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2025

**Gwasanaethau Cyhoeddus Cymru**  
**Wales Public Services**

Austerity and Local Government in Wales: an analysis of  
income and spending priorities, 2009-10 to 2016-17

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# Austerity and Local Government in Wales: an analysis of income and spending priorities, 2009-10 to 2016-17

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## Summary

This briefing paper is the first in a short series by Wales Public Services 2025 on the changing face of local government finance in Wales. The context is the UK-wide programme being undertaken by the Institute for Fiscal Studies, *A time of revolution?*

The paper looks at the impact of the UK Government's fiscal consolidation policies, and the Welsh Government's response, on the revenues and expenditure (excluding capital) of the twenty-two unitary authorities in Wales from 2009-10 to 2016-17 and the funding of 'protected' and 'unprotected' services.

The analysis is based on the outturn figures submitted annually by local authorities and it applies analysis at the NUTS 2 level (which divides Wales into two economic regions, West Wales & the Valleys and East Wales) so as to illustrate the variation in changes to revenues and service spending. Changes over time are expressed in real terms (2017-18 prices).

### ***Welsh Government and austerity***

Welsh Government resource spending, excluding depreciation, fell by 6 per cent over the period. The Government's response to the reduction evolved over time, with year-on-year real terms growth in NHS spending (from 2013-14 onwards) and protections for spending on schools and social services. NHS spending grew as a proportion of the Welsh resource budget, reaching 48 per cent in 2017-18 (First Supplementary Budget). Real-terms cuts in most other areas of the budget included funding for local government.

### ***Local authority revenues, 2009-10 to 2016-17***

Excluding fees and charges (largely flat through the period), net local authority revenues from Welsh Government grants, business rates and collected council tax fell by 7.5 per cent over the period, equivalent to £529 million (see Table E1).

Within that reduced total, there was a significant rebalancing of revenues from Welsh Government grants to council tax. Income from Welsh Government grants (RSG plus specific grants, but excluding housing benefit) fell by 16 per cent (£805 million). This was partially offset by increases in council tax where local authorities took advantage of the greater, though still limited, flexibility offered by the Welsh Government compared to counterparts in England and Scotland. Collected council tax revenues increased by 21 per cent (£246 million). The average all-Wales Band D council tax rate increased by 13 per cent (£163). Business rate income also increased, although by a relatively marginal amount (£30m).

**Table E1: Local government revenues\* by source, excluding fees and charges, 2009-10 to 2016-17 (2017-18 prices)**

	LA spending (£m)		Percentage (ppt) change
	2009-10	2016-17	
<b>All-Wales</b>			
Welsh Government grants (ex. HB)*	4,975	4,170	-16.2
<i>% of total revenues</i>	<i>70.2</i>	<i>63.6</i>	<i>-6.6</i>
Council tax (collected)*	1,199	1,445	20.6
<i>% of total revenues</i>	<i>16.9</i>	<i>22.0</i>	<i>5.1</i>
NDR	913	943	3.3
<i>% of total revenues</i>	<i>12.9</i>	<i>14.4</i>	<i>1.5</i>
<i>Total</i>	<i>7,087</i>	<i>6,558</i>	<i>-7.5</i>

Note: \*Council tax receipts are net of council tax benefit/reduction scheme which has been included within both the 2009-10 and 2016-17 Welsh Government grant figures.

Source: Financing of gross revenue expenditure (available here: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Revenue>) and in-year council tax collection (available here: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Council-Tax/Collection>).

### *Impact at the NUTS 2 level*

The financial impact was greater on those authorities with a smaller local tax base that were hence more dependent on Welsh Government grants. Overall, grant per head fell by £320 in West Wales & the Valleys compared with £254 in East Wales. This was accompanied by a higher increase per head in council tax revenues in West Wales & the Valleys; 19% compared with 16% in East Wales. This may have reflected the need for low tax base authorities to raise their rates above those of less grant dependent authorities to realise equivalent sums.

Authorities in West Wales & the Valleys, a region with a higher prevalence of relative deprivation, proportionately lost more grant and had to raise tax rates higher if they wanted to replace lost revenues. Council tax increases appear to be outstripping growth in household disposable income, which may pose challenges in terms of future increases. Moreover, drawing on the recent results from the *National Survey for Wales* (2016-17), there appears to be a strong inverse correlation between Band D council tax levels and reported satisfaction with council services, which may raise additional concerns.

## Reserves

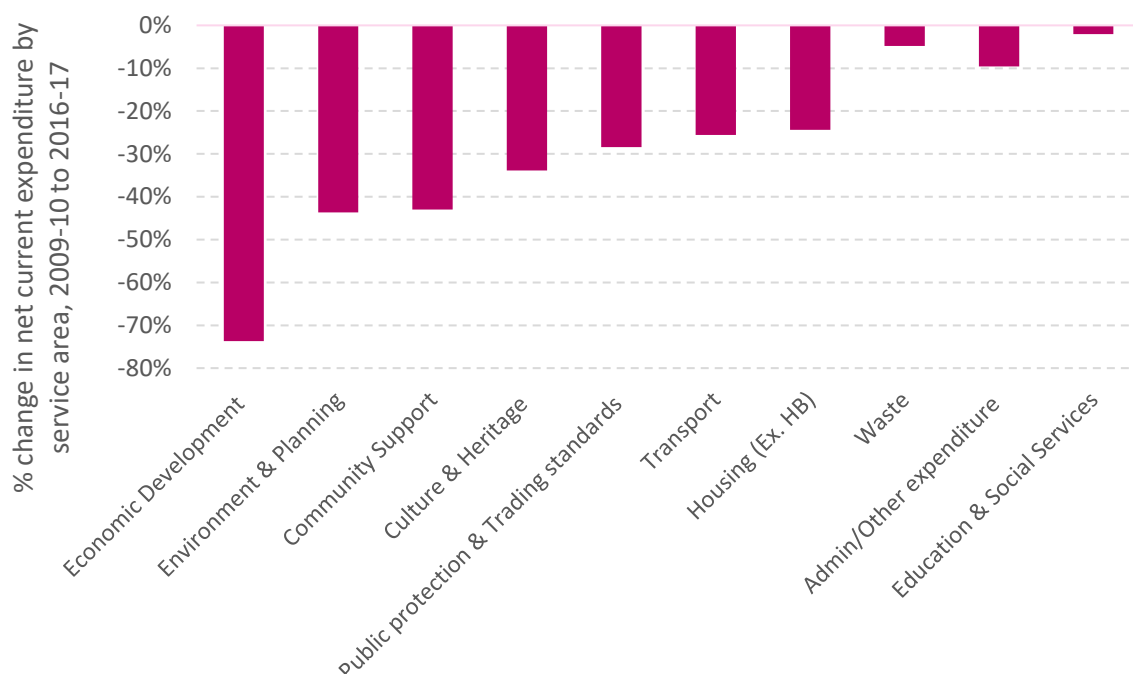
Usable local authority reserves had risen by 52 per cent from 2009-10 to 2016-17 to around £1.4 billion, the main growth being in earmarked reserves. This was despite expectations that earmarked reserves would fall over time. Some of the earmarked reserves are against specific schemes and capital plans but some may reflect a response to enhanced risks in times of uncertainty and cuts.

### **Local government revenue expenditure**

Between 2009-10 and 2016-17, total spending on services by the unitary authorities declined by £543 million in real terms, representing an 8.7 per cent reduction in net current expenditure. Total net current expenditure on services captures the amount that local councils spend on service provision excluding capital expenditure and income from fees and charges.

Authorities broadly sought to protect spending on schools and personal social services, although there were some reductions. Spending on all other services declined overall by 26 per cent (£451 million). Overall, the percentage cuts were highest in economic development, environment & planning and community support (Figure E1) – it should be noted, however, that the Welsh Government also spends on these areas at the national level.

**Figure E1: Cuts to net current service spending by service, 2009-10 to 2016-17 (2017-18 prices)**



Source: Local government revenue outturn data, available at: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Revenue/Outturn/revenueoutturnexpenditure-by-authority>

Overall spending on all services reduced by 9.8 per cent in West Wales & Valleys compared with 6.5 per cent in East Wales (11.5% and 9.7% on a per capita basis respectively). In addition to variations across services, there was also significant variation between regions in how local authorities appear to have responded to the fall in revenue. Figures suggest that cuts to unprotected services in West Wales & the Valleys tended to be slightly lower than in East Wales, whereas reductions in social services spending tended to be higher.

Most of the period 2009-10 to 2016-17 was subject to a specific Welsh Government commitment to protect funding for schools. Despite fulfilling this commitment, schools' budgets saw a cut in spending per pupil of 4.4 per cent, equivalent to £254 per head. Spending per pupil declined by relatively more in East Wales, 4.8 per cent (£272), compared with 4.1 per cent (£240) in West Wales and the Valleys.

