

Overview of WLGA Council Survey on Budget Planning - Implications

Summary

- 1 Further to the budget document presented to Finance Sub Group in July, the Leader of the WLGA asked authorities to respond to a short survey during August / early September in advance of budget setting over the autumn period.
- 2 The WLGA received a response from 21 authorities with one to follow. No one would claim scientific status for this survey, but the results show a common picture that confirms that Welsh councils are “running out of road” when it comes to budget choices. The survey was set out to get high level responses to the following questions with the purpose of gauging the scale of the current challenge at an all Wales level and what it means for sustainability.

Issues

- 3 WLGA is conscious that arising from what amounts to an “annualised tale of woe” is a discussion that no one relishes. We are equally aware that the pressures on Welsh Government budgets are enormous and that in the year of the 70th birthday of the NHS basic local government preventative services do not have an equal political profile. A further problem comes in discussions of this nature.
- 4 This is not abstract accountancy. The impact of austerity has seen libraries close; the end of meals on wheels for the elderly; bus services which no longer run; and youth services being decimated. When added to the weight of welfare cuts administered through councils these changes have a pernicious impact on our communities. Thiemo Fetzer, a professor of economics at the University of Warwick has produced a detailed paper which shows that the welfare cuts under the coalition government of 2010-15 had a decisive impact on the UK’s decision to leave the EU. Fetzer argues that material economic changes encouraged grievances with the political system and that this led many to support populism and then Brexit. After eight years of budget cutting, too many communities are looking less like the rest of Europe and more like the United States, with a shrinking welfare state and spreading poverty.
- 5 The general themes which emerge from the survey are stark and require detailed discussion with Welsh Government and decisive action to follow. Unless we invest in preventative spend the whole system approach to the delivery of health and social care set out in “A Healthier Wales” is not possible. The Health Foundation’s 2016 assessment of future funding needs for health and social care in Wales to 2030-2031 implies that, assuming an annual 1% improvement in efficiency (£70 million a year), day-to-day spending on the NHS would need to increase by 2.9% a year in real terms – just over £200 million a year at current prices – to meet cost and demand pressures.

- 6 If the forthcoming Welsh Government budget intends to fully meet or exceed all the health pressures set out in the Health Foundation report “The Path to Sustainability”, it must also address the crisis in social care. **The key observation in that same publication is that as the Welsh population ages, pressures on social care are projected to rise at a faster rate than for the NHS.** The Welsh Government’s new strategy “A Healthier Wales” explicitly states that it aims to produce ‘a sustainable funding model for health and social care that will stand the test of time’.
- 7 To do this the Health Foundation has shown the importance of social care to delivering an effective NHS. **To achieve this, it projected a requirement for net spending on adult social care in Wales to increase by 4.1% a year in real terms, equivalent to £65 million a year on average.** Does the Welsh Government accept this conclusion? If they do not accept it, how then is this reconciled with the principles of the Well-being of Future Generations Act which calls for more investment in preventative measures, as housing, education, leisure and community services all have an impact on wellbeing? Equally, we must not ignore children’s services, with the WLGA and the Association of Directors of Social Services in Wales jointly calling this week for more resources in children’s services to meet massive increases in demand. Our recent survey revealed that one council reported a 72% increase in the number of looked after children subject to full care orders in the last three years, with a consequent 15% overspend on this budget.
- 8 The evidence from the WLGA survey shows that the core service infrastructure of some of the poorest communities in Wales is threatened as never before. The following list is drawn from one return and shows the impossible choices one authority is considering next year to reconcile its budget. These themes are common in all returns.
 - Severely reducing the support for those with additional learning needs in education.
 - Stopping our schools’ modernisation programme.
 - Deleting post 16 education free travel.
 - Reducing food safety inspection frequency for lower risk premises.
 - Closing most libraries.
 - Closing civic amenity centres and recycling centres.
 - Reducing the road maintenance spend to 25% of the current level.
 - Severely reducing street cleaning activity.
 - Implementing severe reductions on assistance to the elderly.
 - Significantly constraining services to those with severe learning disabilities.
- 9 These choices at the local level are magnified by a range of macro issues at the national level, which emerged as common concerns from authorities in survey returns.
 - Budget pressures for 2019-20 of £264m could be understated due to recent indications by HM Treasury that employer contributions for non-funded pension schemes, including the Teachers’ Pension Scheme, could increase significantly.

