



Dadansoddi
Cyllid Cymru
Wales Fiscal
Analysis

Cut to the bone?

An analysis of Local Government finances in Wales, 2009-10
to 2017-18 and the outlook to 2023-24

GUTO IFAN & CIAN SION

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Preface

Declaration of funding

Wales Fiscal Analysis is hosted by the Wales Governance Centre and the School of Law and Politics at Cardiff University. The programme continues the work of Wales Public Services 2025 hosted by Cardiff Business School, up to August 2018, and funded through a partnership between Cardiff University, the Welsh Local Government Association, the NHS Wales Confederation, the Wales Council for Voluntary Action, Community Housing Cymru and Solace Wales.

About us

Wales Fiscal Analysis is a new research body within Cardiff University's Wales Governance Centre that undertakes authoritative and independent research into the public finances, taxation and public expenditures of Wales.

The WFA programme adds public value by commenting on the implications of fiscal events such as UK and Welsh budgets, monitoring and reporting on government expenditure and tax revenues in Wales, and publishing academic research and policy papers that investigate matters of importance to Welsh public finance, including the impact of Brexit on the Welsh budget and local services, options for tax policy, and the economics and future sustainability of health and social care services in Wales.

The WFA programme includes a local government work stream, producing reports that investigate the consequences of austerity for local budgets and forecasting longer-term pressures on councils, such as aging populations and increasing demand for local public services.

Working with partners in Scotland, Northern Ireland, the UK and other European countries, we also contribute to the wider UK and international debate on the fiscal dimension of devolution and decentralisation of government.

Wales Fiscal Analysis

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Contents

Executive Summary	5
1. Introduction.....	9
1.1 Austerity, the Welsh budget and funding for local authorities.....	9
2. Local government revenue streams, 2009-10 to 2017-18	12
2.1 Sources of local government revenue	13
2.2 Trends in Council Tax growth	16
2.3 Reserves	21
3. Local government current expenditure, 2009-10 to 2017-18	22
3.1 Schooling	26
3.2 Social Services	29
3.2.1 Children's and families' services	30
3.2.2 Older Adults (65 and older)	31
3.3 Local Government Workforce	36
3.4 Fees and charges	38
4. Capital financing and expenditure	39
4.1 Sources of capital financing	39
4.2 Capital expenditure	43
5. Local government finances: the picture up to 2023-24.....	46
5.1 Local government revenue, 2018-19 and 2019-20.....	46
5.2 Outlook for local government revenue beyond 2019-20	50
5.3 Choices and trade-offs between councils' service areas beyond 2019-20	54
6. Conclusions	57
Appendix 1: Methodology	59
Appendix 2: Additional tables and figures	61
Glossary of terms.....	66
Bibliography.....	69

Executive Summary

Local governments play a central role in delivering key services to communities in Wales. Their remit includes school provision, maintaining social housing, delivering social services, conducting road maintenance, managing waste, providing leisure and cultural services and managing local development. But local governments in Wales, along with much of the public sector, have faced a sustained period of budget cuts since 2009-10.

This report examines the latest data on local government spending in Wales, analyses how funding and spending have changed since the start of austerity, and assesses the outlook for the next five years. It forms part of *Wales Fiscal Analysis* ongoing work examining local government finance in Wales.

Local government revenue streams, 2009-10 to 2017-18

- The overarching trend in Welsh fiscal policy over this period has been a **shift towards local taxation**.
- The value of **Welsh Government grants to local authorities has fallen by £918.5 million (18.9%) since 2009-10**. This is equivalent to a decrease of £340 per head.
- **Council Tax receipts now account for 19.0% of local authority gross revenue**, up from 13.8% in 2009-10.¹ During this period, total **Council Tax revenues per head grew by 22.6% in real terms across Wales**.
- Increases in locally-sourced revenues were only partially able to offset the reductions in Welsh Government grant support, leaving **a net revenue cut of £577.1 million in 2017-18 relative to 2009-10**, a decrease of £248 per head.
- The shift away from Welsh Government grant support has been more pronounced in those local authorities with fewest deprived areas. The gap between the most and least grant-dependent local authority has increased significantly since 2009-10.

¹ Council Tax and gross revenue figures are calculated net of the Council Tax Reduction Scheme, which is paid to people on low incomes and/or certain welfare benefits to help with council tax bills.

- **The increasing reliance on Council Tax to fund local services makes the case for reforming local taxation stronger.** Council Tax is regressive both in terms of property values and household incomes, and more deprived local authorities with lower tax bases tend to set higher band D Council Tax levels.

Local government current expenditure, 2009-10 to 2017-18

- **Local authority service spending fell by £232, or 10.4% per head, between 2009-10 and 2017-18.** Some of the authorities which saw the largest fall in per person spending (up to 18.4%) were authorities with a large number of deprived areas. Despite a smaller reduction in their grant funding, there is no indication that more deprived areas of Wales generally saw smaller cuts to day-to-day spending.
- Since 2009-10, **expenditure on social services (excluding the *Flying Start* programme) has increased by £106.4m (6.5%) in real terms.**² Social services and education now account for 73% of total current expenditure, up from 68% in 2009-10. During the same period there have been large cuts to other spending areas, including planning and economic development (55.4%), libraries, culture, heritage, sport and recreation (36.3%) and roads and transport (28.5%).
- Across Wales, **total school spending amounted to £5,615 per pupil in 2017-18, this is £324 (5.5%) lower in real terms than the equivalent figure for 2009-10.**
- Despite increasing in 2017-18, **per person spending on older adults' social care over 65 has fallen by 14.8% from 2009-10.** Spending per person is higher in rural local authorities compared to their urban counterparts, partly because the rural population is relatively older, and because healthy life expectancy varies by more than 10 years across Welsh local authorities and tends to be lower in urban areas.
- **Spending on children in care has risen by £95.9 million (33.2%) in real terms since 2009-10** whilst at the same time, **the number of children in care has increased by 1,710 (36.4%).**
- **37,000 local government jobs in Wales were lost between December 2009 and September 2018,** equivalent to 19.9% of the total workforce. As a note of comparison, this is less than the equivalent decrease in England (32.4%) and Scotland (20.6%).

² This figure excludes the transfer of the *Flying Start* programme to the social services spending category during this time period.

Capital financing and expenditure

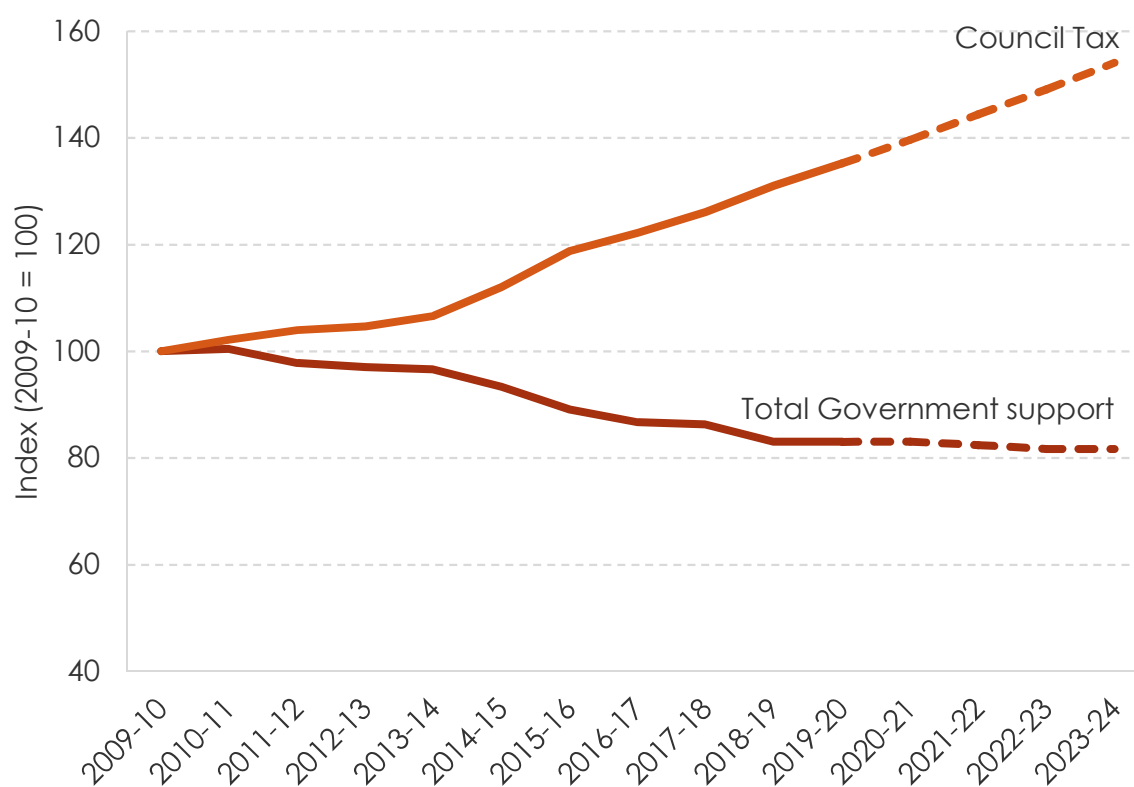
- Despite a sharp decrease in capital grants and contributions, **total capital financing was £219 million (10.6%) higher in 2017-18 than in 2009-10**. This is largely because local authorities have increasingly made use of their Housing Revenue Account (HRA) and unsupported borrowing as means of financing capital projects. **The sum of unsupported borrowing taken out to finance capital expenditure has nearly tripled during this period.**
- **Capital expenditure has been largely resilient to cuts, falling by a relatively modest £15.5 million (1.3%) since 2009-10**
- Local authorities' combined capital spend on education, transport and housing projects amounted to 78.8% of total capital expenditure in 2017-18, up from 69.7% in 2009-10.
- **Capital expenditure on council fund housing should be expected to further increase in the near future**, following the UK Government's commitment to remove the cap on HRA borrowing.

Local government finances: the outlook to 2023-24

- Although the 2019-20 local government settlement was cash-flat, **local authorities will still face a real-terms reduction of between 0.9% and 2.1% in their level of Aggregate External Financing (AEF) between 2018-19 and 2019-20**. As 2019-20 local authority budgets are set, we can expect **large increases in Council Tax bills and further real-terms cuts to some services.**
- While the Welsh Government budget is set to grow over the next five years, **committing to increasing NHS spending at the same rate as the planned increases in England would likely mean central government support for local authorities continuing to fall in real terms.**
- To avoid making further deep cuts to unprotected areas or cutting education and social services, our projections suggest local authorities will need to keep increasing Council Tax rapidly over coming years (Figure E.1). Council Tax revenue could account for a quarter of local authority funding by 2023-24.

Welsh and local government policymakers will continue to face difficult choices over coming years. Given the outlook for public finances at the UK level, perhaps the only way to meet the increasing demands for health and social care, while avoiding further large cuts to unprotected local services, or rapid regressive Council Tax increases, would be for the Welsh Government to make use of its new fiscal powers to increase the size of its budget.

Figure E.1: Real-term trends in local government revenue, 2009-10 to 2018-19, and projections up to 2023-24³



Source: See Appendix 1

³ See Chapter 5 for a full account of the assumptions underpinning these projections.

1

Introduction

There have been gradual but significant changes to local government finance in Wales over the last decade. Although the Welsh Government has not pursued several of the institutional reforms taking place in England and Scotland (such as the retention of business rates), austerity and increasing demand mean that tough choices have had to be made. These choices have led to substantial changes in the revenue streams and expenditure patterns of local authorities in Wales.

The outlook for future years remains challenging. The settlement for 2019-20 was set in the context of warnings from councils that they were 'running out of road' to avoid cuts to their two largest areas of expenditure - education and social services.⁴ It generated heated debate, particularly around cost pressures such as the funding of teachers' pay and pensions, and there were warnings of steep Council Tax rises to come.

Building on the *Austerity and Local Government in Wales* report published by *Wales Public Services 2025* (Ogle et al. 2017), this report covers local government revenues and expenditures, assesses the increasing demands and pressures on services, and considers the options and prospects for institutional change. It forms part of the *Wales Fiscal Analysis* project's ongoing work examining local government finance in Wales.

1.1 Austerity, the Welsh budget and funding for local authorities

Council Tax aside, local authorities in Wales are financed primarily through grants and redistributed revenues from the Welsh Government. Although it has new tax-raising powers, the Welsh Government is still primarily funded by annual block grants from HM Treasury.⁵ Changes in the Welsh block grant is determined by annual changes in UK government spending in the UK budget on programmes devolved to Wales, as calculated by the Barnett formula.⁶

⁴ <https://www.wlga.wales/SharedFiles/Download.aspx?pageid=62&mid=665&fileid=1826>

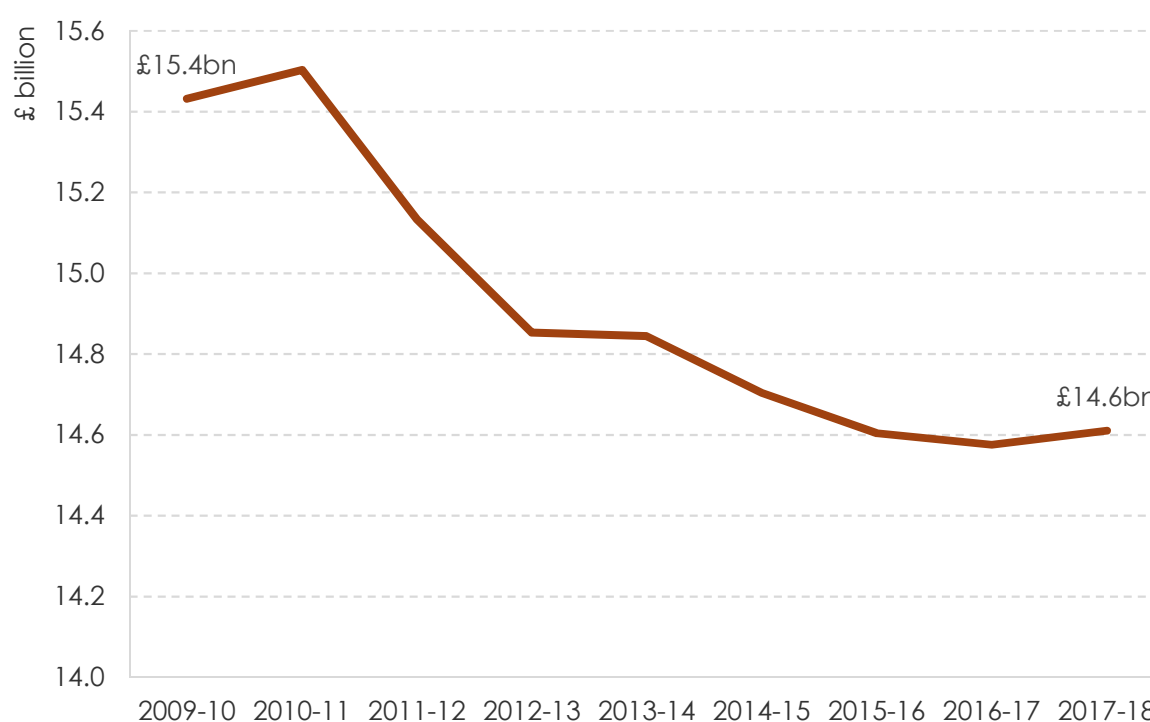
⁵ The devolution of Non-Domestic Rates (in 2015-16), Stamp Duty Land Tax and Landfill Tax (from 2018-19) and a part of Income Tax (from 2019-20) means that a fifth of the Welsh budget now comes from own-sourced taxes. However, changes in UK government spending in England will continue to be the main determinant of changes to the Welsh Government budget.

⁶ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479717/statement_of_funding_2015_print.pdf

Across UK Government departments, day-to-day spending budgets have fallen by an average of 14.6% between 2010-11 and 2019-20 (Crawford, Stoye and Zaranko 2018). While some (devolved) areas of spending have been protected and even increased in real terms in England (notably health), the Welsh resource block grant still fell.

Figure 1.1 shows the trend in the Welsh Government block grant for day-to-day spending on a consistent basis from 2010-11 to 2017-18, excluding depreciation. Despite a small increase between 2016-17 and 2017-18, Welsh funding has fallen by 5.3% in real terms since 2009-10.

Figure 1.1: Welsh Government resource DEL outturns, 2009-10 to 2017-18 (2018-19 prices, with adjustments)



Source: HM Treasury (2018 and previous) Public Expenditure and Statistical Analysis:
<https://www.gov.uk/government/statistics/public-expenditure-statistical-analyses-2018>

In response to these cuts to its budget, some services were protected by the Welsh Government while others were not.

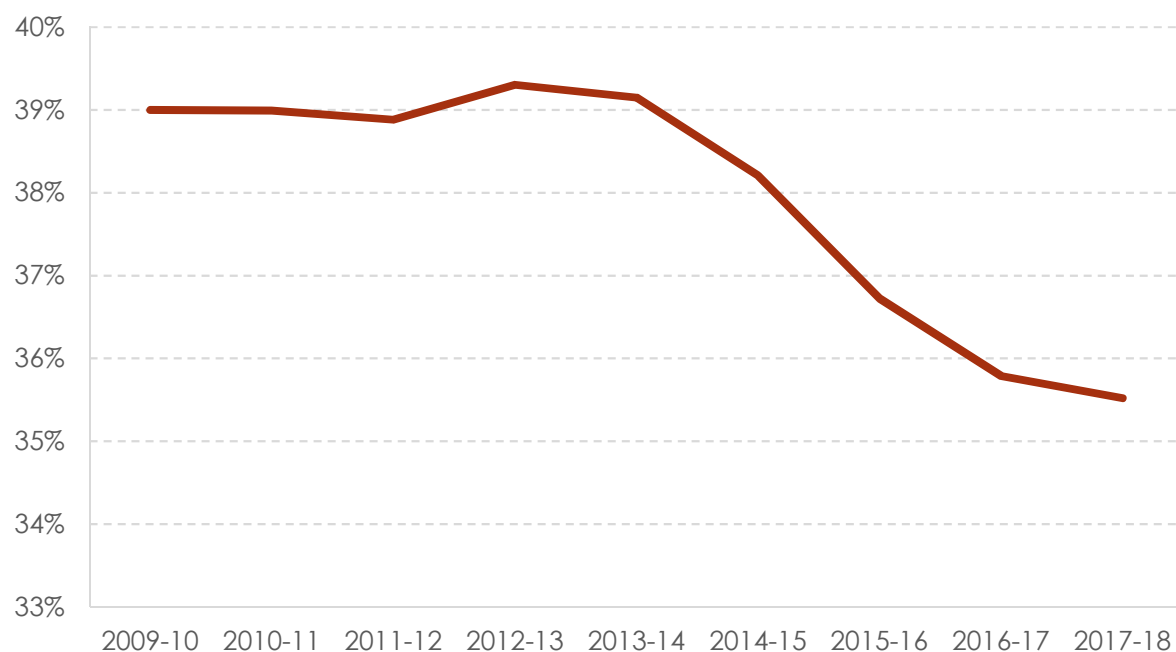
As the largest component of the Welsh budget, spending patterns in Wales are significantly affected by decisions on funding the Welsh NHS. Notably, core NHS spending fell in real terms from 2010-11 to 2012-13, reducing the need for cuts to other areas. Since 2012-13 however, the Welsh Government increased health spending each year in real terms. NHS spending has therefore steadily increased as a proportion of the Welsh resource budget, from 41% in 2013-14 to over 48% in 2019-20.⁷

⁷ <http://sites.cardiff.ac.uk/wgc/files/2018/11/Budget-Briefing-Event-Presentation.pdf>

The Welsh Government also committed to protecting schools' spending and social services from the 'worst of the cuts'; two of the largest areas of local authorities' expenditure.⁸ However, these protections and increases for large areas of spending have meant deeper cuts have been required elsewhere.

Figure 1.2 shows Welsh Government grants (general and specific) and redistributed Non-Domestic Rates revenue to local authorities as a share of the Welsh resource DEL from 2009-10 to 2017-18. Local authorities' share of the Welsh resource budget remained relatively flat between 2009-10 and 2013-14, at around 39.1%. Since then however, this share has fallen steadily to 35.5%.

Figure 1.2: Welsh Government grants to local government and redistributed Non-Domestic Rates revenue as a share of Welsh resource DEL (excluding depreciation), 2009-10 to 2017-18



Source: HM Treasury (2018 and previous) Public Expenditure; Statistical Analysis and StatsWales (2017-18 and previous) Financing of Gross Revenue Expenditure: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Revenue/Financing/financingofgrossrevenueexpenditure-by-authority>

The rest of this report proceeds as follows. Section 2 explores in detail how the composition of local authorities' revenue streams has shifted since the beginning of austerity. Section 3 investigates how local authorities' net revenue expenditure has changed as a result, using the latest 2017-18 outturn data. Section 4 explores trends in capital revenue and expenditure. In Section 5, we assess the outlook for local authority revenue and expenditure for the five year period to 2023-24, while Section 6 concludes.

⁸ For example, see Welsh Government (2015) Draft Budget 2016-17 narrative: <https://gov.wales/docs/caecd/publications/151208-budget-narrative-eng.pdf>

2

Local government revenue streams, 2009-10 to 2017-18

Key Findings:

- The overarching trend in Welsh fiscal policy over this period has been a **shift towards local taxation**
- The value of **Welsh Government grants to local authorities has fallen by £918.5 million (18.9%) since 2009-10**
- **Council Tax receipts now account for 19.0% of gross local authority revenue, up from 13.8% in 2009-10**
- Increases in locally-sourced revenues were only partially able to offset the reductions in Welsh Government grant support, leaving a **net revenue cut of £577.1 million in 2017-18 relative to 2009-10**
- The shift away from Welsh Government grant support has been more pronounced in those local authorities with fewest deprived areas
- **The increasing reliance on Council Tax to fund local services makes the case for reforming local taxation stronger**

Publicly-funded local government services in Wales are financed via three principal revenue streams, the largest of which are Welsh Government grants. These are comprised of general grants (paid via the Revenue Support Grant), which can be distributed at the discretion of the local authority, and specific (special) grants, which are earmarked for particular objectives.

The second and third streams of local government revenue are Council Tax receipts and Non-Domestic Rates (NDR).⁹ Full responsibility for NDR (business rates) was devolved to the Welsh Government in 2015-16. Under the current system, business rates are collected by local authorities but pooled by the Welsh Government. Alongside general grants, the revenues are then redistributed among local authorities according to an assessment of spending need (the Standard Spending Assessment - SSA), taking into account the population, social structure and other characteristics of each authority.

⁹ See Appendix 1 for full methodology detailing how these figures are calculated in this report.

In addition to these three main revenue streams, local authorities can also charge users for some services such as leisure facilities and council-owned car parks and impose fees for other services which are governed by specific regulations.¹⁰

2.1 Sources of local government revenue

Since 2009-10, there has been a significant shift in the way that local government is financed in Wales, with Council Tax and redistributed NDR constituting increasingly larger shares of total revenue. Most recent data for 2017-18 shown in Figure 2.1 confirms a continuation of this trend.

Figure 2.1: Composition of local government gross revenue, 2009-10 to 2017-18 (2018-19 prices)¹¹

	LA revenue (£m)		Percentage (%)
	2009-10	2017-18	change
Welsh Government grants (ex. HB)	5,087	4,168	-18.1
<i>% of total revenues</i>	72.9	65.1	
Council Tax	963	1,215	26.1
<i>% of total revenues</i>	13.8	19.0	
NDR	931	1,021	9.6
<i>% of total revenues</i>	13.3	15.9	
Total	6,981	6,404	-8.3

Source: StatsWales (2017-18 and previous) *Financing of Gross Revenue Expenditure*

Between 2009-10 and 2017-18, support to Local Authorities in the form of all Welsh Government grants decreased by £919 million (18.1%) in real terms. This is equivalent to a decrease of £340 per head. Over the same period, Council Tax revenue increased by £251.6 million (26.1%) and income from redistributed NDR increased by a more modest £89.8 million (9.6%), for a total offsetted increase of approximately £341.4 million.¹² As a consequence, rises in locally-sourced revenues were

¹⁰ Revenue from fees and charges are considered alongside current expenditure in this report (Chapter 3). A detailed account of the way that local authorities use fees and charges as a revenue-generating mechanism can be found in a report published by the Auditor General for Wales (Thomas 2016).