Across Wales, total spending on social services increased slightly by £30.4m (1.7%). This was led primarily by increased spending on younger adult (aged 16-64) social care services (£23m or 4.1%) at the all-Wales level. Comparative figures for spending on children and families services are complicated by the changing treatment of the *Flying Start* programme. But in general terms it looks as though spending on children and families services increased by 2 per cent. In contrast, spending on older adult social care (aged 65+) decreased, albeit marginally, by 0.8 per cent (£4.3m).

Spending per head on older adult social care fell by 14.4 per cent across Wales, equivalent to £149 per adult aged 65 and over. Indeed, in almost half the authorities, spending per head fell by over a fifth. The fall in spending may reflect changing patterns of demand or changing ways of responding to demand as the older population increases. However, spend per service user increased by 17 per cent at the all-Wales level (£1,646 more per user), or by 12 per cent in East Wales and 19 per cent in West Wales and the Valleys.

One explanation could be that local authorities are switching focus towards concentrating support on a smaller number of relatively high needs individuals. This may in turn reflect a growing role for informal care and also changing patterns of service activity to promote independent living. Better health and wellbeing monitoring data in Wales akin to longitudinal sources in England would be helpful in assessing the state of current health levels and potential demand for health and social care services.

## **Conclusion**

Analysis by the Institute for Fiscal Studies has shown that local government in Wales has been cut less than in England and, for example, in social care there has been less of a sense of crisis. The distinctive path in Wales of using council tax as a partial offset has undoubtedly

helped, but there may be limits to a reliance on this as a future response. Success in the Welsh Government's commitment to making council tax more progressive would help. There is an associated concern about the impact on the more grant dependent and typically poorer authorities.

The cuts to unprotected services have varied and, though deep, the fabric of public services in general is still in place. We warn though, in our work on the Welsh Government budget, that a further period of similar cuts will raise questions about future sustainability.



# Introduction

Across the four UK nations, local government is undergoing substantial change and facing new challenges. The change agenda across the four UK nations is developing in very different ways. At present, the Institute for Fiscal Studies (IFS) is looking at the future of local government finance across the UK in its new research programme, *A time of revolution?*<sup>1</sup> The IFS is primarily concentrating on the big changes in England and, with its encouragement, the Wales Public Services 2025 programme is investigating some of the issues for local government finance in Wales.

## Overview

This paper analyses historic changes in the patterns of local authority income and expenditure in Wales taking place through the period of UK fiscal policy since 2009-10 to 2016-17 and the impact on spending of austerity across the range of local public services.

In work to come, the Wales Public Services 2025 local government programme will be looking forward – for example exploring the arguments around local retention of business rates in Wales and the financial challenges of the more systematic approach to regional working by local authorities which underpins current Welsh Government policy.

## *The scope*

The analysis in this paper draws on the annual returns of outturn revenue and capital expenditure submitted to the Welsh Government's Statistics and Research Department (Stats Wales)<sup>2</sup> by local authorities in Wales. The analysis covers the twenty-two unitary authorities: it does not extend to the Fire & Rescue Authorities, the National Parks or the Police & Crime Commissioners.

The returns, known as the RO figures, reflect the *actual* income and expenditure of the authorities rather than their plans, so they look back rather than forward. The advantage of using outturns is that they capture expenditure already made, and they have the status of official statistics.<sup>3</sup> The disadvantage is that, even within the framework of guidance issued by Stats Wales, the classification of expenditure by individual local authorities is inevitably subject to a degree of local interpretation which may not always be consistent. Experience of

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<sup>1</sup> <https://www.ifs.org.uk/publications/8705>

<sup>2</sup> <http://gov.wales/statistics-and-research/local-authority-revenue-capital-outturn-expenditure/?lang=en>

<sup>3</sup> See the 'Key quality information' in the Local authority revenue and capital outturn expenditure 2016-17 Statistical First Release (StatsWales, 2017).

interrogating the data suggests that such issues are more likely to arise with the lower and more discretionary areas of spending rather than distorting the bigger picture and overall trends.

In this paper, changes over time are expressed in real terms (2017-18 prices). As part of our commitment to transparency and clarity of analysis, we will be making all the data used in this analysis available on our website.

### ***Comparisons between authorities: using a NUTS 2 lens***

The twenty-two unitary authorities in Wales reflect differing spatial, demographic, economic and social characteristics, making comparisons between individual authorities often problematic. One approach to tackling disparities at the individual local authority level is to group authorities together.

To draw this out, we have applied the NUTS classification (Nomenclature of Territorial Units for Statistics), a well-established Eurostat framework which, of course, underpins the allocation of EU regional development funding. Although Wales divides into only two NUTS 2 regions, (West Wales & the Valleys and East Wales – the latter having the higher Gross Value Added per head than the former),<sup>4</sup> this is sufficient to illustrate some of the differences in the experience of local authorities across Wales. However, it is also worth pointing out that even within the NUTS 2 regions there is substantial variation between local authorities. The NUTS 2 approach therefore facilitates a high-level regional analysis to illustrate some of the key issues.

## **Economic and fiscal context**

### ***UK fiscal policy***

Although business rates were devolved to Wales in 2015-16, a major shift in tax devolution and the associated new Fiscal Framework Agreement for Wales is only now beginning to take effect. For the period under study in this paper, the Welsh Government's spending budget was largely determined by the HM Treasury's control totals and Block Grant.

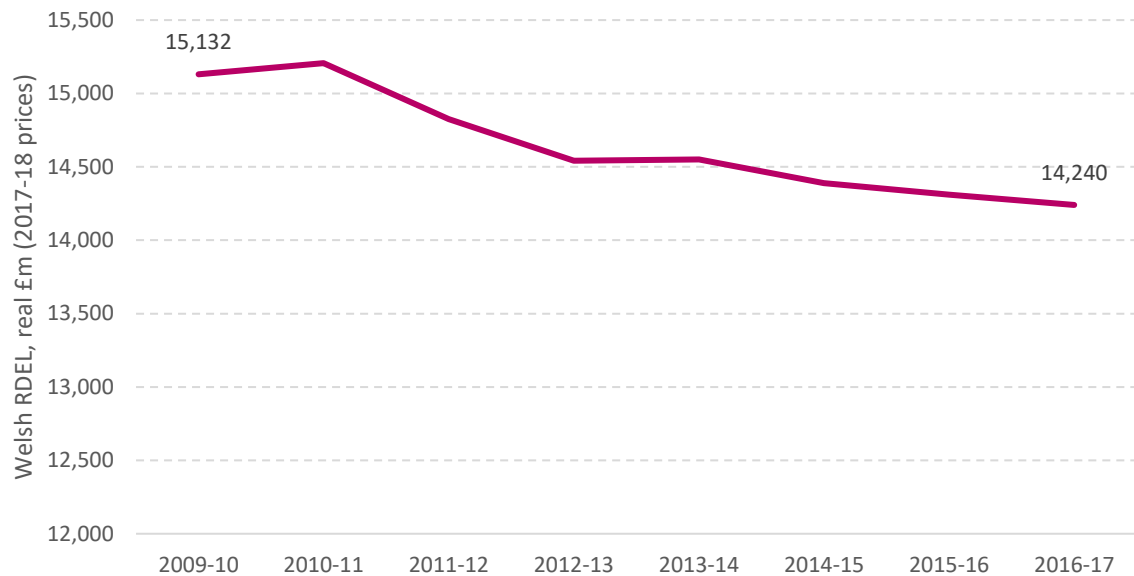
The UK Government's plans for fiscal consolidation to reduce, and then eliminate, the deficit in the UK budget have meant a significant real terms reduction in the Welsh Government Budget. Excluding depreciation, Welsh Government resource spending on day-to-day

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<sup>4</sup> <https://www.ons.gov.uk/economy/grossvalueaddedgva/datasets/regionalgrossvalueaddedincomeapproach>

services (adjusted for business rates and council tax benefit) fell by about £900m between 2009-10 and 2016-17 (see Figure 1), or by about 6 per cent in real terms (PESA 2014-2017).

**Figure 1: Welsh Government resource DEL outturns 2009-10 to 2016-17 (adjusted)**



Source: The figures for Wales RDEL outturns (excluding depreciation) for 2009-10, 2010-11 and 2011-12 figures are sourced from PESA 2014, 2015 and 2016 respectively, Table 1.5. The remaining RDELs are taken from PESA 2017 Table 1.5. Please note that the figures have been adjusted for business rates from 2015-16, and for council tax benefit (for years before 2013-14).

### **Welsh Government response**

The Welsh Government’s response to the fall in its budget evolved over time, including the emergence its priorities for spending which, in practice, distinguished between services where spending was protected and those where it was not.

