

[National Assembly for Wales](#)

[Finance Committee](#)

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[Inquiry into Welsh Government Draft](#)

[Budget Proposals 2014-2015](#)

Evidence from the Society of Welsh Treasurers

Response by the Society of Welsh Treasurers to the National Assembly's Finance Committee's Call for Information to inform their scrutiny of the Welsh Government's 2014-15 Draft Budget Proposals.

The Assembly's Finance Committee have sought information to inform their scrutiny of the Welsh Government's 2014-15 draft budget proposals and in particular have asked four consultation questions.

In view of the fact that local government is allocated roughly one third of the Welsh Government's revenue funding distribution, the Society of Welsh Treasurers as the body which comprises the Chief Finance Officers of all 22 local authorities in Wales, consider that they should respond to this call for information.

At the outset we fully recognise that determining priorities and allocating funding to reflect those priorities is a political decision which is the prerogative of those elected to take such decisions. The Society of Welsh Treasurers' observations contained in this response are limited to those issues which are within our sphere of responsibility namely to ensure appropriate financial governance in the authorities which we advise, and the extent to which such governance is facilitated or affected detrimentally by the Welsh Government's budgeting process.

We have formulated our response to correspond to the four questions raised in your call for information.

1. What, in your opinion, has been the impact of the Welsh Government's 2013-14 budget?

- There is little doubt that the level of settlement afforded to local government in 2013-14 enabled us to continue to try and deliver key services to our citizens. This though needs to be set in the context whereby Local Government's previous two settlements in cash terms were -1.4% and

0.24% which placed significant financial pressures on all Councils across Wales to try and achieve that aim.

- Whilst the level of settlement was insufficient to meet inflation, let alone the continuing upward trend in demand for services, we would accept that Welsh Government was faced with difficult choices in the face of the austerity programme being pursued by the Westminster Government but we have been able to manage the real terms reduction in funding by appropriate forward planning. This has resulted in a combination of efficiency measures and re-prioritisation of services which overall have managed to contain the effect of the real terms reduction on our citizens;
- For the committee's information, the Society of Welsh Treasurers estimates that whilst overall, the local government grant allocation increased by just over £50m in 2013-14, inflation and increased demand for services alone without taking into account any other cost pressures were estimated to cost £183m. The resultant deficit was met by taking savings measures (amounting to around £136m across Wales) facilitated by appropriate planning measures driven largely as a result of the previous year's forward planning information which gave an indication of the likely level of grant to be allocated to local government.
- This arrangement of giving forward planning indicative figures has proven to be extremely beneficial and has now been in operation by Welsh Government for many years
- The fact that local government staff have not been given a pay increase for the three years prior to 2013-14 has also been instrumental in being able to balance the books of course. Whilst this has helped, other pressures on pension costs, energy and service demand, particularly, in Social Services have been significant.
- The addition of £22m to support the cost of a Council Tax Support scheme which continued to give 100% support to those on lowest incomes was welcome to those households affected, but due to the cash limit set by Welsh Government, it came at a cost to local government which could eventually be as great as £8m. Had these individuals been expected to pay a proportion of council tax (around 10% was originally suggested), the recovery of such sums would have added a further significant administrative cost at a time of budgetary pressure.
- The overall cost of welfare reform to local government services remains a concern and there is a danger that we will not feel the full force of the hidden costs until the coming years.

