

## 1. Introduction

This paper provides evidence to the Committee regarding the Local Government portfolio and future programme budget proposals outlined within the draft budget laid on 24 October 2017.

The majority of the Local Government portfolio funding comprises the core unhypothecated funding for Local Authorities and Police and Crime Commissioners in Wales in accordance with the Local Government Finance Act 1988. Funding is also provided through this portfolio to inspectorate and regulation bodies to provide effective statutory oversight of public services in Wales.

For reference, Annex A provides a breakdown of the draft budget figures for Resource, Capital and AME for the LG MEG by Action and by Budget Expenditure Line (BEL).

## 2. Background

This budget includes spending plans for 2018-19, together with indicative revenue budgets for 2019-20 and indicative capital plans until 2020-21. The table below provides an overview of the Local Government MEG for Resource, Capital and Annually Managed Expenditure until 2019-20. The indicative capital allocation in 2020-21 is £143m.

**Table 1: Budget for 2017-18, 2018-19 and 2019-20 showing changes**

£'000	2017-18 First Supp Budget	2017-18 Baseline Adjustment	2017-18 Revised Baseline	Change	2018-19 Draft Budget	Change	2019-20 Draft Budget
Resource	3,298,256	6,000	3,304,256	37,465	3,341,721	-85,132	3,256,589
Capital	143,118	0	143,118	0	143,118	0	143,118
<b>Total DEL</b>	<b>3,441,374</b>	<b>6,000</b>	<b>3,447,374</b>	<b>37,465</b>	<b>3,484,839</b>	<b>-85,132</b>	<b>3,399,707</b>
<b>Total AME</b>	<b>1,059,000</b>	<b>0</b>	<b>1,059,000</b>	<b>-7,000</b>	<b>1,052,000</b>	<b>26,000</b>	<b>1,078,000</b>
<b>Total Budget</b>	<b>4,500,374</b>	<b>6,000</b>	<b>4,506,374</b>	<b>30,465</b>	<b>4,536,839</b>	<b>-59,132</b>	<b>4,477,707</b>

This is the second budget of this term of Government and the third year of the UK Government's current Spending Review settlement. Austerity continues to be a defining feature of public expenditure. This long period of sustained reductions has had an impact on all services, even those where we have been able to provide some protection. It means that as the Welsh Government and as the National Assembly for Wales we continue to face tough choices.

Also the possible implications of the UK's exit from the European Union creates further uncertainty across public services. This is particularly the case for local authorities where the EU is a key provider of funding for Local Authorities. The Welsh Government has established a specific team to co-ordinate European Transition issues. The team is working closely with Brussels and the relevant policy departments.

Analysis of the evidence on current trends and projections has informed the prioritisation of resources through the local government budget to ensure the funding is focussed on the areas most critical to delivering the needs of the population of Wales.

The Local Government MEG comprises total DEL and AME provision of £4.537bn in 2018-19, an increase of £30.5m compared to 2017-18.

Within this, there is a net increase of £37.5m to the Resource budget. This includes £91.7m of transfers to the general revenue settlement previously provided through specific Welsh Government grants via other MEGs. The transfer of specific grants provides local authorities with greater control over spending plans for a larger share of their spending and, in turn, offers the opportunity for savings in administration costs and scope for local authorities to engage their communities in the decisions about spending that affect them.

In providing local authorities with greater flexibility through transferring funding into the local government settlement, it is vital that there is ongoing engagement involving Welsh Ministers and local government lead portfolio holders to ensure that the agreed outcomes delivered through these elements of funding continue to be delivered.

The largest component of the Local Government MEG is the provision for the core unhypothecated funding of the 22 county and county borough councils. This is delivered as Aggregate External Finance (AEF). AEF is made up of revenue support grant (RSG) and redistributed non-domestic rates (NDR). Revenue support grant is included within the Resource DEL and non-domestic rates are classified as Resource AME. This funding combined with income raised locally through council tax supports the delivery of core local authority services. As the funding is unhypothecated, it is for each local authority to determine its spending priorities in line with local needs and priorities. In addition to core funding, local authorities are also funded through income from fees and charges, specific grants from central government and reserves.

Similar arrangements apply to the provision of Welsh Government funding to Police and Crime Commissioners in Wales through the Police Settlement. Although the largest element of the core funding for policing is provided by the Home Office. Details of the 2018-19 police settlement allocations are due to be published in conjunction with the Home Office in December.