An initial signal of this was the commitment in the Labour Party 2011 manifesto to increase spending on schools by ‘at least 1% above the percentage change in the block grant’<sup>5</sup> received from the UK Government. The protection of schools spending and social services spending was a repeated theme in recent Welsh Government budgets. For example, the draft Welsh Budget for 2016-17 said that,

*‘Protecting and increasing resources for frontline schools delivery has been the cornerstone of our approach for major improvements in the education system over the last five years.’* (p. 2)<sup>6</sup>

A similar policy was adopted in relation to social services, the 2016-17 draft budget saying,

<sup>5</sup> <http://www.manifesto.com/wp-content/uploads/2014/07/welsh-labour-manifesto.pdf>

<sup>6</sup> <http://gov.wales/docs/caecd/publications/151208-budget-narrative-eng.pdf>

*'[W]e have taken steps over the last five years to protect local authority social service provision from the worst of the cuts.'* (p. 1)<sup>7</sup>

What this meant in financial terms for local authorities was significantly affected by the shift in Welsh Government policy on funding NHS Wales. Following a real-terms fall in the core NHS spending in the first years of austerity, the Welsh Government, from 2013-14 onwards, increased NHS resource spending year-on-year in response to cost and demand pressures. NHS spending has steadily increased as a proportion of the Welsh resource budget since, to reach 48 per cent in 2017-18 First Supplementary Budget, up from 43 per cent in 2011-12 (Welsh Budget data).

The austerity context together with the protections granted to large components of the Welsh Government level budget, has inevitably had a downward impact on the total available for all other spending, including the funding for local authorities. According to recent IFS research, almost a third of English councils faced cuts of at least 30 per cent over 2009-10 to 2016-17 (Amin-Smith et al., 2016). Although cuts to Welsh local government grants were less than those to their English counterparts, the impact was still significant, and there was substantial variation between authorities. This paper explores how local authority income has changed through the period of austerity, the impact on local authority spending on local services and how local authorities have responded to the Welsh national policies of protecting spending on schools and local services.

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<sup>7</sup> <http://gov.wales/docs/caecd/publications/151208-budget-narrative-eng.pdf>

## Local government revenues & reserves, 2009-10 to 2016-17

### Changes to sources of local government revenue

Changes to the structure of council revenues since 2009-10 reflect a significant rebalancing of how local government is funded in Wales (Table 1). Publicly funded local government services (otherwise known as net service spending or net current expenditure), are financed via three principal sources of revenues: Welsh Government grants (the general revenue support grant (RSG), plus hypothecated specific and special grants earmarked for particular services), council tax and non-domestic rates (NDR).<sup>8</sup>

**Table 1: Local government revenues by source\* excluding fees and charges, 2009-10 to 2016-17 (2017-18 prices)**

	LA spending (£m)		Percentage ( <i>ppt</i> ) change
	2009-10	2016-17	
<b>All-Wales</b>			
Welsh Government grants (ex. HB)*	4,975	4,170	-16.2
<i>% of total revenues</i>	70.2	63.6	-6.6
Council tax (collected)*	1,199	1,445	20.6
<i>% of total revenues</i>	16.9	22.0	5.1
NDR	913	943	3.3
<i>% of total revenues</i>	12.9	14.4	1.5
<i>Total</i>	7,087	6,558	-7.5

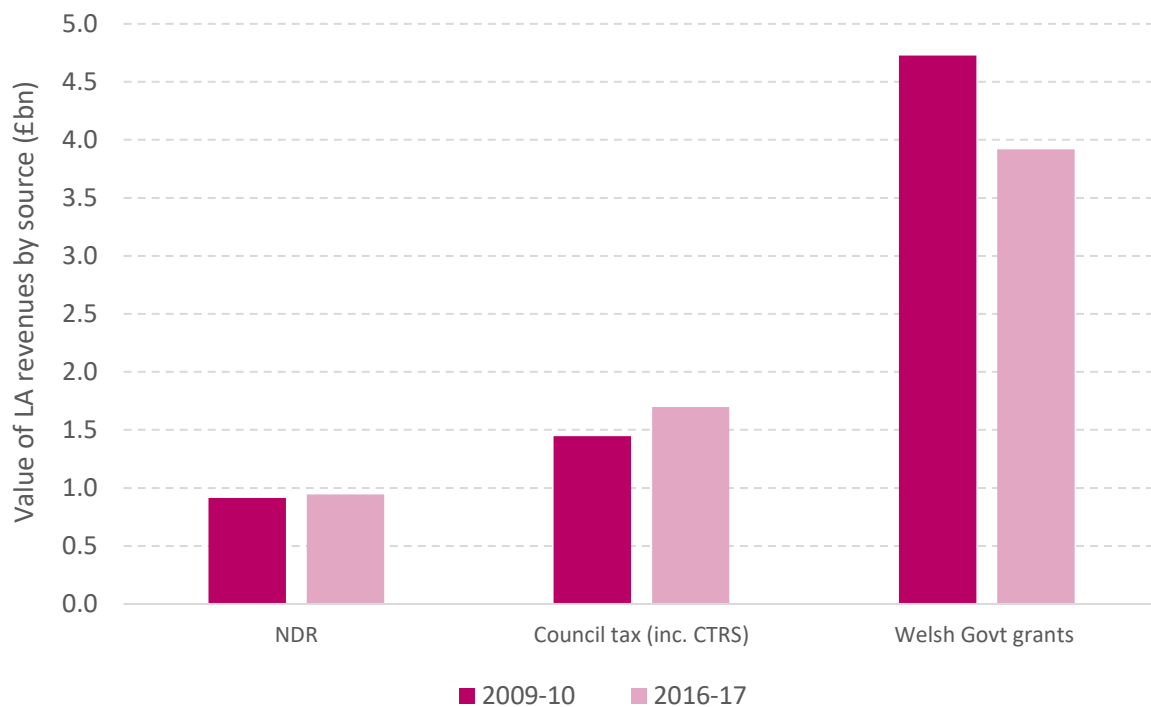
Note: \*Council tax receipts are net of council tax benefit/reduction scheme which has been included within both the 2009-10 and 2016-17 Welsh Government grant figures.

Source: Financing of gross revenue expenditure (available here: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Revenue>) and in-year council tax collection (available here: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Council-Tax/Collection>).

<sup>8</sup> All 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 is sent directly to Welsh councils from DWP to match demand. Any additional sums spent by Welsh councils on housing benefit and housing benefit administration over and above the amount they receive from the UK government are included, although these figures are relatively negligible in size.

Figure 2 summarises the changes to each of these revenues at the all-Wales level over the recent period of austerity (2009-10 to 2016-17). The largest change occurred with respect to Welsh Government grants, which by 2016-17 had declined by 17.1% (£808m) relative to 2009-10 once council tax benefit payments are excluded from analysis.<sup>9</sup> In the context of net service spending, this decline was equivalent to nearly a third of the entire amount spent on maintained schools in Wales according to the latest available revenue outturn data (2016-17).<sup>10</sup>

**Figure 2: Sources of local government revenues, 2009-10 to 2015-16 (2017-18 prices)**



Source: Financing of gross revenue expenditure (available here: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Revenue>) and in-year council tax collection data (available here: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Council-Tax/Collection>).

Collected council tax (i.e. excluding council tax benefit, now the Council Tax Reduction Scheme – CTRS) showed a marked increase of 20.6% (17.2% including CTRS payments) between 2009-10 and 2016-17, equivalent to £246m (£249m including CTRS payments). Revenues from NDR saw a comparatively smaller rise over the period, increasing by just 3%

<sup>9</sup> Note that this figure differs from that in Table 1 owing to the exclusion of CTRS here, and the inclusion of CTRS in the table.

<sup>10</sup> In 2016-17, the total net service spend among local authorities in Wales on nursery, primary, secondary and special schools came to £2.58bn (2017-18 prices). Local government revenue outturns for Wales are available here: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Revenue/Outturn/revenueoutturnexpenditure-by-authority>.

(£30m) in real terms.<sup>11</sup> Rises in locally-sourced revenues were therefore not able to fully offset the reductions in Welsh Government grant support, leaving a net revenue deficit of £529m in 2016-17 relative to 2009-10. In service terms, this is almost as much as the entire amount spent by Welsh councils on older adult social care services in 2016-17.<sup>12</sup>

Changes to the structure of local government revenues were not, however, uniform across Wales. Figure 3 shows the relative contribution of each revenue source to the monetary change in local authority revenues per head for Wales as a whole, as well as for the two Welsh NUTS2 statistical regions (West Wales and the Valleys and East Wales).<sup>13</sup> While changes in NDR were negligible across Wales given their basis of redistribution (pro rata to adult population in each council's area), reductions in the value of Welsh Government grant support per head were larger in West Wales and the Valleys compared with East Wales (£320 > £254), although revenues in the latter region fell from a lower starting base in 2009-10.

Indeed, despite some convergence between the regions since 2009-10, grant revenues in West Wales and the Valleys remained higher than in East Wales by £149 per head in 2016-17. This is not surprising given that the funding formulae used in distributing the service specific RSG allocations to each local authority (Indicator Based Assessments – IBAs) attempt to take specific account of relative area needs, with none of the seven authorities in East Wales ranked in the bottom half of the Welsh index of Multiple Deprivation (WIMD 2008) prior to 2009-10.<sup>14</sup>

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<sup>11</sup> In Wales, annual increases in Non-Domestic Rates (NDR), also known as Business Rates, are set by the Welsh Government with reference to a specific multiplier. Normally the multiplier is set according to the Retail Price Index (RPI). The slight rise of 3 per cent reported may therefore partially reflect the GDP deflator series used throughout this analysis. Another reason for the NDR increase will be the rise in rateable properties (hereditaments) in Wales over the period. For more information please refer to the following source: <http://gov.wales/topics/localgovernment/finandfunding/businessrates/?lang=en>.

