



WLGA EVIDENCE TO FINANCE COMMITTEE

WELSH GOVERNMENT BUDGET 2021-22

02/12/20

INTRODUCTION

1. The Welsh Local Government Association (WLGA) represents the 22 local authorities in Wales, and the three national park authorities and three fire and rescue authorities are associate members.
2. The WLGA is a politically led cross-party organisation, with the leaders from all local authorities determining policy through the Executive Board and the wider WLGA Council. The WLGA also appoints senior members as Spokespersons and Deputy Spokespersons to provide a national lead on policy matters on behalf of local government.
3. The WLGA works closely with and is often advised by professional advisors and professional associations from local government, however, the WLGA is the representative body for local government and provides the collective, political voice of local government in Wales.
4. This evidence is drawn from our submission to the Finance Sub Group (FSG) on 2 November. The FSG is chaired by the Minister for Housing and Local Government and attended by 8 Local Authority Leaders. Other ministers attend regularly.
5. In order to inform the 2021-22 Welsh Government budget round the WLGA carried out a survey of the 22 local authorities. The resulting paper builds on last year's survey but is also informed by work carried in this financial year to quantify and analyse the impact COVID-19 on local government. This has meant that the responses from local authorities have been heavily impacted by the need to deal with the implications of the pandemic.
6. There is now a considerable body of survey data on the pressures faced by the sector. This financial year FSG has received two quarterly reports providing the results of the two surveys setting out the estimated financial impact of the ongoing response to the COVID-19 emergency. These have set out the impact on local authority income and the

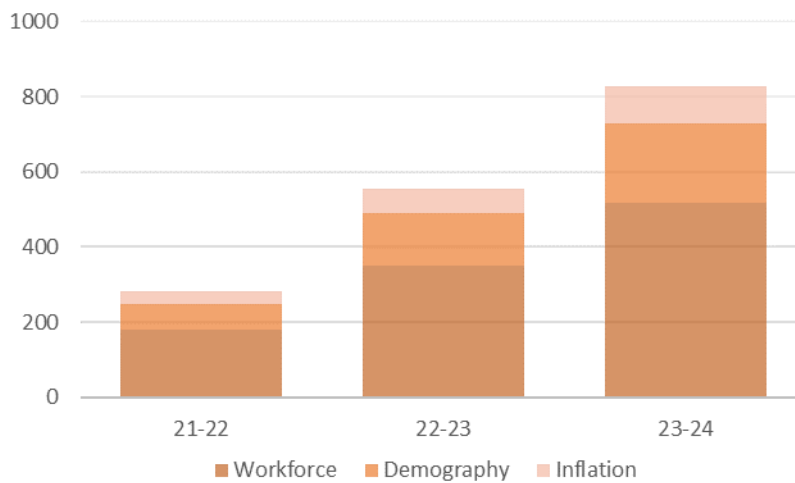
pressures on revenue expenditure. In the same context the second report looked at emerging issues and COVID-19 announcements made by UK Government that will have consequential funding allocations for devolved administrations including Welsh Government. This report also covers the impact of COVID-19 and the inevitable legacy impact of the pandemic on local government finances.

7. This paper summarises the results of the survey of all 22 local authorities commissioned by the WLGA to collect more detailed information on the estimated impact of various financial scenarios over the next three years. It is worth noting that each of the 22 authorities has a robust annual financial planning process enabling them to set a balanced budget.
8. The unprecedented crisis saw an immediate response by local authorities. This has meant the Medium Term Financial Plans agreed as part of the 2020-21 budget process are no longer valid because of the unprecedented pressure. Even though the pandemic remains councils are now seeing the recovery phase as a key issue for financial planning. Financial certainty and support will be key to the success of this phase.
9. The survey sought to look at the future impact on services under differing assumptions up to 2023-24 where settlements included workforce inflation, demand and other inflationary pressures. It also sought to gain views about the level of confidence that services could be protected and where the greatest level of concern existed for services.
10. This year's survey also sought information on the impact of Covid-19 on social care finances. The close link between health outcomes and social care is well known and in 2020-21 this has caused further Covid-related financial pressure in the care sector beyond associated demographic factors. The inclusion of this aspect is an attempt to gain a whole system perspective by collecting information so that local government's role and the resulting financial pressure is noted a part of the whole system approach when funding decisions are made that affect the health and social care sector.

