

The next wave of austerity in Wales will raise the bar on transforming our public services.

'Uncertain times' has become a bit of a cliché but an example of just how uncertain they are is pointed up in the new study from the Institute for Fiscal Studies (IFS) report on the Welsh Government Budget commissioned by Wales Public Services 2025.

If the UK Government holds to its current spending plans, the Wales budget could be cut by a further 3.2% in real terms (£0.5 billion) by 2019-20, the main cuts coming in 2018-19 and 2019-2020. If all EU grant-funding is lost and not offset by new Whitehall money, that cut would be doubled.

The Chancellor's Autumn Statement (23rd November 2016) could change all this – after all he has mentioned the *possibility* of resetting fiscal policy and the UK Government is no longer aiming for a budget surplus by 2019-20. But, as the IFS report suggests, reducing cuts in the short-term would likely come at cost of additional cuts later on. The UK Government is still committed to achieving a budget surplus so, one way or another, austerity still has some way to run.

Three questions arise for the Welsh Government and National Assembly. Should the new and prospective devolved tax powers be used to raise additional revenue to compensate for lost Whitehall money? How should the cuts be apportioned across public services? How can the impact of any service cuts be mitigated?

The report says that, assuming the proposed partial income tax devolution happens, a 1% increase in tax rates across the board could offset almost half the cuts. But the signals from the First Minister and a discussion in the Assembly elections which was mostly about tax cuts suggests that this is unlikely. The issue also needs to be seen in the context of council tax rises. Council tax rates in Wales have exceeded inflation in recent years and the Office for Budget Responsibility is forecasting increases of 4% a year in Wales over the next 3 years. Some in local government think the figure is an under-estimate and point to a host of cost pressures. Raising further revenue is not an easy option.

Wales has tended to protect health (at least since 2014-15), social services and schools from cuts, at the expense of areas such as economic development, environmental initiatives, further and higher education, highways, leisure, culture and so on. If this pattern continues, 'unprotected' services could face cuts averaging 12% or more over the next 3 years under current plans and forecasts. Local government spending would continue to be hit, its support from the Welsh Government already having fallen by 10% in real terms 2010-11 to 2014-15.

The level of 'protection' required would be dependent, among other things, on whether the UK Government's policy of an upper limit of 1% on public sector pay increases holds firm. There are signs that this is having an impact on recruitment and retention in, for example, some areas of health. It is too early to judge how any limitations to 'free movement' might affect this

'Protection' generally means maintaining spending in real terms rather than growth but, as is frequently pointed out, demand for health, social care and, in some localities, schools is growing for demographic and other reasons. But the divide between 'protected' and 'unprotected' is complicated because the outcomes from 'unprotected' and 'protected' services are interconnected. High poverty levels feed directly into demand, for example, for health services but access to good skills-development, housing, transport and allied services are critical in contributing to employment as a route out of poverty and increased well-being.

In the debate about public service policy, the consensus answer to the dilemma of how to balance money, demand and outcomes is that services have to transform themselves as well as becoming

more efficient. This is a debate largely among politicians and professionals but the necessary scale of change depends on a vision which the public as well as staff buy into. It also depends on having the capability and support on the ground to drive the changes through. Wales has further to go on both aspects if this is to become serious business.

We should be encouraged that there has been great change in many aspects of public services but the IFS report serves to remind us that we really are only still in the foothills in terms of the scale and pace required. To quote the Auditor General for Wales, 'public services are yet to develop the long-term and radical change that is needed'.

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