Table 2 below shows that, on a like for like basis, AEF funding will reduce by £20m or 0.5% in 2018-19 compared with the current year and by £61m or 1.5% in the following year.

**Table 2: Aggregate External Finance for Unitary Authorities (Excl top up funding)**

	<b>2017-18 (adjusted to include £91.7m transfers) £'000</b>	<b>2018-19 Provisional £'000</b>	<b>2019-20 Indicative £'000</b>
Unitary Authorities			
RSG*	3,201,884	3,188,855	3,103,237
NDR	1,006,050	999,400	1,024,100
<b>Total</b>	<b>4,207,934</b>	<b>4,188,255</b>	<b>4,127,337</b>

Note \* for the purposes of reconciling to Annex A, line above includes £600k for child burials which will be paid separately.

### **3. Key policies**

#### **Welsh Government's priority areas for local government finance in 2018-19**

The funding represents the best achievable settlement that continues to protect local government from significant cuts against a backdrop of reducing budgets from the UK Government. Within the settlement we are prioritising funding for essential public services such as education and social care. This means providing £62m through the school element of the settlement in 2018-19 to ensure that we maintain the assumed Welsh Government share of core spending on schools at the level of 2017-18. In 2019-20 this rises to £108m, reflecting our commitment to continue to invest in education and to prioritise schools funding within a tighter overall settlement.

Prioritising £42m in 2018-19 for social care within the settlement means we will maintain the assumed Welsh Government share of core spending on social care at the level of 2017-18. In 2019-20 this will increase to £73m, reflecting, even within a tighter overall settlement, our recognition of the need to invest in social care.

The settlement also includes an additional sum of £6m each year to support delivery of local services to meet homelessness prevention duties, on top of the £6m built into the settlement in 2017-18.

#### **Local Government Settlement**

The local government settlement was published separately on 10 October through a written statement to the National Assembly for Wales. The statement set out the distribution of the local government settlement using the agreed funding formula. The distribution included an

additional £1.8m funded floor arrangement to ensure no authority faced a reduction of more than 1% compared with its current allocation on a like for like basis.

The settlement consultative process underpinning the production of the local government settlement is one of the most comprehensive anywhere in Welsh Government. This has involved engaging with local government through a range of mechanisms as we have developed the proposals for the 2018-19 settlement. These include discussions in the Local Government Partnership Council and its Finance Sub Group on the funding considerations and distributional issues.

More detailed discussion on the funding formula has taken place through the Distribution Sub Group which includes Welsh Government and local government officials. The Distribution Sub Group's report on the funding formula to be used to distribute the 2018-19 settlement was agreed by the Finance Sub Group at its meeting on 28 September.

As a major element of the police settlement is funded by the Home Office, details of the 2018-19 police settlement will be published as part of the England and Wales police settlement announcement in December 2017.

## **Funding floor and top-ups**

As mentioned above, in addition to the funding identified within the MEG for the local government settlement, £1.8m of additional funding is being provided to ensure that no authority sees a reduction of greater than 1.0% in cash terms compared to its 2017-18 settlement allocation and, where relevant, top-up funding.

Six authorities benefit from top-up funding in 2018-19: Powys, Merthyr Tydfil, Blaenau Gwent, Conwy, Caerphilly and Monmouthshire.

This top-up funding is fully funded by the Welsh Government and does not involve any redistribution of funding from other authorities.

## **Council tax reduction schemes**

The Welsh Government will continue to protect vulnerable and low-income households in Wales by maintaining full entitlements under our Council Tax Reduction Scheme (CTRS) for 2018-19. To support this, we have maintained the £244m of funding for CTRS provided within Local Government Settlement.

The longer term arrangements for 2019-20 onwards will be determined as part of wider considerations about how to make council tax fairer.

## **Funding formula**

We work closely with local government in determining the distribution of the annual settlement. The Distribution Sub Group Report records the changes proposed to the funding formula in respect of 2018-19. This Report was approved by the Finance Sub Group on 28 September.

The 2018-19 settlement formula reflects only one significant formula change. This is the second and final element of the phasing in of changes to the personal social services element of the formula, to take account of the additional costs of delivering the service to more sparsely populated communities.