Summary

11. Local Government is working at the forefront of the current emergency to meet the unprecedented challenge of COVID-19. This has also been a notable and significant demonstration of the partnership with Welsh Government and the wider public sector. The commitment of staff to support the most vulnerable has been a key factor in

- responding to the crisis. Councils' response has been greatly assisted by in year additional funding from Welsh Government. This welcome and necessary financial support to the COVID-19 has brought temporary stability to allow councils to respond to the pandemic.
12. The unprecedented response has understandably redirected local authority efforts to dealing with the impact of the pandemic and to deliver their community leadership role. Despite the challenge and financial circumstances, local authorities continue to provide a wide range of services and this has often gone unnoticed at this unprecedented time.
 13. Survey responses indicate the impact of the pandemic on local priorities and council finances. Demand led services in the social care sector have been particularly badly affected and real concern about service continuity and the on-going impact on finances is evident in councils' responses. The responses also highlight the key role played by council commissioned private care providers many of whom are small and lack the financial resilience of larger providers.
 14. Reports in previous years to FSG have often commented that local services were reaching a tipping point because of austerity. The potential impact of COVID-19 is of another order of magnitude.
 15. Councils raised significant concern about the future funding position. Unexpected financial pressures when coupled with the struggle to deliver 2021-22 budget savings agreed pre COVID is putting pressure on councils. Some savings agreed for this year are complex and transformation-based meaning that there is doubt about when, and indeed if, these will now occur because of the need to respond to the crisis. This adds another layer of uncertainty to local authority finances and future financial planning that may require deeper cuts to services.
 16. The following table shows the financial gap calculated from our own modelling. The underlying pressures for 2021-22 total £279m and similar patterns are evident in the next two years. This aligns with local authorities' own estimates from our survey. The cumulative pressure rises to £822m by 2023-24.

Figure 1: Local Government Spending Pressures

Source: Base estimates: RO and RA returns (2019-20 to 2020-21)

17. As in previous years, the greatest proportion, 63% or £174m, is attributable to workforce costs (including social care commissioning costs). Demand pressures amount to £72m which is mostly down to social care, and other inflationary pressure of £33m.
18. In the large service areas there are two sources of additional evidence confirming the scale of pressures in those specific areas. Firstly, the recent report commissioned by WG from Luke Sibieta identifies the school workforce pressures. These form the basis of the underlying education pressures. Secondly the work of LE Wales reported to the Finance Sub Group last year and form the basis of demographic and workforce pressures for social care.

Survey Responses

19. The survey asked Councils how confident they were about protecting services from further cuts under differing conditions. There was a recognition that last year's uplift of £184m or 4.3% was a step-change from the previous decade and protected services and jobs.
20. In assessing the impact of various future scenarios, a settlement that covered workforce inflation would give little respite from the years of austerity and no entire service area could be guaranteed full protection from cuts.

21. The covering of workforce inflation and demand pressures would provide considerable additional assistance, but concern was evident about the ability to meet all cost pressures particularly in schools, adult services and children's services given the COVID-related impact on demand.
22. All council service areas featured in the responses as causes of concern but those consistently seen as the most concerning were:
 - Adults Services
 - Schools;
 - Children's Services; and
 - Homelessness.

Settlements that include Workforce Inflation

23. A funding scenario that included workforce inflation gave councils some respite but still left a considerable gap in financial plans. It opened up the possibility of some scope to limit cuts to Education and Social care but the overriding response was that this scenario would still require painful decisions about services levels, whether some areas could be protected and also ceasing some services entirely.
24. The survey responses noted that the protection of Education and Social care budgets would be extremely challenging. Even protecting one of these areas would be unrealistic.
25. The issue of underinvestment is also of concern. Surveys were aware of the need to move to a recovery phase and individual local authorities stressed the importance of trying to support the local economy. Key to delivering recovery and growth is the ability to fund capital investment. A settlement that only includes workforce inflation undermines the scope for investment unless other areas are cut to fund borrowing costs. For some local authorities, the 21st Century Schools Programme will see capital investment requirements continue to rise with the borrowing costs absorbing a greater percentage of the revenue budget. Under this scenario the issue of affordability of these programmes is a concern.
26. Councils have been remarkably successful to date when looking for operational efficiencies. There was an acknowledgement that the pandemic may provide some additional opportunities around asset savings and travel costs, but these would fall far short of closing any funding gap.

