

# NEATH PORT TALBOT COUNTY BOROUGH COUNCIL

## CABINET

12 September 2018

### Report of the Chief Executive

## BUDGET SETTING: THE CONTEXT FOR MEMBERS

### Matter for Decision

Wards Affected: All

### Purpose of Report

1. This report is designed as context for the Budget process that follows over the next six months or so. It does not contain specific proposals (they are to come); but it is essential for Members to have full information on the range of factors that will feature.

### Background

2. The Director of Finance & Corporate Services presented the scale of the challenge at a Members Seminar on 12 July. The cumulative cuts required for the remainder of this Council term are reproduced below. This represents a total 27% cut on current estimates.

£'000	2019/20	2020/21	2021/22	2022/23
<b>Budget Gap</b>	16,151	17,077	15,395	16,118
<b>Cumulative Gap</b>	16,151	33,228	48,623	64,741
<b>FFP Cuts</b>	-843	0	0	0
<b>Budget Gap @ June 2018</b>	15,308	17,077	15,395	16,118
<b>Cumulative Gap @ June 2018</b>	<b>15,308</b>	<b>32,385</b>	<b>47,780</b>	<b>63,898</b>

3. If anything, the cumulative gap for 2019/20 has risen to approximately £16 million in the intervening period.

## The External Environment

4. This is crucial as three quarters of the Council's budget comes directly from the Welsh Government. A change of 1% of Welsh Government funding equates to circa £2 million either way.
5. There can be no doubt that, in recent years, the Welsh Government has afforded local government in Wales a degree of budgetary protection that has not been the case in England. During the last two years, this Council's final settlement has been marginally either side of zero set against initial estimates of a 1.5-2% cut. However, we cannot rely upon this being repeated for 2019/20 as the Welsh Government has previously advised local authorities to expect a budget cut of circa 1%.
6. Thus everything is relative and the scale of the budget challenge shows no sign of abating – a conclusion reached by independent commentators recently<sup>1</sup>. The issues at Northamptonshire Council (and elsewhere) have been widely reported and a number of Welsh Councils have warned of the dire consequences of their predicament.
7. The key factors bearing on the equation now are as follows:
  - The NHS now accounts for half the total Welsh budget and their share is rising inexorably. However it is dressed up, what this means is less money for everyone else in real terms. The pressures on NHS budgets are accepted as real; but Health Board budgets are regularly topped up in year by the Welsh Government. Not so in local government;
  - There is a lack of realism in many quarters. Barely a week goes by without one lobby or another calling for extra “investment” in one service or another – and it is usually the local authority that is lined up for the hospital pass. The common denominator is that rarely, if ever, do these campaigns identify a service to be cut to fund these “priorities”. It is a luxury they can afford; but we cannot;
  - The financial pressures continue to increase. Pay is the single biggest factor – currently quantified at some £3.3m additional

---

<sup>1</sup> *Public spending in Wales: A Squeeze Without End?* - Eurfyl ap Gwilym and Gerry Holtham (Institute of Welsh Affairs – 29 August) at <http://www.iwa.wales/click/>

cost for next year and if additional costs for teachers' pensions and the Living Wage are factored in, the figure is closer to £4 million.

- This means that Members have much less room for manoeuvre because:
  - ❖ A rising proportion of these pressures are outside of the Council's control. Some two thirds of the pressures for 2019/20 identified by the Director of Finance & Corporate Services now fall into this category;
  - ❖ They are often not fully funded (or funded at all). One current example is Concessionary Fares. Without getting lost in detail, the basic problem is that the actual costs of this scheme rise year on year and the grant from Welsh Government falls. The difference represents a growing budget pressure for the Council and we are pushing back on the sustainability of such arrangements;
  - ❖ The pressures frequently translate into statutory obligations as a consequence of Welsh legislation (where the identification and scrutiny of the additional costs involved has often been very poor). To a greater or lesser extent, previous examples include the Social Services and Well-being (Wales) Act 2014; the Planning (Wales) Act 2015 and the Well-being of Future Generations (Wales) Act 2015. This is a worrying trend exemplified below.