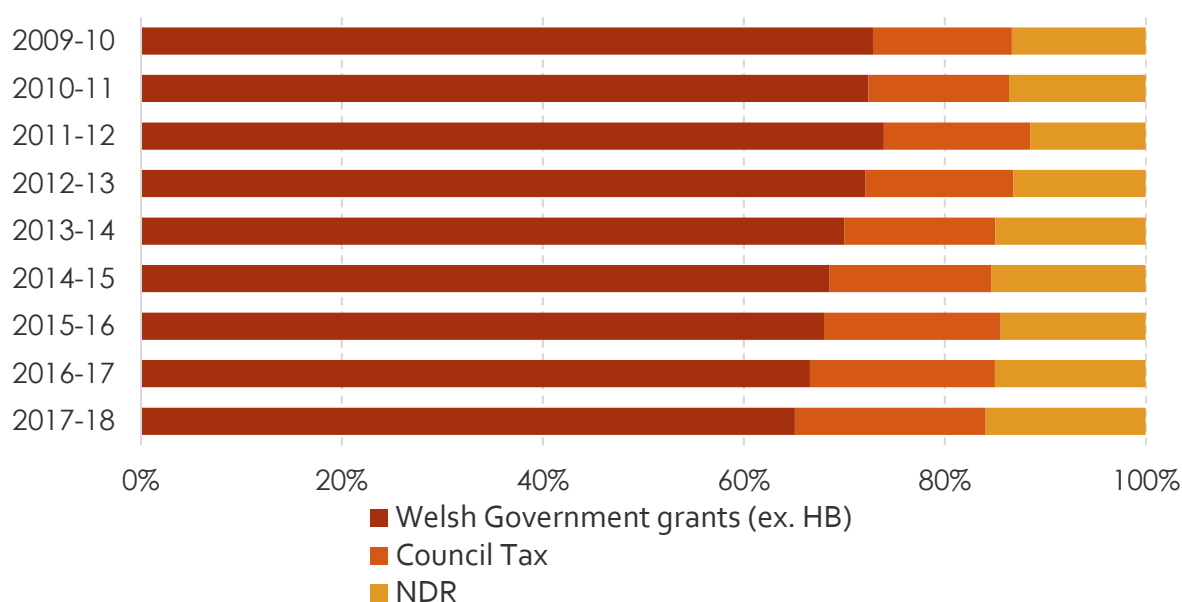
¹¹ Figures referring to Welsh Government grants exclude, for the purpose of this analysis, revenues accruing to Welsh unitary authorities in relation to housing benefit and housing benefit administration, which are sent directly to Welsh councils from the Department for Work and Pensions to match demand. Any additional sums spent by Welsh councils on housing benefit and housing benefit administration above the amount received by the UK government have been included, although these amounts are also relatively small. All figures relating to Council Tax revenue are sourced from the budget line in the outturn data and exclude the Council Tax Reduction Scheme (CTRS) component and police precept. The total line excludes appropriations to/from reserves and any adjustments made to budgets. Further details about the way the figures have been tabulated can be found in Appendix 1.

¹² The Welsh Government sets NDR annually with reference to a specific multiplier, usually, the Retail Price Index (RPI). Thus, the increase in NDR revenues may reflect the deflator series used in this analysis or the rise in the number of rateable dwellings in Wales.

only partially able to offset the reductions in Welsh Government grant support, leaving a net revenue cut of £577.1 million in 2017-18 relative to 2009-10, a decrease of £248 per head. To put this figure into context, this cut is equivalent to double the total revenue expenditure of all Welsh local authorities on transport in 2017-18.¹³

As shown in Figure 2.2, Council Tax receipts (net of the Council Tax Reduction Scheme) now account for 19.0% of local government revenue, up from 13.8% in 2009-10. During the same period, the share of local government revenue sourced from Welsh Government grants has fallen from 72.9% to 65.1%. As local authorities' budgets continue to be squeezed, there is no indication that this trend will be reversed, or halted any time soon.

Figure 2.2: Composition of local government revenue, 2009-10 to 2017-18 (2018-19 prices)



Source: StatsWales (2017-18 and previous) *Financing of Gross Revenue Expenditure*

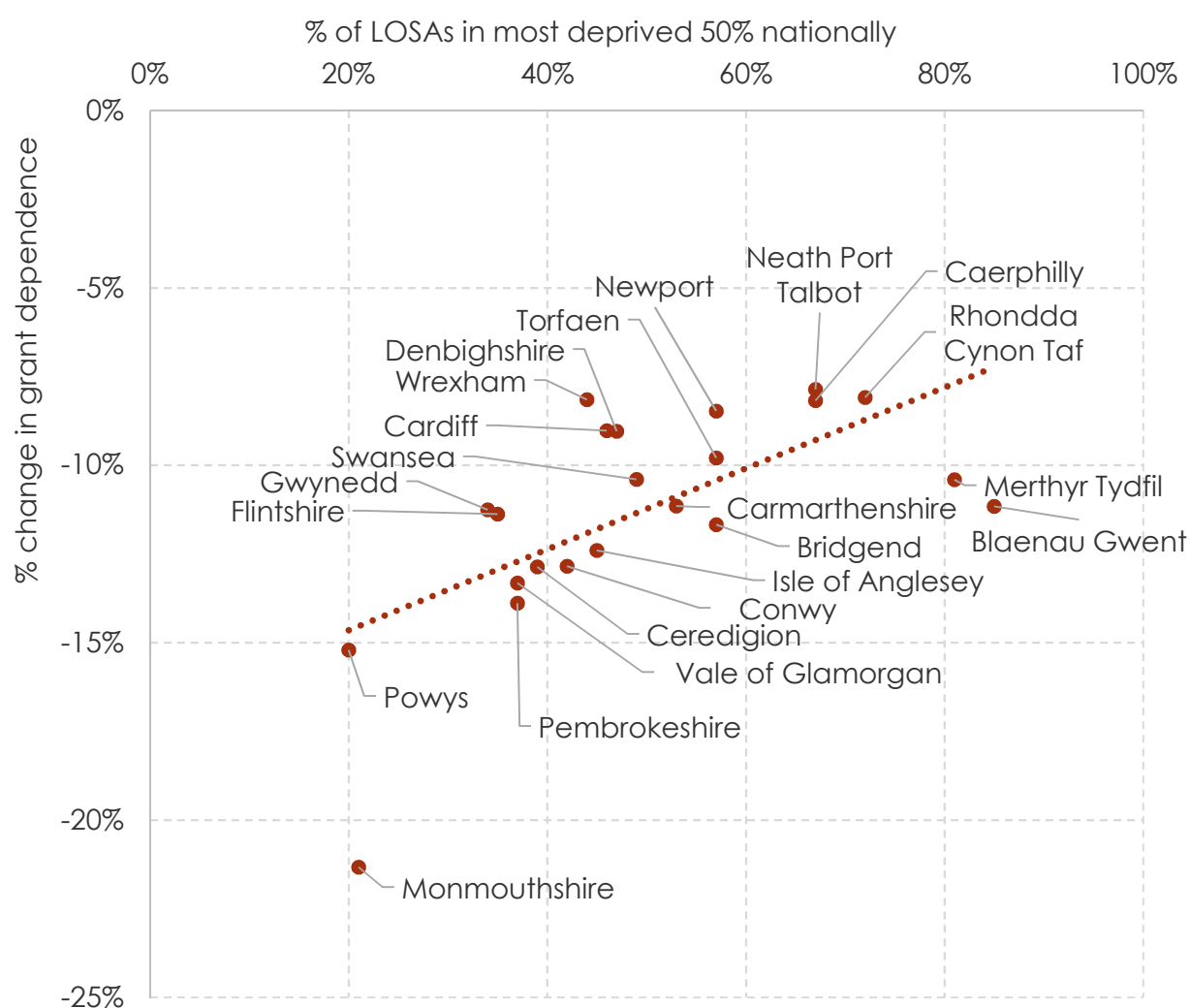
Importantly, the effects of this rebalancing have not been uniformly felt across Wales. For instance, in Monmouthshire, Welsh Government grants fell by £439 (33.2%) per person between 2009-10 and 2017-18, the largest reduction of the 22 local authorities. Monmouthshire was also the least grant-dependent authority in 2009-10. The difference in the share of total revenue derived from Welsh Government grants between the least grant-dependent and the most-grant dependent local authority has therefore widened from 15.7ppt to 21.2ppt between 2009-10 and 2017-18.

To further explore the changes in financing across different local authorities, we use data from the Welsh Index for Multiple Deprivation (WIMD), which measures deprivation in local areas (lower super

¹³ In 2017-18, total current expenditure on transport in Wales was £270.1 million.

output areas – LSOAs) using multiple indicators, from income and employment, to access to services and housing.¹⁴ Specifically, we look at the percentage of each local authority's LSOAs which are in the most deprived 50% across Wales, and how this compares with the percentage change in their share of total revenue derived from Welsh Government grant support between 2009-10 and 2017-18 (illustrated in figure 2.3). Although there is variation, the shift away from Welsh Government grant support has been more pronounced in authorities with fewer deprived areas. This is because the formulas and indicators used in the SSA have tended to protect more deprived local authorities, and they have chosen not to or have been unable to raise Council Tax as much.

Figure 2.3: Comparison between percentage change in share of revenue from Welsh Government grants, 2009-10 to 2017-18 and percentage of local authorities' LSOAs in most deprived 50% nationally (2018-19 prices)



Source: StatsWales (2014) WIMD 2014 local authority analysis: <https://statswales.gov.wales/Catalogue/Community-Safety-and-Social-Inclusion/Welsh-Index-of-Multiple-Deprivation/WIMD-2014/wimd2014localauthorityanalysis>. See Appendix 2 for a full breakdown of values.

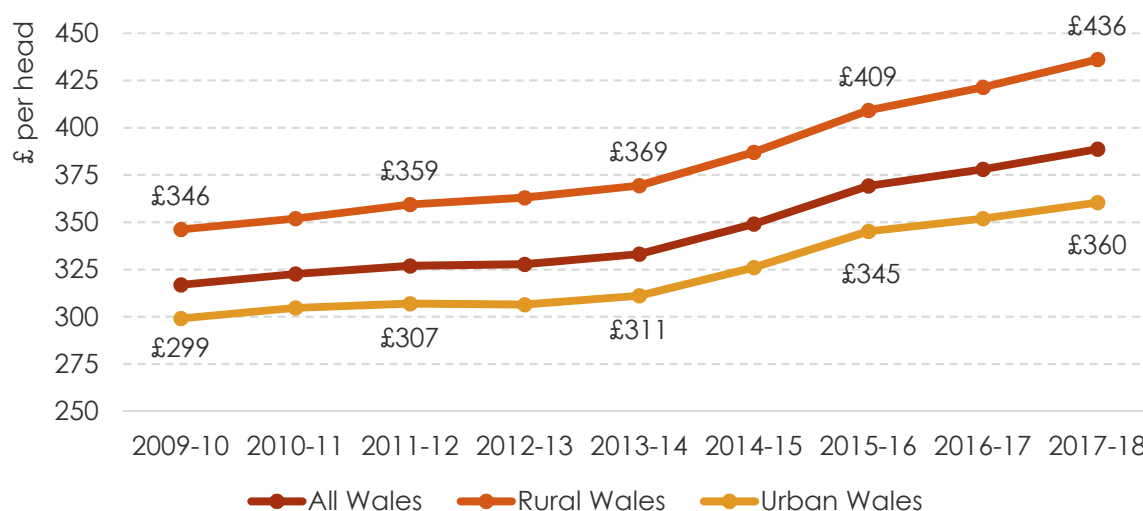
¹⁴ Further details and data tables can be found in Appendix 2.

2.2 Trends in Council Tax growth

Welsh Council Tax levels have risen sharply since the start of austerity, reflecting a Welsh Government policy decision not to freeze or cap increases, as has been done in Scotland and in England. This allowed greater freedom for Welsh local authorities to offset cuts in their grant funding to avoid deeper cuts in spending. However, as Council Tax becomes an ever more important component of local government financing, issues around its fairness and appropriateness as a tool for funding local services need to be considered.¹⁵

Between 2009-10 and 2017-18, total Council Tax revenues per head grew by £72 (22.6%) across Wales. In rural local authorities, levels increased by £90 (26.0%), compared to £61 in their urban counterparts (20.5%).¹⁶ As Figure 2.4 shows, Council Tax per head is now £76 (21.0%) higher in rural local authorities compared to urban ones. This is, in part, a reflection of the fact that rural local authorities tend to have a higher proportion of dwellings in the more expensive property bands, meaning per head figures are higher. Though rural poverty and deprivation is a significant issue,¹⁷ eight of the nine local authorities included in the Rural Wales category have less than half of their LSOAs classed in the most deprived 50% nationally.

Figure 2.4: Increase in Council Tax per head, 2009-10 to 2017-18 (2018-19 prices)



Source: StatsWales (2017-18 and previous) *Financing of Gross Revenue Expenditure*; StatsWales (2018 and previous) *Population Estimates by Local Authority and Age*: <https://statswales.gov.wales/catalogue/population-and-migration/population/estimates/local-authority/populationestimates-by-localauthority-age>

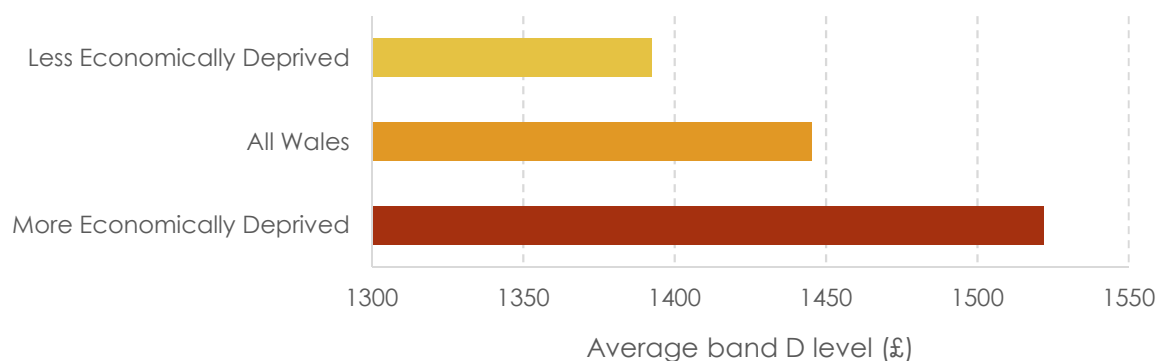
¹⁵ For a discussion of the issues with the current system and options for reform, see Ifan & Poole (2018: 71-74).

¹⁶ For the purpose of this analysis, the *Urban Wales* category consists of 13 local authorities (Blaenau Gwent, Bridgend, Caerphilly, Cardiff, Flintshire, Merthyr Tydfil, Neath Port Talbot, Newport, Rhondda Cynon Taf, Swansea, Torfaen, Vale of Glamorgan and Wrexham). The *Rural Wales* is an aggregate of data for 9 local authorities (Carmarthenshire, Ceredigion, Conwy, Denbighshire, Gwynedd, Isle of Anglesey, Monmouthshire, Pembrokeshire and Powys). Further information can be found in Appendix 2.

¹⁷ See, (Williams & Doyle 2016) for an analysis of rural poverty in Wales.

Under the current system, local authorities can only set Council Tax levels for band D properties, with higher and lower bands charged a fixed proportion of this level. Local authorities that have a higher concentration of properties in the lower bands therefore tend to set their band D rate higher to compensate for their lower tax base. For example, Blaenau Gwent has the highest proportion of dwellings classed in bands A and B (83.4%); it is also the local authority that has the highest band D rate (£1,786).¹⁸ This is £637 higher than the band D level in Pembrokeshire, which, despite being the local authority that proposed the largest increase in Council Tax in 2017-18, still has the lowest band D rate across Wales, set at £1,128 in 2017-18.¹⁹ As a result, average band D Council Tax levels are generally higher in local authorities with more than half their LOSAs in the most deprived 50% nationally (£1,522) than in local authorities with less than half their LOSAs in the most deprived 50% nationally (£1,392) (Figure 2.5).

Figure 2.5: Average band D level, by economic deprivation, 2017-18



Source: StatsWales (2017-18) Council Tax Levels by Billing Authority and Band: <https://statswales.gov.wales/catalogue/local-government/finance/council-tax/levels/counciltaxlevels-by-billingauthority-band>; StatsWales (2014) WIMD 2014 local authority analysis

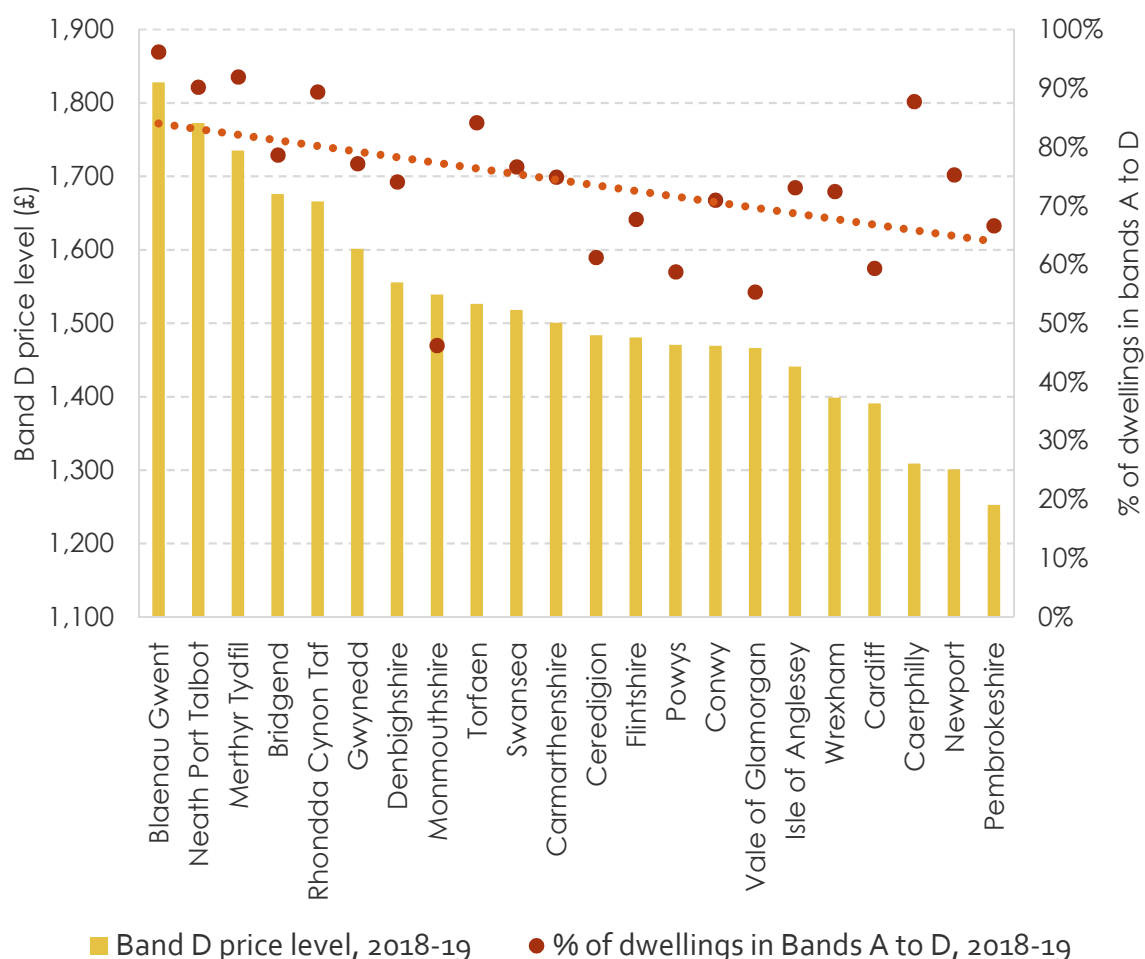
Figure 2.6 shows the relationship between the percentage of dwellings in bands A to D by local authority and the band D rate charged in 2018-19. With the exception of Caerphilly and Monmouthshire, the data plots closely follow the trend line; local authorities which a higher share of properties classed in bands A to D tend to have higher band D tax rates. Caerphilly's low band D rate despite its relatively high share of lower banded dwellings may be partly attributed to the council's decision to institute a freeze on Council Tax from 2011-12 to 2013-14.²⁰

¹⁸ Data on the proportion of Council Tax dwellings, by local authority is sourced from StatsWales: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Council-Tax/Dwellings/proportionofcounciltaxdwellings-by-localauthority>

¹⁹ Pembrokeshire still has the lowest band D Council Tax level in Wales in 2018-19 (£1,252).

²⁰ <https://www.southwalesargus.co.uk/news/8873237.caerphilly-council-to-freeze-council-tax/>

Figure 2.6: Relationship between band D rate by local authority and percentage of dwellings in bands A to D, 2018-19



Source: StatsWales (2017-18 and previous) Council Tax Levels by Billing Authority; Band and Proportion of Council Tax Dwellings, by Local Authority: <https://statswales.gov.wales/catalogue/local-government/finance/council-tax/dwellings/proportionofcounciltaxdwellings-by-localauthority>

As councils with a lower tax base set higher band D rates, similar households in different local authorities can pay vastly different levels of Council Tax for similar levels of local services. In addition to this unfairness between local authorities, the regressive nature of Council Tax between households in the same local authority is also well documented. Council Tax rates are regressive relative to its base: the more a dwelling is worth, the less is paid in Council Tax as a proportion to its value.

The Council Tax Reduction Scheme (CTRS) offers relief for people on low income and/or certain welfare payments to pay their Council Tax bills. In 2017-18, local authorities spent £261.7 million on the scheme, of which, £244 million was delivered via the Revenue Support Grant, with local authorities making up the shortfall to match demand.²¹ However, after accounting for the partial take

²¹ The Council Tax figures used in this section are net of the CTRS. See Appendix 1 for further information on the way the Council Tax revenue figures used here have been calculated.