27. An ageing population and other demographic factors would not be covered by funding increases in this scenario. For some councils this is an on-going issue. In other local authorities Living Wage increases create financial pressure.
28. To avoid cuts under this scenario and to meet the funding gaps outlined by councils would still require a large and unacceptable council tax increase. Respondents noted this would have the same issues as outlined under a cash flat scenario. In other words, there would not be an option to pursue this route.

Settlements that include Workforce Inflation and Demand Pressures

29. This scenario provides the greatest protection to services. The responses varied depending on the level of demand pressures and expectations faced by councils. It would give some support to all councils when seeking to avoid the deepest cuts in service. The ability to protect Education and Social care is enhanced.
30. Whilst some authorities felt budget cuts would not be required to meet demand pressures the underlying concern is this would 'only' maintain existing services and meet demographic pressures. Service improvements and any future additional impact of COVID-19 would not be funded.
31. Even under this scenario some councils felt they would have a budget gap because of commitments to fund service improvements. Local policy priorities around Economic Development and Regeneration would still need compensating budget savings from other services to meet these requirements.
32. One response noted confidence that the main services provided would be protected from cuts based on this funding scenario but added the caveat that this would only happen if coupled with Welsh Government continuing to support the additional costs associated with COVID-19.
33. Services will need to continue to become more efficient and take savings that result from changes working arrangements made because of Covid-19. Targeted savings in specific areas (e.g. back-office functions) would need to be delivered to produce further investment in frontline services, local priorities and on-going transformational change.

34. Some authorities felt this scenario would give scope to reflect on planned council tax levels. This was not a universal feature but is evidence of a willingness to support local communities where it would be a possible to look at reducing the planned level of increases.
35. The issue of collection rates for council tax is a concern. The picture across Wales is one of reduced collection rates because of the pandemic's impact on household income. When coupled with the potential for increase in council tax reduction scheme costs this increases as risk factor for council budgets.

Service Areas Causing the Greatest Concern

36. The survey sought views on services where there was the greatest concern under all three scenarios.
37. All council service areas featured as causing concern. However, there was a consistent theme that indicated all councils are concerned about major service blocks that have been affected by COVID-19.
38. To date Schools may have been relatively protected from the worst of the funding reductions but the picture presented by survey responses indicates a relatively poor settlement will impact on improving standards and support for vulnerable and disadvantaged learners. Responses indicated that whilst this area is a priority it would not be possible to provide protection against funding reductions in some scenarios. When coupled with some authorities having schools in licensed deficit positions there is growing concern about the impact of a flat cash or pay inflation only settlement at a time when one authority has seen a 37% increase in the numbers of learners eligible for free school meals.
39. Unsurprisingly Adult Social Care featured as a key concern. Responses noted the need to continue to deliver the Social Services and Wellbeing (Wales) Act but also highlighted the on-going COVID-19 pressures currently being funded through Welsh Government's Hardship Fund. This has been a significant financial support mechanism but currently only covers the 2020-21 financial year. Demographic pressure means that costs are rising at a time when there is increasing concern about market fragility. Claim data coming from the hardship fund shows the monthly claims of between £8m and £12m are needed for the sector. This will amount to £96m and £144m annually.

40. Children's Services was already under pressure before the impact of COVID-19. Responses noted the concerns around the impact on children's wellbeing during lockdowns and this issue is likely to see financial pressures arising from COVID-19 in the longer term. Demand for placements, high placement costs and a high percentage of social work posts being filled with agency staff continue to add to the financial pressures in this area. Whilst numbers of 'looked after children' have increased trends suggest these have not yet reached the maximum and are likely to increase further. The number of looked after children has increased over the period of the pandemic and placements are increasingly difficult to source. This is creating an additional pressure on the financial position.
41. Housing and homelessness financial pressure is a significant concern. To date the revenue funding made available for COVID-19 has helped address rough sleeping. Funding from Rough Sleeping Grant and Housing Support Grant has also assisted but additional issues and challenges will arise due to the new legal duties under section 75(3) of the Housing (Wales) Act 2014. This area that is likely to see demand rise in the medium to longer term because of the increase in unemployment levels.
42. The fragility of Public and School transport, particularly bus services, has been mitigated by using Welsh Government Hardship funding in 2020-21 to give short-term support to transport providers. There is now concerns about the viability of providers affected by the continuing reduction in passenger numbers. There is the potential for contract costs to increase due to fewer providers existing and the impact of providing safety measures to manage COVID-19.
43. The most significant concern in Culture and Sport is the decline in income levels. This area has lost income from theatres, concert halls and large events, all of which also attract visitors who also provide income for local businesses.
44. There is demand pressure particularly in Environmental/Public Health and other Regulatory Services. There is evidence of increased responsibilities and workload from managing enforcement of COVID-19 regulations.
45. Councils have also been affected by a loss of fees and charges income. This is a source of significant funding for services and in 2020-21 shortfalls have been met by the Hardship Fund. The reduced income levels are likely to continue in 2021-22 and this key component of local authority funding is unlikely to return to historic levels for some time. Without on-going support for loss of income compensating service cuts will be