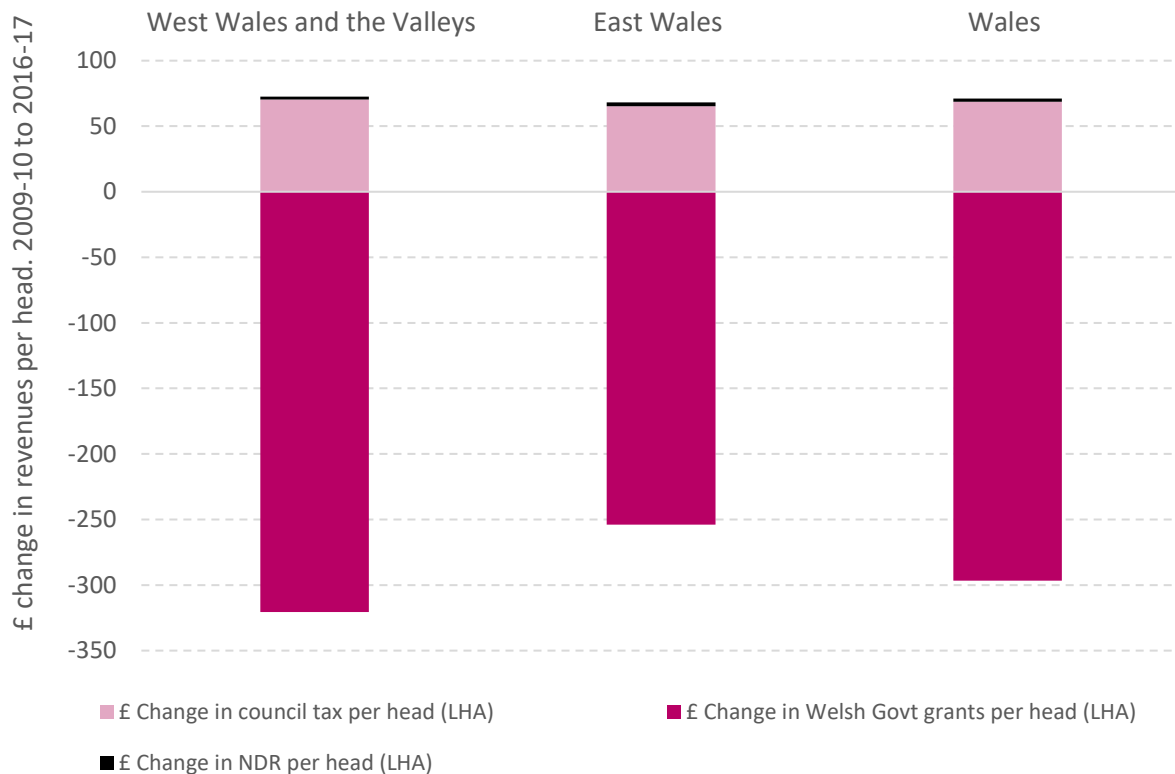
<sup>12</sup> In 2016-17, Welsh councils spent a combined £565m (2017-18 prices) providing older adult social care services.

<sup>13</sup> The Nomenclature of territorial units for statistics (NUTS) is a standard geographical classification that subdivides territories of the European Union (EU) into regions at three different levels (NUTS 1, 2 and 3, respectively, moving from larger to smaller territorial units). At Level 2 (NUTS2), Wales is divided into just two groups: West Wales and the Valleys and East Wales. Information on which local authorities fall within each territory is available here: <https://www.ons.gov.uk/methodology/geography/ukgeographies/eurostat#wales>.

<sup>14</sup> Authorities in Wales may be ranked in terms of their relative deprivation or need by the number of their lower layer super output areas (LSOAs) within a specific proportion of the most deprived LSOAs for Wales as a whole. These small LSOAs contain an average population of 1500 people, and are therefore a useful standardised measure with which to compare local authorities. In this example, we have compared the percentage of LSOAs across authorities in the most deprived 50% of the total 1896 LSOAs in Wales. However, results are sensitive to the acuteness of the deprivation considered in an analysis. For instance, urbanised local authorities with pockets of high level deprivation will appear as relatively more deprived when considering the most deprived 10% of LSOAs only as compared to the most deprived 50%. Here we have used the 50% cut off as this likely represents a better measure of average area deprivation.

Nonetheless, both in terms of the size of cuts managed and as a proportion of their 2009-10 grant revenues (19.6% > 17.9%), West Wales and Valleys saw the biggest decrease in Welsh Government support up to 2016-17.<sup>15</sup>

**Figure 3: Contribution of revenue sources to the overall change in local government revenues per head, 2009-10 to 2016-17 (2017-18 prices)**



Source: Financing of gross revenue expenditure (available here: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Revenue>) and in-year council tax collection data (available here: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Council-Tax/Collection>).

<sup>15</sup> Note that these figures were calculated with reference to Welsh Government grants excluding housing benefit, housing benefit administration and the council tax reduction scheme (CTRS). Including the CTRS (formally council tax benefit) within both the 2009-10 and the 2016-17 grant figures does not alter the general pattern described, with the size of cuts managed in West Wales and the Valleys larger as a proportion of grant revenues in 2009-10 than in East Wales (17.2% > 14.2%).



### ***Regional variation in council tax growth***

In addition to seeing the largest declines in Welsh Government grant support per head, West Wales and the Valleys was also the region with the higher per person growth in council tax revenues. Between 2009-10 and 2016-17, total collected council tax revenues per head grew by 18.8% compared to 15.8% in East Wales, although revenues per head still remained higher in East Wales given its larger number of band D equivalent dwellings per head of population.

Rises in council tax reflected a Welsh Government policy decision not to institute a freeze (as in Scotland) or limit increases through a tight cap (as in England). The average All-Wales Band D council tax rate rose by 13.2% in real terms between 2009-10 and 2016-17, albeit with some local variation. For instance, one council's Band D rate rose by little over 4.5% between 2009-10 and 2016-17, and actually decreased in real terms relative to 2015-16, reflecting the council's stated commitment to instituting the lowest council tax rise in Wales.<sup>16</sup> As a result of these changes, by 2016-17, 20.2% of all local authority revenues in West Wales and the Valleys derived from collected council tax, compared with 25.8% in East Wales. In 2009-10, these shares were 15.1% and 20.9% respectively, highlighting the increasing importance of council tax revenues across local authorities.

In 2016-17, total collected council tax equated to £452 per person in West Wales and the Valleys, compared to £485 per person in East Wales. After accounting for council tax discounts and exemptions, there was one fully taxable band D equivalent dwelling per 2.7 people in West Wales and the Valleys compared to every 2.4 people in East Wales.<sup>17</sup> Put another way, if West Wales and the Valleys had the same population adjusted density of band D equivalent dwelling as East Wales, its overall base would be 12% larger.

Although the Welsh Local Government Revenue Settlement compensates individual local authorities for any relative deficit in their number of taxable dwellings when allocating general grant funding, it does so only in relation to the pre-set annual value of the RSG through a distribution mechanism known as the Standard Spending Assessment (SSA). SSA funding equals the sum of NDR, council tax and the RSG, and represents a fixed total agreed by the Welsh Government for each individual local authority. In this framework, council tax represents only a notional figure based on a single standard Band D rate being applied, albeit

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<sup>16</sup> South Wales Argos (2017), 'Caerphilly council agree to 'lowest tax increase in Wales' with one per cent rise', (available here: [http://www.southwalesargos.co.uk/news/15113159.Caerphilly\\_council\\_agree\\_to\\_\\_lowest\\_tax\\_increase\\_in\\_Wales\\_\\_with\\_one\\_per\\_cent\\_rise/](http://www.southwalesargos.co.uk/news/15113159.Caerphilly_council_agree_to__lowest_tax_increase_in_Wales__with_one_per_cent_rise/))

<sup>17</sup> Data on the number of Band D equivalent dwellings by Welsh local authority is available here: <https://stats.wales.gov.wales/Catalogue/Local-Government/Finance/Council-Tax/Dwellings/counciltaxdwellings-by-localauthority-ct1rowdescription>.

hypothetically, by all local authorities, referred to as the Council Tax for Standard Spending (CTSS). In this formula, as one authority's tax base increases relative to the others, its RSG allocation decreases relatively, leaving the total value of its SSA unchanged.<sup>18</sup> In this way, more grant dependent authorities are compensated for their lower tax base, which partially explains why West Wales and the Valleys receives a greater level of revenue support from the Welsh Government per head of population, irrespective of greater service need.