- Many authorities are now reporting that financial issues with schools are as acute as social care.
- While schools' negative reserves are rising, social care overspends in this financial year are accounting for around 80% of the total £36m that was reported by 16 authorities.
- Targets for savings and efficiencies are now moving to all areas, including the larger services, as local authorities hit a tipping point in 2019-20. Any remaining smaller discretionary areas, such as youth care, will continue to disappear.
- Without additional funding, job losses are estimated to run at 5% of headcount a year over the medium term. We cannot estimate what proportion of that will be compulsory, but the annual headcount reduction approximates to the size of the iron and steel workforce in Wales.
- Several authorities are reporting that the scope for avoiding compulsory redundancies is now all but exhausted.
- There is particular concern around the increasing demand in children's social care and the wider care market.
- In terms of forecast savings required over the next three years, councils have indicated that this will only be achieved by stopping services, reducing school budgets and reducing the care and support councils provide to the elderly and vulnerable.
- There is a sense of fatigue and low morale amongst large parts of the workforce as service resilience diminishes.

Background

Forecast Pressures

- 10 All authorities report pressures that align with the assumptions behind our report to FSG in July. Prominent among these are demographic pressures in social care and education and large, unavoidable pressures in workforce in all services. As a proportion of net spend, pressures ranged from around 3% up to 7%, confirming a national average of around 5%.
- 11 Pressures are becoming acute in Education and many respondents had not taken account of the current proposals by the Treasury to increase employer contributions to the Teachers' Pension Scheme (TPS) by up to 5%¹. If these were left unfunded it would put schools into an irretrievable financial position, adding around £46m of pressure to

¹ The Treasury launched a 'low-key' consultation with the Unions on 6 September on technical regulations triggered by a [letter from the Chief Secretary to the Treasury](#).

the £110m we estimated in July. Even before the hike in employer contributions was known, all the authorities in the survey reported that schools and education were facing the most acute workforce pressures.

- 12 The additional resources recently announced for teachers' pay funds part of the increase above 1%. While this might be palatable for the current financial year, we are holding the position that the full pay increase for 2019-20 should be funded.
- 13 The position of specific education grants is likewise uncertain, especially following the confusion around the MEAG and planned reductions in the Education Improvement Grant. Many authorities are apprehensive about the Additional Learning Needs legislation that offers no certainty in funding beyond 2020.
- 14 In terms of social care, the direct and indirect pressures caused by the National Living Wage, the pay settlement and increasing contributions to the Local Government Pension Scheme (LGPS) are driving higher wages and care home fees across the whole sector. When added to demographic pressures, the cost of adult social care packages is appreciating at 6% a year. Social Care workers should be rightly rewarded but the funding for these pressures, previously estimated at £102m, is being found from councils' own resources.
- 15 The upshot of nearly 10 years of austerity is that the larger services that have been protected will have to take up some of the cuts and make efficiencies in the future. How that pans out is largely a function of the next settlement. Some of the most affecting and brutal implications of what is happening in some of England's county councils are beginning to loom large in the Welsh context.

Impacts on education services

- 16 Most authorities now forecasting cash cuts to schools' budgets, with some reporting reductions of up to 5% and planned closures of small primary schools. Difficult decisions will be needed around levels of support for vulnerable children with additional learning needs.
- 17 There will inevitably be job losses and where applications to voluntary schemes have dried up, these will be compulsory. Some smaller services like music will cease and most authorities report additional charges for school meals and for home to school transport to bridge budget gaps.