In July of this year, the National Assembly's Children, Young People and Education Committee issued a Committee Stage 1 Report on the Childcare Funding (Wales) Bill. This Council strongly supports Welsh Government policy in this area; but, lamenting the lack of financial detail, the Committee noted that "*The Bill as introduced does not place any new statutory duties on local authorities. Nevertheless, it includes a power .... to confer functions or impose obligations upon a local authority in connection with funding...*" and recommended that "*In relation to possible future costs for local authorities, we believe that any new obligations imposed on local authorities in relation to this Bill should be*

*accompanied by the necessary amount of funding to deliver them; and*

- ❖ Other organisations make increasing calls on the Council's budget e.g. the Fire Authority, South Wales Police and the Coroner's Service which we are obliged to meet under the law via precepts and levies. We are not convinced that all are necessarily cutting their cloth. It can be a relatively easy "out" to pass the impact of cuts to others.
  - Brexit – specifically the (unknown) impact on Government tax revenues short to medium term. The level of national debt relative to GDP has been at the root of public spending cuts in recent years. Current forecasts are that this will begin to fall during this financial year; but beyond that, the position is far more uncertain. Separately, a "no deal" Brexit could conceivably have an immediate impact upon the Council's regeneration and capital programmes if the anticipated transition period does not materialise. The details of the UK replacement – the *Shared Prosperity Fund* – have yet to issue from Whitehall;
  - Various proposals for a "penny on income tax" or hypothecated levies to fund the NHS, social care and/or education. However, as the Welsh Government has stated its intention not to vary income tax before 2021, this is unlikely to feature in our budgetary equation in the short term; and
  - Regional collaboration continues to produce zero or negligible financial dividends. It will not feature as a factor in this Budget Round and we remain concerned that some of these collaborations do not represent best value and are diverting resources from the front line. The regional school improvement consortium is a particular pinch point at present.
8. Most of these issues are considered further below in the context of Directorate budgets.

### **The Emerging Issues for the Council**

9. Inevitably, this analysis represents a snapshot in time. The picture could (and probably will) change for the better or worse in the coming

months. It is a tour of the horizon rather than an exhaustive list of issues; but many look increasingly likely to crystallise.

### Social Services Health & Housing

10. In recent years, the Council has introduced significant service changes in this area which have resulted in tight budgetary control and recurring, modest underspends. However, the scope for repeating this is becoming increasingly limited and recent Budget Monitoring reports<sup>2</sup> show that the Directorate budget is currently projected to overspend during the current financial year. A review of Direct Payments and care packages is currently underway.
11. The unknown factor at present is precisely what the Welsh Government will do with additional resources of some £370 million for 2019/20, being the Barnett consequential of the UK Government £20 billion investment in health to 2023/24. In parenthesis, it is worth noting that the UK Government has been less than clear as to how precisely this will be funded and it could end up being a combination of tax increases and cuts to other areas. In any event, the Welsh Local Government Association (WLGA) has already begun to actively lobby the Welsh Government for a share of the windfall. Our sense at present is that there will be an injection of funding into social care; but how much, through what mechanism (e.g. the Transformation Fund<sup>3</sup>?) and what strings will be attached all remain to be seen.
12. One commentator aptly summed up the choice by stating that putting all of the extra cash into the NHS was like running a bath without inserting the (social care) plug.
13. Closer to home, there are other factors which bear upon social care budgets. Our Local Health Board has recently consulted upon proposals to reduce bed capacity in local hospitals. We and other local authorities challenged some of the assumptions underpinning these proposals, not least because they seem to be predicated on an increase in capacity of community services (but without the identified funding to pay for them). We have also opened a dialogue with ABMU over changing the system on joint funding of care packages including Continuing Health Care. We have found that the Health Board are

---

<sup>2</sup> Cabinet: 1 August 2018

<sup>3</sup> The Cabinet Secretary's response to the Parliamentary Review of Health and Social Care in Wales

increasingly slow to make commitments on their contributions and these translate into budgetary pressures for the Council.

