

Finance Committee

Meeting Venue:
Committee Room 2 - Senedd

Meeting date:
28 September 2011

Meeting time:
09:30

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



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Agenda

1. Introduction and apologies

2. Draft budget motion 2012-2013 (Pages 1 - 6) (09.35 – 10.15)

FIN(4)-03-11 (Paper 1, Annex A) – Welsh Government
Jane Hutt AM, Minister for Finance
Andrew Jeffreys, Head of Strategic Budgeting
Jo Salway, Head of Budget Policy.
Jeff Andrews, Specialist Policy Adviser, Finance

3. Draft budget motion 2012-2013 (Pages 7 - 24) (10.15 – 11.00)

FIN(4)-03-11 (Paper 2) - Welsh local Government Association

Steve Thomas CBE, Chief Executive, Welsh Local Government Association
Cllr Rodney Berman, WLGA Finance Spokesperson and Leader, Cardiff County Council
Vanessa Phillips, Director of Resources, Welsh Local Government Association

Private session

The Committee will be invited to resolve to exclude the public from the final items of business in accordance with Standing Order 17.42(vi):

4. Members' consideration of evidence

(11.00-11.10)

5. Potential inquiry into devolution funding

(11.10-11.20)

6. Potential inquiry into effectiveness of European Structural Funding in Wales (Pages 25 - 30)

(11.20-11.30)

Papers to note

Minutes of previous meeting

FIN(4) 02-11 – Minutes

FIN(4)-02-11 Paper 3 - Forward Work Programme

Finance Committee Paper: Proposal to Amend the Welsh Government's Budget Motion FIN(4)-03-11 (Paper 1)

Issue

1. I am proposing to amend the Welsh Government's Budget motion for this year's Budget and would welcome the Committee's views on my proposal.

Background

2. The current budget motion has been in use since the Government of Wales Act in 2006. The format of the budget motion, on which the Assembly votes, currently sets individual budget control totals for each Major Expenditure Group (MEG). If the Government were to breach any one of these control totals then the Government's accounts would be qualified because the expenditure would be deemed irregular and the expenditure could also be unlawful.
3. It is important that we have control totals against which we can monitor expenditure – both for internal monitoring purposes and in the interests of external transparency. I believe that that monitoring should continue to be done at Ministerial portfolio level. However, I have had some concerns about unintended consequences of the current budget model because it can work against effective financial management at the Welsh Government level. A fear of breaching the legally binding ambits has on occasion resulted in under spends being declared late in the financial year, with limited opportunity to redirect them. The Supplementary Budget process takes around 2 months to complete meaning that there is currently an early deadline for amending our spending plans in any given financial year. With reducing budgets and limitations on carry forward of underspends under the new Budget Exchange Mechanism, it is more important than ever that we maximise the effective spend of public resources.
4. A secondary concern has been that the fear of breaching ambits has led to a pressure for small budgets to be grouped to avoid breaches. This can result in MEGs made up of a combination of smaller budgets, with a reduction in transparency and accountability.

Proposed Changes

5. The current budget process was broadly based on that operating in Scotland. Since then, the Scottish Government has introduced changes which give them greater budget flexibility. The Scottish Finance Bill continues to set individual Ministerial ambits. However there is an over riding clause which creates the flexibility that if any individual portfolio budget were to overspend, it would not result in an

ambit breach if the overspend was covered by total resources – ie as long as total expenditure is contained within resources voted to the Scottish Government, there is no ambit breach. Although the change means that the Scottish Government has the flexibility to move resources between budgets without Parliament’s approval, the Scottish Government has made the commitment that the Parliament will continue to have the same level of information and involvement as in the past. The Government continues to lay two Budget Revisions a year – the Scottish equivalent of the Supplementary Budget.

6. Having looked into the revisions adopted in Scotland, I believe that they would go a long way to resolve the issues I have set out above. We have the legal powers to adopt a similar approach in Wales. However, I believe that it is key that the Finance Committee is supportive of the change. I would welcome your views on the proposed changes.

Benefits of the Proposed Changes

7. The key advantage of this change would be to increase transparency and accountability. It would allow budgets to be more clearly structured on a functional basis, rather than on a basis that minimises the risk of an ambit breach.
8. The change would also allow us increased flexibility to maximise the Welsh Government’s spend in line with its priorities. As you know, I am committed to working openly and transparently and providing as much support as possible to the work of the Finance Committee. I therefore want to make it very clear that it is not my intention that the proposed change would reduce the information available to this Committee.
9. It is my intention, that despite any changes, I would continue to provide the same information to the Assembly and the Committee as I currently do. In practice there will be no change to the handling of the budget. The annual budget motion would proceed as normal. Proposals for changes in-year would not require a Supplementary budget, but in practice I would continue to lay two Supplementary Budgets a year and continue to provide at least the level of information about budgets that I currently do.
10. I see Supplementary Budgets as essential in managing additional allocations from Reserves and a statement of how we align budgets to our strategic priorities. As such, the Finance Committee’s scrutiny will continue to be vital and will not be changed by these proposals. These proposals would simply allow increased flexibility at the end of the financial year and I intend to report to the Committee on any variation between spending plans set out in the last Supplementary Budget of the year and the final out turn, along with an explanation of the variation.

Next Steps

11. I have attached to this paper an example of what the revised budget motion would like under these proposals (Annex A). I would welcome your thoughts on these proposals. It is then my intention when I publish the budget package for our draft Budget proposals to include a budget motion on the revised basis. This will give you an opportunity in your report on the draft Budget proposals to include consideration of these proposals. I will then reflect on your comments, before laying the final budget motion. In the meantime, I would appreciate your thoughts on these proposals.

**Jane Hutt AM,
Minister for Finance and Leader of the House**

FIN(4)-03-11 (Paper 1, Annex A)
Annual Budget Motion

The Assembly is asked to agree the following:

“1. This resolution for the year ending 31 March 2011 is made by the National Assembly for Wales (“the Assembly”) pursuant to Section 125 of the Government of Wales Act 2006.