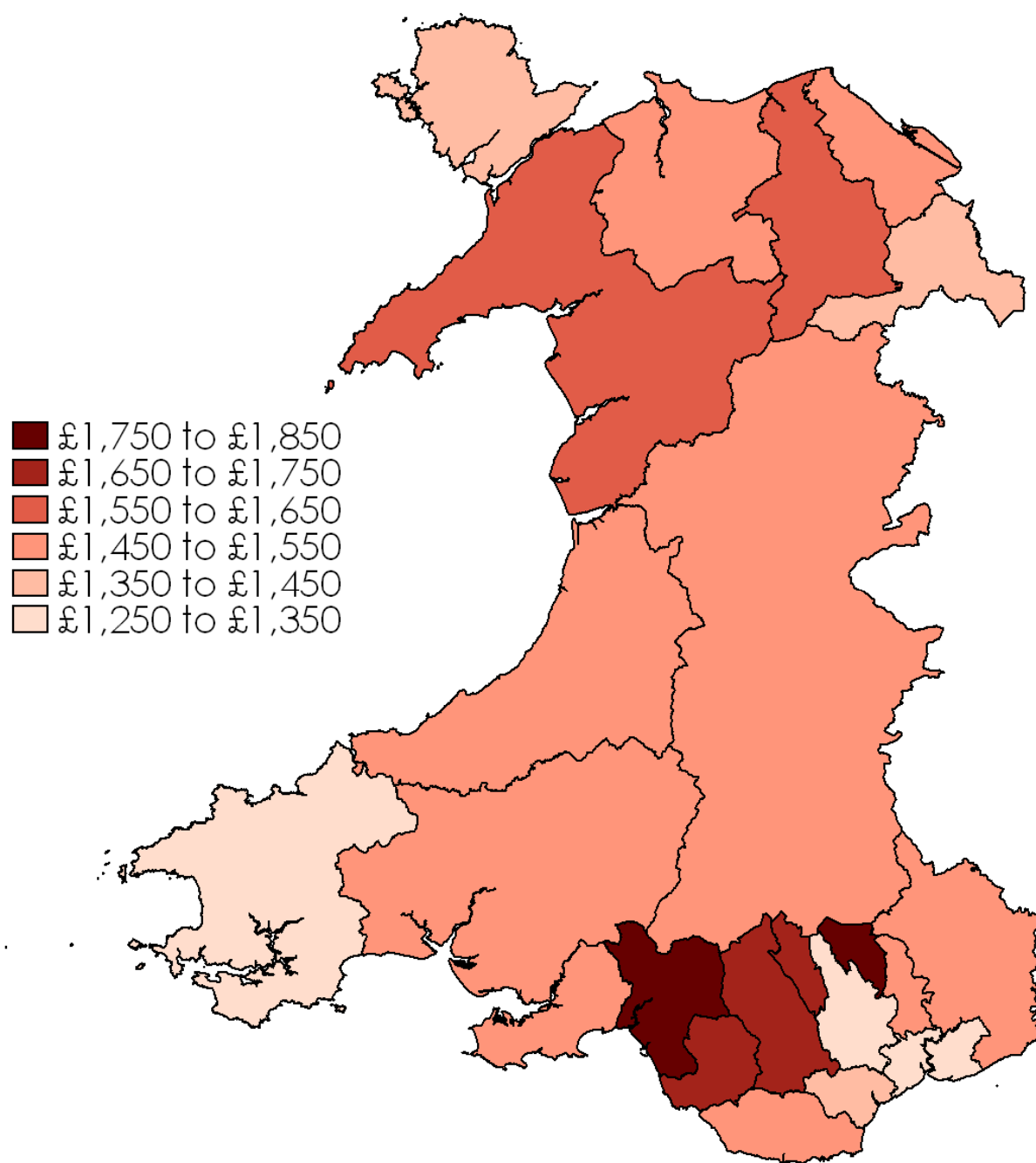
up of this relief, Council Tax takes a higher share of disposable income from poorer households (Welsh Government 2017).

The analysis presented in this section raises questions around the appropriateness of Council Tax as a way of funding local services across Wales. Council Tax reform, and in particular making the system more progressive has been actively considered by Welsh Government policy-makers (ibid.). The case for reform is more pressing given local authorities have become more reliant on Council Tax in recent years.

On a UK level, many studies have either considered or recommended replacing Council Tax with an annual flat-tax on the market value or the rental value of the property (Ifan & Poole 2018: 72). A 0.7 per cent charge on the annual value of each property in Wales could raise roughly the same income as the current Council Tax system. However, properties that are in the highest bands would pay significantly more than they currently do, reflecting the fact that, under current rules, all properties valued above £424,000 (in 2003) pay the same rate.

Of course, any proposed change to the current system would create winners as well as losers and given that any reform will likely affect many political interests, the distributional effects between different people and places will need to be considered carefully.

Figure 2.7: Band D council tax levels, 2018-19



Source: StatsWales (2018-19) Council Tax Levels by Billing Authority

2.3 Reserves

In addition to the financing sources outlined above, local authorities are also able to supplement their income by drawing on reserves. Useable reserves are comprised of general reserves, earmarked reserves and school reserves.

General reserves (otherwise known as the council fund) represent a council's working balance and are used to manage uneven cash flows and avoid the need for temporary borrowing.²² Earmarked reserves are a means of accruing funds to meet known or predicted budget requirements. For example, these earmarked funds support national initiatives such as the Twenty First Century Schools programme.

The *Whole of Government Accounts* provides data on the level of reserves held by local authorities at the end of each financial year (including funds held by arms-length bodies). The most recent accounts indicate total usable reserves of approximately £1.4 billion. General reserves stood at £198 million, school reserves at £50.3 million, with the remainder set aside as earmarked reserves.²³

Appropriations to reserves made by local authorities over the first years of austerity from 2009 resulted in an overall increase in the level of reserves. This trend has reversed in more recent years, with reserves falling from their 2015-16 peak. There has been a sustained downward trend in school reserves since 2015-16, though this trend reversed slightly in the year leading up to March 2018 (Ogle et al 2017).

English local authorities also built up reserves over the first years of austerity. The OBR had expected the squeeze on local authority finances to prompt reserves drawdowns much earlier than was actually the case, though the 'corner does now seem to have been turned'.²⁴

Budget data for 2018-19 suggests that Welsh local authorities are planning on increasing appropriations from reserves this year, a trend that the OBR forecasts to continue over the coming years. However, reserves are, of course, a one-off source of financing and will not cover shortfalls in revenue over a prolonged period of time.

²² <https://gov.wales/docs/dsjlg/research/120913lareserve.pdf>

²³ <https://gov.wales/topics/localgovernment/finandfunding/whole-government-accounts/publications/whole-government-accounts-reserves/?lang=en>

²⁴ <https://obr.uk/box/local-authorities-use-of-reserves/>

3

Local government current expenditure, 2009-10 to 2017-18

Key Findings:

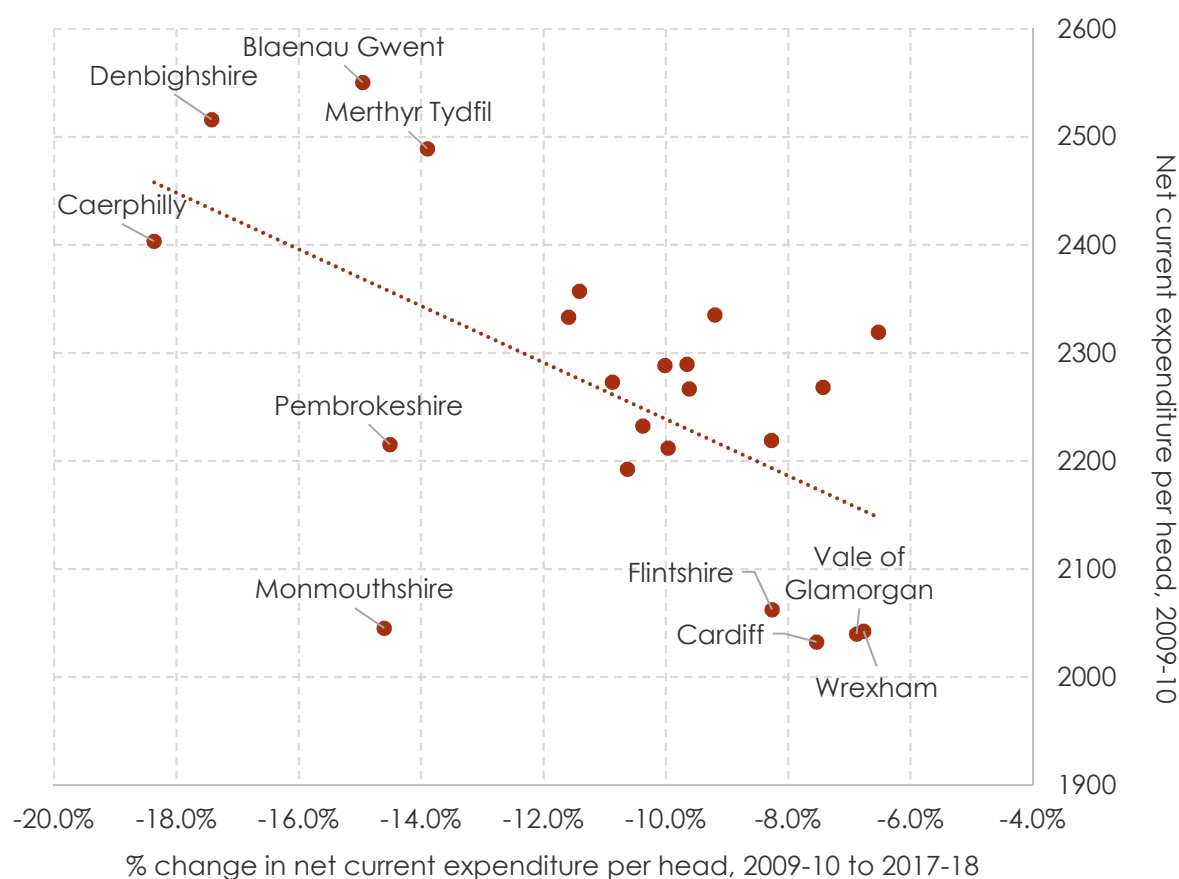
- Local authority service spending fell by £232, or 10.4% per head, between 2009-10 and 2017-18
- Since 2009-10, expenditure on social services (excluding the *Flying Start* programme) has increased by £106.4m (6.5%) in real terms
- Across Wales, total school spending amounted to £5,615 per pupil in 2017-18, this is £324 (5.5%) lower in real terms than the equivalent figure for 2009-10.
- Despite increasing in 2017-18, per person spending on older adults' social care over 65 has fallen by 14.8% from 2009-10.
- Spending on children in care has risen by £95.9 million (33.2%) in real terms since 2009-10 whilst at the same time, the number of children in care has increased by 1,710 (36.4%).
- 37,000 local government jobs were lost between December 2009 and September 2018, equivalent to 19.9% of the total workforce

As discussed in the previous chapter, local authority budgets have come under increasing strain since 2009-10 due to successive cuts in grant funding. Although increases in Council Tax have partially filled this funding gap, where this has not been enough, local authorities have resorted to cutting spending on local services.

The data in this section is drawn from local authority service spending (also known as net current service expenditure). This captures spending on service provisions but excludes capital expenditure, housing benefits and is net of any income received from fees and charges imposed by local authorities.

Across Wales, local authority service spending fell by £232 or 10.4% per head in real terms between 2009-10 and 2017-18. Though spending has fallen across all authorities, the reduction in service spending per capita has been uneven across the country, and in one local authority, service spending fell by £410 or 18.4% per head between 2009-10 and 2017-18.

Figure 3.1: Relationship between percentage change in net current expenditure per head, 2009-10 to 2017-18 and net current expenditure per head, 2009-10, by local authority (2018-19 prices)

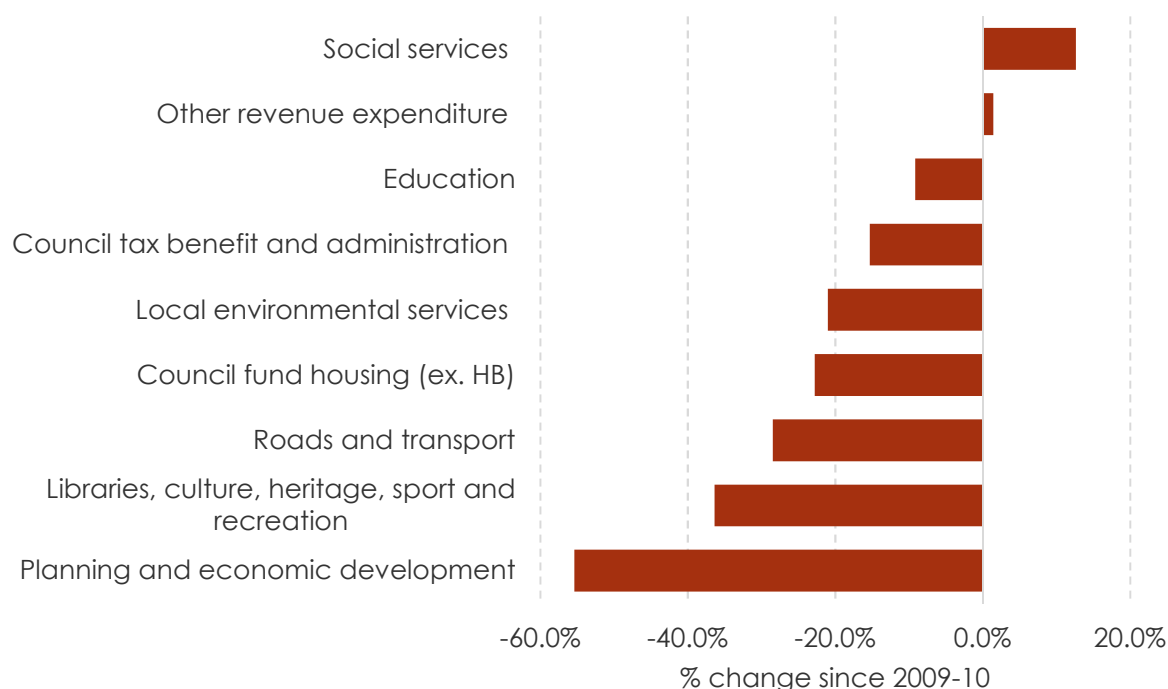


Source: StatsWales (2017-18 and previous) Local Government Revenue Outturn Data:
<https://statswales.gov.wales/catalogue/local-government/finance/revenue/outturn>

Patterns in Figure 3.1 seem to indicate that the largest reductions in per capita net service expenditure occurred in local authorities with the highest service expenditure levels in 2009-10, suggesting there has been a slight convergence in spending levels across authorities. Some of the authorities which saw the largest fall in per capita spending were authorities with a high percentage of deprived areas. Unlike in the case of changes in grants and grant dependence explored in the previous chapter, there appears to be no significant association between deprivation and changes in service spending. Austerity has affected both the most and least deprived authorities.

A 2016 report published by the Institute for Fiscal Studies (Smith et al. 2016: 13) found a negative correlation between change in service spending and grant dependence for English local authorities – local authorities that were more grant-dependent were more likely to see a bigger reduction in their service expenditure. However, in Wales, the relationship is less pronounced: there is a correlation between initial grant dependence and cuts in service spending only when Monmouthshire (by far the least grant dependent authority which has seen relatively large cuts) is excluded from the sample.

Figure 3.2: Percentage change in net current expenditure, by local authority spending area, between 2009-10 and 2017-18 (2018-19 prices)²⁵



Source: StatsWales (2017-18 and previous) Local Government Revenue Outturn Data

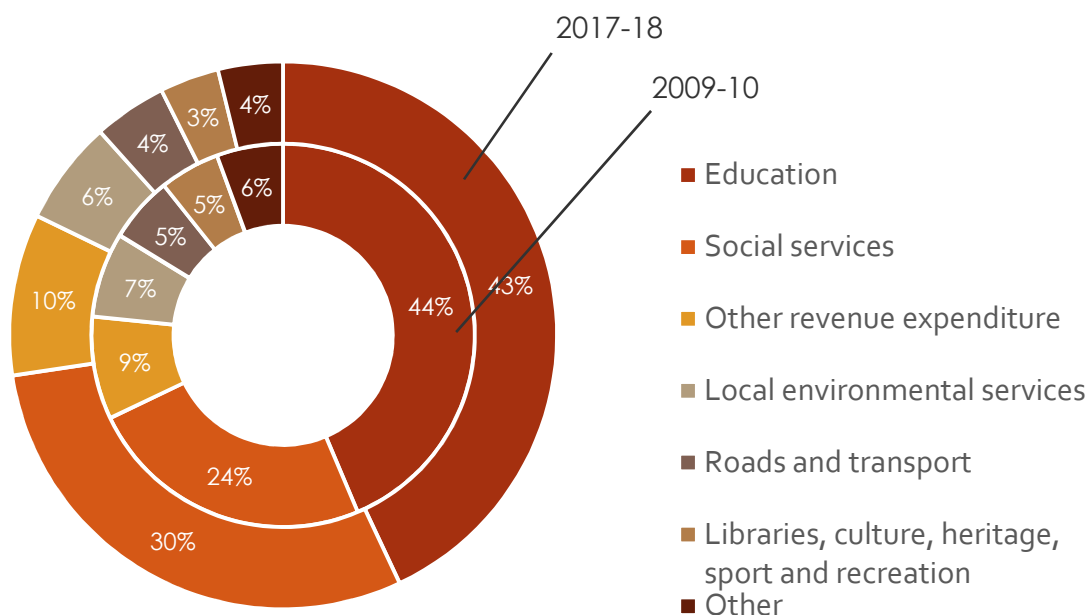
Turning to components of local government expenditure, as illustrated in Figure 3.2, the spending area that has seen the largest reduction in expenditure since 2009-10 is planning and economic development (55.4%), followed by libraries, culture, heritage, sport and recreation (36.3%) and roads and transport (28.5%) (Figure 3.2). Collectively, expenditure on spending areas outside of social services and education has fallen by £468m (21.5%). Conversely, spending on social services and education has been relatively protected across Wales, and in the case of social services spending, there has been a 12.6% real terms increase in net current expenditure during this period. Some of this increase can be attributed to the *Flying Start* programme being re-classified as social services expenditure in 2013-14, having previously formed a part of the education spending category. Nevertheless, even if we exclude expenditure on the *Flying Start* programme from the 2017-18 figure to facilitate like-for-like comparison, spending on social services has still increased by £106.4m (6.5%) in real terms. Conversely, if we include expenditure on *Flying Start* within the education category in 2017-18, expenditure on education has fallen by a somewhat more modest £169.8m (5.74%) in real

²⁵ The spending data for individual categories have been sourced from outturn data on the StatsWales website. The change in social services and education spending is somewhat exaggerated due to the *Flying Start* element being removed from the education category and re-classified as social services spending in 2013-14. It should also be noted that there may be other minor differences between the methods used by local authorities to classify spending.

terms. This reflects the priorities and commitment made by successive Welsh Governments, as well as local authorities' prioritisation of these high-demand services in successive budget rounds.

Uneven apportionment of cuts across spending areas has resulted in significant rebalancing of local government revenue expenditure. In 2017-18, and as shown in Figure 3.3, combined Education and Social Services spending made up 73% of local government service expenditure, up from 68% in 2009-10. Education remains the largest beneficiary of local government revenue, although the share of total revenue it receives has declined by 1ppt between 2009-10 and 2017-18. The most striking change is that net expenditure on social services now accounts for 30% of total expenditure, up from 24% in 2009-10.

Figure 3.3: Share of net current service expenditure by category, 2009-10 and 2017-18



Source: StatsWales (2017-18 and previous) Local Government Revenue Outturn Data

3.1 Schooling

Across Wales, total school spending amounted to £5,615 per pupil in 2017-18. This is £324 (5.5%) lower than the equivalent figure for 2009-10.²⁶ Despite this reduction in per pupil expenditure, schools have been relatively well protected when compared to other spending areas. Figure 3.4 shows per pupil expenditure by education consortium between 2009-10 and 2017-18.²⁷

Figure 3.4: School expenditure per pupil, by education consortium, 2009-10 to 2017-18 (2018-19 prices)

£ per pupil	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18
All Wales	5,940	5,919	5,891	5,888	5,858	5,797	5,691	5,669	5,615
North Wales	5,991	5,942	5,946	5,947	5,957	5,885	5,779	5,769	5,737
South West & Mid Wales	6,187	6,149	6,071	6,120	6,000	5,941	5,831	5,782	5,752
Central South Wales	5,713	5,743	5,777	5,729	5,746	5,687	5,516	5,507	5,505
South East Wales	5,883	5,841	5,752	5,744	5,723	5,668	5,675	5,659	5,465

Source: StatsWales (2017-18 and previous) Local Government Revenue Outturn Data; StatsWales (2018 and previous) Pupils by Local Authority, Region and Type of School: <https://statswales.gov.wales/catalogue/education-and-skills/schools-and-teachers/schools-census/pupil-level-annual-school-census/pupils/pupil-by-localauthorityregion-typeofschool>

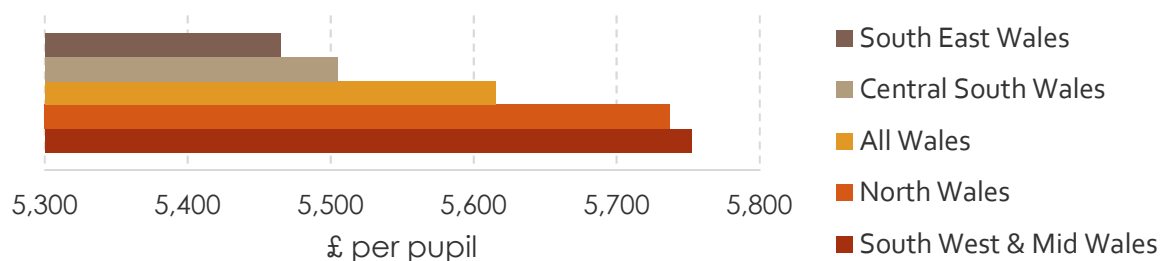
Per pupil school expenditure is highest in rural local authorities, which have seen a relatively slower increase and in some cases, a decrease in pupil numbers. An important caveat to this apparent disparity is that provision of schooling is more difficult to achieve in sparsely populated areas, which face higher costs for school transport and external pressures to keep smaller, less cost-effective schools open (Reynolds and Meriel 2007). Figure 3.5 shows a graph of per pupil expenditure by

²⁶ There are a couple of factors that complicate the task of tracking per pupil spending in Wales. As has been previously remarked, in 2013-14, expenditure for the *Flying Start* programme was moved from the Education to Social Services category for classification purposes, meaning that data after this year is not wholly comparable with data from previous years. In addition to this, there are minor differences in how specific expenditure items have been recorded in the outturn data between different years.

²⁷ There are four formal education consortia in Wales: North Wales (Conwy, Denbighshire, Flintshire, Gwynedd, Isle of Anglesey and Wrexham), South West & Mid Wales (Carmarthenshire, Ceredigion, Neath Port Talbot, Pembrokeshire, Powys and Swansea), Central South Wales (Bridgend, Cardiff, Merthyr Tydfil, Rhondda Cynon Taf and Vale of Glamorgan) and South East Wales (Blaenau Gwent, Caerphilly, Monmouthshire, Newport and Torfaen).

education consortium. Per pupil expenditure is at its highest (£5,752) in the South West & Mid Wales region and at its lowest (£5,465) in South East Wales.

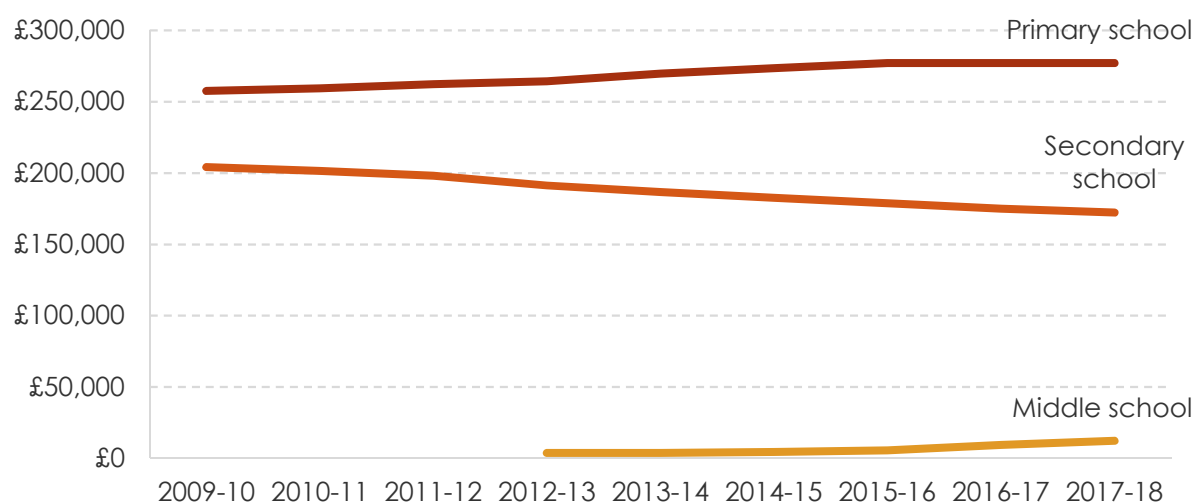
Figure 3.5: School expenditure per pupil, by education consortium, 2017-18 (2018-19 prices)



Source: StatsWales (2017-18 and previous) Local Government Revenue Outturn Data; StatsWales (2018 and previous) Pupils by Local Authority, Region and Type of School

Although Wales' total number of school pupils stayed roughly level between 2009-10 and 2017-18, there have been large changes in the makeup of the school population. As shown in Figure 3.6, there has been a steady decline in the number of pupils in secondary education and an increase in the number of primary aged children.²⁸ This decline in secondary school students would be expected to reverse within the next few years as the current primary cohort moves on to secondary education. Nevertheless, the static nature of the overall pupil population in Wales has been cited as one of the reasons why per pupil figures have been relatively better protected in Wales compared to England, which has seen a much faster growth in pupil numbers since 2009-10 (Sibieta 2018).