Impacts on social services

- 18 Many authorities report that they are trying to focus and invest in prevention and early intervention, which diverts resource from current service provision. Services such as respite care and meals-on-wheels provision are under threat. The links between social care and the NHS do not need to be rehearsed here but the whole system is straining as spending for social care remains flat-lined in real terms for the tenth year running.
- 19 Pressures are clearly exacerbated in areas where there are reports of poor engagement by Local Health Boards over plans to reduce bed capacity in hospitals, without regard to the funding for community services that are required to step in. In fact, the issue of additional funding for the NHS from proposed consequentials was raised in several responses, one commentator summing it up in one statement:

"...putting all of the extra cash into the NHS was like running a bath without inserting the (social care) plug."

Impacts on other services

- 20 In our submission to the last Finance Sub Group, and every submission since 2012, we have highlighted the squeeze on other services. This is less a political choice and more a mathematical certainty for councils. The 15% spend on all other services falls to 5% by 2021-22. On top of the large declines in spend that we have repeatedly set out to Welsh Government, those services that are left will be subject to reductions that will leave them decimated.
- 21 Councils are reporting that remaining leisure facilities and libraries will now be slated for reorganisation and eventual closure. Plans for service withdrawal include roads and transport services that contribute directly to economic growth; and funding for highways, public transport and street cleansing is likely to be scaled back significantly. Others report the loss of key community services for the want of tens of thousands of pounds: youth services, contact centres and tourism facilities are likely to disappear.
- 22 Over recent years, waste and recycling have been viewed as a success story for Wales, with recycling levels increasing from around 40% in 2008 to stand at around 63%. However, in the 2018-19 budget Welsh Government imposed a 10% reduction in waste funding to local authorities. On top of programmed, annual reductions in support, the amount available will be a sixth lower (17%) in 2019-20 than in 2017-18. Statutory targets in Wales increase to 64% in 2019-20 and 70% in 2024-25. Since every percentage increase is successively more difficult to achieve, the likelihood of maintaining the upward trend reduces. This raises the prospects of local authorities being fined for missing targets, only adding to their financial difficulties.
- 23 On the economic development front, there is major uncertainty over future funding as European funding will come to an end once the UK leaves the EU. At present, little detail has been released about the successor programme, the Shared Prosperity Fund. It is unclear if local match funding will be a requirement. Economic development budgets have been severely squeezed as a result of the financial pressures local authorities face. Regional collaboration has helped to sustain this area of local government activity. With Brexit concerns looming, though, it is vital that authorities retain capacity to build local economic resilience. It is a vital preventative service in that a failing local economy will pile additional pressures on local government services such as housing/homelessness, mental health, substance misuse, community safety.

Overspends and general position on reserves

- 24 Children's services, especially fostering and out of area placements, account for the largest and most frequently reported overspends. There are increasing overspends in areas that have traditionally been subject to less demand volatility, such as special education needs, adult services and environmental services. Education services are now a serious concern in terms of overspends and mostly this exhibits as increasing negative balances on school reserves. From the survey, 16 authorities reported overspends totalling £36m, 80% of which related to some aspect of social care.
- 25 Financing recurrent expenditure from reserves would not normally be appropriate and we found no evidence that this was happening. As the Wales Audit Office (WAO) pointed out recently, there are signs that a few councils are over-relying on general reserves to deal with shortfalls and this requires more unpopular decisions to make such as further cuts.

- 26 In general, authorities have plans to use reserves as part of a 'bridging' plan until some future event generates savings, but they do not use them to fund permanent spending, as this would only defer a problem or defer cuts for a future period.