14. In addition, the now confirmed exit of the Bridgend area from ABMU on 1 April next year brings an extra financial dimension as the Health Board's budget will be re-based and the future arrangements for joint social care services (run on the current Western Bay footprint) also need to be resolved. If ABMU loses out in this organisational split, there could be an impact on the Council's budget.
15. There are also other pressures to take into account including learning disabilities services and increases in the cost of contracts with external providers.

### Education

16. For the current financial year, the schools delegated budget benefitted from an inflation proof uplift (more or less). But, as things stand today, a repeat of this for 2019/20 looks unaffordable.
17. There are a number of factors bearing upon this issue. On 24 July, the UK Government announced a teachers' pay award of 3.5%; but that there would be no additional funding for Wales through the Barnett Formula. Put simply, if this increase is not fully funded by the Welsh Government, it will inevitably mean compulsory redundancies in our schools. This is a point acknowledged by the First Minister, trade unions and others. The Council's budget cannot absorb the extra cost.
18. The Additional Learning Needs legislation is another example of inadequately funded reforms. Our current estimates of the full year impact of this legislation will be at least £500,000; but there is no commitment to any recurring and additional funding after 2020. Originally, the proponents of the Bill were claiming that it would be cost neutral or even save money. This has proved fanciful.
19. The position on specific grants is also very likely to be problematic. A number of reductions are already in the pipeline for 2019/20 including big reductions to the Education Improvement Grant (EIG) and the schools post-16 grant on top of the cuts implemented in the current financial year. The Welsh Government has also indicated that there would be flexibility across a number of grant streams, including Flying Start, Supporting People and Families First. But these would

then be subject to a 5% cut. This year's issues with the Minority Ethnic Achievement Grant (MEAG) are well documented – we can only hope to avoid repeat performances elsewhere.

20. These and other pressures mean that we have already started to have difficult conversations with schools e.g. officers do not believe that, in these circumstances, it is credible for some schools to continue to retain substantial reserves, whilst the Council uses our own. A proposal has been made for a proportion of those reserves to be taken back by the Council so that the money can be recycled into the schools delegated budget to mitigate against the impact of the pressures outlined above. Discussions are ongoing; but Members (as school governors) will have an influential role here.

### Environment

21. Proportionately, this Directorate has taken the brunt of the cuts in recent years.
22. There are a number of ongoing pressures. Concessionary Fares are mentioned above – and there is a similar story to be told on the Bus Operators Subsidy Grant. The implications of Brexit are also extremely uncertain and the Directorate has based a number of its programmes on European funding (also above). Other pressures include a squeeze on income from planning fees.
23. We also anticipate a further cut in the Single Environment Grant and, whilst a legitimate decision, not proceeding with the award of contract at the MREC involves significant extra and recurring costs. Further cuts will also impact upon the more “visible” services which the public value.

### Corporate/Central Services

24. The position here is equally challenging and many central services are now in a position where the lion's share of their remaining budgets are accounted for by staff costs (see immediately below). Central Services are also being reconfigured to take account of, for example, the digitalisation agenda.

## **The Impact on the Workforce**

25. This administration (and its predecessor) committed itself to compulsory redundancies only as a last resort. It has to be said that the scope for doing so is now all but exhausted - in fact it was not entirely avoided during the last financial year.
26. Two to three years ago, some 200+ staff were leaving the authority each year under the ER/VR scheme; but the figure for 2017/18 was only 11. The Council's Workforce Agreement has now ended and with national pay pressures ramping up it is very difficult to see how compulsory redundancies can now be avoided. There may be scope for some interim measures (e.g. a blanket ban on recruitment save for exceptional cases); but this is unlikely to be enough as most cuts proposals will inevitably impact, directly or indirectly, on staff.
27. This is a highly regrettable situation; but the combination of factors outlined in this report underline why it is increasingly likely to crystallise in this way. Officers have been warning of the likelihood for quite some time. No-one disputes the right of public service employees to decent pay and conditions (particularly after years of pay restraint and deteriorating conditions in real terms). However, there also no escaping the basic – and inverse - relationship between pay and jobs. If the former increases, the latter reduces.