Welsh Assembly Government

2. The Welsh Assembly Government is authorised—

(a) to use resources (not including accruing resources) during the financial year ending 31 March 2011 for the services and purposes specified in Column 1 of Schedule 1, up to a maximum of the corresponding amounts specified in Column 2 of that Schedule;

(b) in addition, to retain income, within the categories of accruing resources specified in Column 1 of each Part of Schedule 2, during the financial year ending 31 March 2011, for use on the services and purposes specified in the corresponding entries in Column 2 of each Part of that Schedule, up to the limit specified for each Part of that Schedule; and

(c) to draw cash out of the Welsh Consolidated Fund for use on the services and purposes specified in Schedule 1, up to the net cash requirement limit specified in Schedule 5.

[2A. Despite paragraphs 2(a) and (b), the resources which may be used for a service [and] [or] purpose specified in Column 1 of Schedule 1 (or, as the case may be, in Column 2 of each Part of Schedule 2), may exceed the amount specified in the corresponding entry in Column 2 of Schedule 1 (or, as the case may be, in Column 2 of each Part of Schedule 2) if-

(a) in the case of resources other than accruing resources, the first condition is met, or

(b) in the case of accruing resources, the second condition is met.

2B. The first condition is that the total resources (other than accruing resources) used during the financial year ending 31 March 2011 for all services [and] [or] purposes specified in Column 1 of Schedule 1 does not exceed the total of the amounts specified in Column 2 of that Schedule.

2C. The second condition is that the total accruing resources used during the financial year ending 31 March 2011 for all services [and] [or] purposes specified in Column 2 of Schedule 2 does not exceed the total of the amounts specified that Column.]

Assembly Commission

3. The Assembly Commission is authorised—

(a) to use resources (not including accruing resources) during the financial year ending 31 March 2011 for the services and purposes specified in Column 1 of Part 1 of Schedule 3, up to a maximum of the corresponding amounts specified in Column 2 of Part 1 of Schedule 3;

(b) in addition, to retain income, within the categories of accruing resources specified in Column 1 of Part 1 of Schedule 4, during the financial year ending 31 March 2011, for use on the services and purposes specified in the corresponding entries in Column 2 of Part 1 of that Schedule, up to the limit specified in Part 1 of that Schedule; and

(c) to draw cash out of the Welsh Consolidated Fund for use on the services and purposes specified in Column 1 of Part 1 of Schedule 3, up to the net cash requirement limit specified in Schedule 5.

Public Services Ombudsman for Wales

4. The Public Services Ombudsman for Wales is authorised—
- (a) to use resources (not including accruing resources) during the financial year ending 31 March 2011 for the services and purposes specified in Column 1 of Part 2 of Schedule 3, up to a maximum of the corresponding amounts specified in Column 2 of Part 2 of Schedule 3;
 - (b) in addition, to retain income, within the categories of accruing resources specified in Column 1 of Part 2 of Schedule 4, during the financial year ending 31 March 2011, for use on the services and purposes specified in the corresponding entries in Column 2 of Part 2 of that Schedule, up to the limit specified in Part 2 of that Schedule; and
 - (c) to draw cash out of the Welsh Consolidated Fund for use on the services and purposes specified in Column 1 of Part 2 of Schedule 3, up to the net cash requirement limit specified in Schedule 5.

Auditor General for Wales

5. The Auditor General for Wales is authorised—
- (a) to use resources (not including accruing resources) during the financial year ending 31 March 2011 for the services and purposes specified in Column 1 of Part 3 of Schedule 3, up to a maximum of the corresponding amounts specified in Column 2 of Part 3 of Schedule 3;
 - (b) in addition, to retain income, within the categories of accruing resources specified in Column 1 of Part 3 of Schedule 4, during the financial year ending 31 March 2011, for use on the services and purposes specified in the corresponding entries in Column 2 of Part 3 of that Schedule, up to the limit specified in Part 3 of that Schedule; and
 - (c) to draw cash out of the Welsh Consolidated Fund for use on the services and purposes specified in Column 1 of Part 3 of Schedule 3, up to the net cash requirement limit specified in Schedule 5.

Specification of Categories of Accruing Resources

6. The categories of accruing resources listed in Column 1 of each Part of Schedule 2, and in Column 1 of each part of Schedule 4, are specified categories for the purposes of section 120(2)(a) of the Act.”

FIN(4)-03-11(Paper 2)

Written Evidence by the Welsh Local Government Association to the Finance Committee of the National Assembly for Wales on the Welsh Government’s Draft Budget Motion 2012-13

Purpose

1. The purpose of this paper is to provide the Finance Committee of the National Assembly for Wales with a brief overview of the Welsh Local Government Association’s (WLGA) view of the indicative budget allocations for 2012-13 and to highlight the key financial concerns, risks and opportunities facing local government in Wales.

Financial Context: the current financial year

2. The Comprehensive Spending Review 2010 presented the Welsh Government with an extremely difficult budget round for 2011-12 and beyond. The Capital allocation in particular was worse than had been anticipated and this has had significant consequences on some of its key schemes such as the Twenty First Century Schools’ programme.
3. In 2011-12, the local government revenue settlement fell by 1.4 per cent on average (£57.2 million), set against predicted pay and price pressures of around £135 million as well as service pressures particularly in social care. Nonetheless local government acknowledged the settlement was as good an outcome as could have been expected given the overall level of reductions in the Welsh Government’s Departmental Expenditure Limit.
4. In 2011-12 local government received a capital settlement of £487 million, a reduction of 20 per cent on the previous year. The funding for the Twenty First Century Schools initiative is £300 million over three years and there were some dramatic reductions to specific capital grants for transport, and environment, sustainability and housing. Local government is very concerned about the impact this will have.
5. In 2011-12, Welsh councils report they are managing over £180 million in growth or inflationary pressures in their budgets. In order to balance their budgets, authorities are making efficiencies and savings of £166.5 million in the current year, equivalent to 2.3 per cent. They have increased their net budgets by £8.9 million and the balance (£4.9m) has been drawn from reserves.