- The desire to meet political objectives by controlling inputs is a less welcome policy and we would question whether this is the best way to meet policy objectives.
- Whilst accepting the government's wish and indeed its right to prioritise schools and social services it is debatable whether utilising a macro tool to insist that these services be given a particular level of settlement is the best way to deliver the policy objective in the most efficient manner.
- It can result in less of an incentive to drive out efficiencies in these areas as there is an implicit knowledge by those responsible for the area of activity that they will receive a particular level of funding come what may.
- There is also a question in relation to the ability to allocate funding to try and manage demand. For example allocating funding to a centralised education fund for demand management initiatives may well be of greater value to the public purse in terms of future costs than allocating more funds to schools today. An insistence on allocating a particular funding level to a particular place does not necessarily allocate resources to the appropriate initiative.
- There is also little regard in such decisions on the effects of those services (often essential services) which are outside the favored status. Many of these services if they cannot be maintained will impact on school/pupil performance and social care outcomes.
- Decisions on resource allocation are best taken in our members' views as close as possible to the services being funded and there needs to be a greater level of trust between the Welsh Government and local government whereby local government is given its unhypothecated funding and trusted to deliver on particular central government objectives by agreement.
- An agreement with local government to deliver the intended outcomes for a global addition to the local government settlement would incentivise authorities to deliver outcomes in the most efficient manner possible and if they could deliver for less than the allocated sum – to use the remainder to support other service areas for the benefit of our citizens.
- The proliferation of specific grants being allocated is another unwelcome effect of trying to control inputs.
- Such a process adds unnecessary administration and reduces flexibility.
- In terms of capital, it is accepted that Welsh Government sought to maintain a large capital programme in Wales. This is laudable compared to

England where schools modernisation was unceremoniously stopped. But this does place an additional burden on local government budgets to find revenue resources to fund unsupported borrowing and contributions from revenue to match fund that capital programme.

- The last minute top slicing of the local government settlement to fund the Regional Collaboration Fund was also unhelpful. There is an inherent assumption in such action that the resultant savings will more than make up for the immediate loss of resource, local authority treasurers are well placed to make that decision based on an appropriate business case and judging individual cases on their merits. Top slicing at the last minute meant that we had less resource than we anticipated and again takes a macro view to try and achieve an outcome which is far from certain.
- Before any further top slice is made it would be better to review the outcomes from the first tranche to assess the collaboration benefits it achieved, if any.
- We are also concerned that proposals have been put forward to further top slice the settlement to gain further financial levers for ministers in areas such as education which will only serve to create further complexity and administration.
- That said, despite these concerns, overall the 2013-14 budget and in particular the fact that we had some indication well beforehand of the level of likely funding meant that we were able to contain any detrimental impact of the 2013-14 budget on local government services to our citizens to the absolute minimum.

2. Looking at the indicative budget allocations for 2014-15, do you have any concerns from a strategic, overarching perspective, or about any specific areas?

- The indicative budget allocations for 2014-15 in the Welsh Government's final budget indicated that the local government revenue component would increase by 0.5%.
- Indicative allocations released with the 2013-14 settlement to local government indicated a 0.8% increase.
- Based on these assumptions local government finance officers were making plans to continue to meet inflationary pressures and continuing upward demands for services by creating savings/reconfiguration/cuts programmes which would meet the difference.

- Current estimates show that collectively, based on the above assumptions local authorities are attempting to make savings and cuts of around £128m in 2014-15.
- Whilst challenging, the Society believes that it is possible to manage such a reduction but only by planning accordingly and having robust planning and delivery arrangements in place.
- The key strategic concern the Society has is the pronouncement earlier this year by the Minister for Local Government and Government Business that local authorities should prepare themselves for reductions at levels seen in England.
- We address this issue in section 3 below.
- Whilst noting that the Society's members are of the opinion that given appropriate planning time and delivery mechanisms the proposed scenario based on the original indicative settlement is manageable . However, the continuing emphasis on specific grants and macro determination of resource allocation to particular services continues to hinder flexibility and appropriate local determination of the appropriate resource allocation necessary to deliver the optimum outcomes.
- From a strategic point of view we would also have concerns regarding the legislative agenda.
- Whilst accepting the wish to improve the lives of our citizens, we do have some concerns that the initiatives which the government wishes to deliver are not always robustly costed and that we later find ourselves in funding difficulties. This can be particularly problematic in the area of social care where authorities have in the past had to deal with the funding implications of initiatives which have not been fully funded.

3. What expectations do you have of the 2014-15 draft budget proposals? How financially prepared is your organisation for the 2014-15 financial year, and how robust is your ability to plan for future years?

- As noted above, our members confirm that collectively, all 22 authorities in the local government community have robust plans based on the forward planning indications given in the indicative settlement to meet the challenges of the 2014-15 financial year.
- However, in May, the Minister for Local Government and Government Business stated that local government should prepare for cuts in our grant at levels seen in England. Research undertaken by the Welsh Local

Government Association suggests that on average this has equated to 4% per annum in England.