Figure 3.6: Pupil population by sector, 2009-10 to 2017-18

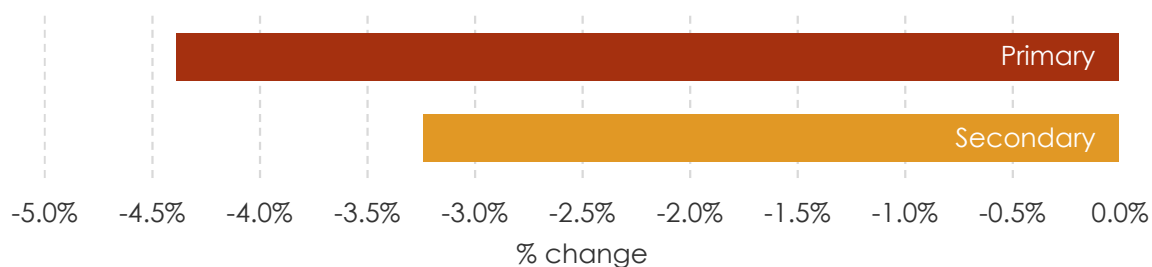


Source: StatsWales (2017-18 and previous) Local Government Revenue Outturn Data; StatsWales (2018 and previous) Pupils by Local Authority, Region and Type of School

²⁸ It should be noted that from 2012-13, a new sector for 'Middle School' is included in the dataset (this is displayed in Figure 3.6). However, this can only partially explain the reduction in the number of pupils in secondary education.

In real terms, expenditure on primary schools has increased by £101.6 million (9.9%) since 2009-10, whereas spending on secondary schools has declined by £95.2 million (9.6%). However, after factoring in overall pupil numbers, per pupil spending on primary school students actually declined by £220 (4.4%), a larger reduction than the £207 (3.2%) reduction in per pupil spending on secondary school students over the same period (Figure 3.7).

Figure 3.7: Real terms percentage change in per pupil spending between 2013-14 and 2017-18, by sector



Source: StatsWales (2017-18 and previous) Local Government Revenue Outturn Data; StatsWales (2018 and previous) Pupils by Local Authority, Region and Type of School

3.2 Social Services

One of the most important responsibilities of local authorities is to provide social services to residents. Social services expenditure is recorded within three categories: spending on children and families, younger adults (<65) and older adults (≥65). Figure 3.8 provides a breakdown of how spending on each area has changed since 2009-10.

Figure 3.8: Breakdown of net expenditure on social services, 2009-10 to 2017-18 (2018-19 prices)

	Expenditure (£ million)		Percentage (%)
	2009-10	2017-18	change
Children's and families' services	470	624	32.7
<i>% of total social services expenditure</i>	28.7	33.8	
(excl. Flying Start element)	470	523	11.1
Younger adults (<65)	591	624	5.7
<i>% of total social services expenditure</i>	36.0	33.8	
Older adults (≥65)	580	597	2.9
<i>% of total social services expenditure</i>	35.3	32.3	
Total	1,641	1,845	12.4

Source: StatsWales (2017-18 and previous) Local Government Revenue Outturn Data

Total expenditure on social services has increased by £204 million (12.4%) in real terms. Spending on children's and families' services has risen by £154 million (32.7%) although this increase is significantly less than this (11.1%) if we exclude *Flying Start* spending from the 2017-18 figure. Spending on younger adults has increased by £33.6 million (5.7%) and older adult social care spending has increased by £16.7 million (2.9%).

Demographic patterns have played a role in driving these increases, both in terms of the growing share of the population over 65 and the rapid growth in the life expectancy of those with disabilities, as explored by a recent report by the National Assembly's Finance Committee (2018). However, there are other reasons, not strictly related to demographics, why this figure has risen so sharply. The main driver of the increase has been spending on children's and families' services.

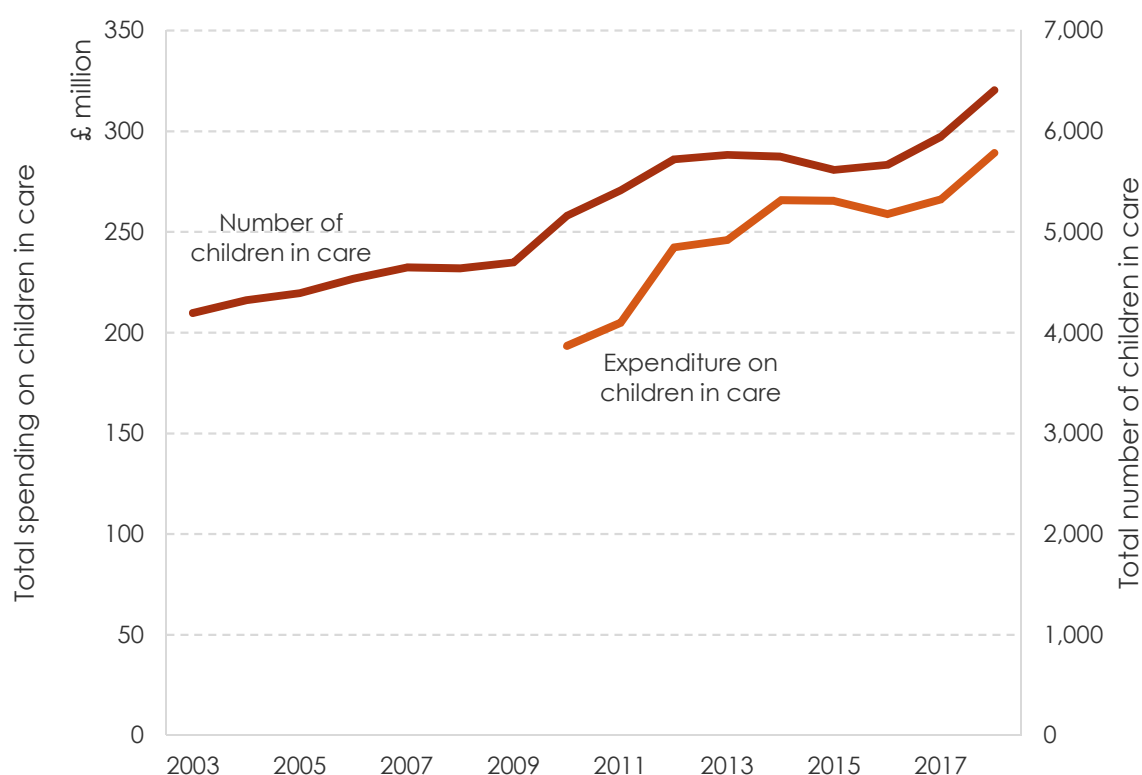
When examining the challenges associated with funding social care, we must examine changes in demand across the three categories and investigate both demographic-related pressures and non-demographic ones. In this section, we focus in particular on children's and families' services and older adults' social care.

3.2.1 Children's and families' services

Having excluded the *Flying Start* element, spending on children's and families' service has increased by £52million (11.1%) in real terms since 2009-10.

The main factor contributing to this was the rise in spending on children in care. This figure has risen by £95.9 million (33.2%) in real terms during the same period, largely a reaction to the increase in demand.²⁹ In March 2009, the total number of children in care across Wales was 4,695. By March 2018, this figure had risen to 6,405, an increase of 1,710 (36.4%) in nine years. The rate of children in care in Wales now stands at 102 per 10,000, significantly higher than the rate in England which is 64 per 10,000.³⁰ Spending on children in care accounted for 53.3% of total budgeted expenditure on children's and families' social services in 2018-19. Figure 3.13 plots the rise in the number of children in care between 2003 and 2018 against the amount spent by local authorities.³¹

Figure 3.13: Total expenditure on children in care and number of children in care across Wales, 2009-10 to 2017-18 (2018-19 prices)



Source: StatsWales (2017-18 and previous) Local Government Revenue Outturn Data; StatsWales (2018 and previous) Children Looked After at 31 March by Local Authority: <https://statswales.gov.wales/catalogue/health-and-social-care/social-services/childrens-services/children-looked-after/childrenlookedafterat31march-by-localauthority-gender-age>

²⁹ Spending on children in care is distinct from the *Flying Start* programme, therefore the comparisons are unaffected by the reclassification.

³⁰ The rate of looked-after children in England is sourced from a recent report by the National Audit Office: <https://www.nao.org.uk/report/pressures-on-childrens-social-care/>

³¹ Comparable spending data for years prior to 2009 is not available.

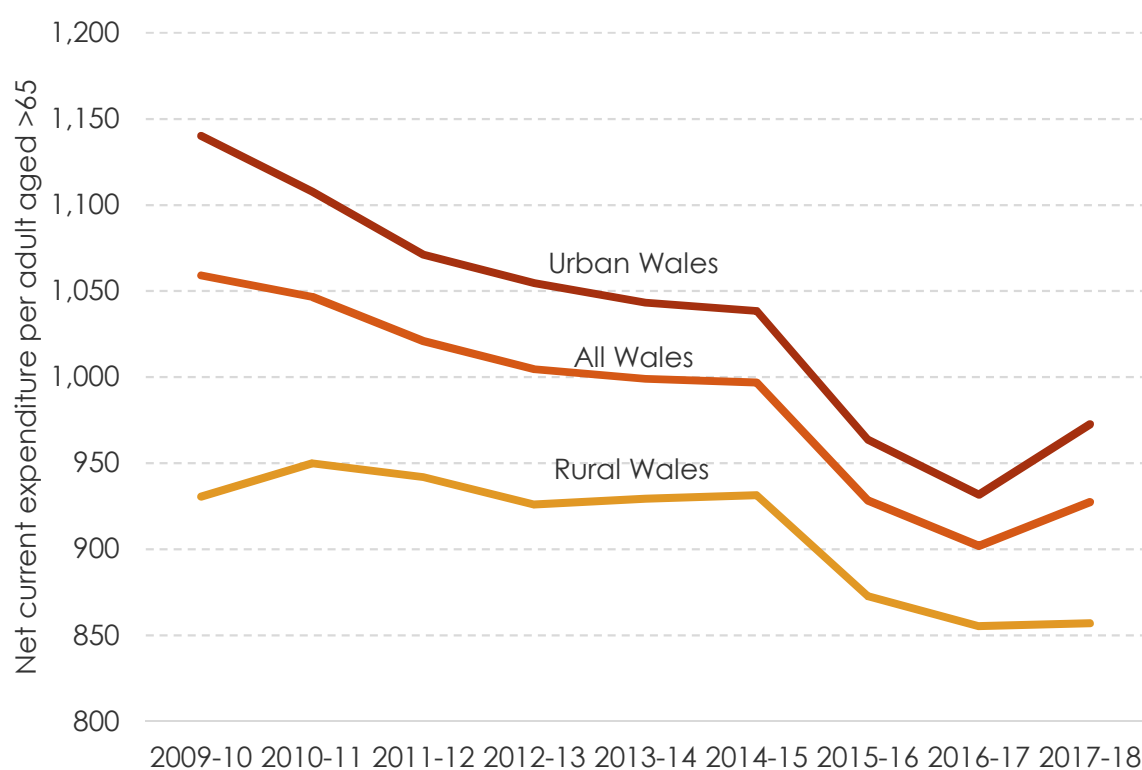
Given the statutory requirement to provide this critical service, future increases in the total cost of children's and families' services would be expected to reflect any further growth in the number of children in local authority care.

While the debate about rising costs associated with social care provision has largely centred on the impacts of an ageing society, this data shows that the increased demand for social services also stems from a sharp rise in the number of children in care by local authorities, particularly since the start of austerity, a period of welfare reforms and cuts to spending on preventative services.

3.2.2 Older Adults (65 and older)

Between 2016-17 and 2017-18, per capita expenditure on older adult social care increased across Wales. This marked a reversal of seven years of decline which began in 2009-10, during which time, per capita expenditure on older adult social care fell by £157 (-14.8%). While total spending fell by only 1.3% in real terms, demand for older adult social care has markedly increased during this period, putting downward pressure on the per capita figure (Figure 3.9).

Figure 3.9: Trends in per capita (aged ≥65) expenditure on older adult social care, 2009-10 to 2017-18 (2018-19 prices)³²



Source: StatsWales (2017-18 and previous) Local Government Revenue Outturn Data; StatsWales (2018 and previous) Population Estimates by Local Authority and Age

³² Further details about the rationale behind the urban / rural Wales distinction can be found in Appendix 2.

Decreases in per capita expenditure on older adult social care span the rural / urban divide in Wales. However, per capita spending has fallen more sharply in urban areas (-14.7 %) compared to more rural areas (-7.9%), a trend which reduced the historic gap in spending between the two to a low of £76 in 2016-17. However, in 2017-18, there were signs that the gap was once again beginning to widen, with per capita expenditure in urban Wales £116 higher than in rural regions.

Demographic changes in Wales have meant that in 2017-18, the over-65 population constituted 20.6% of the total population, an increase of 2.6 ppts since 2009-10. Internationally, only six countries have a higher share of the population over 65.³³ This trend has been replicated across all local authorities, although the increase has been more pronounced in rural areas (3.2%) than urban ones (2.1%) (Figure 3.10). **Not only is the population of rural Wales relatively older than the national average, it is getting older faster than the national average as well.** Moreover, due to the difficulty in providing access to social services in areas where the population is sparsely distributed, rural local authorities often have to contend with higher costs to deliver equivalent social care services as their urban counterparts. Figure 3.9 illustrates this sharp divide in demographic trends within the over-65 cohort between urban and rural local authorities.³⁴

Although there are some signs that this increase has slowed in recent years, ONS population projections suggest the population over-65 will continue to grow faster than any other age cohort over the next decade.³⁵ Moreover, life expectancy at age 65 is predicted to increase by 1.7 years by 2025 and life expectancy for those with disabilities is predicted to increase even more in relative terms (15%) during the same period.³⁶ Demographic changes and increasing costs of older adult social care provision are likely to be one of the biggest challenges facing Welsh Local Authorities in the medium-term. These difficulties will be compounded if the increase in the over-65 population is unevenly distributed across Wales.

³³ Wales ranks 7th globally on the share of over 65s as part of the total population, behind Japan, Italy, Portugal, Germany, Finland and Bulgaria. This is based on data from the World Bank:

<https://data.worldbank.org/indicator/SP.POP.65UP.TO.ZS>

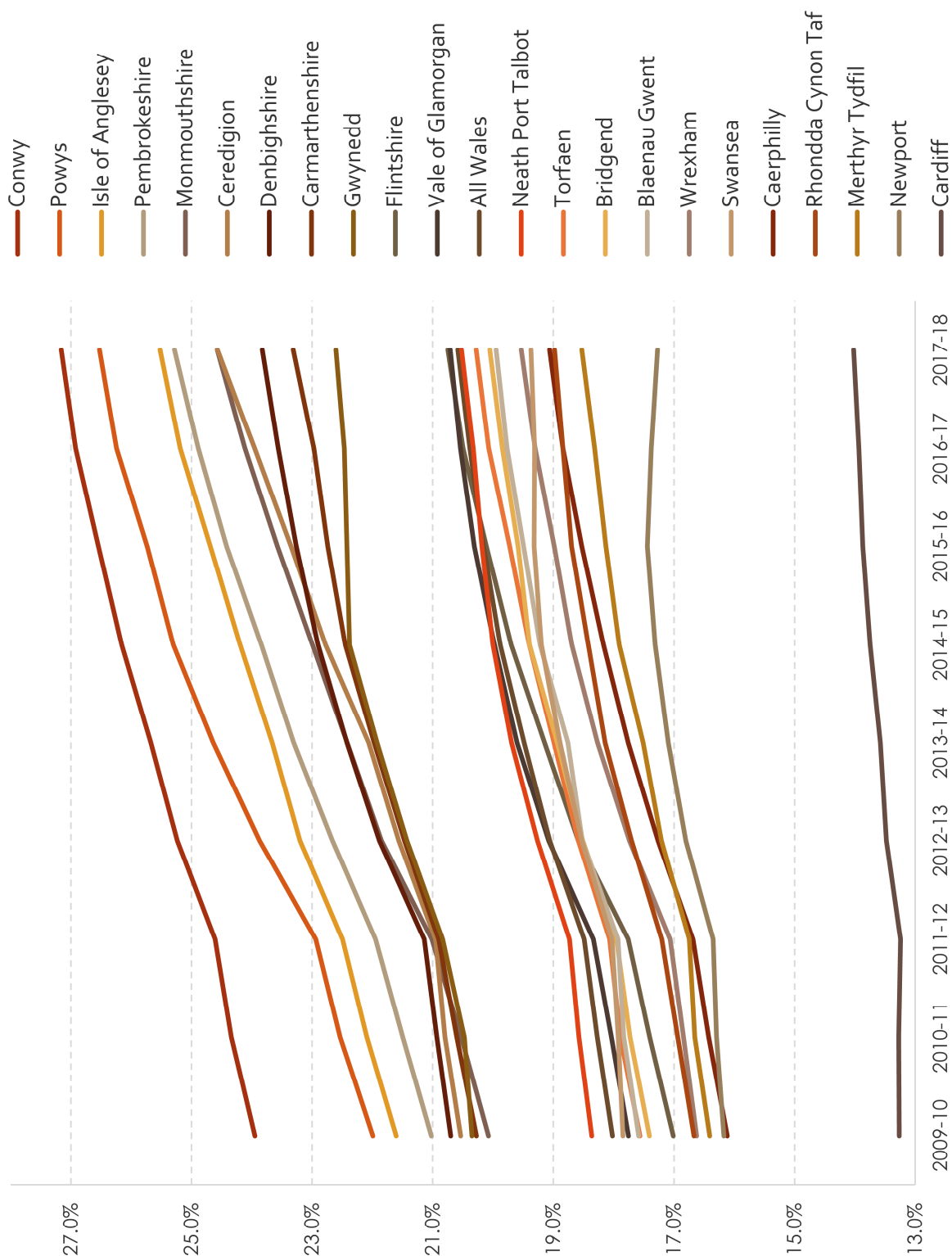
³⁴ Cardiff stands out as the local authority that has the lowest share of over 65s as part of its population and the local authority that has seen the least amount of change in this figure since 2009-10.

³⁵ See Figure 3.9 in the *Wales Governance Centre's* 2018 report into the Welsh tax base:

http://sites.cardiff.ac.uk/wgc/files/2018/06/The-Welsh-Tax-Base-_WCPP-Final-180627.pdf

³⁶ <http://www.onewestminster.org.uk/files/onewestminster/piis2468-26671730091-91.pdf>

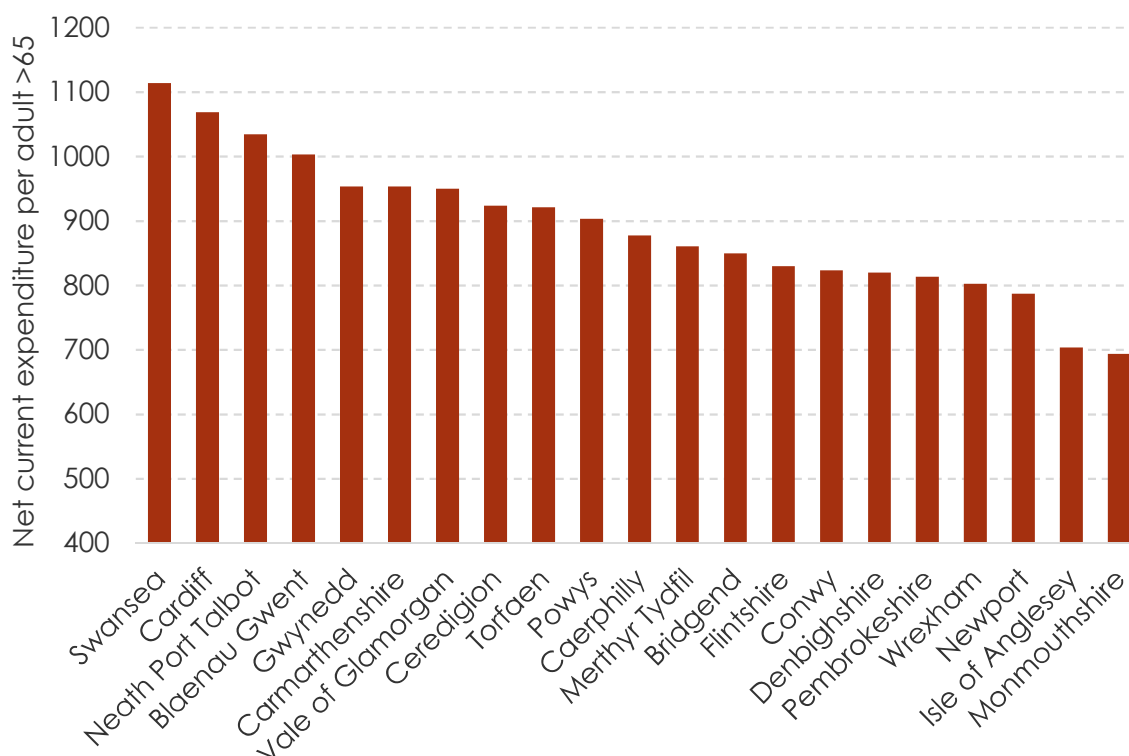
Figure 3.10: Trends in the over-65 population as a share of the total population in Wales, 2009-10 to 2017-18



Source: StatsWales (2018 and previous) Population Estimates by Local Authority and Age

As Figure 3.11 illustrates, there is significant variation in expenditure on older adult social care across Welsh local authorities. Per capita expenditures are highest in Swansea (£1,114) and Cardiff (£1,069) and lowest in Anglesey (£704) and Monmouthshire (£693).