Balancing the 2011-12 Budget	£million
Required savings: Efficiency	92.8
Required savings: Service Transformation	25.6

Required savings: Service reductions	20.3
Required savings: Increases in fees and charges	5.0
Required savings: Other savings	22.8
Total	166.5

Welsh Government Indicative Budget Allocations for 2012-13 – Strategic Concerns

6. Indicative budgets for 2012-13 and 2013-14 were published at the same time as the 2011-12 budgets and these indicative allocations allow the public services that are depending on this funding to make firmer plans for these subsequent years than would otherwise have been possible.
7. There is no escaping the fact that the allocations across all parts of the public sector in Wales mean that organisations are having to make some unpalatable choices as well as ensuring that services are run as efficiently and effectively as possible. In order to achieve reduced running costs there is often a need to invest in order to save. Being able to rely on the indicative budget allocations allows such plans to be made.
8. A commitment to the existing indicative revenue budget allocations will enhance local government and the wider public sector's ability to plan and deliver cost reductions in a planned and strategic way. Similarly extending the indicative allocations to capital budgets and to the financial year 2014-15 will allow authorities to plan further into the future with more certainty.
9. The indicative allocations for local government are considerably below the cost pressures that Councils will be experiencing. That said Local government welcomed the protection given to Education revenue budgets in line with the First Minister's commitment to reduce the per pupil funding gap between England and Wales. Similarly, the protection given to the social services element within the non-hypothecated local government settlement is also welcomed.
10. Strategically, there is a concern that both environment and transport budgets have taken disproportionate hits in funding (especially capital), yet other services depend vitally upon them. There is little use having new schools or care facilities if the roads serving them are bad or dangerous or if reduced gulley cleansing etc. contributes to flash flooding.
11. The paucity of capital resources is a very real concern to local government, as it is to all parts of the public sector. The policy response to this needs

to be coherent and addressed through a Wales wide, pan-public sector approach rather than a potentially fragmented and divisive approach.

12. Similarly, Economic Regeneration has suffered disproportionately from budget cuts while continuing to be an area where there are a whole range of analyses and programmes identifying different geographic areas to target but which are poorly co-ordinated. Examples include the Wales Spatial Plan, Regeneration Areas, Regeneration Investment Fund for Wales, EU funded programmes and Communities First which all identify areas for priority attention but funding criteria and timescales (that relate to some of these) are all different.
13. This is particularly worrying given the recent report in the Economist that: “The odds of a double-dip recession have risen sharply on both sides of the Atlantic”, arguing that the coordinated approach that existed during the initial recession has dissipated, the euro zone crisis has reduced willingness to intervene and governments generally are taking too short term a view on fiscal austerity measures. It argues for measures to boost investment and productivity.
14. Welsh Local Government remains concerned that so much of its funding continues to be received via specific grant (over £760 million in 2011-12) rather than through the unhypothecated settlement which diminishes its ability to respond flexibly to the difficulties that it faces. Non-hypothecation allows authorities to be flexible in terms of potential solutions to alternative service delivery models and to financial pressures. Over-use of specific grants as a funding mechanism stifles this flexibility and focuses attention on financial inputs rather than the outcomes achieved, as well as the additional costs related to administering and managing specific grants.

Welsh Government Indicative Budget Allocations for 2012-13 – Specific Concerns

15. The key financial concerns, risks and opportunities facing local government in Wales are highlighted below and greater detail is included in Annex 1 to this evidence.

Capital

16. The 2010 Comprehensive Spending Review capital settlement for Wales was worse than the assumptions that the Welsh Government had used, particularly in 2011-12 with a 24.3 per cent reduction. For local government this translated into a 20 per cent reduction in 2011-12, but no indicative figures were provided for 2012-13 or 2013-14. The implications of these budget cuts on the ongoing needs for capital investment across local government are stark and real and are already impacting on major service areas:
 - 21st Century Schools Programme;
 - Road condition of all non-trunk roads in Wales;

17. The significant diminution of central financing support has led to councils seeking more innovative approaches to financing capital expenditure. Both members and professionals are working to understand the potential of:

- Tax Increment Financing;
- Public Private Partnerships;
- Non-Profit Distributing Models; and
- Regeneration Investment Fund Wales

Pay and Prices

18. As mentioned above, the indicative allocations for local government are considerably below the cost pressures that Councils will be experiencing.
19. The table below sets out the equivalent pay and prices pressures for 2012-13, assuming no public sector pay increase and an estimate of 2.2 per cent for the GDP deflator. It should be noted though that local government employees have already had a pay freeze for two years (rather than the one year freeze by other public sector employees) and that the long term implications of further freezes need to be considered very carefully.

Pay and prices pressures

Expenditure type	Uplift Applied	Total cost (£000)	Settlement cost at 80% (£000)
Teachers pay	0.00%	0	0
Fire Fighters' pay	0.00%	0	0
Other pay (excl. Fire)	0.00%	0	0
Single Status increments		20,000	16,000
Pensions	1.50%	28,500	22,800
Non-pay	2.20%	36,700	29,400
Care Home Fee inflation	5.25%	15,000	12,000
Landfill Tax increase		5,600	4,480
Total		105,800	84,680

20. Non-pay inflation is generally calculated using the GDP deflator for which 2012-13 estimates are 2.2 per cent which equates to approximately £36.7 million. The exceptions to this are Landfill Tax which increases at a rate of £8 each year and Residential Care Home fee inflation.