Otherwise the formula reflects the normal process of updating population and other data indicators. This ensures the formula remains relevant and timely.

The formula for distributing the police settlement is prepared on an England and Wales basis and is the responsibility of the Home Office.

## **Preventative spending**

Each local authority is an autonomous, democratically elected body which is accountable to its electorate for the decisions it makes. Authorities have a series of statutory duties and functions, and powers to provide a range of other functions and services. These duties, including preventative activities such as home care services to keep people out of hospital and homelessness prevention. These activities are funded through a range of sources including core settlement grant, council tax income and income from fees and charges. Within the settlement, we are prioritising funding for social care and increasing funding for homelessness prevention by £6m in 2018-19.

Each authority must ensure that it undertakes appropriate impact assessments of any policies it implements funded through the local government settlement.

The third sector's 2017 action plan with the Cabinet Secretary for Finance and Local Government sets out joint work by Welsh Government and the third sector to scope work to define preventative spend, using the early action task force methodology as a framework. • While defining expenditure in terms of preventative spend is challenging, understanding different typologies of spend can be helpful.

Conducting full and meaningful engagement on its budget will help to ensure impacts are fully considered. It is for local authorities to set their own spending priorities taking account of this alongside the other sources of funding available to them. Local authorities are required to prepare medium-term financial strategies to ensure they are setting budgets which are stable and sustainable for the medium term. Setting out the revenue allocations for the next two years and capital allocations for the next three years will support that process.

Each authority will make its own decisions based on local need and priorities and must assess the impact of its proposals and decisions on protected groups and in relation to its wider functions.

## **Welsh Language standards**

Each authority is responsible for ensuring it meets its statutory obligations and the needs of its communities in relation to the implementation of Welsh Language standards.

Local government has a crucial role to play in implementation of the Strategy – in particular in efforts to improve planning for Welsh-medium education to drive an increase in the percentage of learners receiving Welsh-medium education (from a baseline of 22% to 24% in 2021, 30% in 2031 and 40% by 2050).

Local authorities are also implementing strategies to promote the use of Welsh within their communities to contribute to the Cymraeg 2050 target of increasing daily use of Welsh.

## **Equality and sustainability impacts**

We have continued to develop our approach to embed the five ways of working in preparing the draft budget with the Future Generations Act shaping the overall approach.

The draft budget plans are based on a clear analysis of long-term factors that are shaping the demand for public services including local authority delivered services. The analysis made clear the need for the preventative approach to funding public service provision.

In setting a budget for the whole of the public sector we have been clear that better integration across public services will be central to more effective service provision, as will collaboration and the involvement of public service users. This is supported through prioritising funding for social services and the requirement to develop pooled budgets with Local Health Boards and the continued support for the Integrated Care Fund.

We have also continued to take an integrated approach to considering impacts on protected groups and support a focus on our shared national goals. An integrated approach to assessing impact is critical, not least because many of the issues around equality, poverty and children's rights are inter-related. Taking this approach helps us to better consider all the potential impacts of our decisions and be confident we can manage them when taken as a whole.

The Budget Advisory Group for Equality (BAGE), co-chaired by the Cabinet Secretary for Finance and Local Government and the Cabinet Secretary for Communities and Children, provides a valuable resource for ensuring that equality considerations is an active strand in all budget decisions.

Our integrated approach provides a more realistic assessment of the overall impact of spending decisions and recognises that there is not always a single answer that will manage the impact of a decision in all areas. This assessment of the impacts of our decisions is vital to ensure the promotion of equality of opportunity and the prevention of discrimination, and this has shaped our approach to the budget process.

In terms of sustainability, Public Service Boards (PSBs) have a key role to play. PSBs have made substantial progress towards meeting their obligations under the Well-Being of Future Generations Act, working in accordance with the sustainable development principle.

Through their Assessments, PSBs are aiming to understand the underlying causes of the problems faced by their communities and the people living in the area.

Moving forward, in developing Local Well-being Plans, PSBs are using the evidence in their Assessments of Local Well-being to inform interventions aimed at finding collective, preventative solutions to these issues. Notable early examples of preventative interventions relate to health inequalities (deprivation in specific areas of the community), community resilience in terms of an ageing population, and climate change at a local level.