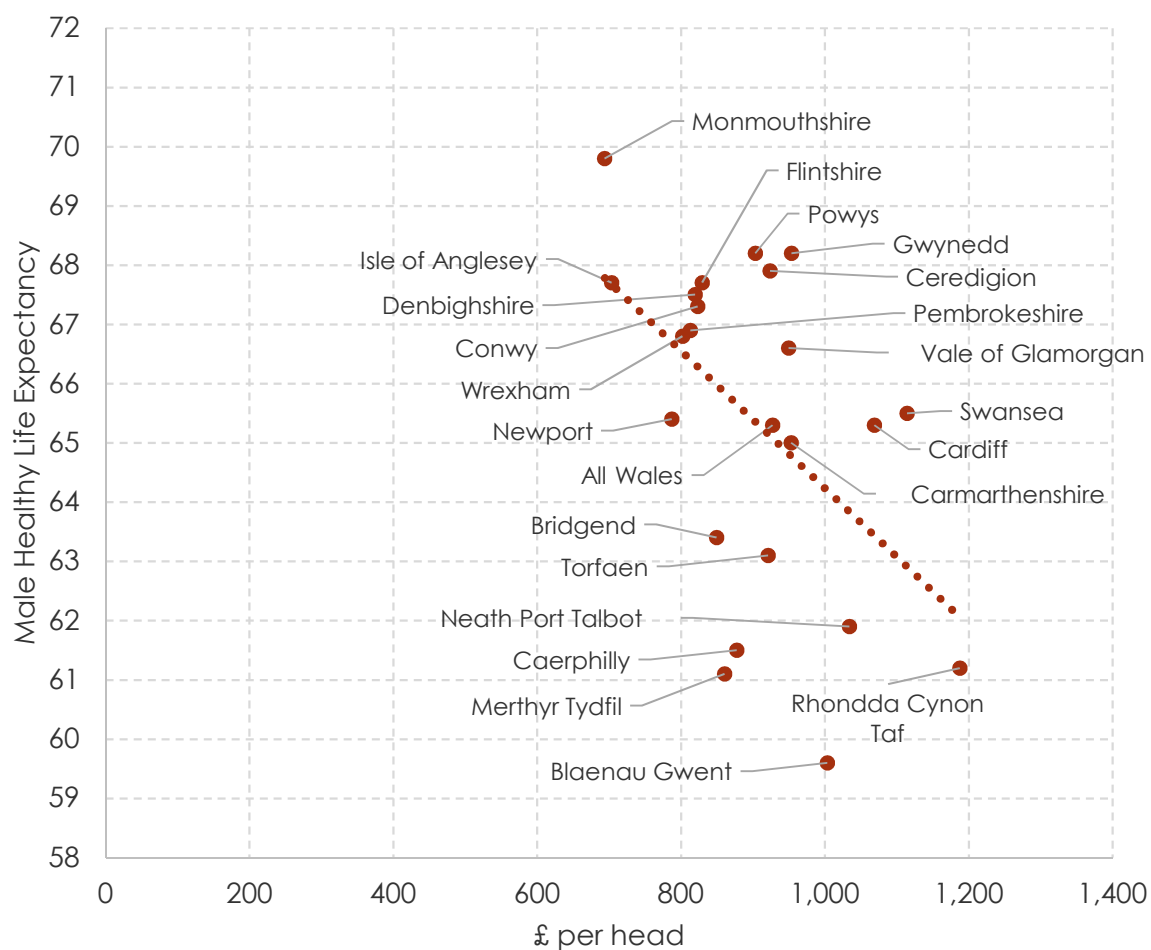
Figure 3.11: Expenditure on older adult social care per capita (aged ≥65) in 2017-18, 2018-19 prices



Source: StatsWales (2017-18) Local Government Revenue Outturn Data; StatsWales (2017) Population Estimates by Local Authority and Age

However, demographic changes are not the only factor contributing to this disparity between local authorities. In Wales, the populations of urban local authorities tend to have a lower healthy life expectancy than their rural counterparts. Healthy life expectancy refers to the number of years that a person can expect to live in good health. In Monmouthshire, the average male can expect to live 69.8 years in good health, whereas the average male in Blaenau Gwent will only spend 59.6 years in good health. What this means is that, although over 65s comprise a larger share of the population in rural local authorities, they are likely to spend a smaller proportion of their lives in ill-health than their counterparts in urban local authorities. Although the share of the population over 65 in Blaenau Gwent may be significantly less than in Monmouthshire, we may find that a larger proportion of the over 65 population require more intensive social care for longer periods. This may be one of the reasons why per capita older adults social care expenditure is highest in urban local authorities.

Figure 3.12: Relationship between male healthy life expectancy and expenditure on older adult social care per capita (aged ≥65) in 2017-18, 2018-19 prices



Source: StatsWales (2017-18) Local Government Revenue Outturn Data; StatsWales (2017) Population Estimates by Local Authority and Age; StatsWales (2010-14) Life Expectancy and Healthy Life Expectancy at birth by Local Health Board and Local Authority: <https://statswales.gov.wales/Catalogue/Health-and-Social-Care/Life-Expectancy/lifeexpectancyandhealthylifeexpectancyatbirth-by-localhealthboard-localauthority>

Figure 3.12 shows the relationship between healthy life expectancy and per capita expenditure on older adult social care. The downward-sloping trend line indicates that higher per capita expenditure correlates with lower healthy life expectancy. Moreover, rural local authorities almost invariably score higher on the healthy life expectancy index.

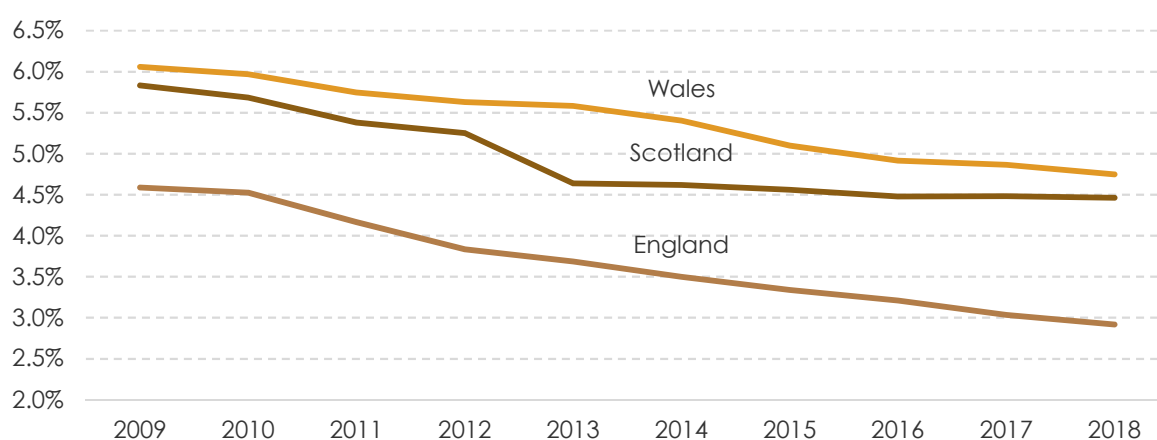
Although Wales' ageing population will almost certainly increase future demand for older adults' social care, it is also important to recognise that narrowing the gap in healthy life expectancy by improving the health of the population in urban local authorities could slow this increase in demand.

3.3 Local Government Workforce

Increased pressure to tighten their purse strings has led to a significant reduction in the size of the local government workforce. Recent findings from UNISON Cymru Wales' *Audit of Austerity* found that 28,100 local government jobs have been lost in Wales since 2010; more than the combined workforce of *Tata Steel, Admiral, Airbus, Transport for Wales, Ford, S.A. Brain* and the *Principality Building Society*.³⁷ With 1 in 10 Welsh workers employed in this sector, local government is an extremely prominent public sector employer for the Welsh economy.³⁸

Data compiled by the Office for National Statistics suggests that the actual number of job losses may have been even higher, with 37,000 local government jobs lost between December 2009 and September 2018.³⁹ This would be equivalent to a reduction of 19.9% in the total workforce size.⁴⁰ Despite this deep cut to the local government workforce in Wales, this is a smaller reduction than in England, where the size of the local authority workforce has fallen by 782,000 (-32.4%) over the same period and in Scotland, where 63,000 (-20.6%) local government jobs have been lost. As shown in Figure 3.14, Wales still has a higher number of local government employees as a share of the population than England and Scotland (at 4.7%).

Figure 3.14: Number of local government employees as a share of population, by UK nation, 2009 to 2018⁴¹



Source: ONS (March 2009 – September 2018) *Employment in Local Government, by UK region*: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/publicsectorpersonnel/adhocs/009408employmentinlocalgovernmentbyukregionmarch2009toseptember2018>. Population data is based on ONS mid-year estimates and projections

³⁷ <https://cymru-wales.unison.org.uk/content/uploads/sites/9/2016/11/Wales-Austerity-Audit.pdf>, p.11-12

³⁸ <https://www.wlga.wales/SharedFiles/Download.aspx?pageid=62&mid=665&fileid=1754>

³⁹ Dataset was produced by the *Office for National Statistics* on request and is available here:

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/publicsectorpersonnel/adhocs/009408employmentinlocalgovernmentbyukregionmarch2009toseptember2018>

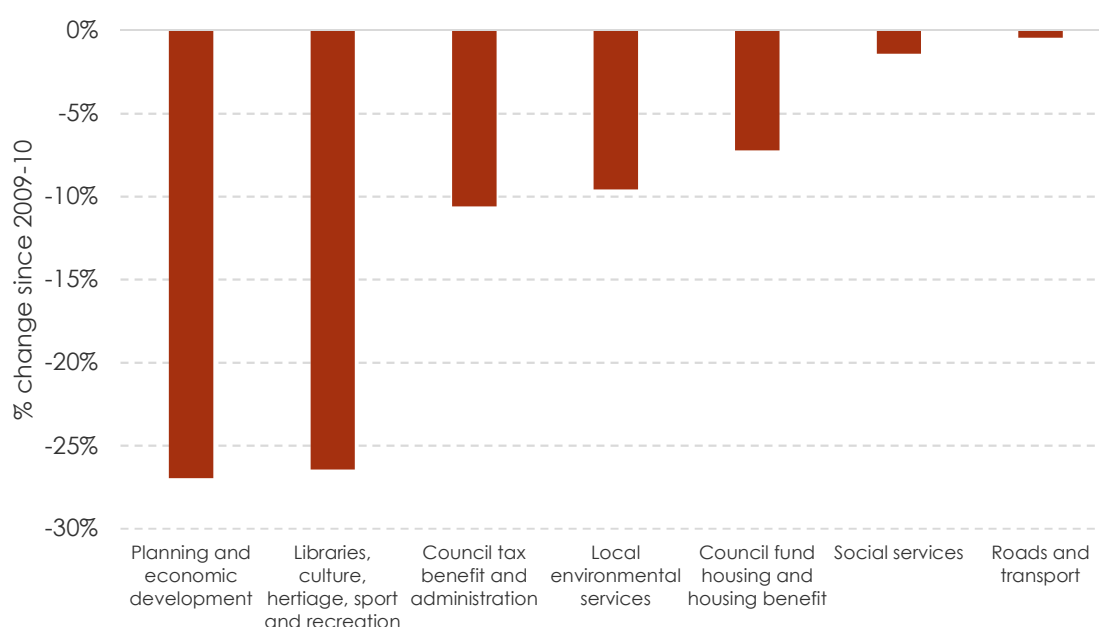
⁴⁰ Total Local Government workforce is based on a headcount of staff on LA payrolls (including teachers, social care workers and administrative staff).

⁴¹ Northern Ireland has not been included in this graph as it does not have a system of local government comparable to that which exists in the other UK countries.

The 1% public sector pay cap meant that local government employees' wages grew slower than inflation for most of this period, perhaps lessening the need for further job cuts. Importantly, these figures do not take into account employees that have been moved to part-time contracts or otherwise had their hours reduced since the start of austerity.

Across Wales, expenditure on local government employee costs has fallen by 8.9% in real terms between 2009-10 and 2017-18.⁴² In line with the patterns outlined earlier in this chapter and as illustrated in Figure 3.15, the reduction has been steepest in areas related to culture, heritage and libraries (26.4%) and planning and economic development (27.0%). Increased demand for social services and the prioritisation of education spending by local authorities has meant that there have been less striking changes to employee costs in these areas. However, these figures do not capture the extent to which the provision of services and staff have been outsourced to private contractors or not-for-profits, a practice that has developed across local authorities. Moreover, employee costs include spending on national insurance and pension contributions, the latter of which has inflated significantly in recent years. Therefore, it is reasonable to assume that the total amount spent by local authorities on basic pay (excluding national insurance and pension contributions) has decreased by an even larger margin than the figures suggest.

Figure 3.14: Percentage change in employee costs by expenditure category between 2009-10 and 2017-18 (2018-19 prices)



Source: StatsWales (2017-18 and previous) Local Government Revenue Outturn Data

⁴² This figure excludes education related employee costs which are not tabulated in a way that is comparable with other expenditure categories.

3.4 Fees and charges

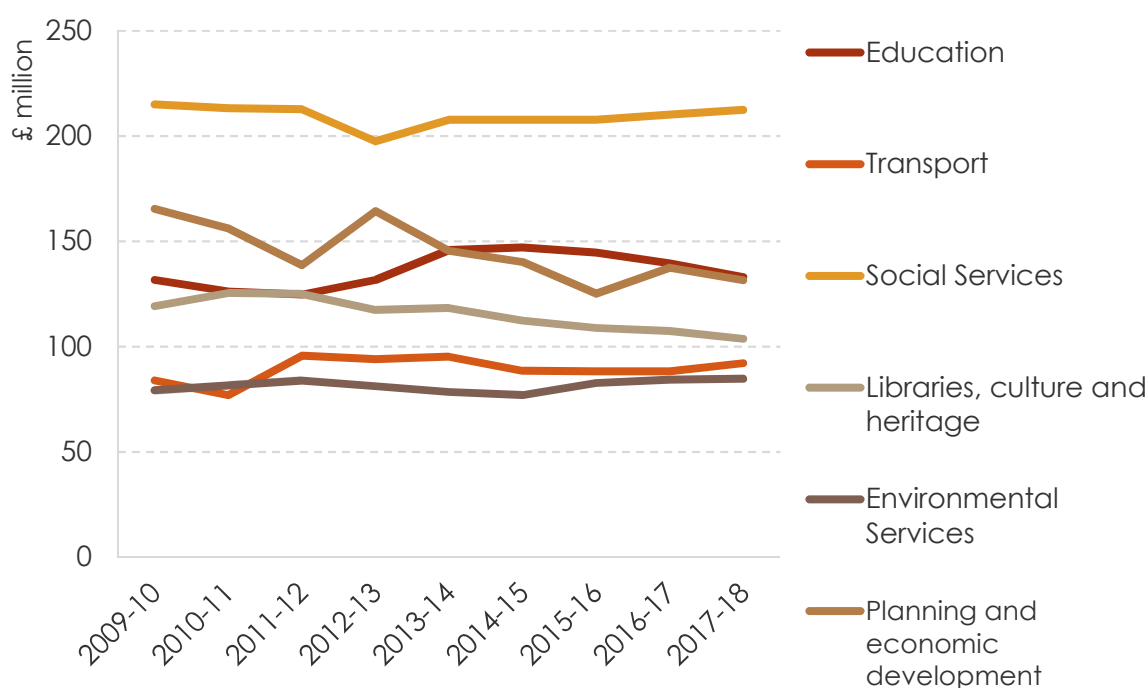
Some of the budget cuts have been offset by fees and charges that can be levied by local authorities for individual services such as leisure facilities and vehicle parking. Revenues accruing from local authority-imposed fees and charges are applied against gross current expenditure in the outturn data.

Local authorities can use their discretion when setting charges for some services. Since 2009-10, income from parking charges has increased by £11.2 million and now accounts for 159% of gross expenditure on vehicle parking, thus giving local authorities a surplus that can be used to spend on other services.

However, for many services, local authorities are either prohibited from charging more than the cost of provision, or there are nationally prescribed eligibility and charge levels in place and little or effectively no local discretion. Local authorities are also barred from charging for some services altogether, including school age education, children's social services and household waste collection (Thomas 2016: 17).

As shown in Figure 3.15, and perhaps reflecting these restrictions, there has been little change in the overall amount of revenue generated from local authority-imposed fees and charges in real terms since 2009-10.

Figure 3.15: Revenues from fees and charges between 2009-10 and 2017-18 (2018-19 prices)



Source: StatsWales (2017-18 and previous) Local Government Revenue Outturn Data

4 Capital financing and expenditure

Key Findings:

- Despite a sharp decrease in capital grants and contributions, **total capital financing was £219 million (10.6%) higher in 2017-18 compared to 2009-10**. The sum of unsupported borrowing taken out to finance capital expenditure has nearly tripled during this period.
- **Capital expenditure has been largely resilient to cuts, falling by a relatively modest £15.5 million (1.3%) since 2009-10**
- Local authorities' combined capital spend on education, transport and housing projects amounted to 78.8% of total capital expenditure in 2017-18, up from 69.7% in 2009-10.
- **Capital expenditure on council fund housing should be expected to further increase in the near future**, following the UK Government's commitment to remove the cap on HRA borrowing.

As opposed to the revenue spending on public services explored in the previous two chapters, capital expenditure by local authorities relates to their expenditure on investment: mainly the provision, acquisition and enhancement of fixed assets such as land, buildings and vehicles.⁴³ This section outlines the composition and recent trends in capital financing and expenditure.

4.1 Sources of capital financing

For the purpose of this analysis, sources of capital financing have been grouped into four categories:⁴⁴

- Capital grants and other contributions;
- Usable capital receipts applied to meet expenditure;
- Capital expenditure funded from revenue;
- Other sources

⁴³ <https://statswales.gov.wales/catalogue/local-government/finance/capital>

⁴⁴ These categories are also used to present the data in tables by StatsWales:

<https://statswales.gov.wales/Catalogue/Local-Government/Finance/Capital/Outturn/capitaloutturnfinancing-by-authority-sourceoffunding>

The first category includes all grants and contributions from the UK and Welsh Governments, the European Structural funds, public and private bodies, and National Lottery funds. In 2009-10, these grants and contributions were the source of 50.9% of capital expenditure. Capital receipts are acquired through the sale of fixed assets (e.g. land, council homes) belonging to local authorities. In 2009-10, this second source financed 5.2% of capital expenditure. Third, money can be drawn from revenue accounts to finance capital expenditure, or can be set aside as credit cover for credit arrangements. All other sources of capital financing have been grouped into a fourth category which includes borrowing and credit arrangements. Given that these other sources accounted for 37.2% of capital financing in 2009-10, we elaborate on some of the individual components of this category later in this chapter.

Figure 4.1 shows how capital outturn financing by source changed between 2009-10 and 2017-18. As expected, there has been a sharp decrease in capital grants and contributions, which fell by £309 million (29.4%) in real terms during this period. Total capital financing was however £219 million (10.6%) higher in 2017-18 than in 2009-10. This is largely due to a £264 million (190.3%) increase in the sum of capital expenditure funded from revenue and increases in borrowing and credit arrangements within the catch-all, fourth category.

Figure 4.1: Capital outturn financing by source, 2009-10 to 2017-18, 2018-19 prices

	Financing of capital expenditure (£m)		Percentage (%) change
	2009-10	2017-18	
Capital grants and other contributions	1,050	742	-29.4
<i>% of total capital financing</i>	50.9	32.5	
Usable capital receipts applied to meet expenditure	106	161	51.5
<i>% of total capital financing</i>	5.2	7.1	
Capital expenditure funded from revenue	139	403	190.3
<i>% of total capital financing</i>	6.7	17.6	
Other (incl. borrowing)	768	977	27.2
<i>% of total capital financing</i>	37.2	42.8	
Total	2,064	2,283	10.6

Source: StatsWales (2017-18 and previous) Capital Outturn Financing, by Authority and Source of Funding: <https://statswales.gov.wales/catalogue/local-government/finance/capital/outturn/capitaloutturnfinancing-by-authority-sourceoffunding>

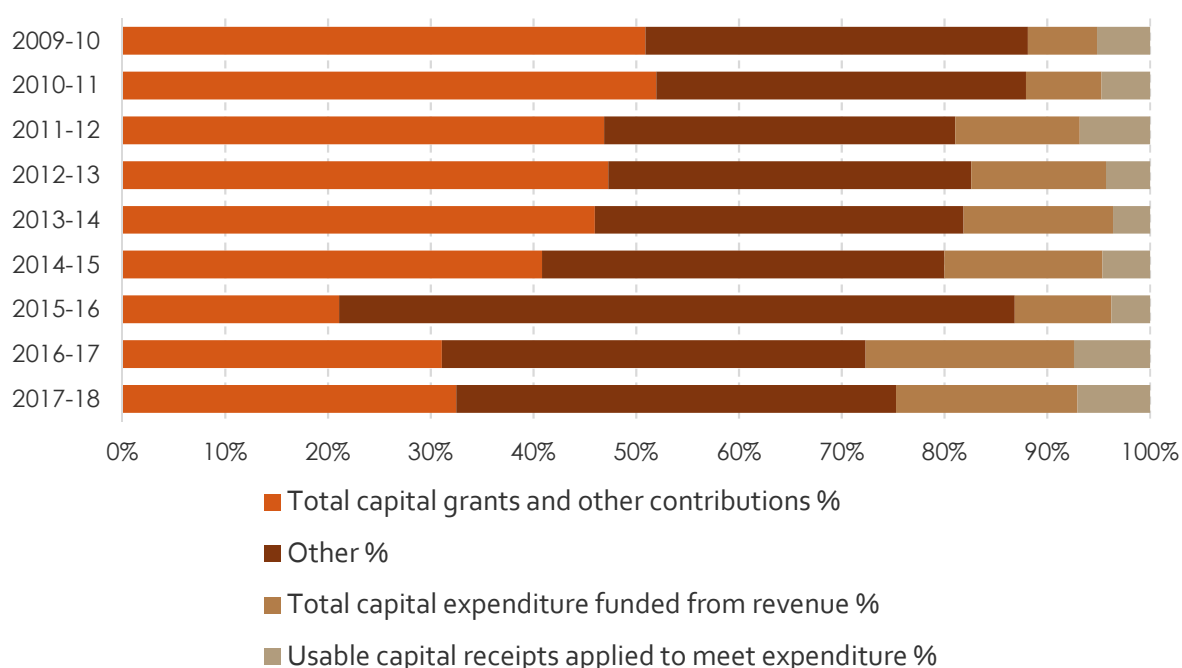
The large reduction in capital grants, coupled with the overall increase in capital expenditure, is inevitably reflected in a dramatic recalibration of capital expenditure financing since 2009-10. Whereas capital grants and other contributions had previously funded 50.9% of capital expenditure,

by 2017-18, this figure had fallen to 32.5%. In contrast, the share of capital expenditure funded from revenue soared from 6.7% to 17.6% over the same period.

Evidence suggests that the impact of declining capital grants has not been evenly felt across local authorities. Whereas in one local authority these had declined by £26.8 million (86.7%) since 2009-10, in another they had increased by £20.5 million (128.9%). At their 2012-13 peak, contributions from the European Structural funds accounted for 13.4% of total grant capital financing across Wales. It remains to be seen what further impact leaving the European Union will have on this figure, especially since the grants from the European Regional Development fund have to date been allocated to areas classified as having higher levels of material deprivation according to EUROSTAT's regional data. However, in 2018-19, an extra £50 million was allocated local authorities' general capital fund, the first instalment of a £100 million increase in this fund over three years.

Figure 4.2 shows the share of capital spending financed by source between 2009-10 and 2017-18. Note that 2015-16 data in this series is not entirely comparable with other years because of a one-off agreement between the Welsh Government and the UK Treasury that allowed local authorities with HRA housing stock to exit the housing revenue subsidy scheme and become self-financing. This buyout was financed through one-off loans from the Public Works Loan Board (included in the *Other* category).

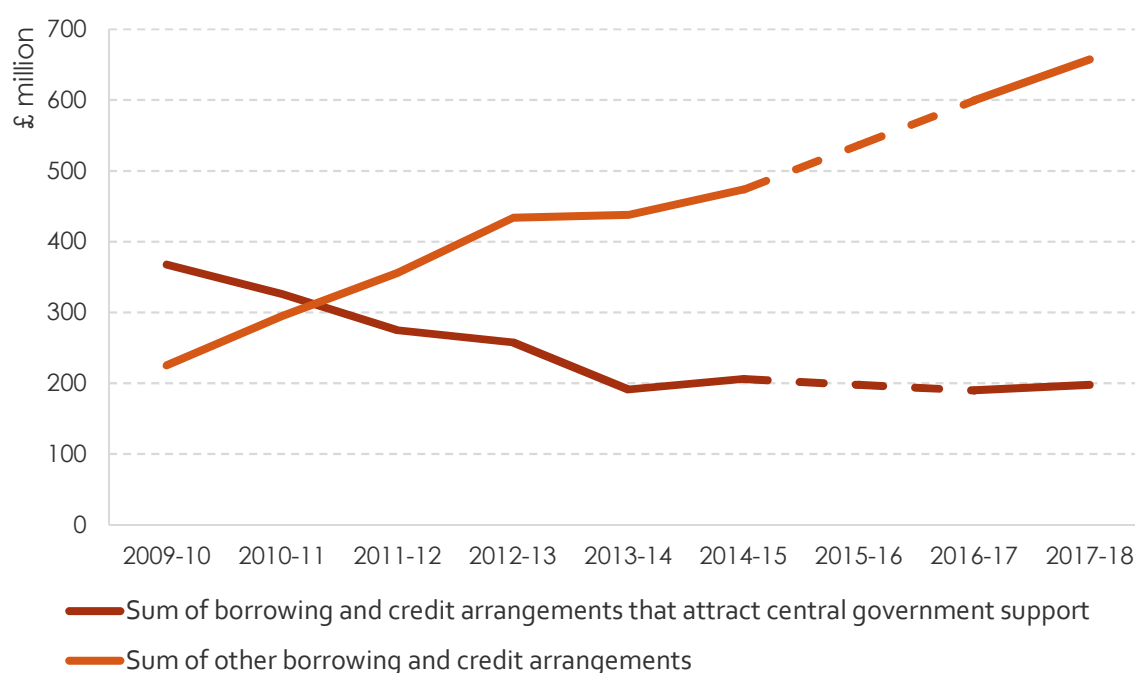
Figure 4.2: Capital outturn financing by source, 2009-10 to 2017-18, 2018-19 prices



Source: StatsWales (2017-18 and previous) Capital Outturn Financing, by Authority and Source of Funding

In addition to increases in capital expenditure funded from revenue, the total sum of local government borrowing and credit arrangements has increased by £262 million (44.2%) since 2009-10 (Figure 4.3). And while the majority share of these arrangements were supported by central government in 2009-10, the sum of centrally supported credit arrangements had nearly halved by 2017-18. The sum of borrowing arrangements financed by central government is determined by the SSA and the Welsh Government assumes the costs of repaying this debt. Prudential (unsupported) borrowing powers were conferred on local authorities in Wales by the Local Government Act 2003, allowing them to borrow for capital expenditure without government consent, provided that the loan repayments could be afforded. The sum of unsupported loans taken out to finance capital expenditure has nearly tripled during this period – the vast majority of which have been financed by the Public Works Loan Board, a statutory body of the UK government.