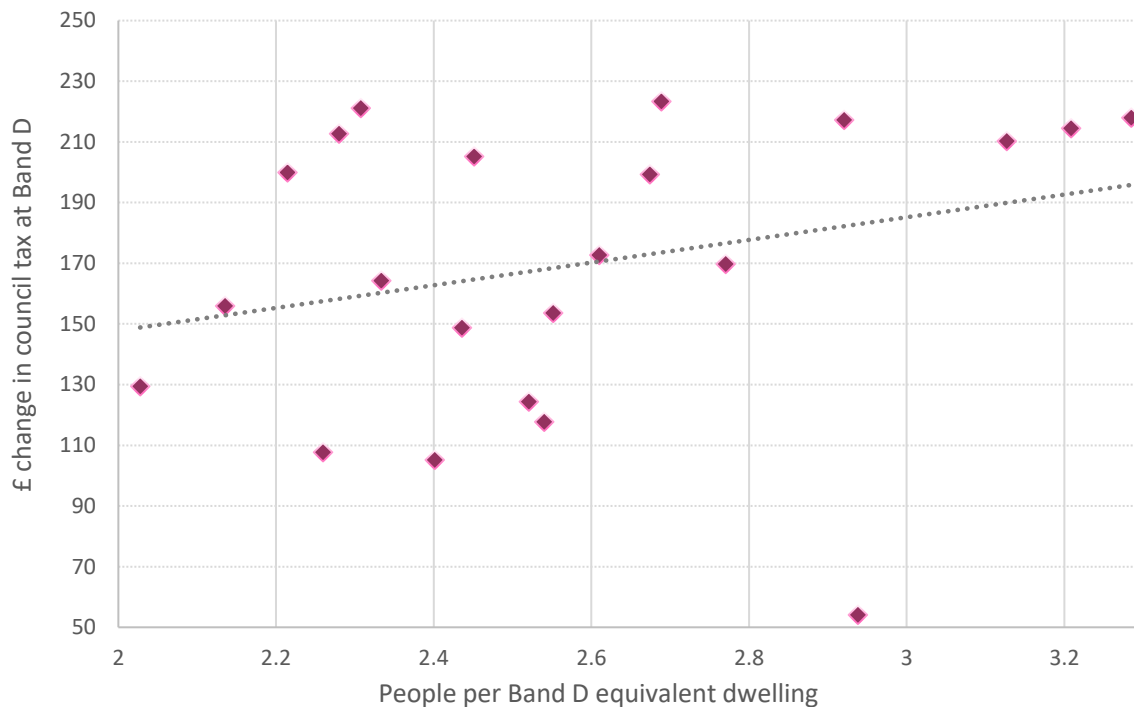
As a result of this distributional framework, if all authorities wished to spend at their predetermined SSA, we would not see any differences in Band D rates emerge across authorities. However, low tax base authorities wishing to maintain a specific level of service spending during periods of cuts to local government funding (i.e. when the RSG falls in value), or those that wish to spend above their SSA, will need to raise their rates significantly above those of the less grant dependent authorities given a comparatively lower return to the same marginal increase in their rates.

Figure 4 plots the number of people per Band D property in each local authority (a population adjusted measure of relative tax base) in 2016-17 against the cash change in the value of the Band D rate since 2009-10. Despite political preferences among certain authorities in favour of maintaining lower rates, an association emerges showing that, on average, the higher the population per Band D dwelling, the greater the change in the monetary value of the Band D rate. This dynamic is reflected in the broad regional differences shown in the trajectory of the average Band D rate between 2009-10 and 2016-17 (Figure 5).

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<sup>18</sup> RSG is therefore referred to as a 'balancing sum' in that it tops up the amounts available from NDR and council tax, enabling an authority to spend at its SSA. For more information on how local government revenues are distributed, please refer to the following source: <http://gov.wales/docs/dsjlg/publications/localgov/170328-green-book-en-v1.pdf>.

**Figure 4: Relationship between population per Band D equivalent dwelling 2016-17 and change in the Band D rate by local authority, 2009-10 to 2016-17**



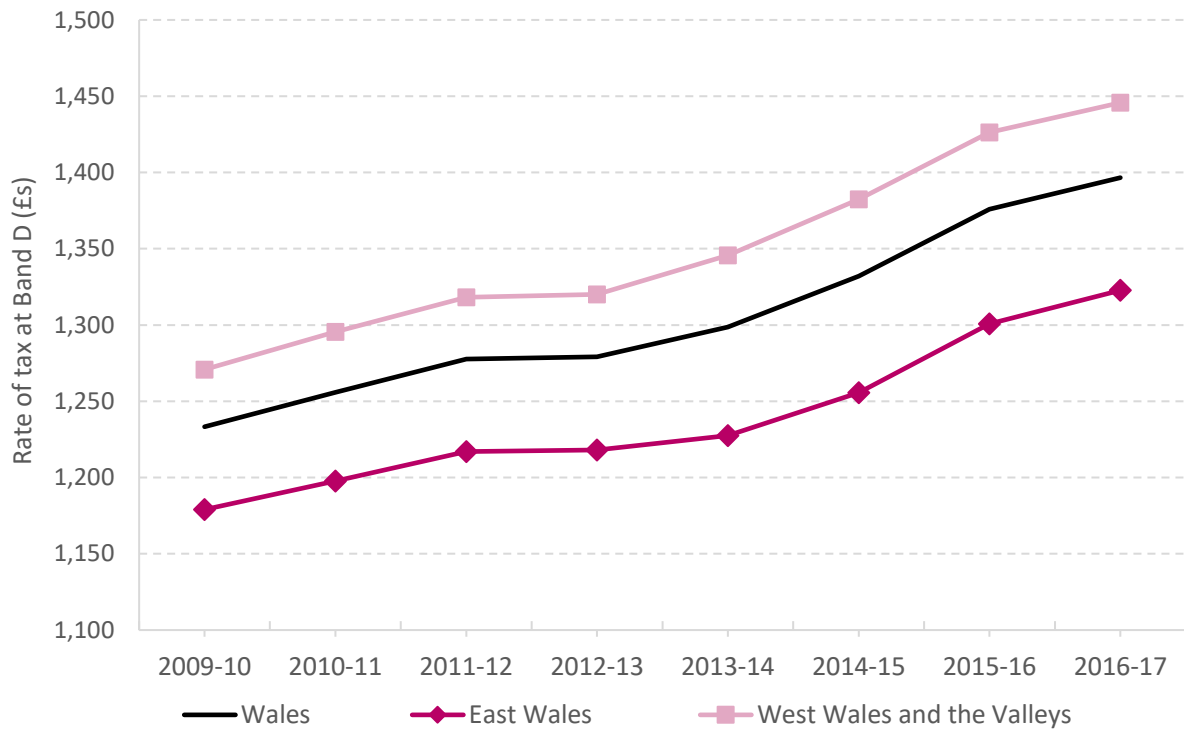
Source: Band D equivalent (E1) dwellings by local authority data, available at: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Council-Tax/Dwellings/counciltaxdwellings-byct1rowdescription>.

Between 2009-10 and 2015-16, growth in gross disposable household income (GDHI) lagged significantly behind rises in local rates.<sup>19</sup> As a result, council tax (excluding CTRS receipts) began to constitute a greater share of household disposable income (see Figure 6), particularly in West Wales and the Valleys where GDHI growth was lower than the rest of Wales by almost 1 per cent.<sup>20</sup>

<sup>19</sup> GDHI is the amount of money that all individuals in the household sector have available for spending or saving after they have paid direct and indirect taxes and received any direct benefits. Estimates relate to totals for all individuals within the household sector for a region rather than to an average household or family unit (see source: <https://statswales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/Regional-Accounts/Household-Income/grossdisposablehouseholdincome-by-area-measure>). Between 2009-10 and 2015-16 (i.e. the latest year for which we have data), GDHI rose by 3.5 per cent across Wales (4% in East Wales and 3% in West Wales and the Valleys).

<sup>20</sup> Council tax represents only a small fraction of total area GDHI (2.7% at the all-Wales level in 2015-16). In 2009-10, council tax represented 2.39 per cent of GDHI in West Wales and the Valleys compared to 2.44 per cent in East Wales. By 2015-16, its share had grown to 2.70 per cent and 2.65 per cent respectively. Nonetheless, GDHI does serve as a useful benchmark measure with which to track the trajectory of council tax relative to personal incomes.