required because there is uncertainty about when (and if) demand will return to pre COVID-19 levels.

Impact of Covid-19 on Social Care Services

46. This year's survey sought information on the impact of COVID-19 on social care. The national response to the crisis has highlighted the close link between health outcomes and the delivery of social care services. The overall response has caused Covid-related financial pressure in the care sector over and above the annual pressure faced by demographic changes.
47. A consistent response from councils has been that the WG Hardship Fund has been utilised to support social care at this challenging time with some noting its role propping up the provider market and maintaining a sustainable service moving forwards.
48. The close working between the Health Service and local authorities in response to the pandemic has demonstrated how important the care sector is in terms of providing health services across Wales and improving the performance of the health service as a response to the pandemic. Some authorities stressed the need for any additional NHS Wales funding to recognise the role played by councils so that local government receives a fair share of any health consequential funding from UK government that may come to Wales.
49. Responses indicated the importance of ensuring private sector care providers were able to continue their important role in not just meeting council commissioned care for the most vulnerable in society but also freeing up resources in hospitals. The current pandemic has placed significant financial strain on care providers due to increasing costs (staffing, sickness, PPE etc.) but has also impacted on their income generating ability from full fee-paying clients. Market failure would leave Councils looking for care capacity further afield. This would come at a significant increased cost.
50. The survey found that the additional WG funding that is currently being directed to providers has kept some providers trading and it will be difficult for them to continue to the future without this additional funding.
51. The concern about market failure of local providers was also matched by pressures that will be felt beyond the end of the pandemic:

- Specific areas on Adults Services such as occupational therapy and general social work will need to catch up with non-priority work which continues to meet statutory thresholds. In practice this will result in additional costs for some time.
 - Mental Health services will have to deal with additional pressure to support an additional tranche of individuals affected by the pandemic's impact on levels of isolation.
 - During the pandemic sourcing placements for Looked After Children has been challenging. As a result, there will be an increase in costs particularly with high cost out of county placements to manage post the pandemic.
 - Day care services may not resume using the same model as the pandemic eases. Emerging new service models may require additional finances to support them
52. In response to the pandemic there has been a refocussing of operations and day to day management. This has affected transformation agendas meaning that some councils have delayed significant changes that are also tied to budget saving programmes. Authorities recognise that there is a need to develop and remodel services to meet current and increased need but lack the capacity needed to do so.