Education and Lifelong Learning

21. High quality education is fundamental to sustaining a strong economy and reducing poverty and inequality in the longer term. Key financial risks identified within the Education and Lifelong Learning service areas are:
 - The links between the availability of capital investment with the ability to tackle surplus places adequately;
 - The changing patterns of pupil numbers within different age ranges, with growth being seen in the under 5 and the over 16 age groups;
 - The continuing escalation of costs within pre- and post-16 Special Educational Needs (SEN)
22. There is potential for some of these cost increases to be managed through greater regional collaboration specifically in the SEN area.
23. This fits well with the recommendations of both the Viv Thomas's review of educational structure in Wales and the Simpson Review which highlight the need for increasing the pace and extent of collaboration through Education consortia across all areas. Progressing this forms a substantial part of local government's response to these reviews.

Social Services

24. The protection given to the social services element within the non-hypothecated local government settlement is recognition of the severe and increasing financial pressures facing social services budgets in the current climate:
 - Demographic growth, particularly within the pension age group;
 - Implementing the recommendations of "Sustainable Social Services for Wales: A Framework for Action";
 - The Association of Directors of Social Services (ADSS) Cymru Annual Budget Survey reveals a net over spend for 2010-11 of £18.5 million the vast majority of which was in respect of children services;
25. In addition, the ADSS survey identifies specific unfunded pressures in the following areas:
 - £2.6 million in older peoples services;
 - £10.8 million in learning and physical disability services; and
 - £2.8 million in mental health services.
26. There are also other areas that have been highlighted as significant risks, both financially and in terms of service provision:
 - Increasing demand for home care services as a direct result of the introduction of the £50 weekly cap on home care charges
 - New Continuing Health Care (CHC) guidance resulting in additional costs being passed to social services departments.

- Implications following the collapse of Southern Cross¹ both in terms of the failure of current plans placing the responsibility on local authorities.

Waste Management, Sustainability and Climate Change

27. In terms of waste, the overriding issue is that the commitment to the financial agreement over the residual waste procurement² is maintained. Including the delivery of waste procurements into the Simpson Compact as planned will consolidate this position. The South East Wales project is worth £1.1 billion over 25 years and the North Wales project is £600 -800 million so the Welsh Government and Local Authority commitments are substantial and long term.
28. Other key concerns include:
- The statutory basis of recycling targets, with the potential for fines if the sequence of targets is not met by due deadline dates (culminating in 70% recycling by 2024/35);
 - The potential for planning issues, and possible delays in the development of necessary facilities for food and residual waste;
 - new responsibilities under **flood and water legislation**
 - changes to the mandatory CRC Energy Efficiency Scheme (formerly known as the Carbon Reduction Commitment);
 - the WG target of 3 per cent reduction per annum in carbon equivalent emissions;
 - the Green Deal which goes live in April 2012;
 - the recently launched ARBED Phase 2 (where Local Authorities are being asked to develop bids and support delivery on the ground – with no additional resources to cover their costs.)

Housing Needs and Aspirations

29. Homelessness has started to rise significantly with an average rise of 19 per cent in the Oct – Dec 2010 quarter, compared with the same quarter in the previous year. The need for housing support services outstrips the ability of Authorities to provide them, yet these services are vital in preventing homelessness thereby reducing the need for more intensive health, social care and criminal justice intervention.
30. This is of great concern to local government particularly when coupled with:
- The impact of the Welfare Reform agenda for low income households;
 - The reduction in renewal area funding from £24.5 million in 2010-11 to £11.5m in 2013-14 will severely undermine the ability of

¹ A large company providing residential care home placements across England and Wales

² Letter from Rhodri Morgan AM to Cllr John Davies, 19 January 2009

Authorities to regenerate neighbourhoods of privately owned homes;

- The drastic reduction in Social Housing Grant will limit the delivery of affordable housing severely at a time when homelessness is rapidly increasing and is expected to rise further as a result of the housing benefit changes;

Community Safety and Fire

31. Community Safety is a high public priority and one that can affect the quality of life for individuals and entire communities. Despite this Community Safety budgets have suffered significantly as a result of the reductions in public finances.
32. The Fire and Rescue Services (FRSs) in Wales are intending to make £10 million savings in cash terms over the next three years and have identified four key financial risks for the 2011-12 and beyond:
 - Reduction in Prevention activity
 - Retained Duty System (RDS) Firefighters' and part-time employee status
 - Firefighter Pay and Pensions
 - Capital Issues
33. Similarly, current estimates indicate that the four Police Authorities (or Police and Crime Commissioners) in Wales will need to implement further cost reductions of £48.2 million over the next three financial years.
34. There is a huge risk to the mainstreaming of community safety in the current financial climate.

Transport

35. The backlog of carriageway maintenance work remains. Despite the £15 million grant received following severe weather earlier this year there is a need for complete resurfacing which is a better longer term approach but this relies on the availability of capital investment when such grants are being reduced.
36. The current difficulties are exacerbated by the continued rising costs of oil. This is a major issue for local authorities not only in relation to their own fleet and also due to the impact on road maintenance costs using bitumen products.

Economic Regeneration

37. The cross portfolio spread of regeneration related activities is a potential strength (because it reflects the need for an holistic approach) but much more needs to be done (with formal and agreed co-ordinating mechanisms and full local government involvement) to align these approaches and avoid silo approaches. This has major implications in terms of WG budget proposals across service areas and how these are aligned.
38. Other concerns include:

- The Welfare Reform agenda relies heavily on helping the unemployed get back into longer term employment. In Wales it is anticipated that the Welsh Jobs Fund will form part of this response;
- The Welsh approach to creating Enterprise Zones (EZs) in Wales (in light of a £10 million Barnett consequential to Wales following the UK Government's decision to create 21 new Enterprise Zones in England).

Expectations, Commitments and Priorities

39. As described above, a commitment to the existing indicative revenue budget allocations will enhance local government and the wider public sector's ability to plan and deliver cost reductions in a planned and strategic way. Similarly extending the indicative allocations to capital budgets and to the financial year 2014-15 will allow authorities to plan further into the future with more certainty.
40. The Welfare Reform Agenda has the potential to have a significant effect on the poorest and most deprived areas of Wales. Local Government will be at the forefront of the need to respond to this and it is crucial that the Welsh Government's budget reflects the support that will be required to assist with this. Living in poverty can affect life chances fundamentally and the Welsh public sector's role is to protect and support those who are most vulnerable while implementing policies that help to reduce the levels of poverty and deprivation within Wales.

