

WLGA'S REPORT ON EXPENDITURE PRESSURES IN 2002-03

Paper by the Head of Finance, WLGA

1. Attached is a report, developed from work shared with the Expenditure Sub Group, on expenditure pressures facing local government in 2002-03. There has not been time for it to be cleared by the Group or with Assembly officials; and I also apologise for its very late circulation which has been caused by pressure of other work.
2. The report will be used to underpin the WLGA's discussions with the Assembly on funding for 2002-03 onwards, including a presentation to the Local Government and Housing Committee on 24 October.
3. The report does not take account of very recent developments such as the paving document, "The Learning Country".
4. The Consultative Forum on Finance is invited to comment on the paper.

October 2001

Background – local government spending in 2001-02 and the Assembly's budget plans for future years

1. Information on local government spending in 2001-02 is set out in Assembly Statistical Bulletin SDR34/2001, which is not reproduced here in order to save space. In summary, local government gross revenue expenditure grew by 6.6%, although the lower growth in net revenue expenditure of 6.0% demonstrates the increase in specific grants.
2. Table 1.1 below demonstrates conclusively that the Assembly's assumptions about need to spend in 2001-02 fell short of the real need to spend, as reflected in local authorities' budget decisions, by at least £18 million. If the effect of decisions to spend above the Assembly's assumptions did not fall solely on council tax, it is likely that authorities would have chosen to spend at an even higher level to address the need for additional investment in many service areas.
3. For future years, the starting point for councils and fire authorities is the figures for net aggregate external finance (AEF) that emerged from last year's budget process in the Assembly. We can also make an educated guess about total spending by councils *on the basis of these figures*, if we assume that council tax grows by 5% for each of the next 2 years in line with the Assembly Cabinet's partnership agreement. The table does not take account of transfers of responsibility, such as funding for sixth form education; or of specific grants and performance incentive grant.
4. The Association asks that the Assembly reconsiders the AEF figures in the light of this report, in the knowledge that the Assembly has not yet allocated all its resources for 2002-03 and 2003-04.

Table 1.1 The Assembly's budget plans for local authority spending

	2001-02 (settlement)	2001-02 (actual)	2002-03 (estimated plans)	2003-04 (estimated plans)
Net AEF	2,848.757	2,848.757	3,031.352	3,173.552

Of which police	142.000	142.000	146.500	152.500
councils	2,706.757	2,706.757	2,884.852	3,021.052
Council tax (council element)	592.504	610.269	640.782	672.822
Total spending (councils)	3,299.262	3,317.026	3,525.634	3,693.874
Growth in spending over previous year	185.886	203.650	208.608	168.240

(Note: Net AEF figures for 2002-03 and 2003-04 from National Assembly's budget, updated 16 July 2001: the split between councils and police is indicative. "Councils" includes fire authorities and National Park authorities.)

Spending pressures in 2002-03

- This report identifies in detail the spending pressures facing local government, concentrating on new responsibilities that have been imposed by central government. Before assessing whether these pressures can be absorbed within the Assembly's budget plans, the report seeks to quantify – for illustrative purposes – the effect of pay increases for local government staff, inflation and efficiency savings.
- The report concentrates on pressures where the potential impact on an individual authority will be £50,000 or more (over £1.1 million across Wales). The [annex](#) lists the relatively minor pressures which, cumulatively, are significant. It also needs to be borne in mind that some relatively minor pressures may have a disproportionate effect on small or single purpose authorities and in the smaller service areas, where a pressure of even £10,000 on each authority might represent a significant threat to existing activity if it were not funded.

Pay increases

- Table 1.2 shows for the last few years the level of pay increases for teachers, fire-fighters and other local government staff compared to inflation for January (e.g. January 1999 in the case of pay settlements implemented in 1999).