Locking in transformational change due to COVID 19

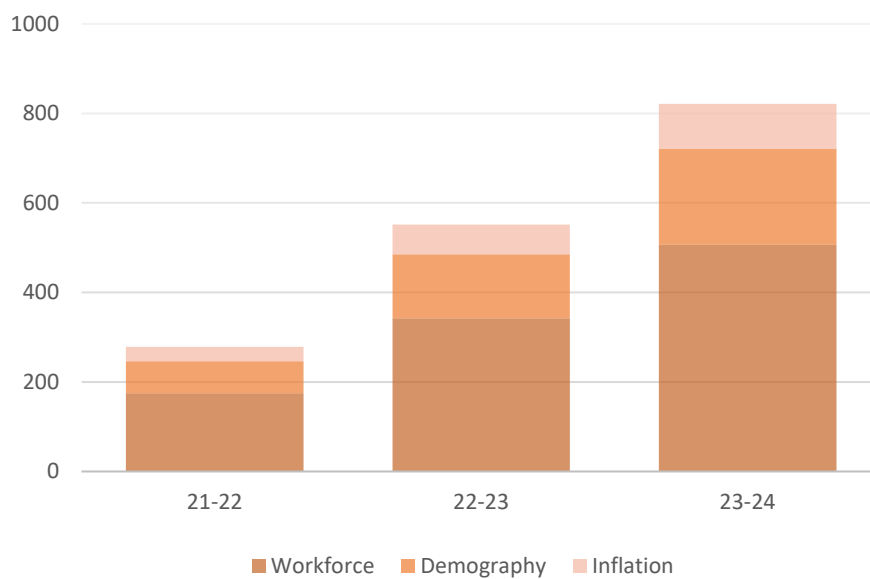
53. On 8th August the Minister for Housing and Local Government wrote to Leaders to acknowledge the loss of income across all local authorities and to recognise the efforts Councils had made to innovate to keep services going and to deliver new or additional services in response to COVID 19. The letter also noted the strong desire and need to build in and build on the positive service changes Councils have introduced in response to the pandemic. The Minister was keen to hear about what changes have been made and what positive outcomes have been achieved and the responses from the 22 authorities covered areas such as administration, governance, flexible working property and the use of digital scrutiny.
- Since the beginning of the pandemic all local authorities have a significant proportion of the workforce working remotely. This change has seen travel and energy cost savings. The longer-term impact is likely to see a reduction in overall office accommodation needs. Councils report an increased digital literacy across their organisations including elected members.

- Local authorities have seen traditional methods of paying and contacting the Council (such as face-to-face at Customer Service Offices) shift to either telephone or web-based engagement. Some councils have used Post Office cards to collect housing rents from tenants. This has reduced the level of cash handling.
- The use of mechanisms to accelerate culture shift has accelerated. Technology has enabled staff and elected members to conduct meetings and discussions without the need to travel to a specific location. The reduction in travel time has produced savings, reduced carbon impact and improved productivity.
- Following lockdown services such as libraries and Household Waste Recycling Centres were brought back into public use by on-line booking systems that efficiently and safely managed access. Some councils are moving to electronic library catalogues so that residents can safely access a service. Digital library services have been implemented very successfully and councils intend to provide a 'click and collect' service permanently.
- The use of AI technology has accelerated to maintain services by freeing up resources in front line care as well as administrative areas by automating processes.
- There has been considerable flexibility demonstrated by the workforce from supporting free school meals to operating Track, Trace and Protect (TTP). Redeployment to support vital services has been underpinned by agreements made with Trade Unions. From the outset of the pandemic one council took the decision to deliver Free School Meals to the homes of all eligible FSM Pupils. Not only did this support vulnerable households but also benefited local businesses. The operation showed how the whole workforce supported the local community.
- One council reports that the establishment of an intensive and highly valued community support and engagement scheme for those that were shielding (and those also in need of support) has also produced valuable community feedback and intelligence. This will help shape their priorities during the recovery stage and beyond.
- The use of virtual meetings for Child Protection Conferences has been a positive development. One council states it has consistently been able to achieve 100% quoracy meaning significantly more effective meetings to safeguard children.

- Councils quickly established childcare hubs to support those working on the front-line as well as the most vulnerable children, this provision was seven days a week and throughout the school holidays. One council introduced a ‘team around the hub’ to provide informal access to named professions, this multi-agency model was so successful it has been continued.
 - In one council Sheltered Housing Wardens have been issued with laptops. This will reduce the amount of paperwork that has to be completed and collected. It will also free up time for Senior wardens who must collate and check it monthly.
54. There is no doubt dealing with the pandemic has been incredibly challenging for local authorities but councils report that some of the changes that have taken place during the pandemic will be incorporated into a permanent way of working. This will see a focus on improving service delivery, enhancing staff well-being, and locking in productivity improvements.