We have also used an integrated cross-portfolio approach to allocating our capital budget and considering the expected impact to prioritise budget allocation. We work with local authorities to make the most efficient use of the resources available collectively to address the government-wide challenges and constraints, and identify opportunities for joining-up, for example, to deliver the 21<sup>st</sup> Century Schools programme.

Also the Cwm Taf Collaborative estate pilot has demonstrated there are clear opportunities for the public sector throughout Wales to make efficiencies through the better use of its land and building assets. This includes better property data capture and asset mapping, enabling improved knowledge of the collective public estate, which as well as potentially identifying opportunities for further efficiencies will also highlight opportunities to integrate and improve delivery of services.

## **Local government reform**

Recognising we are in an era of reducing budgets and greater service challenges means that the status quo is not sustainable. Identifying and pursuing with local government, new and different ways of working is at the heart of an extensive local government reform programme. A key element of the programme is our plans to provide authorities with the mechanisms to deliver systematic and mandatory regional working across the services. This, along with the greater freedoms, such as through making available to authorities the general power of competence, are essential for ensuring that local authorities continue to be financially sustainable and deliver effective and resilient services.

The provision of £5m in 2018-19, rising to £6m in 2019-20 has been made for activities associated with the transformation of local government and the implementation of legislation to support the reform and renewal of local authorities.

These plans include taking forward consideration of a series of proposals for reforms to the local government electoral system, to make it easier for people to vote and to extend the entitlement to vote. They also include the independent review of Community and Town councils in Wales.

### **Inspectorate and Regulatory Bodies**

The local government portfolio includes funding for the Care and Social Services Inspectorate Wales, Healthcare Inspectorate Wales and Estyn. The 2018-19 and 2019-20 budgets for the inspectorates and regulatory bodies have been reduced by 2.3% in 2018-19 and 5.4% in 2019-20. This is consistent with the reduction to Welsh Government running costs. These bodies are already taking action to secure efficiencies and target their resources more effectively, to mitigate the impact of these budget reductions.



# Annex A

RESOURCE BUDGET									
Action		BEL Description	2017-18 Supplementary Budget June 2017	Baseline Adjustments	2017-18 Revised Baseline	2018-19 Changes	2018-19 New Plans Draft Budget	2019-20 Changes	2019-20 New Plans Draft Budget
Funding Support for Local Government	0830	Community Support Officers	16,787		16,787	-16,787	0		0
	0840	Local Govt General Revenue Funding (RSG & NDR)	3,110,168	26,000	3,136,168	52,687	3,188,855	-85,618	3,103,237
	0845	City & Growth Deals	20,000	-10,000	10,000		10,000		10,000
	0860	Police General Revenue Funding	85,750		85,750	2,550	88,300	1,200	89,500
	0875	Non-Domestic Rates Rates Relief	10,000	-10,000	0		0		0
	0885	Local Govt PFI Revenue Consequences	3,650		3,650	-261	3,389	-133	3,256
	0887	Transformation & Legislation	5,000		5,000		5,000	1,000	6,000
	0940	Non Domestic Rates Collection Costs	5,172		5,172		5,172		5,172
	1600	Emergency Financial Assistance Scheme	1		1		1		1
<b>Total Funding Support for Local Government</b>			<b>3,256,528</b>	<b>6,000</b>	<b>3,262,528</b>	<b>38,189</b>	<b>3,300,717</b>	<b>-83,551</b>	<b>3,217,166</b>
Valuation Services	1500	Valuation Office Agency Services	8,561		8,561		8,561		8,561
	1540	Valuation Tribunal for Wales	1,074		1,074	-35	1,039		1,039
	1550	Local Taxation Research & Analysis	100		100		100		100
<b>Total Valuation Services</b>			<b>9,735</b>	<b>0</b>	<b>9,735</b>	<b>-35</b>	<b>9,700</b>	<b>0</b>	<b>9,700</b>
Building Local Democracy	1440	Sponsorship of the Local Democracy and Boundary Commission for Wales	572		572		572		572
	1462	Expenditure to promote local democracy	126		126		126		126
<b>Total Building Local Democracy</b>			<b>698</b>	<b>0</b>	<b>698</b>	<b>0</b>	<b>698</b>	<b>0</b>	<b>698</b>
Local Government Improvement	1571	Improvement & Audit	460		460	-110	350		350
<b>Total Local Government Improvement</b>			<b>460</b>	<b>0</b>	<b>460</b>	<b>-110</b>	<b>350</b>	<b>0</b>	<b>350</b>
Academi Wales	7093	Academi Wales	1,109		1,109	84	1,193	-59	1,193
<b>Total Academi Wales</b>			<b>1,109</b>	<b>0</b>	<b>1,109</b>	<b>84</b>	<b>1,193</b>	<b>-59</b>	<b>1,193</b>
Supporting Collaboration and Reform	1574	Community and Town Councils	144		144		144		144
	1575	Public Services Boards	730		730		730		730
<b>Total Supporting Collaboration and Reform</b>			<b>874</b>	<b>0</b>	<b>874</b>	<b>0</b>	<b>874</b>	<b>0</b>	<b>874</b>
Care and Social Services Inspectorate	6775	Care & Social Services Inspectorate	13,953		13,953	-321	13,632	-736	12,896
<b>Total Care and Social Services Inspectorate</b>			<b>13,953</b>	<b>0</b>	<b>13,953</b>	<b>-321</b>	<b>13,632</b>	<b>-736</b>	<b>12,896</b>
Healthcare Inspectorate Wales	6785	Healthcare Inspectorate Wales	3,586		3,586	-82	3,504	-189	3,315
<b>Total Healthcare Inspectorate Wales</b>			<b>3,586</b>	<b>0</b>	<b>3,586</b>	<b>-82</b>	<b>3,504</b>	<b>-189</b>	<b>3,315</b>
Estyn	6280	Estyn-Programme Expenditure	11,313		11,313	-260	11,053	-597	10,456
<b>Total Estyn</b>			<b>11,313</b>	<b>0</b>	<b>11,313</b>	<b>-260</b>	<b>11,053</b>	<b>-597</b>	<b>10,456</b>
<b>LOCAL GOVERNMENT - TOTAL RESOURCE BUDGET</b>			<b>3,298,256</b>	<b>6,000</b>	<b>3,304,256</b>	<b>37,465</b>	<b>3,341,721</b>	<b>-85,132</b>	<b>3,256,589</b>