Table 1.2 Past pay increases compared to inflation; %

	1999	2000	2001
Teachers	3.5	3.3	3.7 [over 5 for new teachers]
Fire-fighters	2.0	3.0	Not yet known

Other staff	3.0	3.0	3.5
Inflation (January)	2.4	2.0	2.7

8. The table demonstrates that pay settlements tend to run ahead of inflation by between about ½ and 1 per cent. There is no reason to expect that pay settlements in 2002-03 will be in line with whatever inflation turns out to be or with the Treasury's inflation assumption of 2.5%.
9. To illustrate the unavoidable costs that local government faces from pay increases, this report assumes that the likely level of increases will again exceed inflation. It is stressed that these figures do not represent a prediction of what authorities are budgeting for, or of what negotiating stance the employers' side will take in respect of the pay of other staff. Teachers' pay is decided by the UK Government on the basis of the review body's recommendations, while fire-fighters' pay is index-linked to the upper quartile of male manual earnings. If the actual pay settlements differ from the assumptions made here, the cost to local government will vary accordingly.

Table 1.3 Illustrative assumptions about pay increases in 2002-03

	Estimated increase	Estimated cost
Teachers' Pay	3.5%	£31.4m
Fire-fighters	4.0%	£2.4m
Other Pay	3.0%	£33.4m
Total	-	£67.2m

10. Local government employees are usually paid on incremental pay scales which involve progression to a maximum point over a period of years. Thus some staff receive an increment as well as the "normal" pay increase. With one exception, this report ignores the effect of incremental pay drift, on the assumption that the additional cost of increments is balanced by staff at or near the top of the scale who leave and are replaced by staff lower down the scale. After allowing for wastage, the cost of teachers' increments is estimated to be £5.5 million in 2002-03.

Inflation

11. For expenditure on goods and services, this report assumes that costs will increase in line with the Treasury's inflation assumption of 2.5%. This is estimated to cost about £40 million.

Efficiency savings

12. Local authorities recognise that there is scope to secure efficiency savings from better use of resources, including by competitive tendering and improved procurement. The experience of Best Value reviews so far, however, has generally been that they recommend additional investment to improve the quality of service provided. The new framework of policy agreements has seen councils

agreeing targets with the Assembly for improving performance in a range of key areas, with £30 million available in 2003-04 on the basis of achievement.

13. The Home Office has set police authorities targets of efficiency savings of 2% a year, and the Department of Transport, Local Government and the Regions expects local authorities in England to achieve a similar level of savings. In Wales, the Assembly has not set specific targets for efficiency savings in the NHS or Assembly-sponsored public bodies although it is seeking savings of 6% on its own running costs. The Assembly's focus generally is on better quality outputs, rather than cost reduction.
14. In striving to do more with the existing level of resources and seeking efficiencies, it has to be recognised that there are various aspects of expenditure which are not in councils' direct control, for example:

- teachers' pay
- expenditure undertaken by individual schools, because governing bodies control budgets
- levies issued by a range of bodies
- the 5% of housing and council tax benefit that is borne locally
- capital charges (debt financing).

1. There is no prospect of securing efficiency savings in these areas, and in many others there is a limit to what can be achieved: the scope for reducing costs in many aspects of social services, for instance. Certainly it would not be realistic to expect 2% year on year savings across the whole of local government expenditure.
2. There are also steps that central government could take to help release resources at local level or allow authorities to raise more income locally. For example:

- the Assembly could reduce the number of specific grant schemes that it operates. They impose a significant administrative burden on councils, auditors and the Assembly itself – which means wasting resources that could otherwise be spent on delivering and improving services. The Audit Commission's consultation on audit fees for 2001/02 revealed that each new specific grant scheme is estimated to add £59,000 to audit fees across Wales and England (separate figure for Wales are not available). This is only one aspect of the bureaucratic costs of specific grants;
- more generally, there is scope for the Assembly to remove unnecessary regulation from local government in the way that it exercises its functions. Regrettably, the more useful deregulation powers conferred in various recent Acts have not been vested in the Assembly;
- the cost of producing dozens of different plans is significant. The Assembly has recognised the cost of planning services for children and young people with £1.32m grant being provided in 2001-02, rising to £1.76m in 2002-03. But concerted action to reduce the planning burden on councils is lacking at the present time;
- the Welsh Local Government Association and the Assembly are examining ways to reduce the burden of inspection and audit;
- the UK Government should simplify the administration of housing benefit;
- the Assembly's review of fees and charges is eagerly awaited. However it has taken no action to increase planning fees despite repeated requests from the Association; and the secondary legislation to allow councils to charge utilities under the New Roads and Streetworks Act 1991 has been put in place more slowly in Wales.