## **Conclusions**

28. It is a little early to draw definitive conclusions; but the following represents current opinion:
- The Council will need to redouble its efforts on income generation; the digitalisation of services, better commissioning/procurement and other initiatives to close the budget gap as well as continuing to deploy Council reserves judiciously and setting Council Tax increases at an appropriate level. However, all this is not going to be enough on its own. Significant service cuts (including the possible closure of some services in their entirety) are inevitable;
  - The proposed service cuts will need to be aligned, so far as is possible, to the priorities identified in the Corporate Plan. There will be little good news to be had anywhere; but the position on Education (and the schools delegated budget) is looking particularly acute;



- The Council will need to promote more self-help in communities (where there are some encouraging signs) and less dependency on Council services and financial support with the objective of reducing demand upon Council services (e.g. a central factor in the current review of the Third Sector Grants Scheme). In a similar vein, there is an argument for switching resources from education to enforcement around waste services for example. Essentially, the Council has invested heavily in education and awareness programmes in recent years; but the law of diminishing returns appears to have set in. Is there any longer a point in trying to communicate with a minority who are not listening to the messages about recycling and refuse to participate?
- There is also a related and wider issue around the demand on Council services. A detailed analysis of our expenditure is ongoing; but it seems that an increasing proportion of our spend is being directed at a decreasing number of citizens – a variation of the “80/20” argument. The starting point should be that everyone has an equal access public services; but in practice that is not so. Genuine hardship and vulnerability in our communities need to be addressed; but it is arguable that these definitions have become too loose and in certain services policy is promoting dependency;
- Close co-ordination between Members and officers will be essential once the provisional local government settlement is published next month<sup>4</sup>. Another Members Seminar is scheduled for 25 October and staff engagement sessions are arranged for next month as well as further dialogue with the Trade Unions – including next week’s Staff Council meeting; and
- Some pundits continue to predict the collapse of services (non-statutory in particular). Without under estimating the scale of the challenge, we don’t think that it will happen like that. What is more likely – perhaps near certain – is that the Council may to deal with more incremental closures of community facilities - where footfall remains low in some cases - and the total withdrawal of some services. Moreover, officers do not think it inconceivable that some primary schools may have to close on financial viability grounds. These issues were to the forefront of Members’ minds during last year’s budget round (e.g. Pontardawe Arts Centre and the Cefn

---

<sup>4</sup> On or around 10 October 2018

Coed Museum). Work is ongoing to put these facilities on a firmer financial footing – and will be reported separately to Members during the autumn – but again the Council cannot do it all on its own and the need for community activism is greater than ever.

### **Legal Implications**

29. There are many; but the bottom line is that the Council is obliged under section 32 of the Local Government Finance Act 1992 to set a balanced budget.

### **Equality Impact Assessment**

30. None as yet; but this will be an integral part of the process over the autumn and winter months once Members have determined the range of proposals for public consultation (November to January).

### **RECOMMENDATION**

This report proposes no specific decisions at this point. However, it is recommended that Members use the information here as the basis for engaging with Assembly Members, Members of Parliament, other stakeholders and their wider communities – and as background to further reports which will be presented during the autumn.

### **Reasons for proposed decision**

To set the context for the 2019/20 Budget Round.

### **Background Documents**

Presentation by the Director of Finance & Corporate Services: 12 July 2018

Officer Contacts:

Steven Phillips - Chief Executive

Tel No: 01639 763305 E-mail: [s.phillips@npt.gov.uk](mailto:s.phillips@npt.gov.uk)

Hywel Jenkins – Director of Finance and Corporate Services

Tel No: 01639 763251 E-mail: [h.jenkins@npt.gov.uk](mailto:h.jenkins@npt.gov.uk)