

LOCAL GOVERNMENT AND HOUSING COMMITTEE

THE CASE FOR INVESTING IN LOCAL GOVERNMENT SERVICES AND ASSETS

A paper by the Welsh Local Government Association to inform the Assembly's budget decisions for 2001-02 and subsequent years

Summary

The Association proposes that:

- revenue spending by local government, and funding of capital spending, should increase over the next three years in line with the Assembly's overall budget (+8.9%/+8.2%/+8.1%);
- council tax should increase by no more than 5% a year.

The Assembly should provide funding as follows:

£ million 2001-02 2002-03 2003-04

- revenue 2,953 3,224 3,517
- capital 462 500 540

Without this additional investment in local services, the Assembly will not be able to achieve the outcomes set out in its strategic plan.

Background

1. This paper sets out the case for the Assembly to increase revenue and capital funding for local government. It is set against the background of the additional resources allocated to the Assembly in the Comprehensive Spending Review and within the framework of the Assembly's strategic plan, *betterwales.com*, and the community leadership role conferred on councils by legislation.
2. Local government has prepared a detailed analysis of spending and investment needs and the cost of new legislative burdens and Assembly initiatives in the reports of the Expenditure Sub-Group and Capital Sub-Group. These identify total additional needs for 2001-02 of £490 million (revenue) and £145 million (capital).
3. The Comprehensive Spending Review has delivered an increase of £689 million or 8.9 per cent in the Assembly's budget for 2001-02. It is acknowledged that local government's aspirations cannot

therefore be met in full. Nevertheless **the Assembly now has the opportunity to make a step change in local government's investment in services and assets, while keeping the average council tax increase in low, single percentage figures.**

Local government services contribute to the achievement of outcomes across the Assembly's five key action areas:

- * better opportunities for learning
- * a better, stronger economy
- * better health and well-being
- * better quality of life
- * better, simpler government

They also contribute to the Assembly's three themes of achieving sustainable development, tackling social disadvantage and promoting equal opportunities.

This is achieved through a matrix of services, most of which are operationally linked and essential to each other in achieving the policy outcomes set out above:

School-based education Housing

Social services Public transport

Local health alliances Street cleaning

Roads Environmental health

Trading standards Fire service

Police Economic development and tourism

Libraries Community development

National Parks Leisure centres and playing fields

Public footpaths and parks Land use planning

Waste collection and disposal Community safety

Archives Museums and galleries

Cemeteries and crematoria Electoral registration

Theatres Administering council tax and housing benefit

Land drainage and flood defence Magistrates' courts

Each of these services is vitally important to people and the well-being of communities in which they live and work. None is more or less important than the next. Local government does not ask for more funding for the sake of local government but for the good of the people of Wales who depend on these services.

The Association's proposals

4. Local government seeks an increase of 8.9 per cent in revenue spending on services in 2001-02, in line with the increase in the Assembly's own budget.
5. The additional investment would be spread in a balanced way across all front-line services, including schools and social services. The Association's proposals assume an increase of £20 million in expenditure on match funding, and an investment in electronic delivery of services that matches the additional resources being provided in England. Councils want to deliver the improvements that Assembly Members and local people are seeking such as increased recycling of waste and providing housing for a broader definition of homeless people. Additional investment is needed to help achieve the range of outcomes identified in policy agreements in terms of improving educational achievement, securing reductions in long-term health problems, reducing crime and so on.
6. Local government will continue to make progress in better use of its resources. The electronic "shopping mall" being developed by the Improvement and Development Agency will generate significant procurement savings. Councils are taking firm action to eliminate deficits in direct labour organisations. They will put asset management plans in place by April 2002. But a realistic assumption about the additional cost of providing *existing* services is that teachers' pay will increase by about 4 per cent and other pay and costs will increase by about 3.5%. This would add £100 million to existing costs. Councils are able to absorb some of these inflationary costs through efficiency savings and in the medium term from the growing impact of Best Value but the reality is that they will remain a substantial first call on increased resources.
7. The increase in revenue spending should be financed as follows:

	2000-01	2001-02	Increase over 2000-01
	£ million	£ million	£ million %

General capital funding	255	265	324	69	59
<i>Of which</i>					
<i>Basic credit approvals</i>	193	N/A	193	0	N/A
<i>General capital grant</i>	62	N/A	131	69	N/A
Supplementary credit approvals	73	68	68	-5	0
Specific capital grants	97	70	70	-27	0
Total	424	403	462	38	59

(Figures may not add up due to rounding.)

11. General capital funding should increase by £59 million over the planned budget figure for 2001-02 and the additional resources should take the form of general capital grant, to finance the urgently needed investment in capital assets. **The Association strongly urges the Assembly not to increase the planned level of credit approvals,** because that would impose additional borrowing costs that would have to be met from revenue funding.

The level of council tax

12. The average level of council tax has increased well ahead of the rate of inflation every year since local government reorganisation: 18% in 1996-97, 7% in 1997-98, 12% in 1998-99, 8% in 1999-2000 and 11% in 2000-01. Because of gearing and other factors, actual increases in some areas have been over 100% since local government reorganisation. Increases at this rate hit council tax payers hard and are not sustainable. We need to find a better balance between the contribution made by central government and by local taxpayers.

