially mean 4 years of specific grant funding until the full implications were known and at that point it could be transferred into the RSG.
28. There are other cost pressures in non-staff budgets that are as yet unquantified. For example, energy prices are already forecast to rise anything between 5% and 10% in 2018. Increases in business rates for new

and refurbished schools as a result of 21st Century Schools programme are reducing the savings made through that programme. Furthermore, there are increasing exam fees and effect of the change in qualifications and new GCSEs/GCEs (extra exams).

29. Finally, the successful roll out of a new curriculum against a backdrop of falling or stagnating core funding has left the Scottish Government in a state of acute embarrassment. Funding the roll out of *Successful Futures* cannot be decoupled from the way the whole system is funded. If we look at what has happened in Scotland, where the analysis of Professor Graham Donaldson is also the basis of curriculum reforms, we must fund the Welsh roll out properly otherwise we could find ourselves in a similar position.

Other Service Pressures

30. Regulatory services are starting to be a major concern throughout the UK. Market surveillance, sampling and testing is at an all-time and critically low point. Food, animal feed, electrical products, air quality, and construction products are rarely, if ever independently tested by trading standards and environmental health officers.
31. Wales public protection services have experienced cuts to the order of 45% in recent years. A huge swathe of experienced and competent officers have left the service as a result – taking with them hundreds of combined years of technical, legal, investigative and enforcement capability.
32. Services such as trading standards can no longer work proactively, and rely on an intelligence-led models. They only react after things have gone wrong – and by then the damage is done – millions of pounds are lost to financial and fraud offences; health and wellbeing is affected, leading to increased costs to health services.
33. In our evidence to the National Assembly's Finance Committee on the 2017-18 WG Budget we showed 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. Many other areas of LG spend have shrunk by at least a fifth in real terms.
34. In respect of Waste Services, we continue to work with Welsh Government on how best to incorporate grant funding into the settlement. *Resource Futures* have been commissioned to develop a paper that captures practitioner perspectives on the future of waste and the key dynamics driving change. The key issue from the paper is that understanding what the future holds for the waste industry is complex with a range of variables and, as such, a range of possible outcomes are conceivable. There are however more immediate

concerns about the loss of recycling income and the continued erosion of the Single Revenue Grant.

35. Other neighbourhood services are universal services. The public sees them as the core function of local government. Since 2009-10, neighbourhood services have been the hardest hit of all local government services, taking a shrinking share of a shrinking budget.
36. Over this period, the worst hit neighbourhood services in Wales have had spending cut by a half. Many have seen cuts of at least a quarter. According to [APSE](#), across the UK, austerity has weighed more heavily on local government than central government. In eight years, local government spending will have dropped from two thirds of that of central government's to half.

Conclusion

37. In his recent Mansion House speech the Chancellor of the Exchequer, Phillip Hammond MP spoke of "seven years of hard slog" and an "austerity weary Britain". It is hoped that this recognition in words is matched by resources in practice. Despite the protection offered by Welsh Government the public realm across Wales is suffering with youth services, libraries, community centres and playing fields and a range of other services seeing dramatically reduced provision.
38. There is now an emerging public backlash to the decline of the social fabric of communities. The recent publication of the British Social Attitudes survey showed that public tolerance of austerity is collapsing as support for higher taxes to enable more spending on health, education and policing increases.
39. Dissatisfaction is manifesting itself most in terms of public sector pay. The Annual Survey of Hours and Earnings (ASHE) confirms this. Looking across the employees in the ASHE dataset, the mean pay in the public sector is estimated to be 1.0% less than in the private sector in 2016. This uses the model which excludes organisation size and controls for a range of independent variables including region, occupation, age, gender and job tenure. This continues a downward trend seen since 2012 and is the first year in the data series that the differential is in favour of the private sector since 2003. In this model, which includes organisation size, the mean pay in the public sector is estimated to be 5.5% less than in the private sector in 2016.
40. WLGA recognises all the built-up pressures and demands on the Welsh budget. The position in the NHS is also fully acknowledged. It is the case however that the health budget has had a level of significant protection which has seen increases over the past 5 years. The local government budget alternatively is now back at its 2004-05 levels. Bearing in mind the scale of

the pressures in this paper this fact must be at the forefront of budget considerations over the next five years.

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