Outcomes

41. There are three key outcomes that need to be prioritised within the Welsh Government's budget in order to ensure that Wales becomes a more successful, healthier country and that fewer Welsh people live in poverty.
42. Improving educational attainment across all communities is fundamental to the eradication of poverty. This is not simply a matter of the level of funding but is also related to the certainty regarding the level of funding in the medium term. Greater flexibility is also crucial and could be achieved through reducing the proportion of funding that is delivered through specific grants. There is also a need for clarity regarding capital investment plans particularly in terms of ensuring an adequate level of capital investment.
43. Improving the sustainability and resilience of social care services is crucial in order to support the growing elderly population and also to manage the risks associated with the residential care provider market, particularly in the wake of the failure of Southern Cross. Longer term, outcomes for children will be improved through providing the necessary support for vulnerable parents and families.
44. Improving public health and reducing the impact of long term life limiting illnesses will lead to a reduced reliance on the public sector and welfare

benefits. The approaches required in order to do this is multi-factorial and includes adequate housing, excellent educational services, additional social services and primary healthcare support and improved employment opportunities.

Effective Collaborative Working

45. The factors that are most important in enabling local government and the wider public sector to respond to the recommendations of the Simpson Review is:
- greater flexibility in the use of their funding, through reducing hypothecation;
 - stability in terms of forward spending plans;
 - the ability to invest in transitional costs leading to securing benefits over the medium to longer term.
46. Local government has responded positively to the Simpson review and along with the WLGA have identified a “top ten big ticket items”:

• Education and school improvement shared services to be in place by September 2012
• Regional commissioning hubs and improvement collaboratives for of Social Care to be in place by 2012/13
• Waste management collaboration on procurement plus examination of the management organisation of the service
• The formation of 2 Trunk Road Agencies leading to an examination of the expansion of role of Regional Transport consortia
• Regional Delivery of the Supporting People Programme to commence in 2013-14.
• A business case by Spring 2012 setting out options for the delivery of local tax collection (Council Tax and NNDR) in Wales at either a regional or national level (this as a precursor to an examination of other transactional services)
• A review of the best way of organising the local authority pension funds in Wales (2012)
• As set out in the strategy of the Public Services ICT Group, national procurement of ICT systems and the development of Welsh data centres and “cloud” services
• Development of a National Trading Standards Service subject to a national business case (Labour Manifesto commitment)

- Arising from the Simpson recommendation a detailed review to be concluded by May 2012 to examine the regional delivery of emergency planning to be taken forward with the NHS, police, Fire and Rescue and the Welsh Government

47. Local Government will be committing to some significant changes in how services are delivered and supported. The pace and extent of collaboration particularly that between authorities will increase substantially. Such significant change requires both financial investment in the initial stages and financial certainty during the implementation period.

Welsh Local Government's Key Financial Concerns, Risks and Opportunities

Capital

- A1. In Education, Strategic Outline Plans submitted by councils to the Welsh Government identify a total investment requirement of around £5 billion over the next 12 years, with £1.2 billion in Tranche 1 alone. Of the latter around £840 million is sought from the Welsh Government, based on an agreed average funding split assumption of 70:30 between Welsh Government and councils, but only £300 million is available from the Welsh Government. Authorities have since been requested to re-submit their bids based on a 50:50 funding split assumption. A recent condition survey undertaken by the 21st Century Schools Programme identified a number of areas of concern. 23 schools (1.33 per cent) were in Condition category D (bad). However of greater concern is the fact that around a third of schools (approximately 580) are rated as condition C (poor) and 353 schools (20 per cent) are poor or bad suitability where they are in a condition where teaching is impaired.
- A2. The annual scanner road condition survey undertaken in 2009-10 identified a maintenance backlog of £151.7 million on all non-trunk roads in Wales. It is likely that this figure underestimates the true cost of the maintenance required. The Association of Road Haulage estimates that the state of the roads costs business £4.1 billion per annum. This illustrates the impact of capital expenditure on the wider economy of Wales.
- A3. Alongside the models identified in paragraph 17 above, councils continue to support their capital expenditure through other funding sources such as revenue funding and unsupported borrowing. Welsh local authorities are currently looking at new models that will reduce borrowing costs associated with prudential borrowing including issuing bonds directly.
- A4. Because local authorities have the power to borrow there is a risk that partners assume that they will exercise that power and that it is a source of new funding. All borrowing be it through traditional routes or the vehicles outline above has a revenue 'tail' or the need for a revenue stream to fund a rental / lease agreement. In a period of constrained revenue funding finding those revenue streams is increasingly difficult.

Pay and Prices

- A5. The vast majority of local services are provided by local government year after year and their costs vary depending on pay and price changes (some of which are beyond local government control).
- A6. The estimates within the table included above assume no pay increases, in line with the Chancellor's June 2010 budget statement for public sector pay but authorities are in the process of implementing single

status agreements and these have significant implications for budgets in future years.

- A7. **Residential Care Home Fee inflation** is consistently 5 per cent or above for each of the last three years³. This trend is set to continue, if not rise further, as local authorities attempt to balance a fair price for residential placements with their own budget constraints, against a backdrop of judicial reviews. In contrast, the NHS element of nursing care placements did not increase at all for 2010-11.