Jobs & workforce

- 27 Many authorities are now telling us that every vacant post is either being approved at Director level or reviewed by the Director of Resources. Some authorities are still managing to pare down the number of posts through voluntary schemes, but for many the well of individuals coming forward has run dry.
- 28 The situation of one authority reflected many where they had stood fast behind a policy of compulsory redundancies only as a last resort, but this was starting to break down. The hundreds of staff that were leaving under voluntary arrangements had fallen to a trickle (5%) of the numbers that were coming forward few years ago.
- 29 Local authority HR Directors in Wales have reported that their main priority over the coming years is managing the impact of cuts on their staff. Compulsory redundancies become more difficult to manage than those that are voluntary, and leads to time-consuming disputes and discord with the workforce and their representatives. Key development agendas like digitalisation and improving and developing the workforce are having to take a back seat to the process of exiting staff from the workforce through redundancy.
- 30 We estimate that the impact of austerity on local authority jobs has been to reduce the headcount by 24,500 jobs. Our estimates are based on employment figures published in the Quarterly Public Sector Employment Survey by the Office of National Statistics (ONS). From our own survey, many councils estimate that the speed at which posts are lost could accelerate and that an equivalent number could be lost over the next medium-term period as have been lost over the last 7 or 8 years. This would see councils losing 5% of posts (equivalent to 7,000 nationally) every year for the next 3 years.

Council Tax

- 31 The other significant issue which emerges is pressure on council tax. It comes as no surprise that as revenue has been cut, councils have looked to raise additional levels of council tax to protect core services. We have consistently quoted in Wales that despite this, the average Band D Council tax rate in Wales is lower than England. There are significant differences across the two systems, but the fact remains that this divergence is eroding over time.
- 32 In 2009-10 at the start of austerity the Council Tax for an average Band D property in Wales was £1,086 while in England the figure was £1,414. This showed that council tax in Wales at a Band D was 23% less. This figure has now reduced to just above 10% with the Welsh Band D Average in 2018-19 being £1,492 and its equivalent in England set at £1,671. Hard pressed families could be facing the prospect of further 5% and beyond council tax rises. With real median employee earnings still 2-3% below their 2007-08 level and the Institute of Fiscal Studies (IFS) predicting that slow average income growth is likely to continue over the next few years, this becomes increasingly problematic in Wales.

Conclusion

- 33 The survey returns square with the WLGA estimates of real-terms savings of around 22% since 2009-10 and some authorities reporting reductions of up to 30%. This has largely been found from efficiencies or cuts. This equates to an annual efficiency target of around 3% but we are now at the point when cuts will bite deeper and more quickly as the opportunity for efficiencies disappears.
- 34 The impact on services will be severe. An insufficient settlement this year will mean that elected members will face impossible decisions and will be left with little choice but to start looking at the two large services and what remains of what is left of other small areas of spend.
- 35 Since the financial crisis, the wave of austerity has yielded a country that has grown accustomed to living with less, even as many measures of social wellbeing – crime rates, drug addiction, infant mortality, childhood poverty and homelessness – point to a deteriorating quality of life.
- 36 When it comes to public services across the UK, it is local government which by any objective measures is doing the heavy lifting. It is difficult to argue with the Shadow Chancellor John McDonnell MP's proposition that councils have been used as "human shields" to absorb deep spending cuts by the Treasury. In the same way, the words of Lord Porter, the Conservative leader of the LGA, resonate in the findings of the WLGA survey, namely that "Councils now spend less on early intervention, support for the voluntary sector has been reduced, rural bus services have been scaled back, libraries have been closed and other services have also taken a hit. More and more councils are struggling to balance their books and others are considering whether they have the funding to even deliver their statutory requirements".
- 37 WLGA has publicly and regularly recognised the progressive role played by Welsh Government in offering protection to councils in Wales that has avoided what appears to be an existential crisis for large councils with social care responsibilities across England. The problem, however, remains that austerity is now approaching a decade in longevity. The choices Welsh councils are faced with are getting harder, the decisions more difficult and the impacts more unpalatable. Welsh councils now look to Welsh Government to make decisions which can seek to offset the worse impacts of this and provide budgetary respite particularly in terms of greater investment in prevention.

Author: Jon Rae
Director of Resources
Tel: 029 2046 8620
E-mail: jon.rae@wlga.gov.uk

Steve Thomas CBE
Chief Executive
029 2046 8610
steve.thomas@wlga.gov.uk