**Figure 5: Region specific trend in Band D council tax rates & Council Tax for Standard Spending (CTSS) rate, 2017-18 prices**

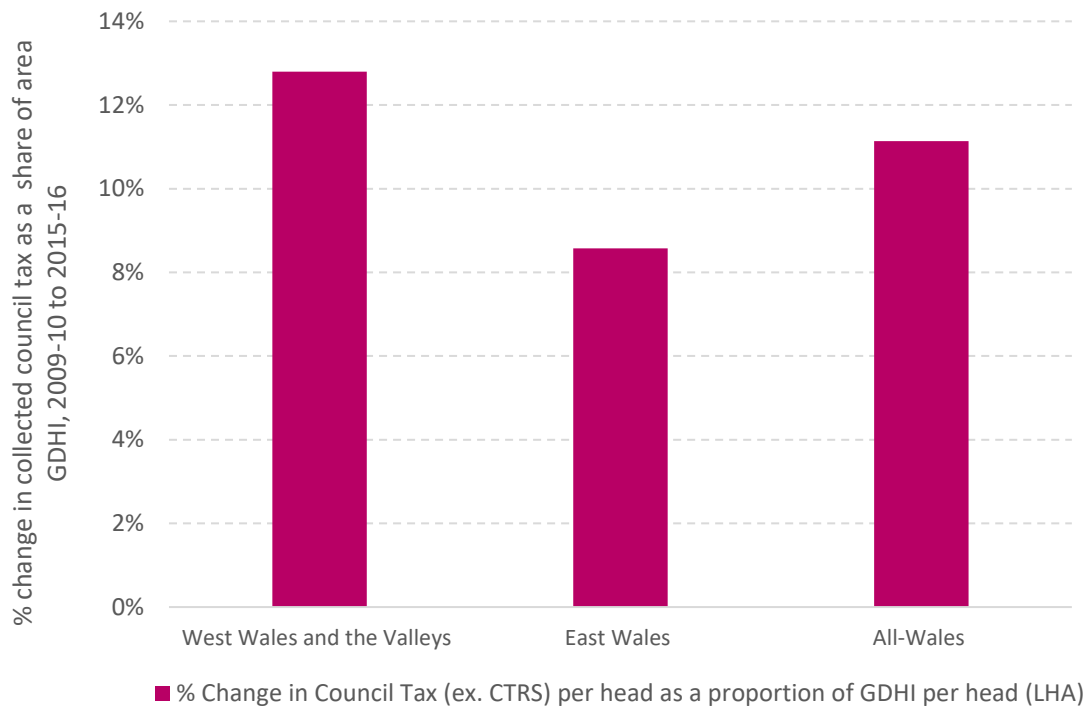


Note: Average Band D at the NUTS 2 statistical region level is calculated as a weighted average based on local authority population estimates. Source: Council tax levels by billing authority and band (available at: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Council-Tax/Levels/counciltaxlevels-by-billingauthority-band>), and CTSS.

While council tax is widely regarded as structurally regressive between households (although low-income households will be exempt from paying council tax via the CTRS, council tax is regressive in the sense that you pay a lower percentage of property value the more valuable the property),<sup>21</sup> the effect is translated to regional clusters of households in terms of their disposable income, with lower GDHI regions appearing to pay a greater share of income funding local services.

<sup>21</sup> See Adam et al. (2015), 'Little sense of direction in tax and benefit proposals', available here: <https://www.ifs.org.uk/publications/7735>.

**Figure 6: Change in council tax as a share of gross disposable household income (GDHI), 2009-10 to 2015-16 (2017-18 prices)**



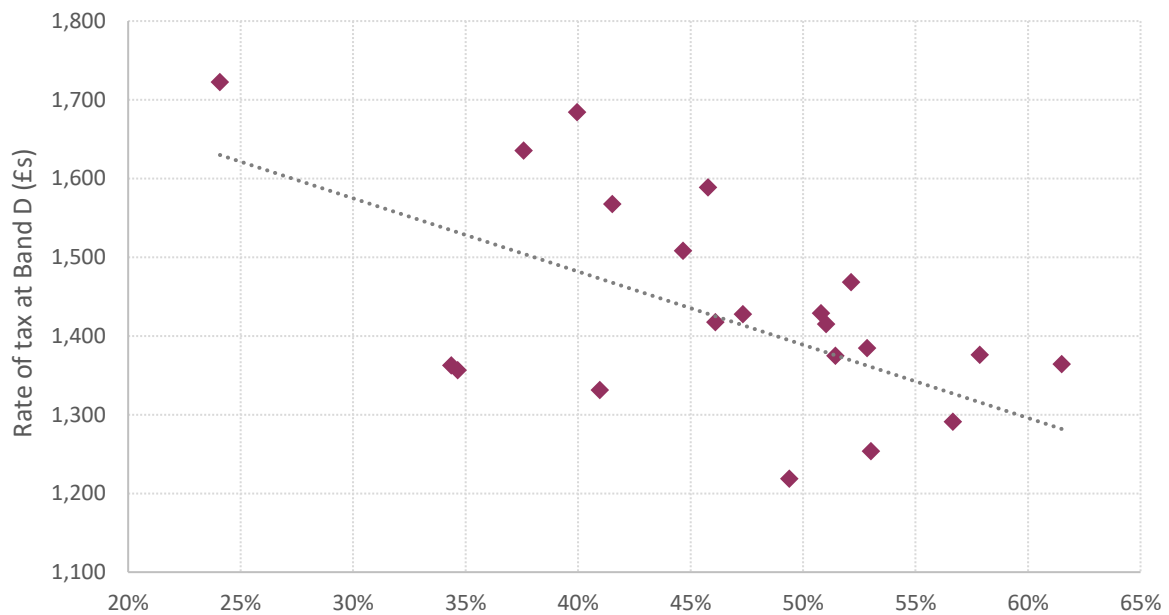
Source: Regional gross disposable household income (GDHI): 1997 to 2015, available at: <https://www.ons.gov.uk/economy/regionalaccounts/grossdisposablehouseholdincome/bulletins/regionalgrossdisposablehouseholdincomegdhi/2015>.

This regional divergence in council tax is complicated further by recent evidence from the *National Survey for Wales* (NSW, 2016-17); a cross-sectional survey representative of all adults aged 16 or over living in private households in Wales and stratified by local authority.<sup>22</sup> Around 12,000 adults across all local authorities were asked the extent to which they agreed with the statement “[m]y council provides high quality services”, with their responses recorded via a five point Likert scale.<sup>23</sup> Looking at how perceived service quality correlates with the rate of council tax paid by residents across the 22 local authorities, a strong negative association emerges (Figure 7) showing that on average, the lower the percentage of respondents who agree either strongly or partially with the statement, the higher the Band D rate.

<sup>22</sup> For more information, see the National Survey for Wales 2016-17 Technical Report (Updated): <http://gov.wales/docs/caecd/research/2017/171018-national-survey-wales-2016-17-technical-report-en.pdf>.

<sup>23</sup> Possible responses ranged from ‘strongly agree’ to ‘strongly disagree’, including an intermediate response (‘neither agree nor disagree’). Across Wales, 48 per cent of respondents agreed either strongly or partially with the statement, while 28 per cent disagreed either strongly or partially.

**Figure 7: Relationship between the proportion of NSW respondents agreeing with the statement “my council provides high quality services” and the Band D rate council tax rate, by billing authority (2016-17)**



Proportion of respondents agreeing with the statement: "my council provides high quality services"

Source: National Survey for Wales (NSW; 2016-17), available at: <https://statswales.gov.wales/Catalogue/National-Survey-for-Wales>

Multiple factors may be confounding this result, so it is not clear that reported perceptions of service quality are a function of true service quality mediated by insufficient recourse to appropriately meet local service needs.<sup>24</sup> Nonetheless, success in the Welsh Government’s current commitment to making council tax more progressive may also help to mitigate the regional imbalances described here.<sup>25</sup> For instance, the total number of Band D equivalent dwellings accorded to each local authority used for distributing the RSG is calculated by multiplying the total number of dwellings within each council tax band by a specific ratio relative to the Band D. Therefore, adjustments to these ratios would have important distributional consequences working through the revenue settlement, which also may repress the regional inequality observed, although such a result would be by no means guaranteed.<sup>26</sup>

<sup>24</sup> For instance, service quality expectations may rise to a greater degree for those local residents paying relatively higher rates of council tax.

<sup>25</sup> See p.13 of the Programme for Government (Take Wales Forward 2016-2021) document for this commitment, available here: <http://gov.wales/about/programme-for-government/?lang=en>.

<sup>26</sup> For example, at present the total number of Band D equivalent dwellings for Band A properties within a local authority will equal the total number of Band A dwellings multiplied by 0.556. If this multiplier were lowered, authorities with an already low tax base would, in effect, lose a part of their base. If the multiplier for more expensive dwellings such as those in Band E (currently 1.22) rose concurrently, high tax base authorities with a greater preponderance of dwellings above Band D would see their tax base rise. The result would see an even greater

## Reserves

To supplement their income from external sources during austerity, councils were able to draw on reserves. Between 2009-10 and 2016-17, total usable reserves grew by £492.7 million (52.1%) across Wales to around £1.4 billion. Usable reserves are comprised of general reserves, earmarked reserves and school reserves. Earmarked reserves are a means of building up funds to meet known or predicted budget requirements, whereas general reserves (otherwise known as the council fund) represent a council's working balance which help to cushion the impact of uneven cash flows and to avoid unnecessary temporary borrowing. It ultimately forms a contingency to cushion the impact of unexpected events or emergencies, but is not meant for resource spending.