1. This report assumes for illustrative purposes that local government *might* achieve 2% efficiency savings on perhaps 25% to 30% of its expenditure, representing about £20 to £24 million. The assumption about efficiency savings should not be interpreted as a target for individual authorities.

Funding for initiatives already being funded through the general settlement

2. Some of the planned increase in Assembly funding for local government is in respect of identified initiatives that are being funded through the general settlement, such as free bus travel for pensioners and costs of carers' assessment. Such increases are not therefore available to help meet the cost of other spending pressures. There is an already announced transfer of infant class size reduction grant in 2002-03 which, likewise, is not available for other purposes. And the Assembly's planned increases in certain specific grants, such as the GEST programme and National Park grant, lead to an increased requirement for councils to provide match funding in 2002-03.

Table 1.4 Funding within the general revenue settlement that is not available to meet spending pressures

£ million	2002-03
Transfer: infant class size reduction grant	5.7
Increase in continuing funding for new responsibilities within general settlement	19.6
Increased requirement for match funding	2.3
Total	27.5

3. From the preceding tables, we can produce an estimate of what scope the Assembly's existing budget plans give for meeting the cost of new responsibilities or other service improvements.

Table 1.5 Summary of what the existing budget plans of the Assembly are estimated to "buy"

£m	2002-03
Growth in spending over previous year (from table 1.1)	208.6
<i>Less</i>	
Estimated Pay increases	67.2
Teachers' increments	5.5
Inflation	40.0
Funding for specific initiatives/ transfers/match funding	27.5
<i>Plus</i>	20.0-24.0
Estimated efficiency savings	

4. **The remainder of the report will demonstrate that the Assembly's budget plans do not provide adequate funding for new responsibilities.** Unless the Assembly revisits its budget proposals, the consequences might include:

- Slow and/or inadequate implementation of new legislative requirements;
- Increasing backlogs, including maintenance;
- Cuts in existing services;
- pressure for authorities to increase council tax faster than the Assembly's assumption of 5%.

1. The result is likely to be a gap between what authorities need to spend and what they will actually spend in 2002-03. This also serves to demonstrate the need for:

- local government to have other means of raising income locally, for which the Association argued in its response to last year's consultation paper "Simplifying the System";
- speedy action by the Assembly to take forward the fundamental review of fees and charges, for which the Association also called in that response. The lack of action thus far is very disappointing;
- the introduction of the prudential borrowing system, which will provide opportunities for local government to "buy" more from the same level of cash funding from Assembly.

2.1 Corporate issues

The Partnership Council has endorsed a report on the changes that local government will need to make in the way that deliver services by **e-government**. The Society of Information Technology Managers has estimated that, if councils take on board the report's recommendations, the additional revenue requirements would be £35.2 million in 2002-03 rising to £39.8 million in 2003-04. These costs include investment in such areas as internet-based services, enhanced IT security, upgrade of wide and local area networks, call centres and training. In addition, in social services £1 million is needed to support information technology and information sharing between partner agencies. In schools, £8.4m is needed to maintain and develop technology based improvements, including to refresh hardware, meet ongoing software and internet access costs, training etc. There will be implications for running costs of libraries if they have to open longer hours to give public access to computer terminals.

There are heavy costs associated with the **modernisation** process such as:

- the wider expectation of consultation, particularly in developing community plans and adopting local constitutions on decision-making structures;
- changes to members' allowances in the light of the recommendations of the independent review by Dr Declan Hall, which was commissioned and endorsed by the Assembly. If the recommendations on allowances were implemented in full, the extra annual cost would be £4.7 million in basic allowances and £0.4 million in leaders' allowances. The other recommendations in the review, such as pensions for councillors, could also have a significant cost that has not yet been quantified.

There are significant costs associated with developing new liaison and planning arrangements with the health service in taking forward **the Assembly's plan for the NHS** e.g. strategic partnerships for health and well-being, support for local government members of local health boards etc. In addition, there is a case for additional investment in **enhancing the public health role** performed by councils.