Figure 4.3: Sum of borrowing and credit arrangements, 2009-10 to 2017-18, 2018-19 prices



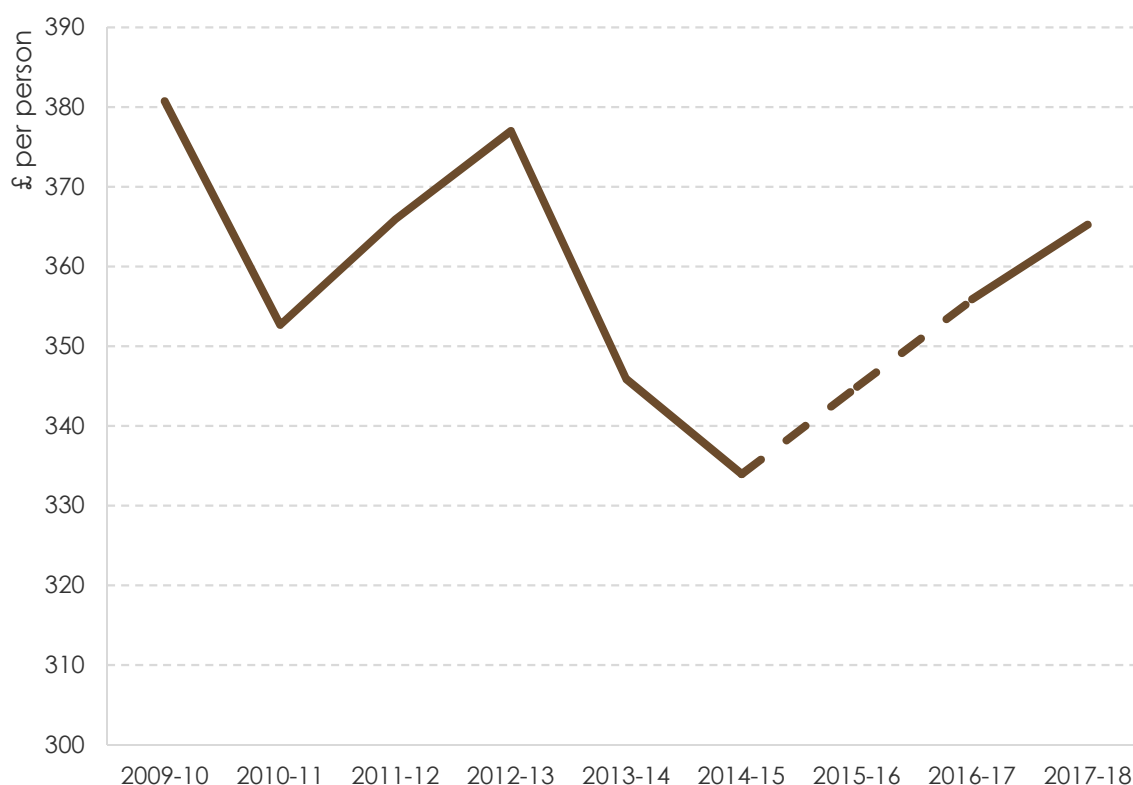
Source: StatsWales (2017-18 and previous) Capital Outturn Financing, by Authority and Source of Funding. Data excludes 2015-16.

4.2 Capital expenditure

Although day-to-day service spending accounts for a large majority of overall local authority spending, fully £1.1 billion was spent on capital projects in Wales in 2017-18. Although some funds in the capital accounts can be spent at local authorities' discretion, the reverse is true in relation to revenue from council fund housing (e.g. rent payments and service charges paid by tenants). These payments are made into a separate, Housing Revenue Account (HRA), and there are stringent conditions on how this money can be spent. The HRA is ring-fenced and can only be used to buy, manage and repair housing stock or repay money borrowed for past building improvements.

There has been relatively little change to the total amount of capital expenditure between 2009-10 and 2017-18. Indeed, despite deep cuts in service spending, capital expenditure has been relatively resilient, falling by a relatively modest £15.5 million (1.3%) over this period. As shown in Figure 4.4, having adjusted for the rise in population, this amounts to a reduction of just £15 (4.1%) per head.

Figure 4.4: Per capita capital expenditure, 2009-10 to 2017-18, (2018-19 prices)⁴⁵



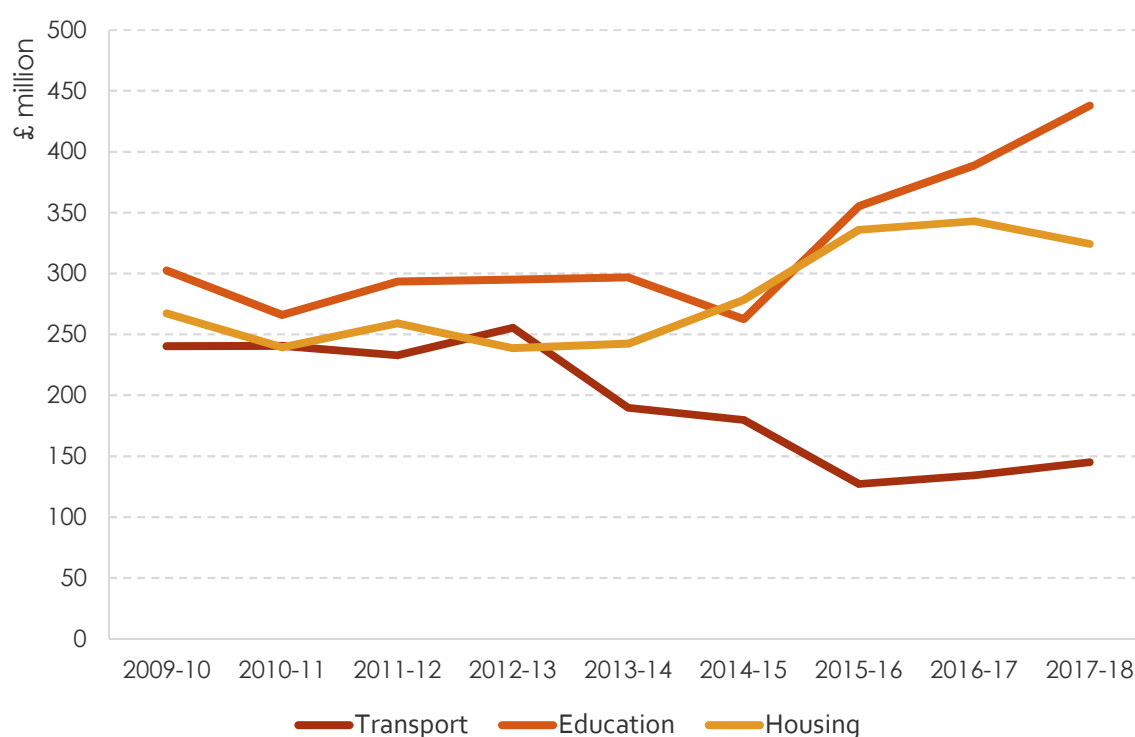
Source: StatsWales (2017-18 and previous) Capital Outturn Expenditure, by Authority and Source of Funding: <https://statswales.gov.wales/catalogue/local-government/finance/capital/outturn/capitaloutturnexpenditure-by-authority-service>. Population data is sourced from ONS mid-year estimates. Data excludes 2015-16.

⁴⁵ The 2015-16 data point has been removed from the graph because of the one-off cost of exiting the housing subsidy scheme borne by local authorities in that year. Further information can be found at the beginning of this chapter.

By far the largest components of capital expenditure are education, transport and housing. Figure 4.5 shows changes in capital expenditure for these service areas between 2009-10 and 2017-18. While capital expenditure on transport has fallen by £95.2 million (-39.6%) since the start of austerity, there has been an increase of £135.2 million (44.7%) in capital expenditure on education and a £56.9 million (21.3%) increase on housing over this period.

The increase in capital spending on education from 2014-15 onwards can be attributed to the 21st Century Schools programme, a long-term, infrastructure investment initiative of the Welsh Government. The programme is match-funded with local authorities; the Welsh Government provides 50% of the funds in most circumstances. Phase 2 of this programme begins in April 2019 and will focus on addressing growth in demand for Welsh medium education, reducing inefficiencies, expanding schools and colleges in areas of increased demand, addressing condition of educational assets and making assets available for community use where demand exists.⁴⁶

Figure 4.5: Capital expenditure on transport, education and housing, 2009-10 to 2017-18, 2018-19 prices



Source: StatsWales (2017-18 and previous) Capital Outturn Expenditure, by Authority and Source of Funding

The increase in housing capital expenditure can be attributed to the housing subsidy buy-out in 2015-16. When the buy-out was complete, the 11 local authorities with remaining HRA housing stock became self-financing and, largely due to an injection of rent payments, capital expenditure charged

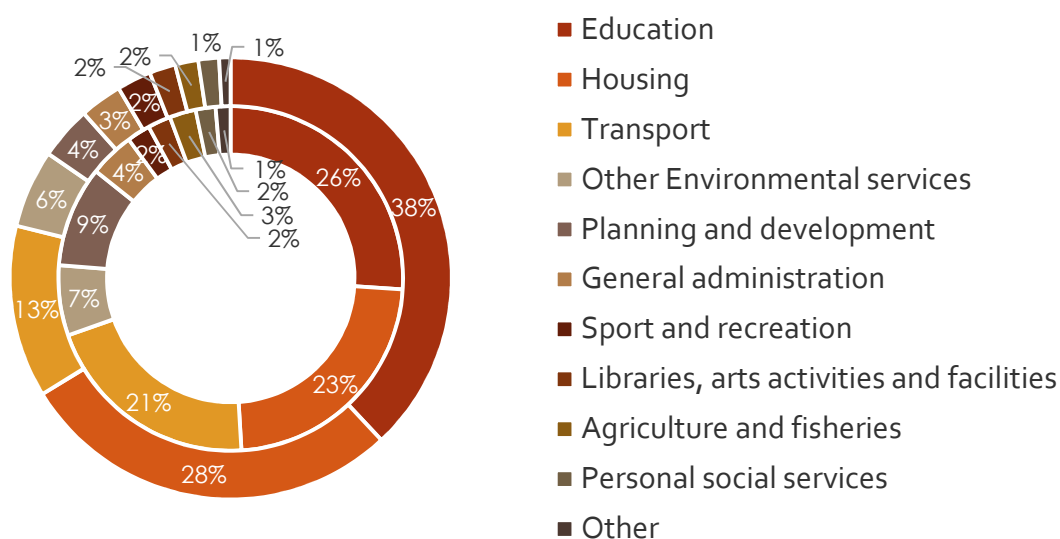
⁴⁶ <http://21stcenturyschools.org/aboutus/?lang=en>

to their HRA revenue account increased more than four-fold (424.6%) between 2009-10 and 2017-18. Given that funds in this account can only be used to purchase, maintain and repair council fund housing, it is perhaps no surprise that some local authorities decided to markedly increase their total expenditure in this area following the buy-out.

Capital expenditure on council fund housing should be expected to further increase in the near future, following an announcement made by the UK Prime Minister, Theresa May in October 2018 and a subsequent commitment made by the Welsh Government to remove the cap on HRA borrowing.⁴⁷ This is especially so given that demand for social housing continues to increase in Wales.⁴⁸ Moreover, there will likely be a financial incentive for local authorities to expand their social housing stock in areas where demand for subsidised housing is high, particularly because social rents tend to be lower than the level of Local Housing Allowance paid to low income families renting in the private sector. However, councils would still have to adhere to professional codes of practice, including the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities when making additional borrowing decisions.

Unsurprisingly, the changes outlined here have influenced the overall composition of local authorities' capital expenditure. As shown in Figure 4.6, in 2017-18 the combined spend on education, transport and housing projects amounted to 78.8% of total capital expenditure, an increase from 69.7% in 2009-10. This is despite the share of capital expenditure on transport projects falling from 20.7% to 12.6% over the same period.

Figure 4.6: Share of capital spending by category, 2009-10 and 2017-18



Source: StatsWales (2017-18 and previous) Capital Outturn Expenditure, by Authority and Source of Funding

⁴⁷ <https://www.bbc.co.uk/news/uk-45725401>

⁴⁸ <https://www.bbc.co.uk/news/uk-wales-43476298>

5

Local government finances: the outlook to 2023-24

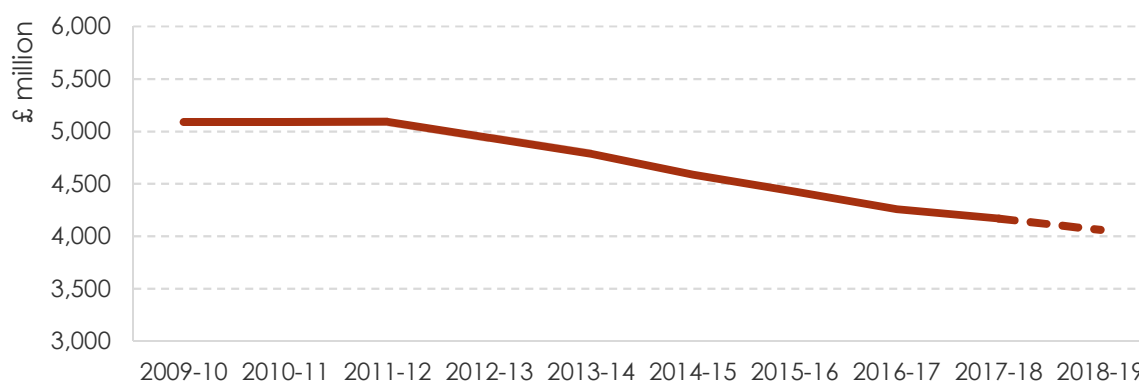
Key Findings:

- Although the 2019-20 local government settlement was cash-flat, **local authorities will still face a real-terms reduction of between 0.9% and 2.1% in their level of Aggregate External Financing (AEF) between 2018-19 and 2019-20**
- While the Welsh Government budget is set to grow over the next five years, committing to increase NHS spending at the same rate as the planned increases in England would likely mean central government support for local authorities continuing to fall in real terms
- To avoid making further deep cuts to unprotected areas or cutting education and social services, our projections suggest local authorities will need to keep increasing Council Tax rapidly over coming years

5.1 Local government revenue, 2018-19 and 2019-20

In February 2018, local governments published their budgets for 2018-19. Council Tax revenue rose by 3.9% - the biggest increase on a previous year since 2015-16. Total Welsh Government grant revenue continued to fall, but the rate at which this figure had been falling has slowed slightly in recent years (Figure 5.1).

Figure 5.1: Total Welsh Government grants revenue for local authorities, 2009-10 to 2018-19, 2018-19 prices⁴⁹

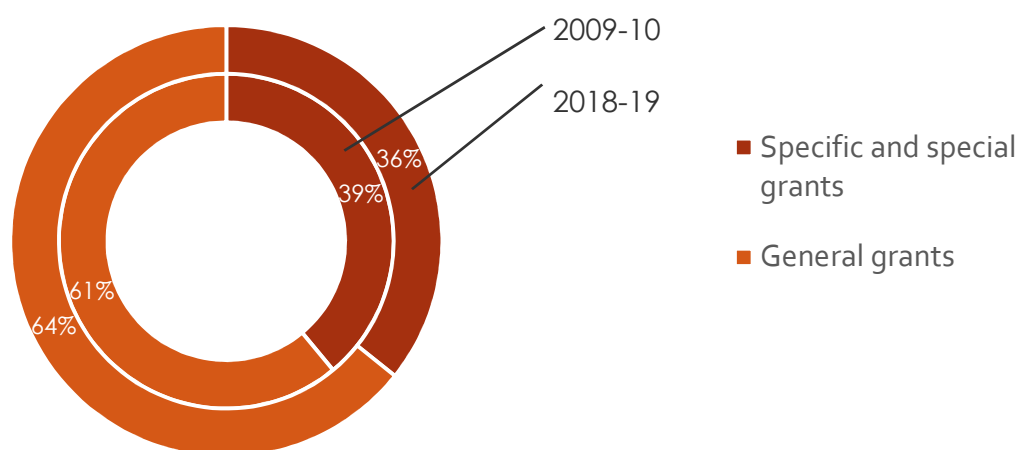


Source: StatsWales (2018-19 and previous) Financing of Gross Revenue Expenditure

⁴⁹ Data for 2018-19 is as budgeted.

Although there was little change to the overarching trend in Welsh Government grant revenue, there was a significant change to its composition in 2018-19. For the first time since 2013-14, the total amount allocated as part of the Revenue Support Grant (RSG) increased on the previous year. In contrast, there was a substantial decrease in revenue from specific grants (-11.6%).⁵⁰ This means that in 2018-19, Local Authorities had more fine-grain control over their total expenditure when compared to previous years. A 2016 report published by the Independent Commission on Local Government Finance in Wales had recommended that a larger share of central government support should be delivered via the RSG as opposed to specific grants (Travers et al. 2016).

Figure 5.2: Composition of Welsh Government grants revenue, 2009-10 and 2018-19, 2018-19 prices⁵¹



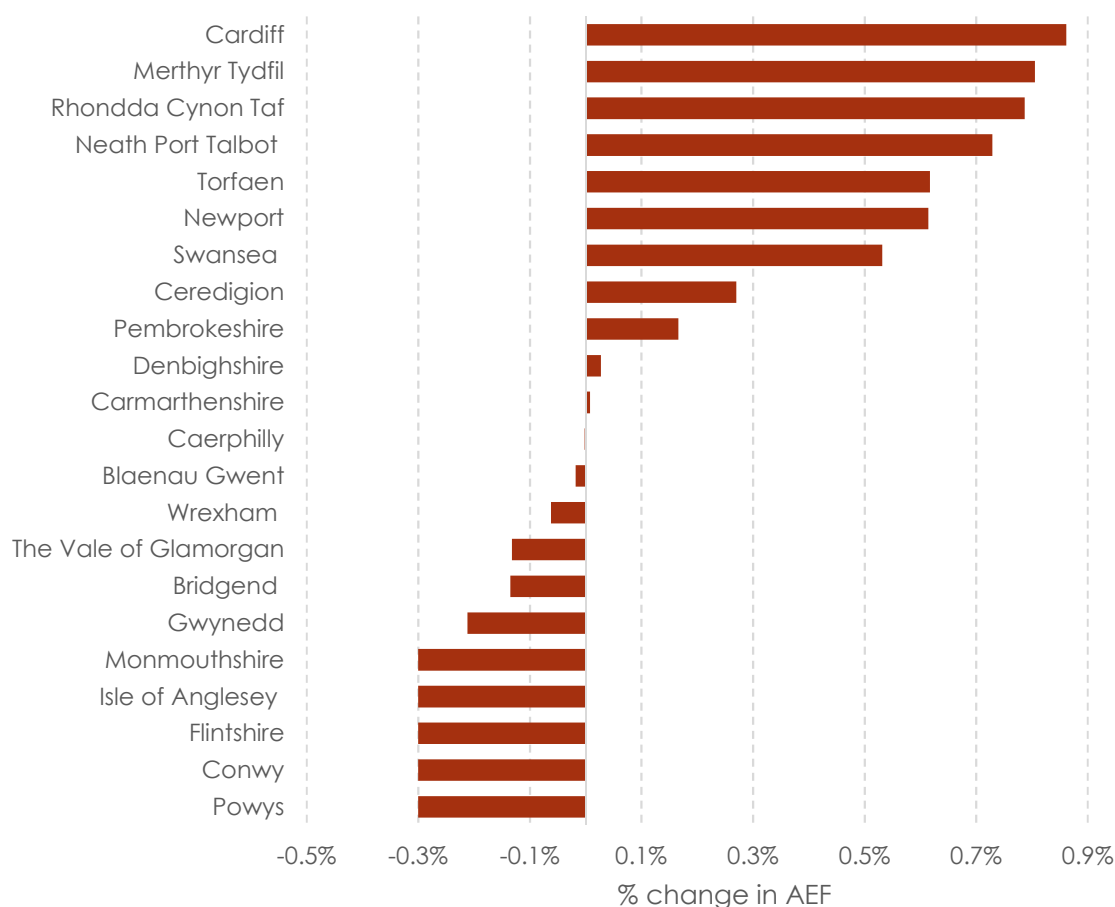
Source: StatsWales (2018-19 and previous) Financing of Gross Revenue Expenditure

Aggregate external financing (AEF) refers to the total amount of central government support offered to local authorities in the form of grants and redistributed NDR rates. The final settlement for 2019-20 released in December 2018 offered a cash flat settlement to local authorities, meaning that AEF is expected to fall by around 1.2% in real terms between 2018-19 and 2019-20. As illustrated in Figure 5.3, half of Welsh local authorities will see a nominal reduction in central government support. Top up funding was awarded to five local authorities, meaning no local authority will see a nominal reduction of more than 0.3%. However, all local authorities face a real terms reduction of between 0.9% and 2.1% in their level of AEF between 2018-19 and 2019-20.

⁵⁰ The change in the composition of Welsh Government grants to local authorities can largely be attributed to elements being transferred into the RSG. For instance, in 2018-19, £35 million of the waste budget element was transferred into the RSG. Additionally, £27 million of the Welsh Independent Living Grant and £30 million of social care specific grants have been moved into local government general funding.

⁵¹ Data for 2018-19 is as budgeted.