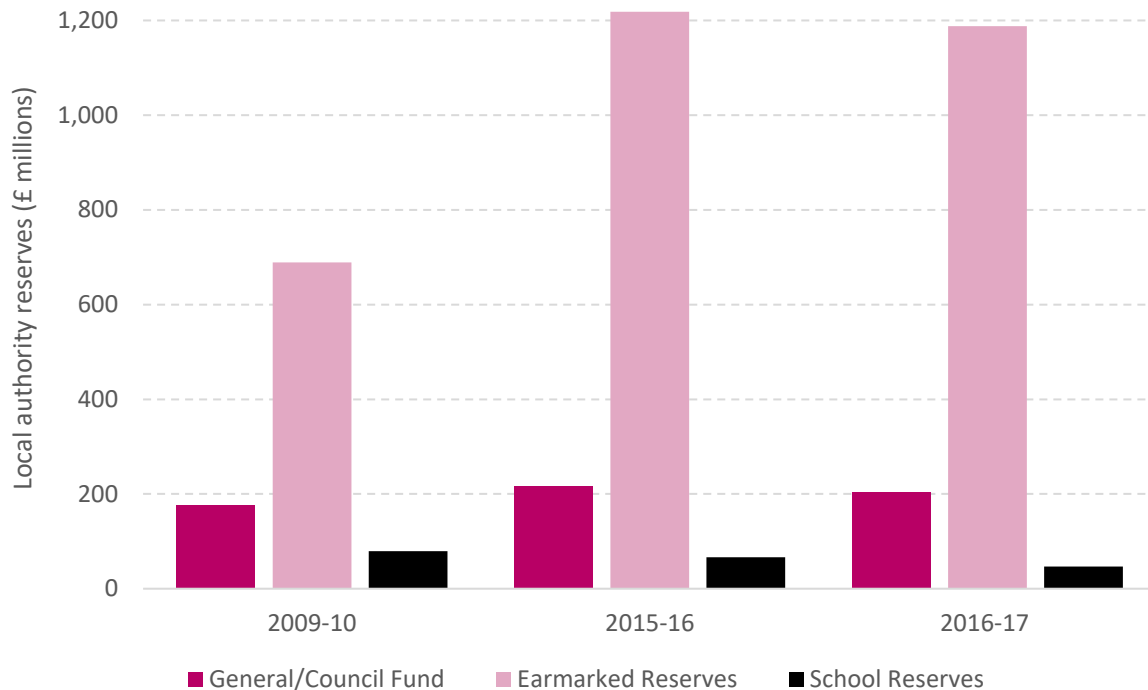
The largest growth was in earmarked reserves, which rose by £498.8 million (72.4%) up to 2016-17, whereas general reserves/council fund grew by £26.5 million (15%) across Wales. It is worth noting however that like the entire corpus of usable reserves, earmarked reserves themselves represent a diverse mix of funds. For instance, some classes of earmarked reserves are easily distinguishable from general reserves, such as sums set aside for major schemes like capital developments or asset purchases, or to fund major planned reorganisations. Conversely, reserves retained for service departmental use (authorities may have internal protocols that permit year-end underspending at the departmental level to be carried forward) could be thought of as an intermediate category between the council fund and other more hypothecated reserves, complicating analysis of their separate trajectories.

Despite significant growth to usable reserves since 2009-10, total usable reserves in 2016-17 fell slightly relative to their highest point in 2015-16 across each reserve category (Figure 8). One constant over the series, however, has been the decline in school reserves, which fell by 41.3 per cent (£32.8m) between 2009-10 and 2016-17, and by 29.3 per cent (£19.4m) in real terms since 2015-16 alone.

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proportion of Welsh Government grants allocated to low tax base local authorities. If this rise in grant revenue led to a net increase in total revenues relative to current arrangements (i.e. the rise in grant revenue for low tax base authorities was greater than the loss in council tax, a result that would only be achieved if the adjustment to the multipliers across higher and lower bands was revenue positive), this could lead to a regional convergence in rates, as well as a less regressive tax structure between households.

**Figure 8: Change in local authority reserves, 2009-10 to 2016-17 (2017-18 prices)**



Source: Whole of government accounts – local authority reserves, available here: <http://gov.wales/topics/localgovernment/finandfunding/whole-government-accounts/publications/whole-government-accounts-reserves/?lang=en>

The sharp decline in school reserves since 2015-16 has been noted as a particular cause for concern, as this could signal that schools are now struggling to fully adjust to the level of cuts in resource since 2009-10, equivalent to £254 per pupil. Indeed, prior to 2016-17, the sharpest year-on-year decline in school reserves occurred between 2012-13 and 2013-14 when reserves decreased by only £11.3 million (14.8%), although reserve levels subsequently increased in the following year. However, the recent fall may equally reflect action from the Welsh Government in challenging councils to ensure that schools are using their resource funding each year, although drawing down reserves at such a rate would not be sustainable.<sup>27</sup>

<sup>27</sup> See BBC Wales (2017), 'Wales school cash reserves drop 'should ring alarm bells'', <http://www.bbc.co.uk/news/uk-wales-41684452>, and BBC Wales (2016), 'Kirsty Williams 'shocked' by schools' 'high' cash reserves', <http://www.bbc.co.uk/news/uk-wales-politics-37935679>



## Local government revenue expenditure, 2009-10 to 2016-17

The previous section discussed how sources of local government revenue changed from 2009-10 to 2016-17, and how this change varied by region. In this section we turn to consider local authority service spending (net current service expenditure), which captures the amount that councils spend on service provision excluding capital expenditure, income from fees and charges and housing benefit.<sup>28</sup>

Total local authority service spending (excluding housing benefit) fell across Wales by 8.7 per cent (£543m) between 2009-10 and 2016-17, equivalent to £223 less per head.<sup>29</sup> Following the regional trend to changes in revenues, spending per head fell further in West Wales and the Valleys (11.5%; £243) compared to East Wales (9.7%; £187), although as shown in Figure 9, the actual amount spent per person remained higher in West Wales and the Valleys in 2016-17 (£1,877 > £1,749).

**Figure 9: Total net current service expenditure (ex. housing benefit) per head, 2009-10 to 2016-17 (2017-18 prices)**



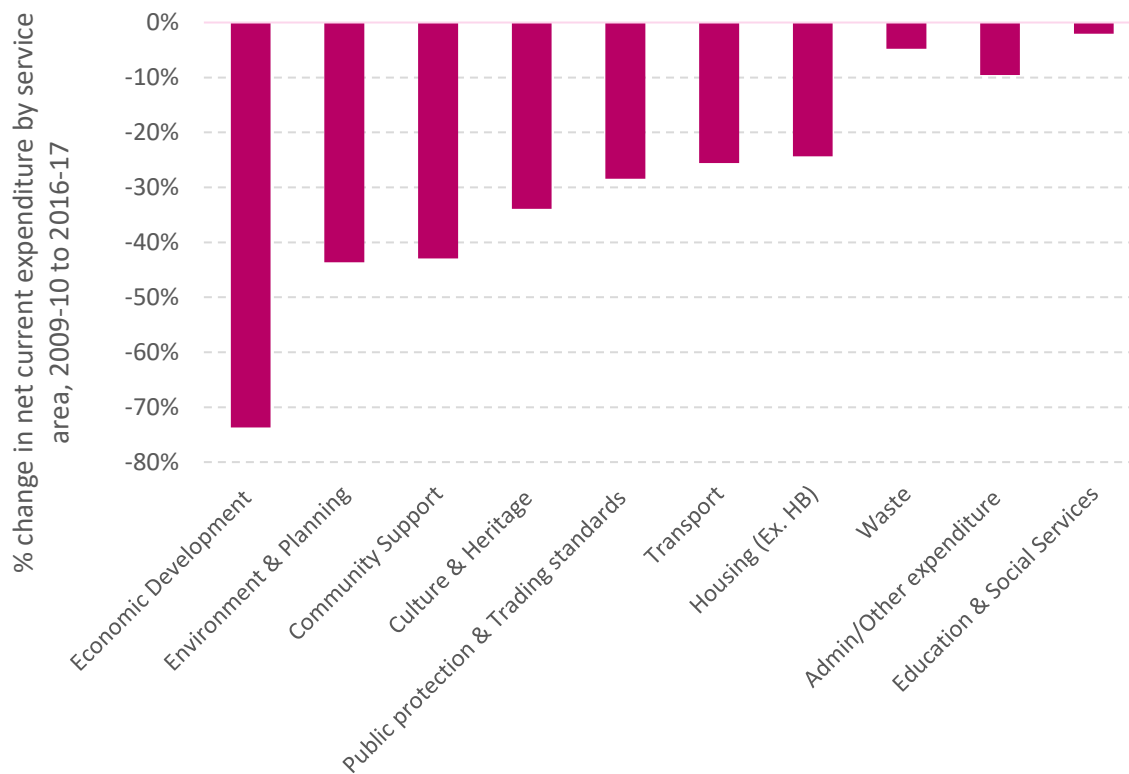
Source: Local government revenue outturn data, available at: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Revenue/Outturn/revenueoutturnexpenditure-by-authority>

Figure 10 summarises the changes to councils' expenditure on broadly defined groups of public services at the All-Wales level between 2009-10 and 2016-17 (see Annex 2 for details of the specific individual services constituting each of these broad groups).

<sup>28</sup> See footnote 8 on p. 11 above.