Asset management plans – there is a need for clear policy encouragement from the Assembly, backed by an injection of resources, if authorities are to make demonstrable progress by April 2002. One of the benefits from comprehensive asset management planning will be more robust information on the need for capital investment, which will inform the Assembly’s decisions on allocating resources for this purpose. In the short term, authorities need additional resources of perhaps £2 million to kick start improvements in the asset management process, for example to undertake condition surveys and put in data systems for all assets.

The **Audit Commission** has recently consulted on a significant real-terms increase of 4% to 4.5% in fees charged for audit for 2001/02. The final decision is awaited. Consultation on best value inspection fees has not yet been undertaken. The Association has asked that increases should be restricted to inflation.

Authorities have responded to encouragement from central government to implement initiatives to promote **community safety**. They are resource-hungry. Examples include the revenue consequences of CCTV schemes; the costs for youth offending teams arising from the lack of youth offender institutions; and the costs of maintaining and developing crime and disorder reduction partnerships.

Authorities will be obliged to prepare and seek approval for publication schemes under the **Freedom of Information Act 2000**. The precise timetable and guidance are not yet settled but the costs of preparing schemes will arise before any income from fees charged to individuals seeking information under the Act.

2.2 Transport and highways

	£m 2002-03	Comment
Concessionary Fares	5	Free concessionary fares for men aged 60 to 64 - Travel Concessions (Eligibility) Bill
Carriageway/Footway	30	Highway network still declining in condition.
Bridge Maintenance	6	Currently allocating approx. 33% of the funding required.
Bridge Strengthening	20	Required to meet 40 Tonne (and more recently 44 tonne) vehicle standard.
Retaining Wall Strengthening	4	Required to meet 40 Tonne (and more recently 44 tonne) vehicle standard.

Street Lighting	5	Highway safety/community safety (£5m = 10,000 columns/annum). One authority's Best Value review recommended that it should spend £5m alone!
Local Transport Plans	2.2	Continuing data collection and early stage implementation.
Public Rights of Way	3.5	Currently spending 64% of funding required. Plus effect of Countryside and Rights of Way Act 2000.
Public Transport Subsidy	3	Contract renewals up approx. 30%
Road Safety	6	Road Safety Strategy [£6m= 500 minor improvements]
Highway Drainage	10	Both 'climate change' issues, causing flooding and other damage.
Landslips	5	Allocation would address replacement culverts and other highway/subsoil drainage. (£15m = 200 locations)

2.3 Social services

	£m 2002-03	Comment
Supporting people: implementation costs	3	£1.125m in revenue settlement for 2001-02 only. Needs to be repeated and increased.
Impact of Care Standards Act	1.1	Registration fees for homes and staff – consultation on fee levels awaited

Extension of Direct Payments	2.2	Take up in Wales has been low of direct payments for those who are wish to arrange their own care arrangements. A pilot project has identified the start up and running costs as £100,000/council.
Development of single assessment and care management system	2.0	Gives improved demand management on health services
Assessment framework in Children's Services	2.5	Result of the Children Act. Partly covered by Children First grants, but experience from the pilot authorities suggests additional staffing costs of £224,000/council to meet the new standards.
Community care	62.5	Proportion of people over 80 is rising at a much faster rate than the overall population (double the rate in some authorities). Figures are based on research by the Nuffield Institute in 1998 but have been reduced, to take account of investment since then.
All Wales Strategy on learning disabilities	22.0	The Learning Disabilities Advisory Group's preliminary report to the Assembly identified the revenue shortfall that has built up
Children's Services	11.0	Rise in looked after children with complex behavioural problems, and in the number of children with disabilities.
Improvements in hospital throughput rates	5.0	Councils need to respond to the increasing efficiency of the Health Service. Continuation of short-term funding plus 20% increase to improve demand management.
Mental Health Services	2.9	Additional workload in respect of mentally disordered offenders. Ensuring that all service users benefit from the care programme approach. Loss of income because of Section 117 judgement.
Increase in fees for private care homes	8.0	Many are seeking a 10% increase. Further rises in the minimum wage have increased their running costs.

adults (16 to 64) with physical disabilities	9.0	Research has identified a short fall between actual services and desirable services to meet need of between £23 and £25 million.
In-Service Training	3.7	To respond to difficulties in recruiting qualified staff, and meeting Assembly's qualifications targets.