- A possible 4% cut is a cause of some considerable concern to our members.
- It should also be note that the number of hypothecated grants in England have been reduced substantially, and this has given English local authorities more freedom and flexibility when formulating their budgets.
- Furthermore, English Local Authorities are able to retain some of the Council Tax that they raise from second homes without affecting their Revenue Support Grant entitlement.
- The Welsh Local Government Association have prepared a document entitled Council Cymru which attempts to draw a picture of what such a proposal would deliver in the local government landscape.
- If the elected representatives are willing to see such consequences then that is a political matter for which they will be accountable to the electorate.
- However what concerns our members is the apparent sudden lurch in policy which renders any financial planning undertaken so far absolutely meaningless.
- We accept of course that the Chancellor's Budget Statement meant that the Welsh Government was faced with an additional reduction of £113m which they had to take from the overall budget.
- If Welsh Government wished to protect the Health budget from these further reductions our high level calculations suggest that that still only means that the local government budget would need to be reduced by around 2% which might be manageable.
- However reductions of the suggested magnitude for local government and the timing of the statement suggests that there has been an overnight significant re-prioritisation by Welsh Government which will need to be matched by local government.
- The thought that any organisation can gear itself to such a significant funding change (which our members estimate could increase the required savings by a further £186m) at such short notice is unrealistic.
- Authorities will be faced with having to take knee jerk reactions instead of planning on a rational basis and managing any financial retreat on a planned and deliberate course.

- Seven months from the start of the 2104-15 financial year we still have no formal indication of what level of reduction the Welsh Government is considering for local government so that we can consider what action to take.
- Whilst accepting that Welsh Government is still considering its budget proposals, if they do intend to change the financial landscape on such a significant scale our members would have thought that some form of indications would be available.
- What concerns our members is not the prioritisation decision itself but the timing. There seems to be nothing in the budget statement which would have prompted such a course of action and thus it seems that the Government have decided on a different set of priorities to those to which they have previously been working.
- However, rather than implement those policies in a timeframe which would allow an appropriate planning framework to be applied they seem to have come to the decision that previous planning information is something that could be ignored at will.
- This is particularly disconcerting.
- Cipfa's publication Thinking Ahead- Developing a Financial Strategy extols the virtue of effective financial planning. It is impossible to comply with good and proper practice within the apparent emerging financial environment which seems to suggest that the planning information given should only be treated as anecdotal in its nature.
- Our members would have expected that if there was to be a re-prioritisation of resources driven by a political will to do so, then at least current funding forward indications (albeit amended by any funding reductions applied by the Westminster Government) would have been honored and any changes applied from 2015-16 onwards.

4. What are your views on the Welsh Government's approach to preventative spending and how is this represented in your resource allocation (if appropriate)?

By 'preventative spending' we specifically mean '*spending which focuses on preventing problems and eases future demand on services by intervening early,*

- As noted above, we have concerns that the desire to direct authorities to allocate particular funding levels does not always result in the best overall

use of resources and can be counter productive in directing resources to preventative initiatives.

- Local authorities have learnt some time ago that silo working needs to be swept aside if true preventative work is to be undertaken – however there appears to be a continuation of an element of silo mentality in resource allocation within Welsh Government.
- Our recent request to have specific grants absorbed into the local government settlement was met with the response that we would have to take the matter up with the appropriate minister. This is not helpful.
- There is also the issue of health and social care.
- Whilst we do not know why the sudden funding reductions are being applied to local government, one imagines that health will be a significant beneficiary.
- We could well be faced therefore with health receiving some form of protection whilst social care for the vulnerable and elderly will be seeing significant budgetary reductions as a result of the cuts in local government budgets which will then in turn have a detrimental impact upon health budgets and health planning.
- We consider that there are opportunities for resources to be directed more towards demand reduction initiatives as opposed to directing available resources to projects which further the principle of collaborative working regardless of whether any savings are actually delivered.