Dear Mark,

Thank you for attending our meeting on 3 November to give evidence on the Welsh Government’s draft budget proposals for 2017–18.

The Committee would like to draw your attention to the matters set out below, and looks forward to receiving your response as soon as possible.

**General**

We note the total allocation for the local government portfolio for 2017–18 is £3.405 billion, which is an increase of 1.5 per cent in cash terms compared to 2016–17.

You made clear in your evidence that this draft budget is “unusual” in avoiding cuts for local government and that this is unlikely to be replicated beyond 2017–18, particularly given the anticipated 9 per cent real terms reduction in the Welsh Government’s overall budget by 2020. You also warned that there will be “harder choices and tougher times ahead” and that “the next 18 months must be used in a purposeful and rigorous way” to prepare for this.
While the draft budget may provide some, albeit limited respite, it is unlikely to counteract the wider financial challenges facing local government in Wales. We are concerned about the prospect of further and deeper funding cuts in future years and the impact of these on the sector and on service delivery. We welcome your commitment to supporting the sector in meeting these challenges. In planning for the longer term, we note that you intend to continue to engage with local government around your reform proposals.

Local Government Main Expenditure Group (MEG)

We note that within the overall increase in the allocation for the local government portfolio, the ‘Police General Revenue Funding’ Budget Expenditure Line (BEL) shows a net reduction of £51 million. While we understand that this may be due to technical and presentational changes within the Local Government MEG and does not represent a reduction in the total police funding provided within the draft budget, we seek clarification from you on this change. In addition, we would like a detailed explanation of the purpose and effect of changes to the ‘Police General Revenue Funding’ BEL.

The draft budget shows an increase of £82 million in Annually Managed Expenditure (AME) (which is entirely made up of receipts from Non-Domestic Rates (NDR)) compared to 2016–17. In your evidence to the Finance Committee on 19 October 2016, you suggested that the increase in AME was because NDR receipts in the previous financial year had been greater than estimated. You stated that this “creates a pool that you can take forward and deploy next year”. We would like further clarification from you on whether the £82 million includes receipts carried over from 2016–17, and, if so, how much is carry over funding.

Provisional local government settlement

The budget provides the first cash increase in the local government revenue settlement since 2013–14, which we welcome. While the increased allocation is an improvement on previous years, almost half of all authorities will still see a cash terms cut in their allocations. This is likely to add to the existing and significant
financial challenges facing those authorities. To this end, we are pleased that the funding floor has been retained for 2017–18, which means that no authority will face a cut in its allocation of more than 0.5 per cent. This has helped protect four authorities against more severe cuts than they would otherwise be facing.

When asked whether the funding floor arrangements would continue beyond 2017–18, you told us you were “willing to look at [it] on a year–on–year basis” but that it would “depend on the circumstances each year”. Given the Welsh Government’s commitment in its Programme for Government to “provide funding to put in place a floor for future local government settlements”, we ask for further clarification on this issue.

**Additional allocations within the settlement**

We welcome the additional £25 million allocation for social care which you have made available through the settlement. This builds on the additional £21 million allocated through the settlement in 2016–17. We recognise the preventative potential of investment in social services, which are key to ensuring the health and well–being of some of the most vulnerable people within our communities. We are acutely aware of the growing pressures on social services and the need to continue to work with local government to ensure their effective delivery.

When asked about how you intended to monitor the additional spend on social care, you told us that “[the Welsh Government] will monitor this as [it] monitors everything” and that it would be using existing systems, which involved the collection and monitoring of local authority data. You also told us that it was a matter for individual authorities to decide on how best to use the additional allocation for social care, taking account of local needs. While any additional funding for local government is to be welcomed, we believe it is essential to ensure that robust arrangements are in place to monitor spend, outcomes and value for money in the areas that you have chosen to allocate this additional funding. **We would welcome further details from you on the system used to monitor spend on social services, on the outcomes that you expect to achieve**
from the additional £25 million allocation for social care, in 2017–18, and on when you expect to be able to report back to the Committee on those outcomes.

We welcome the additional funding being made available to local government as a result of the agreement between the Welsh Government and Plaid Cymru, namely: £25 million to support the delivery of vital services; £1 million for school transport; and £3 million to support town centre car parking pilot schemes. We understand that this funding will be provided through the settlement and will therefore be un-hypothecated.