Education and Lifelong Learning

- A8. Progress on tackling surplus places with the school rationalisation programme continues, but there is a clear link, between this programme and the availability of capital funding with which to bring about the change necessary.
- A9. The most recent statistics show that although pupil numbers continue to fall, the rate of decrease has also reduced. The reduction in pupil numbers from January 2010 to January 2011 was 1,000 compared to a fall of 2,500 in the previous year. The overall downward trend also conceals differing patterns between age groups, with the age groups under fives and 16 and over increasing over recent years. The growth in the under fives age-group will have implications for the implementation of the Foundation Phase. The number of students staying on at school or college is also continuing to increase. It is vital that there is sufficient flexibility within the system to allow for these trends.
- A10. Post-16 Special Educational Needs (SEN) grant budget for 2011-12 was increased however costs are continuing to increase and this remains a concern for local authorities.
- A11. Local government is committed to taking urgent action so that by September, 2012, local authorities will have vested in their four education consortia all the resource necessary to create regional school improvement services. Raising standards in our schools has to be the number one priority for consortia and all four have this as their prime action. As part of this process they are each committed to the forensic analysis of performance data and robust performance management.

Social Services

- A12. Demographic growth, particularly within the pension age group, will place a huge demand on existing services across Social Services and Health. We expect there to be an additional 18,000⁴ people of pension age in Wales by 2015 compared with today. The number of people living with chronic conditions, and therefore requiring social services is also predicted to increase by over 100,000 between now and 2016⁵.
- A13. Local government shares the vision for social services and social care set out in the recent Welsh Government report "Sustainable Social Services

³ ESG reports 2009 to 2011

⁴ Welsh Government StatWales, Population projections for Wales, 2008 - 2013

⁵ ESG report 2010, Welsh Assembly Government and Welsh Local Government Association

for Wales: A Framework for Action”. We have a shared agenda focused on simplifying and improving service efficiency and effectiveness through increased collaboration, a stronger workforce and by giving users and carers a greater voice and control over their services.

- A14. The Association of Directors of Social Services (ADSS) Cymru Annual Budget Survey reveals a net over spend for 2010-11 of £18.5 million across Wales, the vast majority of which was in respect of children services. This is consistent with 2009-10 position with pressures continuing to exist from the cost of providing fostering services and agency placements and the increased costs of social workers.
- A15. Most pressing are the increasing costs in children’s services arising from the costs of agency placements, a growth in demand for looked After Children services, fostering rates and adoption costs and the recruitment and retention of qualified social workers. These pressures are estimated to amount to an additional £17.4 million.
- A16. In addition, the ADSS survey identifies specific unfunded pressures in the following areas:
- £2.6 million in older peoples services;
 - £10.8 million in learning and physical disability services; and
 - £2.8 million in mental health services.
- A17. There are also other areas that have been highlighted as significant risks, both financially and in terms of service provision:
- Increasing demand for home care services as a direct result of the introduction of the £50 weekly cap on home care charges. The concern relates primarily to the numbers of people who currently pay privately for home care who will now seek support from councils to meet these costs.
 - New Continuing Health Care (CHC) guidance resulting in additional costs being passed to social services departments.
- A18. Implications following the collapse of Southern Cross⁶ both in terms of the failure of current plans placing the responsibility on local authorities, along with substantial additional costs and the risks that authorities face in terms of other providers going into difficulties. The provider market is very volatile at the present time.
- A19. WLGA Regional Partnership Boards and ADSS have put in place governance arrangements for supporting the detailed delivery of the priorities through the three regional social services collaboratives. However, delivery of the agenda set out in the Framework for Action will depend upon a continued commitment from the Welsh Government to provide adequate funding for social services as well as closer policy integration with the NHS to open up further opportunities for collaboration and efficiency savings.

⁶ A large company providing residential care home placements across England and Wales

Waste Management, Sustainability and Climate Change

- A20. In terms of waste, the overriding issue is that the commitment to the financial agreement over the residual waste procurement⁷ is maintained. Including the delivery of waste procurements into the Simpson Compact as planned will consolidate this position. The South East Wales project is worth £1.1 billion over 25 years and the North Wales project is £600 - 800 million so the Welsh Government and Local Authority commitments are substantial and long term.
- A21. The Waste Measure puts the recycling targets on a statutory basis with the potential for fines if the sequence of targets is not met by due deadline dates (culminating in 70% recycling by 2024/35). The Collaborative Change Programme (developed jointly with WG and local authorities) means that authorities can take advantage of assistance in taking the necessary steps to increase recycling and composting rates. Increases in landfill tax (at £8 per tonne per annum to 2014 at least) mean that the “do nothing” option (i.e. continuing to landfill) would become more expensive for Local Authorities in any case.
- A22. Development of the necessary facilities for food and residual waste will involve planning issues with the potential for public opposition. This continues to be a major issue (esp given forthcoming LG elections) and, if objections lead to delays, inevitably it will lead to higher costs.
- A23. An additional £2 million has been provide to councils in 2011-12 to deal with new responsibilities under **flood and water legislation** which places a responsibility on authorities for managing all local flood risks. Identifying sufficient funding to take forward necessary work in flood risk plans (to avoid costs associated with flood events) will become a major issue once plans are produced and publicly available, but there is no new capital available.
- A24. There are several financial risks also in relation to the carbon efficiency agenda including changes to the mandatory CRC Energy Efficiency Scheme (formerly known as the Carbon Reduction Commitment); the WG target of 3 per cent reduction per annum in carbon equivalent emissions; the Green Deal which goes live in April 2012; the recently launched ARBED Phase 2 (where Local Authorities are being asked to develop bids and support delivery on the ground - with no additional resources to cover their costs.).

Housing Needs and Aspirations

- A25. Homelessness has started to rise significantly with an average rise of 19 per cent in the Oct - Dec 2010 quarter, compared with the same quarter in the previous year. The need for housing support services outstrips the ability of Authorities to provide them, yet these services are vital in preventing homelessness thereby reducing the need for more intensive health, social care and criminal justice intervention.