Core Pressures in the Medium Term

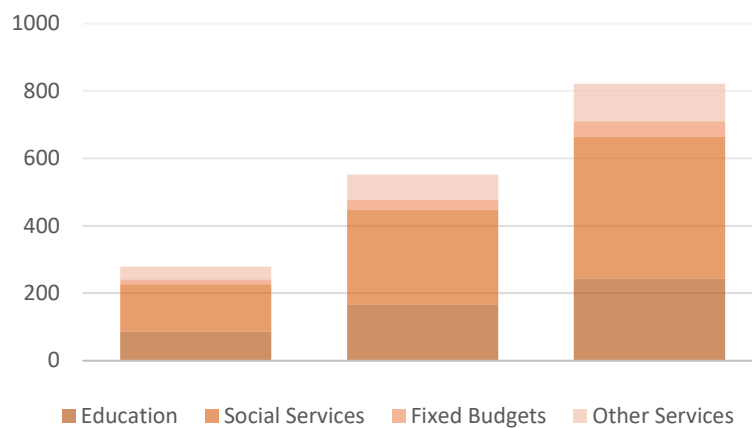
55. Figure 2 below summarises the expenditure pressures for local government based on our model that uses centrally collected returns as the baseline and then factors in what we know about pressures over the next 3 years. Total expenditure pressure for 2021-22 is £279m which is higher than previous years reflecting the higher pay settlements. Unavoidable workforce pressure accounts for 64% of this. By 2023-24 this is estimated to rise to £822m with workforce pressures (£507m) higher than demographic and other inflationary pressures combined (£315m).
56. The pressure next year aligns closely with the data from all 22 authorities have provided through the Spending Review Survey. This aggregates to £274m so around £5m less than the modelling suggests.

Figure 2: Cumulative pressures up to 2023-24, by theme, £m

Source: Base estimates: RO and RA returns (2019-20 to 2020-21)

57. Figure 3 below shows that a greater proportion of future pressure is still building up in the large services. In summary the key features are:

- An additional pressure of £140m for social care in 2021-22 becomes £420m by 2023-24 which is consistent with the unpublished study by LE Wales commissioned by Welsh Government (this should provide more precise estimates).
- The pressures on schools are less rising from £87m to £244m over the same period. Again, these estimates are well aligned to the those recognised by Welsh Government commissioned work. The recent Report from Luke Sibieta estimates workforce inflation (teaching and non-teaching) between 6.4% and 8.4% over a three year period.
- Fixed elements of the budget – capital financing, fire levies and the Council Tax Reduction Scheme – rise from £15m to £46m by the end of the period.
- The remaining non-statutory services, which are some of the most visible to and valued by communities and those that make a positive contribution to people’s wellbeing are the ones most at risk and areas that have borne the brunt of austerity to date.

Figure 3: Cumulative pressures up to 2023-24, by service, £m

Source: Base estimates: RO and RA returns (2019-20 to 2020-21)

58. Finally, while most of this paper has been about revenue spending, the importance of capital investment should not be overlooked. Local Government has welcomed the additional capital funding that has been made available in recent years to fund transport, schools, housing and other local infrastructure. As in previous years we hold the line that eventually we would like to see local government's capital expenditure reinstated to 2009-10 levels.
59. Last year the Future Generations Commissioner has published a ten-point plan to fund Wales' response to the climate emergency. As the Commissioner points out, in previous and current budgets the Welsh Government spend on decarbonisation has been around 1% which is nowhere near enough to fund the challenges that a climate emergency presents. WG has set an ambition for the public sector to be carbon neutral by 2030. Local government can play a vital role in helping to pursue these goals but will need to be resourced adequately if it is to be able to rise to the challenge.
60. In the aftermath of COVID, as part of the recovery, we will continue to make the case for a series of co-ordinated, Wales-wide programmes of investment in local authority services. Details of the economic stimulus package were set out in a letter to Ministers back in July. With Welsh Government funding, local authorities could borrow and invest in several significant capital programmes. These could contribute, rapidly and significantly, to a wider economic stimulus package whilst also helping to improve performance and outcomes in relation to a range of other important shared policy objectives. They would also help to 'lock in' and build upon positive, transformational changes already introduced to these services in response to COVID 19.

61. Local Government is best placed to deliver improved transport, housing, renewable energy projects and nature-based solutions. Local government is also best placed to ensure that decarbonisation is a key principle and driver for decision making within the planning system, public sector procurement and the responsible investment of over £17bn of pension fund assets.

Conclusion

62. Last year's report to the FSG, concluded Local Authorities had been relatively resilient despite the prolonged period of real terms budget reductions. The challenges this year are of another order of magnitude because of the unprecedented impact of COVID-19.
63. The substantial in year support from Welsh Government coupled with an approach based on working in partnership has provided significant service continuity at a time of crisis. However, a fair 2021-22 settlement will be needed to avoid deep cuts in key areas of local government so that councils not only continue to play a key role providing on-going support but also lead the recovery phase for our communities as we return to a more 'normal' position.

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