CAPITAL BUDGET												
Action		BEL Description	2017-18 Supplementary Budget June 2017	2018-19 Plans as per 2017-18 Final Budget	2018-19 Changes	2018-19 New Plans Draft Budget	2019-20 Plans as per 2017-18 Final Budget	2019-20 Changes	2019-20 New Plans Draft Budget	2020-21 Plans as per 2017-18 Final Budget	2018-19 Changes	2020-21 New Plans Draft Budget
Local Government General Capital Funding	1675	Local Govt General Capital Funding	142,837	142,837		142,837	142,837		142,837	142,837		142,837
<b>Total Local Government General Capital Funding</b>			<b>142,837</b>	<b>142,837</b>	<b>0</b>	<b>142,837</b>	<b>142,837</b>	<b>0</b>	<b>142,837</b>	<b>142,837</b>		<b>142,837</b>
Estyn	6280	Estyn-Programme Expenditure	281	281		281	281		281	281		281
<b>Total Estyn</b>			<b>281</b>	<b>281</b>	<b>0</b>	<b>281</b>	<b>281</b>	<b>0</b>	<b>281</b>	<b>281</b>		<b>281</b>
<b>LOCAL GOVERNMENT - TOTAL CAPITAL BUDGET</b>			<b>143,118</b>	<b>143,118</b>	<b>0</b>	<b>143,118</b>	<b>143,118</b>		<b>143,118</b>	<b>143,118</b>		<b>143,118</b>

RESOURCE BUDGET - AME								
Action	BEL No.	BEL Description	2017-18 Supplementary Budget June 2017	2018-19 Changes	2018-19 New Plans Draft Budget	2019-20 Changes	2019-20 New Plans Draft Budget	2019-20 Changes
Funding Support for Local Government	0870	Non-Domestic Rates Distributable Amount - AME	1,059,000	-7,000	1,052,000	26,000	1,078,000	
<b>Total Funding Support for Local Government</b>			<b>1,059,000</b>	<b>-7,000</b>	<b>1,052,000</b>	<b>26,000</b>	<b>1,078,000</b>	
<b>LOCAL GOVERNMENT - TOTAL RESOURCE AME BUDGET</b>			<b>1,059,000</b>	<b>-7,000</b>	<b>1,052,000</b>	<b>26,000</b>	<b>1,078,000</b>	