⁷ Letter from Rhodri Morgan AM to Cllr John Davies, 19 January 2009

- A26. The Welfare Reform agenda particularly the changes to Housing Benefit is having a significant impact on the affordability of housing for low income households.
- A27. Significant reductions in capital funding have far reaching consequences:
- The reduction in renewal area funding from £24.5 million in 2010-11 to £11.5m in 2013-14 will severely undermine the ability of Authorities to regenerate neighbourhoods of privately owned homes. This in turn will result in higher demands on other public services including health, community safety and will limit the number of jobs and training opportunities which will be created.
 - The drastic reduction in Social Housing Grant will limit the delivery of affordable housing severely at a time when homelessness is rapidly increasing and is expected to rise further as a result of the housing benefit changes. This will also limit the Ability of Local Authorities to undertake initiatives such as bringing empty homes back into use, develop accommodation for older people, facilitate downsizing, develop supported housing initiatives.
- A28. A significant decline in public investment in housing in Wales from 2011-12 onwards together with the slow down of the housing market will have an inescapable impact on the local and national economy.
- A29. Projections indicate that 14,200 additional homes will be required each year until 2026⁸, 5,100 of which will need to be non market homes at a time when public and private investment in affordable homes is rapidly declining.

Community Safety and Fire

- A30. Community Safety is a high public priority and one that can affect the quality of life for individuals and entire communities. Despite this Community Safety budgets have suffered significantly as a result of the reductions in public finances. The Home Office Community Safety Fund has been cut by 20 per cent in 2011-12 and will be cut by a further 40 per cent in 2012-13. The Youth Justice Grant from the Ministry of Justice to Local Authorities has also been significantly reduced in 2011-12 (indicative cuts of 11-12 per cent), which is likely to have a particularly negative impact on prevention work.
- A31. As well as direct effects of these cuts within Councils, the Fire and Rescue Services (FRS) in Wales are intending to make £10 million savings in cash terms over the next three years. As over 80 per cent of revenue costs are employee costs, these significant reductions will, out of necessity, affect staffing levels. The FRSs in Wales have identified four key financial risks for the 2011-12 and beyond:
- Reduction in Prevention activity

⁸ Holmans A. and Monk S (2009) Housing Demand and Need in Wales 2006-26, Cambridge Centre for Housing and Planning Research

- Retained Duty System (RDS) Firefighters' and part-time employee status
- Firefighter Pay and Pensions
- Capital Issues

- A32. Similarly, current estimates indicate that the four Police Authorities (or Police and Crime Commissioners) in Wales will need to implement further cost reductions of £48.2 million over the next three financial years, including further job losses of 428 police officers and 600 police staff posts. This does not include the potential loss of £20 million across Wales should the damping arrangements for the current police funding formula be removed.
- A33. There is a huge risk to the mainstreaming of community safety in the current financial climate. Over 63 per cent of responses to a national survey reported that the commitment of partner agencies had reduced over the last twelve months⁹. Responses also highlighted a reduction in the number of projects being undertaken, large scale merging of staff responsibilities, reduced community contact and a reduction in volunteering involvement.

Transport

- A34. The backlog of carriageway maintenance work remains. In 2009-10, 5.0 per cent of principal (A) roads were considered to be in "poor" condition compared to 4.4 per cent in 2008-09; a continued worsening trend since 2007-08. Meanwhile, the capital expenditure forecast for 2011-12 is reducing by 8% or £14m reduction for Roads and Transport for local authorities in Wales.
- A35. Carriageway repairs were enhanced by a £15 million grant following severe weather earlier this year, but complete resurfacing is a better longer term approach, although this costs more than short term patching solutions but this relies on the availability of capital investment when such grants are being reduced. Such investment is crucial because the provision of other vital services depends on having a good highways network. Recent discussions have centred on the possibility of revenue funding being made available in order to support local authority borrowing to enable a coordinated programme of planned carriageway maintenance and improvement.
- A36. The current difficulties are exacerbated by the continued rising costs of oil. This is a major issue for local authorities not only in relation to their own fleet and also due to the impact on road maintenance costs using bitumen products.
- A37. Local authorities in Wales will become the Sustainable Drainage Systems Approval Body with responsibility for the approval and adoption of drainage systems in new developments and redevelopments following implementation of the Flood and Water Management Act 2010. The financial implications remain unclear until guidance is issued.

⁹ Community Safety Consultation 2011, National Community Safety Network Ltd.

- A38. A new system for Concessionary bus pass scheme was implemented in 2011-12 to cap concessionary fares payments and the budget has been protected by WG. The new system seems to be working well as three year arrangements have been put in place which results in a 3.8 per cent uplift in payments and contributions but crucially provides certainty over future spend.
- A39. There has been some significant collaborative work ongoing within the Transport service area. The four Regional Transport Consortia allow a more strategic approach to the deployment of resources. This, along with the reduction of the number of Trunk Road Agencies from three to two across Wales are a key part of local government's response to the Simpson Review.
- A40. Conwy and Denbighshire have made a joint appointment to Head of Highways and are developing a joint service for street maintenance and street lighting.

Economic Regeneration

- A41. The risk of a double-dip recession alongside the wide range of poorly co-ordinated analyses and programmes identifying different geographic areas to target give rise to significant risks to the Welsh economy.
- A42. Moreover, targeting of economic regeneration resources is often focussed on areas of need, with less focus on areas of opportunity or making links between them (physical, information, technological). The cross portfolio spread of regeneration related activities is a potential strength (because it reflects the need for an holistic approach) but much more needs to be done (with formal and agreed co-ordinating mechanisms and full local government involvement) to align these approaches and avoid silo approaches. This has major implications in terms of WG budget proposals across service areas and how these are aligned.
- A43. Following recent announcements on European funding, it is expected that West Wales and the Valleys will receive maximum support under post-2013 Convergence funding whilst East Wales should continue to receive some funding under Competitiveness. It is also clear that the Communities First programme will continue (a consultation on its future has been issued) providing a degree of security for many of the Communities First staff employed by Local Authorities.
- A44. The Welfare Reform agenda and the move to Universal Credit have the potential to increase demand on local authority services. The agenda relies heavily on helping the unemployed get back into longer term employment. In Wales it is anticipated that the Welsh Jobs Fund will form part of this response.
- A45. WG is considering its approach to creating Enterprise Zones (EZs) in Wales in light of a £10 million Barnett consequential to Wales following the UK Government's decision to create 21 new Enterprise Zones in England. An announcement is expected shortly which is likely to contain more detail on this but concerns remain that England is moving ahead and could attract jobs from Wales.