Figure 5.3: Percentage change in Aggregate External Financing (AEF), 2018-19 to 2019-20, by local authority (nominal terms)



Source: Welsh Governments (2019-20 and previous) Final Local Government Settlements

When allocating central government support to local authorities, the Welsh Government conducts standard spending assessments (SSAs), which are centrally determined assessments of each authority's need to spend on revenue services. For 2019-20, the Council Tax level at standard spending assumed by the Welsh Government in its calculations increased by 6.5%, meaning assumed Council Tax revenue accounts for 27.7% of the total SSA amount. Many local authorities have already announced that they will likely need to propose significant increases to Council Tax levels in 2019-20.⁵²

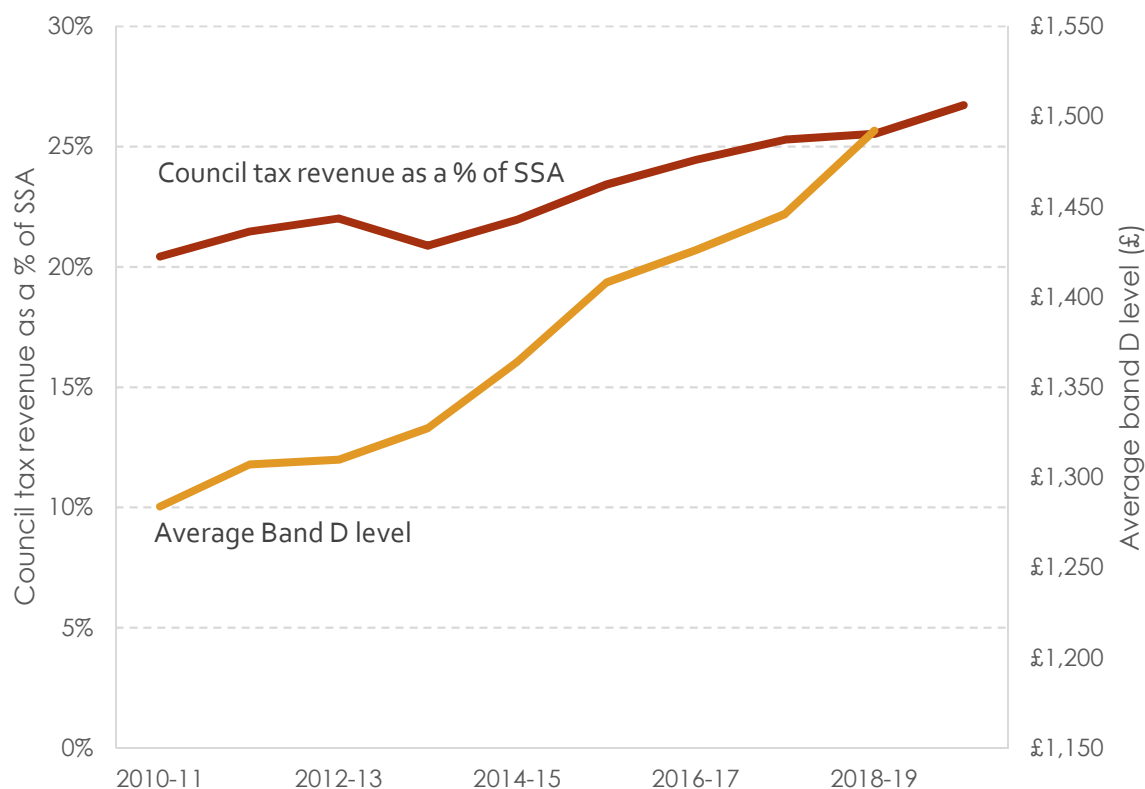
Figure 5.4 plots Council Tax revenue as a percentage of SSA, according to the Welsh Government settlements (red) and average band D levels (yellow).⁵³ From 2013-14 onwards, local government

⁵² <https://www.walesonline.co.uk/news/politics/how-much-your-council-tax-15421637>

⁵³ Note that the percentages are not directly comparable to those used in earlier chapters of this report because local authorities can use their discretion when setting Council Tax levels and the methodology used to calculate Council Tax revenue in previous chapters differs to what has been used here. Nevertheless, by looking at the overall trends in the graph, we can get a fairly accurate picture of how much the Welsh Government expected Council Tax to raise towards total revenue in each year.

settlements have been based on the assumption that Council Tax revenue should account for a larger share of SSA each year. This has been accompanied by a sharp rise in Council Tax levels, as shown by the yellow line on the graph.

Figure 5.4: Council tax revenue as a share of SSA according to local government settlement, 2010-11 to 2019-20 and average band D levels, 2010-11 to 2018-19



Source: Welsh Governments (2019-20 and previous) Final Local Government Settlements; StatsWales (2017-18 and previous) Council Tax Levels by Billing Authority

Assuming that future settlements will continue to place increased importance on Council Tax as a source of revenue, local governments will face a difficult choice between further increasing Council Tax or propose further cuts to local services. As the scope for cutting extraneous spending decreases, steep Council Tax rises may well become a permanent fixture of the fiscal calendar.

5.2 Outlook for local government revenue beyond 2019-20

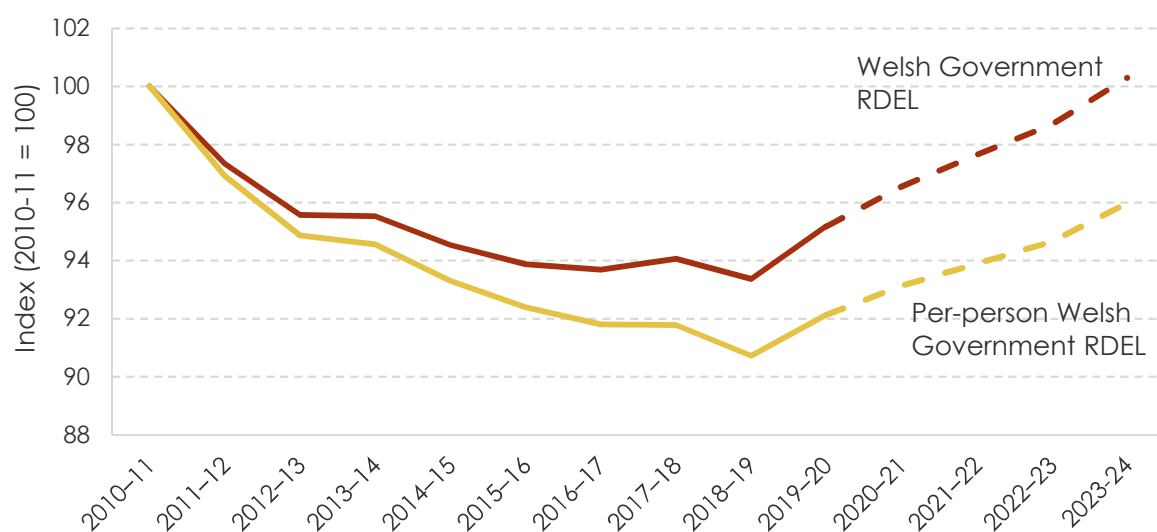
The outlook for local government revenue beyond 2019-20 is unclear, subject to a high degree of fiscal and economic uncertainty, and will be influenced by decisions taken by the UK and Welsh governments.

Although the UK chancellor announced that 'austerity is coming to an end' during the Autumn Budget in October, the UK government did not set out a detailed path for public spending for future years. The indicative plans for public spending to 2023-24 underpinning the Office for Budget Responsibility's (OBR) forecasts will be subject to revision. We will have to wait until the Spending Review takes place later this year to get a firmer grasp of the outlook.

According to OBR forecasts, UK government day-to-day departmental spending will increase in real terms by around 1.2% per year in the years leading to 2023-24. The UK government has already outlined its funding plans for the NHS in England until 2023-24. There are also existing commitments to spend a proportion of GDP on international aid and defence. These commitments mean that spending on 'unprotected' areas will continue to fall in real terms after 2019-20.

If we assume that these 'unprotected' areas all see the same change in funding from 2019-20, we can project the implications for the Welsh Government budget over coming years.⁵⁴ Figure 5.5 shows the projected Welsh Government day-to-day budget.

Figure 5.5: Welsh Government resource DEL, 2010-11 to 2023-24 (2018-19 prices, with adjustments)



Source: See Appendix 1

⁵⁴ This is done by applying the Barnett formula (with the Welsh needs-based factor of 5%) to departmental changes to calculate the consequentials to be added to the Welsh Government budget. See Appendix 1 for full methodology.

After falling from 2010-11 to 2018-19, spending is now set to increase in real terms over coming years. On current projections, the budget will reach its 2010-11 level in real terms by 2023-24, though on a per-person basis, it will remain well below this level.

Although the outlook for the Welsh Government budget has improved since this time last year, tough decisions and trade-offs still lie ahead. Core NHS spending has increased as a share of the Welsh budget to around 48%. Decisions around future growth in NHS spending will therefore have a significant bearing on the funding available for other areas of spending. From a local government perspective, their budgets will again be influenced by decisions on grant funding from the Welsh Government, trends in Non-Domestic Rates and their own decisions on Council Tax levels.

To examine the potential outlook for local authority budgets, we model three different scenarios:

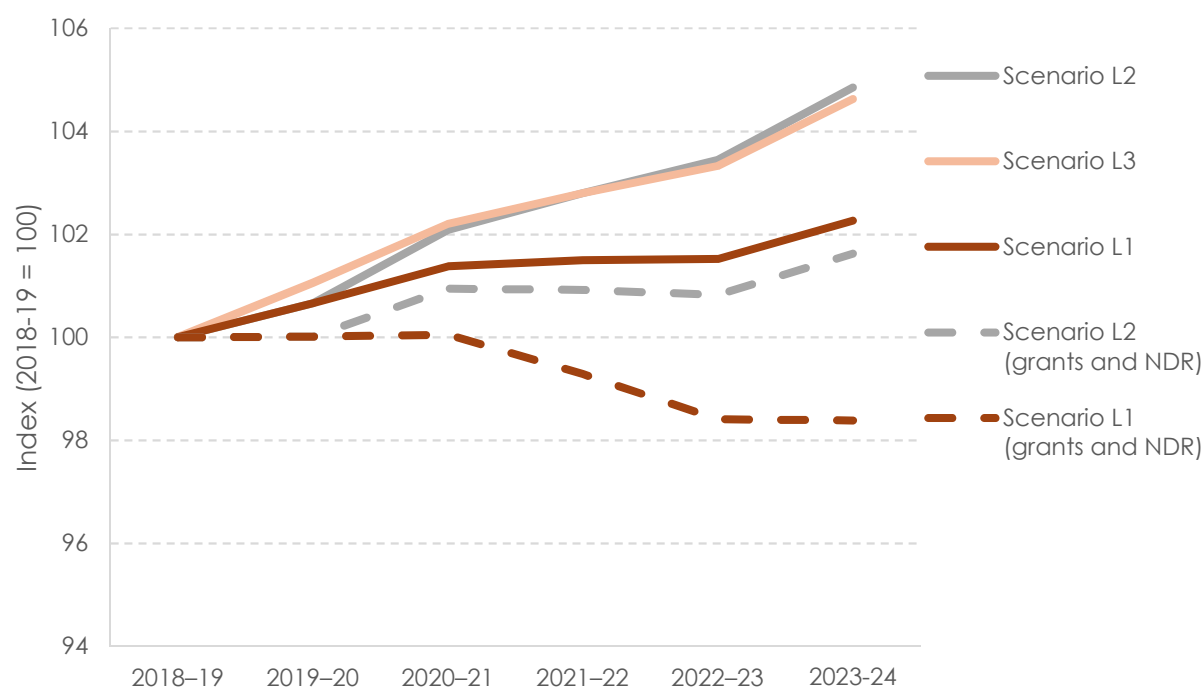
- **Scenario L1:** The Welsh Government increases core NHS spending by 3.3% each year in real terms (broadly matching the planned increase in NHS funding in England); support for local authorities then matches growth in all other spending; Council Tax levels increase in line with the OBR's forecasts (averaging a 4.4% increase each year); and NDR revenues also grow in line with OBR forecasts.
- **Scenario L2:** The Welsh Government increases core NHS spending by 2.1% each year in real terms (matching real terms growth since 2013-14); support for local authorities then matches growth in all other spending; Council Tax levels are grown in line with OBR forecasts (averaging a 4.4% increase each year); and NDR revenues also grow in line with OBR forecasts.
- **Scenario L3:** Support for local authorities increases in the same way as scenario L1; Council Tax levels are grown by 2ppt above OBR forecasts (averaging a 6.4% increase each year); NDR revenues grow in line with OBR forecasts.

Under scenario **L1**, grants and redistributed NDR revenues to local authorities falls by around 1.6% in real terms from 2018-19 to 2023-24 (shown by the dotted red line in Figure 5.6). However, because Council Tax levels increase in line with OBR forecasts, revenues would still grow by 18% in real terms over this time period. This would be sufficient to outweigh the fall in support from the Welsh Government, and result in budgets growing by over 2% in real terms by 2023-24 (red line).

Lower growth in NHS spending over this time period would allow for faster growth in other areas of spending. Under the assumptions made in scenario **L2**, grants and redistributed NDR revenues from the Welsh Government to local authorities would increase by 1.6% in real terms by 2023-24 (dotted grey line). Assuming that Council Tax levels increase by around 4.4% a year in nominal terms, budgets would increase by 4.9% in real terms by 2023-24 (grey line).

A similar growth in budgets could be achieved even if support from the Welsh Government falls over this time period if Council Tax levels were to grow faster than the OBR forecasts (L3). Were Council Tax levels to increase by 6.4% a year in nominal terms, total budgets would increase by 4.6% in real terms by 2023-24. Under this scenario, Council Tax revenues would account for just under a quarter of local government financing by 2023-24.

Figure 5.6: Local government revenue, 2018-19 to 2023-24 in scenarios L1-L3



Source: See Appendix 1

The outlook for local government revenue is therefore somewhat rosier than has been the case since the start of austerity, with small real terms increases in budgets a real possibility. However, this will probably require yet another sustained period of Council Tax increases and local authorities would still face tough choices in prioritising different services in the face of increased cost and demand pressures, as discussed in the next section.

Furthermore, these scenarios may turn out to be somewhat optimistic, given current economic and fiscal uncertainties.

Chief amongst these uncertainties will be what happens to UK government spending plans. The extra spending announced by the Chancellor in October was largely paid for by large revisions in public finance forecasts by the OBR. Future revisions in the opposite direction would require lower growth in spending, increased taxes or higher borrowing.

A 'No Deal' Brexit would significantly impact the UK economy and the public finances. The Chancellor has indicated that it would force an emergency budget, at which point spending plans for 2019-20 and subsequent years would be affected. Slower economic growth over future years could curb growth in spending over the next spending review period, unless current fiscal targets are abandoned.

The taxes which have been devolved to the Welsh Government over recent years will also have an impact on the outlook, both in terms of the relative performance of the Welsh tax base and the tax policy decisions of the Welsh Government.

The Welsh block grant has been adjusted to compensate for revenue that is now devolved. In future years, this block grant adjustment will grow from year to year according to what happens to comparable UK government revenues elsewhere in the UK. Therefore, relatively faster or slower sustained growth in revenues in Wales could influence the Welsh budget and the funding available to support local authorities.

In contrast with the first two decades of devolution, from 2019-20 the Welsh Government will also be able to use its tax policy levers to significantly affect the size of its budget. An increase in Income Tax rates in Wales would raise additional revenue to spend on public services.

By 2023-24, a 1p increase in the basic rate would raise a similar amount of revenue as an additional 2 percentage points increase to Council Tax levels each year (modelled in scenario **L3**). However, the distributional impact of this extra tax burden in each case is likely to be very different. Council Tax increases would tend to take a higher share of income from poorer households. On the other hand, given the relatively high personal allowance threshold, increases to the basic rate of Income Tax would take a larger share of income from higher-earning individuals.

The increasing demands on social care services has prompted consideration of ways to raise revenue to pay for social care in the long term. A detailed paper on this subject by Holtham (2018) set out options for a social care tax increase or levy.⁵⁵

The Welsh Government therefore faces a political decision over the use of its new fiscal powers and its existing powers over local authority budgets and taxation. It is important that policy over coming years considers devolved and local taxes jointly, and that a debate takes place over the best way to raise revenue from the Welsh tax base to pay for Welsh public services.

⁵⁵ <https://gov.wales/docs/caecd/publications/180628-paying-for-social-care-en.pdf>

5.3 Choices and trade-offs between councils' service areas beyond 2019-20

In this section, we briefly explore the choices and trade-offs that local authorities might face when deciding how to allocate their resources, based on the revenue scenarios previously outlined. If the local government settlement continues to decrease in real terms, protecting certain spending areas (e.g. education and social services) would require bigger cuts to be made in other domains. Conversely, if there is a modest increase in the budget (as is expected over the next five years), and councils make a commitment to privileging certain spending areas when allocating additional resources, those spending areas that are not privileged would see a reduction in their share of total expenditure.

Education and social services are two spending areas that are particularly politically salient, and in these domains, councils are bound by significant statutory responsibilities. According to the 2018-19 budget data for local authorities, spending on these areas combined are set to account for 71.8% of total gross revenue expenditure (Figure 5.7). Given that there is limited scope to cut these 'protected' areas of spending, we can reasonably assume that they are more likely to be protected (privileged) in the event of a decrease (increase) to the budget, not least because of growing demand and the increasing costs associated with service provision. Doing so would require councils to decrease the share of the budget allocated to other spending areas, including transport, culture and environmental services - a tough ask given that these areas have already faced steep cuts since the start of austerity.

Figure 5.7: Welsh councils' budgeted revenue expenditure 2018-19, £ million⁵⁶

Expenditure Area	2018-19 budget (£ million)	Share of total
Education	2,626	42.2%
Social Services	1,840	29.6%
Local environmental services	377	6.1%
Debt financing costs	298	4.8%
Roads and transport	273	4.4%
Libraries, culture, heritage, sport and recreation	198	3.2%
Central administration	172	2.8%
Council fund housing (excl. HB)	125	2.0%
Planning and economic development	71	1.1%
Local tax collection	27	0.4%
Other revenue expenditure	209	3.4%
Gross revenue expenditure	6216	100.0%

Source: StatsWales (2018-19) Budgeted Revenue Expenditure by Authority and Service: <https://statswales.gov.wales/catalogue/local-government/finance/revenue/budgets/budgetedrevenueexpenditure-by-authority-service>

⁵⁶ Housing benefit payments and administration costs, as well as the police precept, have been excluded from the analysis in this section.

There are legitimate questions to be asked about how much further attrition these ‘unprotected’ spending areas can face before they become unsustainable, particularly given that many unprotected services are essential in ensuring that protected services function properly.⁵⁷ For instance, a properly maintained transport infrastructure system is vital to ensuring the effective provision of older adult social care, particularly in rural areas.

Another reason why it may become more difficult to cut unprotected spending areas in the future is that there is growing consensus among experts that leisure and culture will play an increasingly important role in an ageing society.⁵⁸ As people spend a larger part of their lifespan in retirement, we can expect overall demand for leisure to grow. Moreover, there is a substantial body of literature that has explored the connection between loneliness and mental health.⁵⁹ Given that mental health has become an increasingly important indicator of individual wellbeing for healthcare professionals and politicians alike, further cuts to these unprotected services may have future cost implications for the better protected services.

Supposing that councils decided to prioritise education and social services spending, as they have done in recent years, we can make some projections about what the impact would be on other local authority spending areas under the various Welsh Government budget scenarios outlined earlier in this chapter. Figure 5.8 shows the projected change in spending if local governments decided to protect education spending in real terms and increase social services in line with the core NHS budget each year until 2023-24, under each Welsh Government budget scenario.

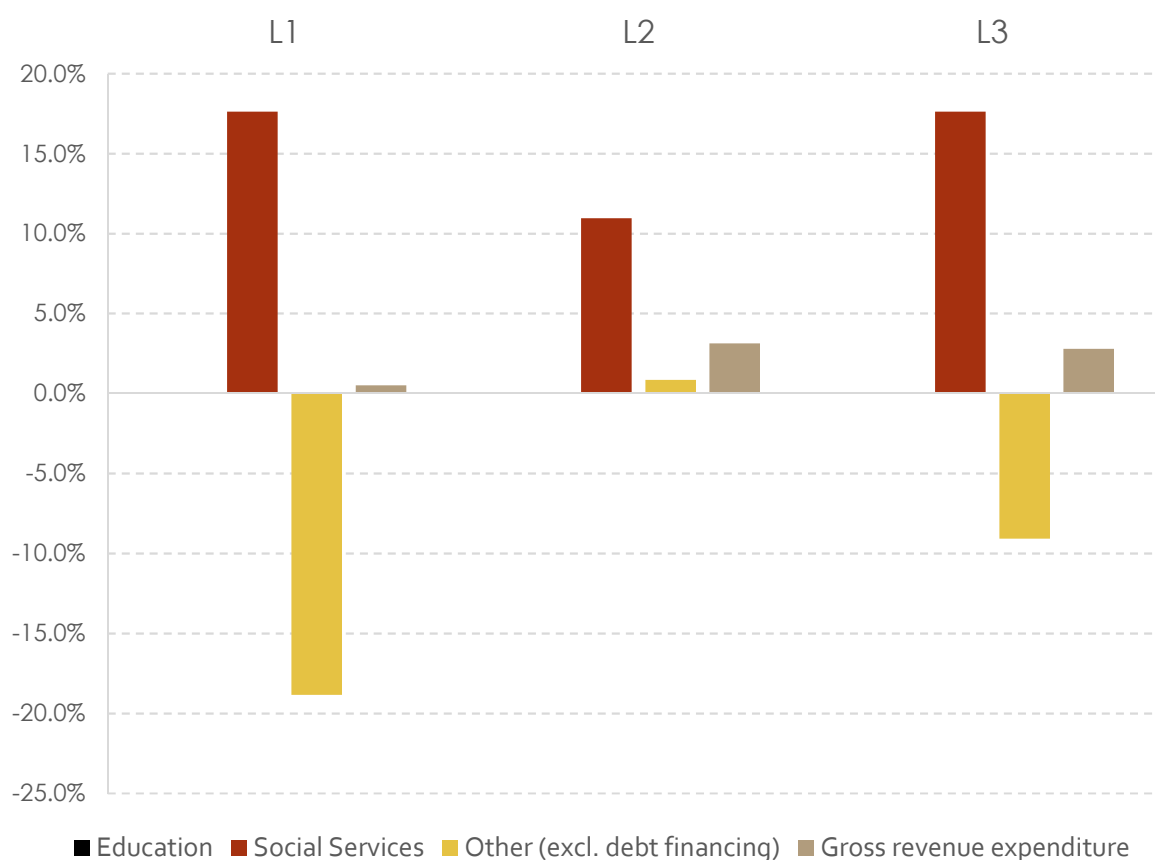
A 3.3% real terms annual increase in the social services budget would see it grow by 17.6% by 2023-24. If the Welsh Government were to grow core NHS spending by 3.3% (in line with the level in England) (**L1**), spending on unprotected areas would fall by -18.8%. In contrast, if the Welsh Government planned a more modest 2.1% increase in the core NHS budget (**L2**) and local authorities decided to match this increase when it comes to social services expenditure, spending on unprotected areas would increase by 0.8% in real terms by 2023-24. If the Welsh Government were to grow core NHS spending at the English rate (3.3%) and Council Tax levels were to increase by 2% above OBR forecasts (**L3**), spending on unprotected areas would have to be cut by -9.1% to keep education spending flat and allow for a 3.3% annual increase in social services spending.

⁵⁷ For the purpose of this analysis, ‘unprotected’ spending areas refer to spending on areas outside of education and social care.

⁵⁸ See, for example (Toepoel, 2013).

⁵⁹ See, for instance (Cattan et al., 2005).

Figure 5.8: Changes to spending by local government area if education is protected, and social services budget is increased in line with Welsh Government core NHS spending, under scenario L1-3 between 2019-20 and 2023-24 (2018-19 prices)



Source: See Appendix 1

While a 18.8% cut in spending on unprotected areas over the next five years is nowhere near the magnitude of the cuts that these departments have already faced since the beginning of austerity (e.g. planning and economic development (55.4%), libraries, culture, heritage, sport and recreation (36.3%)), the further that expenditure gets scaled back, the harder it becomes to make additional savings without compromising core services and making further staff redundancies.

If the Welsh Government wishes to see social services spending increase to better meet demand while protecting education spending in real terms, there are only a few options available to avoid further deep cuts to unprotected spending areas. They can opt to grow NHS core spending at a slower rate than in England (**L2**), increase the burden on Council Tax payers (**L3**) or use the newly devolved fiscal powers to increase the size of its budget.

While the forecasts point to a modest real terms increase in the Welsh Government budget over the next five years, increased demand pressures will likely mean that councils will need to make difficult choices and trade-offs for years to come.

6

Conclusions

This report has outlined how nearly a decade of austerity has significantly changed the financing and spending patterns of local authorities in Wales. The overarching trend in Welsh fiscal policy over this period has been a shift towards local taxation. Grant funding from the Welsh Government has fallen by nearly a fifth in real terms from 2009-10, while local authority budgets have become increasingly reliant on Council Tax revenue.

This increase in locally-sourced revenue did not fully offset the fall in grants and net current spending on local services has been cut by over 10% per person in real terms. The spending areas that have been most severely affected by these cuts are planning and economic development, libraries, culture and heritage, as well as roads and transport.