You told us that the additional £25 million for the delivery of vital services was not “designated for any particular purpose” and was “just part of the funding that we can provide for local authorities”. We refer you to our previous point on monitoring spend and outcomes. **We seek further clarification on the outcomes you expect to achieve from the additional £25 million funding for vital services. We would also like details on how you intend to monitor spend and outcomes.**

On the £3 million for town centre car parking pilot schemes, we note that one of the aims of the schemes is to assist in revitalising town centres and in supporting small business. We were pleased to hear that you intend to work with authorities to “draw up the rules that will govern the use of that money” and that you “[will] be able to monitor its use as a separately accountable sum of money”. **We would like clarification from you on the proposed timescales for the development and implementation of the schemes. We would also like further details on how you intend to monitor spend and outcomes and how these outcomes will inform future funding decisions in this area.**

You told us that the additional £1 million for school transport being provided to help ameliorate “invidious decisions” that authorities have had to make “to provide school transport arrangements at the very minimum of what the law requires”. We acknowledge that such decisions are likely to have a detrimental impact on families who are already struggling to make ends meet. **We would like further details from you on how you envisage local authorities using this**
additional funding to help protect some of the most disadvantaged families and whether you intend providing guidance to authorities in this regard.

**Local government reform**

We know that, in the last Assembly, the main arguments put forward by the Welsh Government and others for the reform agenda centred on the need to address the financial challenges facing local government, and to improve governance arrangements and service delivery. Given this, we asked you whether in planning for future reform you will be anticipating a similar level of savings as estimated in the draft Local Government Bill. You stated that “by working regionally in some key services, there will be some financial efficiencies that local authorities will be able to obtain” and that “there are other resiliencies beyond the financial ones that will be gained by working in a more regional way”. You implied that, while regional collaboration “would mean financial efficiencies”, these may be lower than were estimated for mergers.

We note that any legislative proposals for reform will be accompanied by a full Regulatory Impact Assessment setting out the costs and benefits of those proposals. We will, of course, be taking a keen interest in the reform agenda as it develops, including the financial implications for local government of proposals, particularly in the context of on-going budgetary constraints facing the sector.

Specifically in relation to the allocations for 2017–18, we note that you have made available £5 million for ‘Transformation and Legislation’, which you told us will be used “to provide pump prime funding to support [the reform agenda]”. You also explained that this funding could be used to help support authorities in preparing for voluntary mergers.

While there has been an increase of £2.7 million in this allocation compared to 2016–17, we question whether this will be sufficient to enable authorities “to invest in transformative activities such as developing shared services required to deliver the reforms”, as envisaged by you. We believe it is important to ensure that those authorities who are keen to undertake preparatory work ahead of the
anticipated legislative changes, either through regional collaboration or voluntary mergers, are able to access funding to support this. We seek further assurance from you on this issue.

We were pleased to be able to discuss with you your proposals for the reform of local government more generally. We look forward to more detailed proposals from you in the New Year and will be inviting you to give evidence to us on this issue in due course.

Well-being of future generations

In explaining the approach that you had taken to applying the Well-being of Future Generations (Wales) Act 2015 (the Act) to the local government budget, you told us you “absolutely accept that this is work in progress” but that you were “feeling some confidence” that you had “made a proper start”. When questioned, you were able to provide specific examples of how the Act has influenced your spending decisions, including the Cardiff Metro, Cardiff City deal, and the additional £25 million allocation for social services.

We acknowledge that this is the first draft budget since the Act has come into force and, in this respect, it is still early days. Looking ahead, we believe that the Act must become an integral part of the budget setting process and be used to support future spending decisions. You have made clear the Government’s intention to continue to work towards this aim and to develop a more sophisticated approach in this regard, and we take some assurance from this. We note you provided limited evidence in the documentation accompanying the budget and in your written evidence to demonstrate that the Act is being used to influence budget decisions. To assist in the scrutiny of future budgets, we would like more detailed evidence from you on this issue.
I am copying this letter to Simon Thomas AM, Chair of Finance Committee.

Kind regards

John Griffiths AC / AM

Cadeirydd / Chair