2.4 Education, Libraries and Cultural services

	£m 2002-03	Comment
Teachers' pay restructuring	5.4	<p>Shortfall in funding because:</p> <ul style="list-style-type: none"> • new cohort qualifies for threshold payment each year • effects of teachers' pay settlement not taken into account. Estimate assumes 3.5% increase. <p>The shortfall for 2003-04 is estimated to be £11.1m.</p>
Revenue grant for schools	16.0	Specific revenue funding for schools is £41m this year. The budget provides £25m for 2002-03. Unless the figure is increased to at least the same level as 2001-02, progress on reducing class sizes in KS2 and other improvements will falter.
Teachers' Superannuation	8 - 10	Employers' contributions increase by 0.2% from April 2002. This is a UK Government decision.
Pupils with Special Education Needs	16.0	Increased commitments to extend early preventative intervention and meet the provisions of the SEN Act.
Home tuition	7.0	Statutory additional responsibilities increase from 5 hours to 20 hours per week. One authority estimates the cost will be £450,000.

Backlog in repairs and maintenance	25.0	The backlog is estimated at up to £800 million, of which 45% is estimated to be revenue costs. While additional capital funding from the Assembly is starting to make an in-road, an injection of resources is also required on the revenue side. The funding sought would be the minimum credible response to the scale of the problem.
Youth services (Extending entitlement)	4.3	The funding already in the settlement for 2002-03 is not sufficient to deliver the Assembly's vision under the Learning and Skills Act, and ensure that local authority youth work delivers a youth curriculum in ways which enable exclusion to be tackled.
Public Library Standards	5.0	Estimated cost of meeting all 25 standards is 9% increase in existing spending.
School Transport	6.4	Residual effect of the legislation requiring the fitting of seat belts on school transport vehicles along with the withdrawal of the "3 for 2" seating concession. In addition price increases for home to school transport of between 8% and 30% are being experienced.
Revenue consequences of Lottery investment in school PE and sports facilities and following ending of 3 year funding for People's Network from the New Opportunities Fund	To be assessed	Relates to later years
Nursery education for 3 year olds	3.0	This relates to 2003-04. The announced funding of £12m will not be sufficient for universal part-time (½) nursery education for children the term after their third birthday.

2.4 Economic development, environmental and regulatory services and planning

	£m 2002-03	Comment

Destination management system	Not yet clear	The Wales Tourist Board expects councils to provide and keep up to date data on tourist accommodation etc. for this internet-based resource.
Landfill tax	1.5	To increase by £1/tonne each year to £15/tonne by 2004. One average size authority has estimated that this will cost it £65,000 in 2002-03.
Contaminated land regulations	To be assessed	
Drainage board levies	Not yet known	Significant increase above inflation for 2001-02. Likely to be repeated in 2002-03.
Review of Consumer Credit Act	Not yet known	The impact will be felt in the longer term. Depends on nature of changes proposed.

2.5 NATIONAL PARKS

		Increase	Increase
Approved expenditure 2001/2002	£ 9,672,000	%	£
Planning Figures 2002/2003	£ 10,712,000	10.75%	1,040,000
Planning Figures 2003/2004	£ 12,045,333	12.45%	1,333,333

Inflation, pay award and other commitments	£ 420,000 per annum
Implication of Government legislation and initiatives	
Access and Countryside and Rights of Way Act	£150,000
E-government	£240,000
Best Value (Inspections etc.) and Improving Local Government Initiatives	£60,000
Other growth activities: responding to National Assembly Initiatives	
Promoting Biodiversity	£125,000
Regeneration of historic towns and buildings	£170,000
Promoting Understanding	£100,000