- A46. The potential for collaborative work on economic development and regeneration at a regional level is being actively explored and has the potential to deliver cost savings. As with all change programmes, however, transitional costs will be experienced and benefits will not be immediate.

By virtue of paragraph(s) vi of Standing Order 17.42

Document is Restricted

Finance Committee

Meeting Venue: **Committee Room 2 - Senedd**

Meeting date: **Thursday, 7 July 2011**

Meeting time: **09:30 - 10:30**

This meeting can be viewed on Senedd TV at:
<http://www.senedd.tv/>

Cynulliad
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National
Assembly for
Wales



Concise Minutes:

Assembly Members:

Jocelyn Davies (Chair)
Peter Black
Christine Chapman
Mike Hedges
Ann Jones
Julie Morgan
Nick Ramsay
Ieuan Wyn Jones

Witnesses:

Committee Staff:

Tom Jackson (Clerk)
Daniel Collier (Deputy Clerk)

1. Introduction and Apologies

1.1 The Chair welcomed Committee Members and members of the public to the meeting.

2. Private session

2.1 The Committee resolved to exclude the public from the remainder of the meeting in accordance with Standing Order 17.42(vi).

3. Scrutiny of Supplementary Budget motion 2011 -12 (Summer 2011) - Consideration of draft Committee report

3.1 The Committee agreed its draft report on scrutiny of the Welsh Governments supplementary budget motion 2011-2012, which would be published ahead of the plenary debate on 12 July.

4. Finance Committee remit and forthcoming Committee activity

4.1 The Committee discussed its remit and its work programme for the autumn 2011 term and forthcoming committee business.

TRANSCRIPT

To view the meeting transcript, click [here](#)

Draft Finance Committee Forward Work Programme: Autumn 2011

Wednesday 28 September 2011 (9.30-11.30)

- 1. Scrutiny of proposal to amend Welsh Government budget motion (9.35-10.15)**
 - Welsh Government
 - Minister for Finance
- 2. Information gathering: Stakeholder concerns around potential implications of Welsh Government draft budget 2012-2013 (10.15-11.00)**
 - WLGA (10.15 – 11.00)
 - Steve Thomas
 - Rodney Burnham
 - Vanessa Phillips
- 3. PRIVATE- Members' consideration of evidence taken during meeting (11.00-11.10)**
- 4. PRIVATE- Potential inquiry into Devolution Funding**
 - Members' consideration of scoping paper (11.10-11:20)
- 5. PRIVATE- Potential inquiry into effectiveness of European Structural Funding in Wales**
 - Members' consideration of scoping paper (11.20-11.30)

Thursday 6 October 2011 (9:30-11:30)

- 1. Scrutiny of Assembly Commission draft budget (9:35-10:30)**
 - Assembly Commission
 - Angela Burns AM, Assembly Commissioner for budget and governance
 - Claire Clancy, Chief Executive and Clerk of the Assembly,
 - Another NAFW official tbc
- 2. Scrutiny of Public Service Ombudsman for Wales draft estimates (10:30-11:25)**
 - Public Service Ombudsman for Wales
 - Peter Tyndall, Ombudsman for Wales
 - Susan Hudson, Policy & Communications Manager
 - Malcolm MacDonald, Financial Adviser.
- 3. PRIVATE- Members' consideration of evidence taken during meeting (11.25-11.30)**

Wednesday 12 October 2011 (9.30-11.30)

2 Scrutiny of Welsh Government draft budget

- Welsh Government (9:30-10:20)
 - Minister for Finance
- Welsh Council for Voluntary Action (10.20-11.10)
 - Phil Fiander, Director of Programmes
 - Michelle Matheron, Senior Policy Officer

3 PRIVATE- Members' consideration of evidence taken during meeting (11.10-11.15)

4 PRIVATE- Members' consideration of draft report on Assembly Commission draft budget (11.15-11.30)

Thursday 20 October (9.30-11.30)

1. Scrutiny of Welsh Government draft budget

- NHS Confederation & an NHS Health Board tbc (9:35-10:15)
- Witnesses tbc (10:15-11:00)

2. PRIVATE- Members' consideration of evidence taken during meeting (11:00-11:15)

3. PRIVATE- Members' consideration of draft report on Public Service Ombudsman for Wales draft estimates (11.15-11.30)

Monday 31 October 2011 (15.00-16.30)

1. Scrutiny of Welsh Government draft budget (15:00-16:00)

- Minister for Finance

2. PRIVATE- Members consideration of evidence taken during meeting (16.00-16.30)

Wednesday 2 November 2011 (9.30-11.30)

1. PRIVATE: Scrutiny of Welsh Government draft budget (9.30-11.30)

- Members' consideration of draft report

Possible- Monday 7 November (15:00-16:00)

1. PRIVATE: Scrutiny of Welsh Government draft budget (15.00-16.00)

- Members' further consideration of draft report

Meeting of 7 November may be cancelled if Committee agrees a draft report on the budget at its previous meeting of 2 November.

Wednesday 16 November (9:30-11:30)

- 1. Oral evidence taking in new committee inquiry (9:30-11:25)**
 - Witnesses tbc
- 2. PRIVATE- Members consideration of evidence taken during meeting (11.25-11.30)**

Wednesday 30 November (9:30-11:30)

- 1. Oral evidence taking in new committee inquiry (9:30-11:25)**
 - Witnesses tbc
- 2. PRIVATE- Members consideration of evidence taken during meeting (11.25-11.30)**

-----**End of Autumn Term**-----