Even in the two better-protected areas of spending, social services and education, spending has struggled to keep up with increasing demand and costs. Spending on older adults' social care per person over the age of 65 has fallen by 14.8%, while increasing numbers of primary school pupils has meant spending per pupil has fallen. The sharp increase in the number of children in care in Wales and the consequent rise in spending on children's and families' services is another example of demand pressures.

The latest local government settlement for 2019-20 confirmed that central government support will continue to fall in real terms. As local authority budgets are set, we can expect large increases in Council Tax levels across Wales and spending on some services being cut again in real terms.

Despite nearly a decade of sustained budget cuts, the outlook for local government finance suggests tough choices and trade-offs are here to stay. While the Welsh Government budget is set to increase over the next five years, meeting demand pressures for health and social care spending will mean these areas accounting for ever larger shares of Welsh and local government budgets. Welsh Government support for local authorities is likely to continue to fall in real terms, though not as sharply as has been the case since 2009-10.

The Welsh Local Government Association warned that authorities are 'running out of road' to avoid cuts to education and social services, as the share of spending on other services continues to decline. To avoid making further deep cuts to unprotected areas, our projections suggest local authorities will need to keep increasing Council Tax rapidly over coming years. According to our forecasts, Council Tax revenue could account for a quarter of local authority finance by 2023-24, up from 13.8% in 2009-

10. As local budgets become ever increasingly reliant on Council Tax revenue, the case for reforming and addressing the problems of the local taxation system becomes stronger than ever.

Given the current outlook for public finances in Wales, it would appear the only way to meet the increasing demands for health and social care, avoid further large cuts to unprotected services, and limit rapid regressive Council Tax increases, would be for the Welsh Government to make use of its new fiscal powers to increase the size of its budget. For example, an increase in the Welsh Rates of Income Tax could present a more progressive alternative to Council Tax increases, while a Social Care Levy could free up resources for other spending areas.

None of these options will be politically easy. Fiscal devolution promised to spark a debate around how best to raise revenue to support devolved and local spending. The future financing of local government in Wales should be a crucial part of that debate.

Appendix 1: Methodology

Calculating revenues from Council Tax and Welsh Government grants

All figures relating to Council Tax revenue are sourced from the budget line in the outturn data and exclude the Council Tax Reduction Scheme (CTRS) component and police precept. The amount actually collected may differ from the amount budgeted for collection but any difference is relatively negligible in size. Figures referring to Welsh Government grants exclude, for the purpose of this analysis, revenues accruing to Welsh unitary authorities in relation to housing benefit and housing benefit administration, which are sent directly to Welsh councils from the Department for Work and Pensions to match demand. Any additional sums spent by Welsh councils on housing benefit and housing benefit administration above the amount received by the UK government have been included, although these amounts are also relatively small. By excluding housing benefit payments from the analysis, we can generate consistent comparisons between periods preceding and following the rollout of universal credit. Once the universal credit roll out is complete, housing benefit payments will be made directly to the head of household as opposed to local authorities.

Projecting local government revenue beyond 2019-20

The first step to projecting local government revenue for Wales is to project the path of UK government spending decisions from 2020-21 to 2023-24. The OBR's October 2018 Economic and Fiscal Outlook contains forecasts for the UK's Resource Departmental Expenditure Limit (DEL) for years to 2023-24. To get an estimate of the departmental allocations, we use figures published in July 2018 on the NHS England funding settlement,⁶⁰ and assume spending on defence and international development are maintained as a constant share of the UK economy over future years. After this we get an estimate of future changes in the DEL for all other departments, and assume these changes are distributed evenly across these departments.

By calculating annual cash-changes for each department, we apply a model of the Barnett formula so that the Wales DEL grows by a population share of changes in spending in England on programmes devolved to Wales, adjusted by the needs-based factor of 105%.

⁶⁰ Available here: <https://www.gov.uk/government/news/prime-minister-sets-out-5-year-nhs-funding-plan>

We use the 2019-20 Final Welsh Government Budget to get a measure of spending on core NHS services in Wales. To do so we aggregate over various budget expenditure lines and subtracting some elements: included is the funding for the delivery of core NHS services, targeted NHS services, education and training spending, mental health spending and the substance misuse action plan fund, but Public Health Wales spending is excluded. Also included are the mainly health elements of the 'A Healthier Wales' budget line. This roughly corresponds to what would have been called NHS Delivery and Health Central Budgets in previous budget documents.

Figure A.1 outlines the assumptions we make about the growth in the components of local government finance. As we vary the growth in the NHS component of the Welsh budget in our scenarios, we get a projection of future growth in other areas of spending, and we assume growth in local government funding from the revenue support grant and specific grants grows in line with this. Growth in NDR revenues and Council Tax levels for scenarios L1 and L2 are taken from OBR forecasts.

To model choices for local government spending we use 2018-19 budget data as a baseline, and grow total revenue expenditure in line with our projected change in total financing for local government.

Figure A1: Growth rate assumptions for scenarios (nominal)

		2020-21	2021-22	2022-23	2023-24
Scenario L1	Council tax level assumptions	4.4%	4.6%	4.4%	4.5%
	NDR	3.2%	1.9%	2.1%	2.1%
	Grants	1.7%	1.0%	0.8%	1.8%
Scenario L2	Council tax level assumptions	4.4%	4.6%	4.4%	4.5%
	NDR	3.2%	1.9%	2.1%	2.1%
	Grants	2.8%	2.1%	2.1%	3.1%
Scenario L3	Council tax level assumptions	6.4%	6.6%	6.4%	6.5%
	NDR	3.2%	1.9%	2.1%	2.1%
	Grants	1.7%	1.0%	0.8%	1.8%

Appendix 2: Additional tables and figures

Figure A2: Population density by local authority, 2017-18

Local Authority	Persons per square kilometre
Powys	25.6
Ceredigion	40.9
Gwynedd	48.8
Pembrokeshire	77.0
Carmarthenshire	78.7
Isle of Anglesey	98.1
Conwy	103.8
Monmouthshire	110.2
Denbighshire	113.7
All Wales (National Average)	150.7
Wrexham	269.1
Neath Port Talbot	322.0
Flintshire	354.6
Vale of Glamorgan	394.7
Merthyr Tydfil	538.0
Rhondda Cynon Taf	563.8
Bridgend	575.5
Blaenau Gwent	640.2
Swansea	646.6
Caerphilly	651.8
Torfaen	734.0
Newport	795.1
Cardiff	2574.6

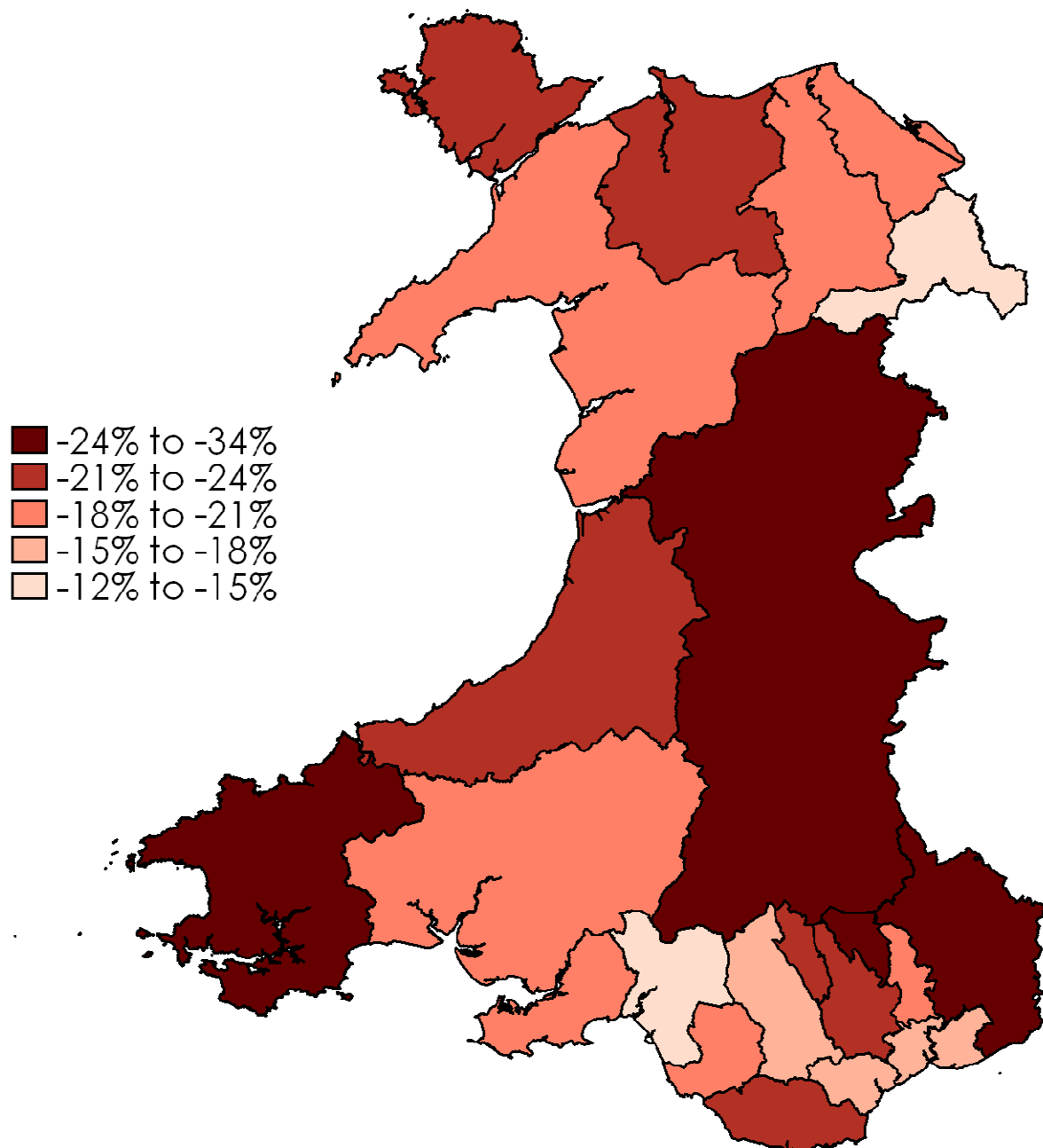
Source: StatsWales (2017-18) Population Data, by Local Authority and Year:
<https://statswales.gov.wales/catalogue/population-and-migration/population/density/populationdensity-by-localauthority-year>

Figure A3: Percentage of local authorities' lower super output areas (LSOA) in the most deprived 50% of LSOAs in Wales, 2014

Local Authority	% of LSOAs in lowest 50% of LSOAs nationally
Blaenau Gwent	85
Merthyr Tydfil	81
Rhondda Cynon Taf	72
Neath Port Talbot	67
Caerphilly	67
Newport	57
Torfaen	57
Bridgend	57
Carmarthenshire	53
Swansea	49
Denbighshire	47
Cardiff	46
Isle of Anglesey	45
Wrexham	44
Conwy	42
Ceredigion	39
Vale of Glamorgan	37
Pembrokeshire	37
Flintshire	35
Gwynedd	34
Monmouthshire	21
Powys	20

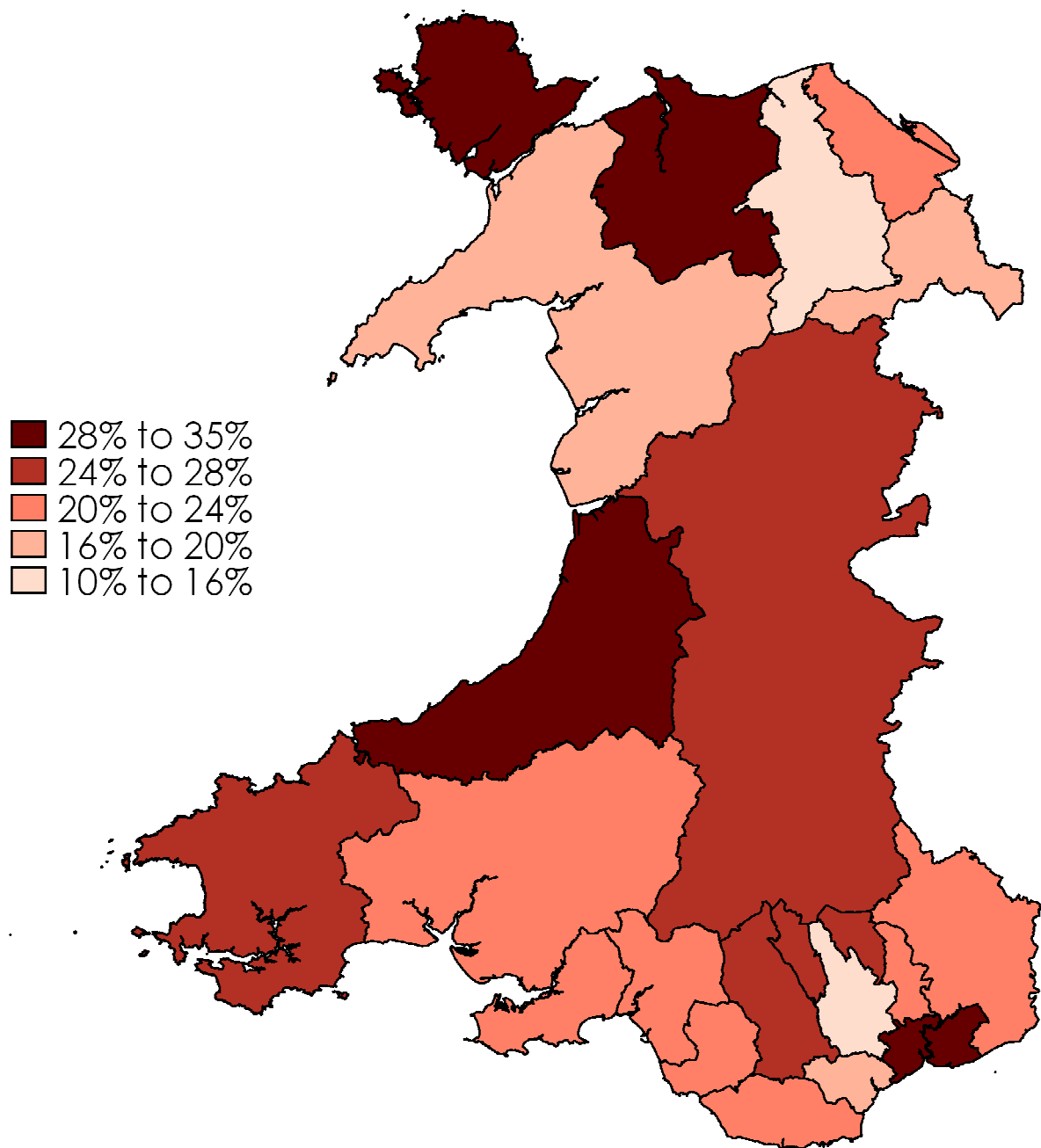
Source: StatsWales (2014) WIMD 2014 local authority analysis: <https://statswales.gov.wales/Catalogue/Community-Safety-and-Social-Inclusion/Welsh-Index-of-Multiple-Deprivation/WIMD-2014/wimd2014localauthorityanalysis>

Figure A4: Change in Welsh Government grants funding per person, 2009-10 to 2017-18



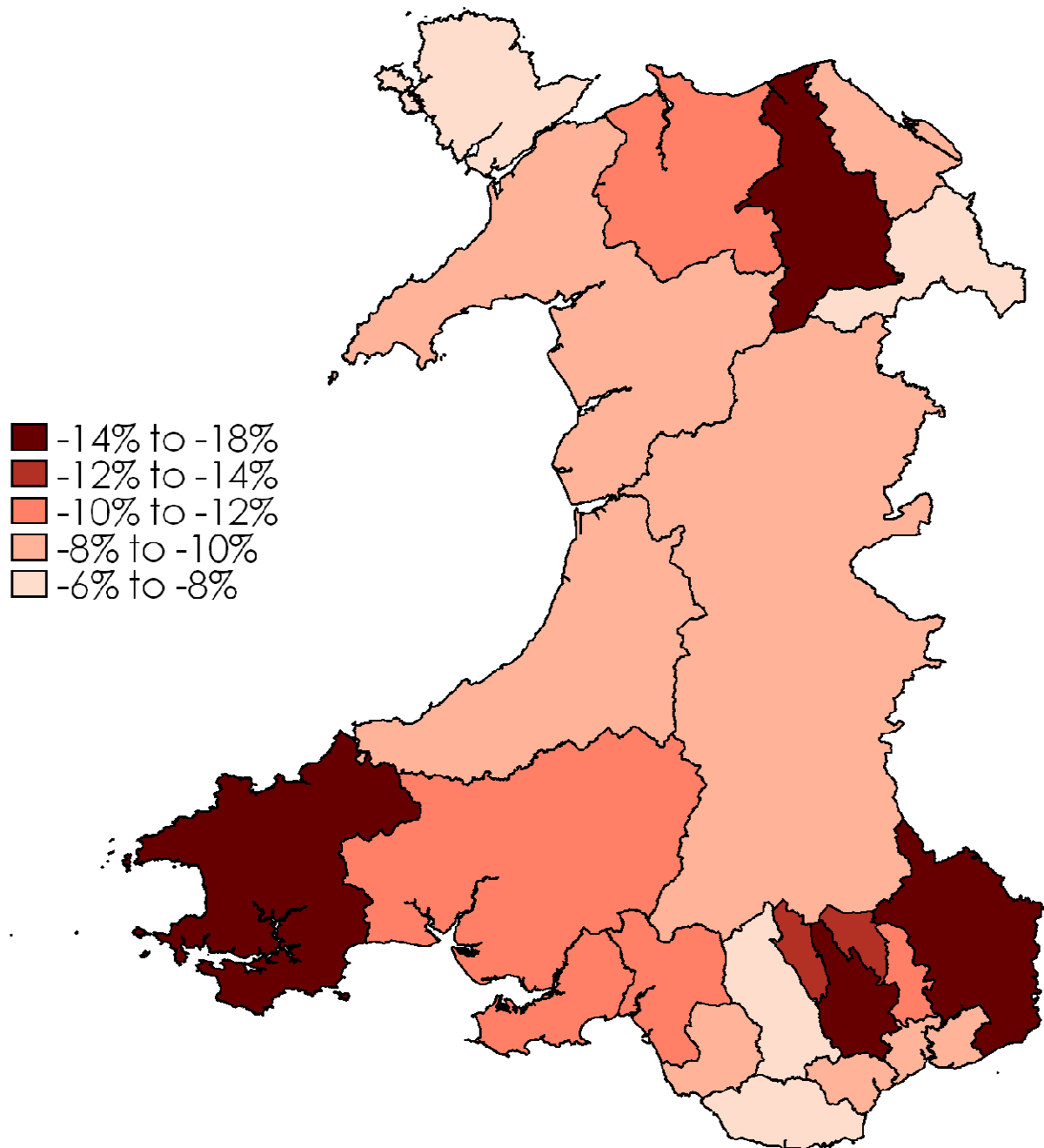
Source: StatsWales (2009-10 and 2017-18) Financing of Gross Revenue Expenditure; StatsWales (2009 and 2017) Population Estimates by Local Authority and Age

Figure A5: Change in Council Tax revenue per person, 2009-10 to 2017-18



Source: StatsWales (2009-10 and 2017-18) Council Tax Levels by Billing Authority; StatsWales (2009 and 2017) Population Estimates by Local Authority and Age

Figure A6: Change in net service expenditure per person, 2009-10 to 2017-18



Source: StatsWales (2009-10 and 2017-18) Local Government Revenue Outturn Data; StatsWales (2009 and 2017) Population Estimates by Local Authority and Age

Glossary of terms

21st Century Schools Programme	A long-term, infrastructure investment initiative of the Welsh Government in the educational estate across Wales. The programme is match-funded with local authorities.
Aggregate External Financing (AEF)	The total amount of central government support offered to local authorities in the form of the Revenue Support Grant (RSG), specific grants and redistributed non-domestic rates.
Capital expenditure	Spending on investment: mainly the provision, acquisition and enhancement of fixed assets such as land, buildings and vehicles.
Capital financing	Sources of revenue that fund capital expenditure.
Capital receipts	The proceeds of sale from the disposal of assets such as land and buildings.
Council Tax	A tax levied on households by local authorities, based on the property band. The property band is determined by the estimated value of the property at the time of the last re-valuation.
Council Tax Reduction Scheme (CTRS)	A scheme that offers relief for people on low income and/or certain welfare payments to pay their Council Tax bills. The vast majority of this scheme's funding is delivered via the Revenue Support Grant.
Debt financing costs	Costs associated with the repayment of principal and interest charges on loans, including Housing Revenue Account (HRA) interest payments / receipts.
Earmarked reserves	Amounts set aside to meet known or predicted budget requirements.
Fees and charges	Amounts levied by local authorities for individual services such as leisure facilities and vehicle parking. For many services, local authorities are either prohibited from charging more than the cost of provision, or there are nationally prescribed eligibility and charge levels in place and little or effectively no local discretion.
Flying Start	A Welsh Government initiative that provides services to children under the age of four in some of Wales' most deprived postcode areas. The programme was re-classified as social services expenditure in 2013-14, having previously been classed as education spending.
General reserves / council fund	The council's working balance, used to manage uneven cash flows and avoid the need for temporary borrowing.
Gross revenue expenditure	Total local authority expenditure on services, plus debt financing costs and income from sales, fees, and charges.
Healthy life expectancy	The number of years that the average person can expect to live in good health.

Housing Revenue Account (HRA)	A ring-fenced account that can only be used for council housing purposes and not for other general council expenditure such as education.
Housing Revenue Account Subsidy buyout	Eleven local authorities in Wales with council housing stock exited from the Housing Revenue Account (HRA) subsidy system and became self-financing in April 2015.
Local government settlement	An annual document published by the Welsh Government specifying the distribution of grants and non-domestic rates among local authorities, based on the Standard Spending Assessment (SSA).
Lower Super Output Area (LSOA)	A defined geographical area based on Census output areas with an average of 1,600 persons per LSOA.
Net current (service) expenditure	Total day-to-day spending on service provisions, excluding capital expenditure, housing benefits, specific grants and net of any income received from fees and charges imposed by local authorities.
Non-domestic (business) rates (NDR)	A tax on properties used for non-domestic purposes. The revenues raised by this tax are pooled by the Welsh Government and re-distributed to local authorities according to the Standard Spending Assessment (SSA).
Office for Budget Responsibility (OBR)	An advisory public body that provides independent economic forecasts and an analysis of public finances in preparation for the UK budget.
Outturn expenditure data	The revenue expenditure that Welsh local authorities actually spent in previous financial years.
Police precept	The amount levied on Council Tax bills to fund policing operations. In this report, Council Tax figures are listed as net of the police precept.
Revenue Support Grant (RSG) / general grants	A grant given to local authorities by the Welsh Government which can be used to finance revenue expenditure at their discretion.
Specific (hypothecated) Welsh Government grants	Grants given to local authorities by the Welsh Government where there are specific requirements for councils to spend the money on certain defined activities.
Standard Spending Assessment (SSA)	A centrally determined assessment of each authority's need to spend on revenue services, on the total standard spending basis. This is used to calculate the annual local government settlement.
Supported borrowing	Borrowing to finance capital expenditure that is supported by the Welsh Government through the Revenue Support Grant. The revenue costs of supported borrowing are recognised through funding in local government settlements.
Unprotected spending areas	Spending on local authority service areas outside of education and social services.

Unsupported (prudential) borrowing

Borrowing to finance capital expenditure that is not supported by the Welsh Government through the Revenue Support Grant. There is no support from Welsh Government to fund the revenue costs of unsupported (prudential) borrowing, therefore costs have to be met from the revenue budget.

Welsh Government grants

The total amount of Welsh Government grants paid to local authorities, including the Revenue Support Grant (RSG) and general grants.

Welsh Government Resource Departmental Expenditure Limits (DEL)

Money that is spent by the Welsh Government on day-to-day resources and administration costs.

Welsh Index of Multiple Deprivation

The official measure of relative deprivation for small areas in Wales. The index is constructed from eight domains, or types of deprivation, consisting of around 40 indicators.

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