Sustainable Development – transport, tourism	£50,000
Improve & develop footpath, bridleway and cycling networks and Open Access legislation	£200,000
Additional resource requirements following Best Value reviews	£70,000
Rural regeneration and farming support, particularly following Foot & Mouth	Cross cutting theme with contributions from most service areas
Environment Development Fund : embedding the 3-year pilot into base line	£750,000 pa from 2003/2004

Other Items of local importance	
Match Funding for Objective 1, HLF, and other initiatives and grant funding	£200,000
Greening our business – green energy buildings and vehicles, waste & recycling	£100,000

6. Fire authorities

	£m 2002-03	Comment
Pensions	4.0	The cost of the unfunded pension scheme continues to grow. Estimate for 2003-04 is £7.9m.
EU Part time workers directive	Cannot be quantified until conclusion of Court proceedings later in 2001.	Eligibility of part time firemen for pensions, could be backdated as far as 1976. A disproportionate number of part time firemen are in Wales, so any funding provided by the UK Government should not be distributed on the Barnett formula. Costs could be very significant.

Public Safety Radio Communication Scheme	Decision to participate not yet taken	Result of reorganisation of bandwidths. Capital and revenue consequences not yet known.
Disability Discrimination Act	0.1	

2.7 Housing

	£m 2002-03	Comment
Homes Bill	2.0	<ul style="list-style-type: none"> • requirement to prepare and review homelessness strategy • seller's pack to be policed by trading standards: cost £100,000/year (Assembly's assessment in paragraph 30, LGH-01-01 p.4) • Floating Support Scheme - Estimated cost £110,000 for an average urban authority
Homelessness	2.2	<p>Homeless Persons (Priority Need) (Wales) Order 2001</p> <p>Staffing costs for procurement, placement and management of temporary accommodation</p> <p>Additional accommodation - increased use of Bed and Breakfast</p>

Annex

Relatively minor spending pressures (see paragraph 1.6)

Pressure	Cost 2002-03 £m	Comments

Additional bank holiday on 3 June 2002, to mark the 50 th anniversary of the Queen's accession	1.2	Overtime costs for staff who work on that day or work extra hours on subsequent days, such as refuse collectors and care home workers - plus the opportunity cost of a lost day's work for other staff, for which funding is not being sought. Assumption: affects about 20% of staff, representing about 0.1% of annual pay bill
Carriageway Marking	1.0	New European roadmarking regulations since 1/1/2000
Traffic Signs	1.0	Highway safety
Parking Cards for the Disabled	0.3	European regulation from 1/7/2000
Cycleways	1.0	Increased provision in line with Integrated Transport Policy.
New Roads and Streetworks Act 1991	1.0	Complete training and developmental requirements.
Voucher Scheme (Health and Social Care Act)	0.16	Additional administrative cost of managing the scheme (0.5 Admin per LA)
Revision to Complaints Procedures (social services): advocacy for adults and additional independent investigating officer time.	0.1	Improved access to complaints process to raise standards of services. Better, simpler Government by empowering the voice of users and carers.
Impact of Protection of Children Act and introduction of Criminal Records Bureau	0.4	Registration fees (£300/council) plus £12/check. Assumes 21,000 checks.
Impact of Health & Social Care Act	1.0	Extra administrative costs of processing payments and invoices when free nursing care is introduced. Timing not yet certain – may be delayed to 2003-04.
Continued Impact of the Carers Act	0.3	Additional carers' assessments and services to carers. Estimate takes account of already planned increase in funding within settlement.
Asylum Seekers – social services	0.07	Impact of the resettlement programme. Assumes £350 for 200 asylum seekers (10% take-up).

Asylum seekers' children – education costs	0.2	Depends on number of children accompanying asylum seekers. Assumes £1000 for 200 children.
Implementation of Race Relations (Amendment) Act requirement in schools	1.0	One average size authority has estimated that this will cost it £50,000 in 2002-03.
Local Cultural Strategies	1.12	Local authorities are encouraged to take a more strategic approach to cultural services. The target is for all authorities to have strategies in place by 2002.
All aspects of performance related pay for teachers	1.5	Advice and support to schools and extra administration costs
Welsh language education schemes	1.0	Required by Welsh Language Board
Teachers' registration fees	0.02	Councils will not be allowed to charge the General Teaching Council for the cost of collection