13. The Comprehensive Spending Review in 1998 assumed that council tax in Wales would rise by about 10% in 2001-02. The Association shares the view that has been expressed by many Assembly members, including the Assembly Secretaries for Local Government and Housing and for Finance, that such an increase would not be appropriate.

14. The Association is therefore seeking a settlement for 2001-02 and subsequent years that would allow the average council tax increase to be kept in low, single percentage figures. The

Comprehensive Spending Review in 2000 reveals that the Treasury is assuming that local authority self-financed expenditure (which includes council tax income) will grow by about 5% a year across the United Kingdom. The Association believes that the average council tax increase should not exceed 5%, and its proposals for spending and grant support reflect that. There will continue to be disproportionately high council tax increases unless the Assembly significantly increases the grant that it makes available to local government.

Ring-fencing/earmarking/hypothecation

15. Whatever word is used to describe it and however it is achieved, central control of local spending decisions on particular services is unwelcome and dangerously counter-productive. It reduces local discretion and accountability. It focuses on crude financial inputs instead of what really matters – the outcomes achieved. And it damages services for which there is no earmarking, because councils have to cut spending on them in order to meet the Assembly's expectations for other services. Specific grants can cost the Assembly, councils and others such as external auditors significant amounts of time and money in unnecessary administration costs – time and money that could be better spent on securing the delivery of quality local services or the capital investment that is needed.

16. Local government shares the Assembly's desire to achieve shared policy objectives through improved outcomes in the full range of services, and will continue to give a high priority to education. The policy agreements that councils are to enter with the Assembly will reaffirm local government's commitment to helping achieve the shared vision set out in *betterwales.com*. In return, local government looks to the Assembly to demonstrate that it is committed to partnership working by trusting councils to take appropriate decisions locally about funding for individual services. There should also be a financial incentive to councils that recognises the costs of delivering the targets set out in the policy agreements: additional financial allocations are being given to English authorities piloting public service agreements. The Association's position is that **earmarking within the general revenue settlement should cease altogether. The Assembly should reverse its trend of introducing new, and increasing existing, specific revenue and capital grants.**

17. The introduction of a new formula for distributing revenue support grant in 2001-02 provides a further, overriding reason why earmarking should come to an end. Depending on the overall settlement package and whether or not the implementation of the new formula is accompanied by transitional arrangements or other changes to the grant distribution system, some councils may be in a position of having to adjust their spending to accommodate a relatively lower proportion of grant than they receive now. They will not be able to increase their budgets at the same rate as other councils without potentially extreme impacts on the level of council tax. If the Assembly nevertheless insists that each council must increase its spending on particular services by a common factor, the Assembly must bear the responsibility for the consequential impact on council taxes.

Match funding

18. Councils contribute many millions of pounds each year from their existing resources as match funding for European grants and other grants, such as from National Lottery distribution bodies. The significant increase in European funding for Wales, including Objectives One, Two and Three, means that councils must be provided with additional revenue and capital resources in order to enable them

to play a full part in new projects. If the Assembly did not provide additional resources, councils could increase their contribution to match funding only by cutting services. **The Association's proposals for increasing revenue and capital funding contain a realistic assessment of the minimum extra resources required for match funding.**

Implementing the new revenue formula

19. The Association's proposals in this paper do not imply its agreement to the introduction of the new formula. The Assembly should increase grant to local government sufficiently to make transitional arrangements unnecessary. If there were to be transitional arrangements, the Association's position is that **new additional resources from the Assembly must fund any transitional arrangements throughout the period when they apply: these resources must be in addition to whatever level of grant increase the Assembly decides to give to local government.**

Future years

20. This paper focuses on the case for increasing investment in 2001-02. The Assembly's budget covers a 3 year period, and will need to provide continued real-terms growth in spending and funding throughout that period while keeping average council tax increases low (5%). Many developments, such as the increase in youth services being by the Assembly or investment in electronic delivery of services, will have higher costs in the second and third years than in 2001-02. The Association proposes that **local government revenue spending, and funding for capital investment, should continue to increase in line with the Assembly's budget.** This would result in the following budget allocations by the Assembly:

Revenue	2000-01 £ million	2001-02 £ million	2002-03 £ million	2003-04 £ million
Grant	2,874	3,156	3,437	3,739
<i>Of which</i>	<i>2,688</i>	<i>2,953</i>	<i>3,224</i>	<i>3,517</i>
<i>Aggregate external finance</i>	<i>186</i>	<i>203</i>	<i>213</i>	<i>222</i>
<i>Police grant</i>				
Council tax	670	704	739	776
Total	3,544	3,859	4,176	4,514
Increase in total spending		8.9%	8.2%	8.1%

<i>Memorandum: Assembly's existing budget for aggregate external finance</i>	2,688	2,816	2,816	N/A
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Capital	2000-01 £ million	2001-02 £ million	2002-03 £ million	2003-04 £ million
General capital funding	255	324	363	403
<i>Of which</i>				
<i>Basic credit approvals</i>	193	193	193	193
<i>General capital grant</i>	62	131	170	211
Supplementary credit approvals	73	68	68	68
Specific capital grants	97	70	69	69
Total	424	462	500	540
Increase		8.9%	8.2%	8.1%

(Figures may not add up due to rounding. Police grant is assumed to increase in line with the increase in police standard spending assessments announced in the Comprehensive Spending Review.)