<sup>29</sup> Note that the per head difference is calculated as the difference between total net current service spending per person in 2009-10 and 2016-17.

**Figure 10: Cuts to net current service spending by service (All-Wales), 2009-10 to 2016-17 (2017-18 prices)**



Source: Local government revenue outturn data, available at: <https://stats.wales.gov.wales/Catalogue/Local-Government/Finance/Revenue/Outturn/revenueoutturnexpenditure-by-authority>.

While personal social services and education spending – 72 per cent of total net service expenditure in 2009-10 – remained relatively protected in real terms, net current expenditure on the remaining unprotected services declined by 26 per cent. Economic development was the local spending area most cut between 2009-10 and 2016-17 (74%, down from £86m in 2009-10 to £23m in 2016-17). Other services, such as environment and planning and community support faced cuts of above 40 per cent, while culture and heritage services were cut by over a third.<sup>30</sup>

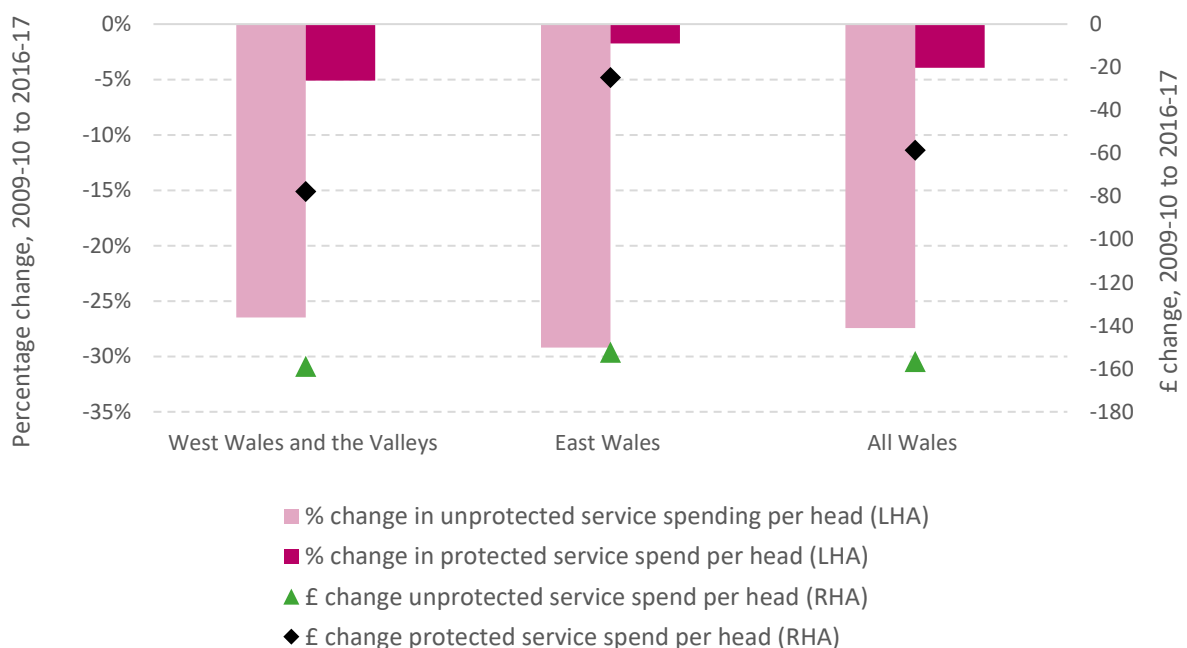
By contrast, total spending on personal social services increased between 2009-10 and 2016-17 by £30.4m (1.7%). This was led primarily by increases to public spending on younger adult social care services at the all-Wales level for persons aged 16 to 64 (£23m; 4.1%). Comparative figures for spending on children and families social services are complicated by

<sup>30</sup> It is worth noting that the Welsh Government also allocates resource to economic development activities, environment and planning services, transport and other public services. However, the exact delineation between local authority and Welsh Government competences is not clearly defined. As such, the entire sum of public spending on these and other services may not be fully reflected in the local government revenue outturn figures presented here.

the changing treatment of the *Flying Start* programme in published revenue outturn figures.<sup>31</sup> But in general terms, it would appear as though spending on children and families services increased by £11 million (2%).

The pattern of protecting education and social services was repeated across the NUTS 2 regions. However, as shown in Figure 11, these protected services saw larger declines per head in West Wales and Valleys compared to East Wales, both proportionately (4% > 2%) and in monetary terms (£77.7 > £24.9). However, with respect to spending on the remaining unprotected services, lower proportionate declines per head were observed in West Wales and Valleys compared to East Wales (26% < 29%), suggesting a degree regional variation in service prioritisation, although spending per head in West Wales and the Valleys still declined by slightly more (£158.8 > £152.3) following that regions larger decrease in total available revenues (see Table A1).

**Figure 11: Cuts to net current service spending per head by service, 2009-10 to 2016-17 (2017-18 prices)**



Source: Local government revenue outturn data, available at: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Revenue/Outturn/revenueoutturnexpenditure-by-authority>.

<sup>31</sup> Due to the disuniform classification in 2009-10 of *Flying Start* - a high value Welsh Government programme available in certain parts of Wales to support families with children aged 0-3 years - it is not possible to reliably separate children and families services from non-school education spending. As such, the 2 per cent figure presented here reflects the change in the sum of spending on these services between 2009-10 and 2016-17. For more information please contact the authors.

Given the relative size of protected services within total local government service expenditure (77.5% in 2016-17), in the following sections we review in more detail what has happened to spending in these areas between 2009-10 and 2016-17.

## **Schools**

Across Wales, schools spending per pupil declined by 4.4%, equivalent to £254 per pupil (see Figure 12).<sup>32</sup> Following the consistent regional trend, average spending declined by relatively more in East Wales (4.8%; £272 per pupil) relative to West Wales and the Valleys (4.1%; £240 per pupil). While such cuts in per pupil spending are by no means insignificant, in context they do demonstrate a clear service prioritisation following Welsh Government policy. Indeed, between 2009-10 and 2016-17, spending on schools rose as a proportion of total local authority service spending by an average of 2 percentage points across Wales (Table 2).

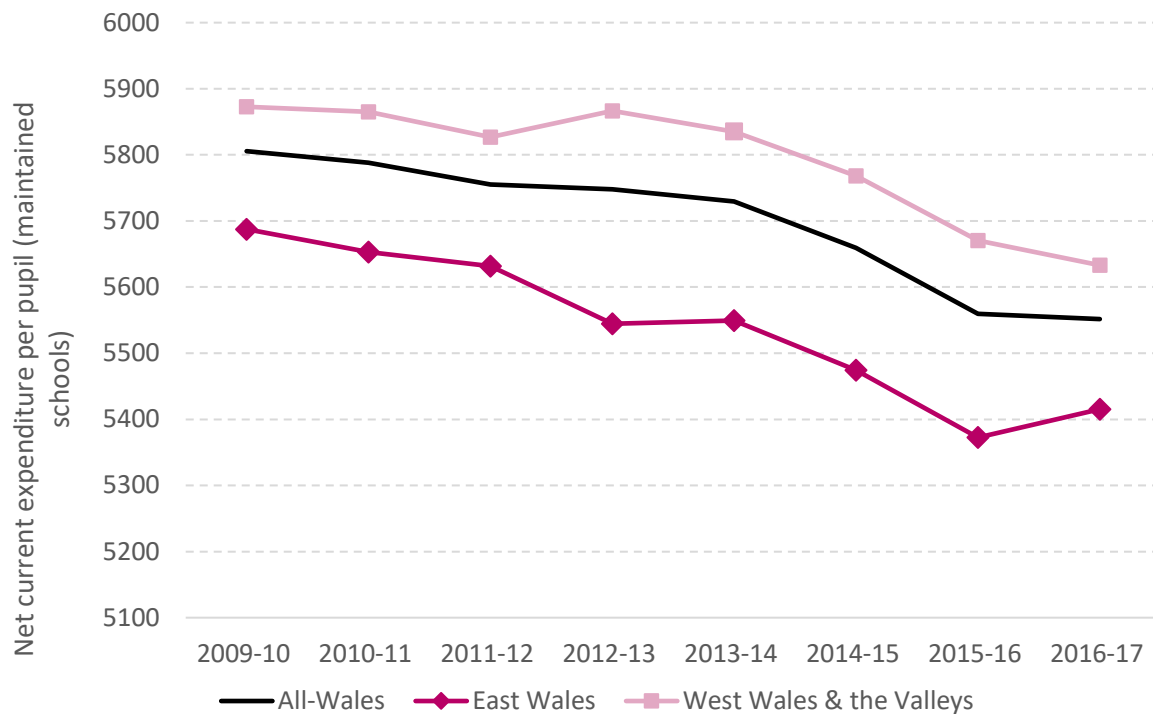
In the Fourth Assembly (2011-2016), which covered the majority of the period under analysis, the Welsh Government committed in its Programme for Government to protecting schools' budgets, albeit only in relative terms. Specifically, the commitment was to increase budgeted spending on Wales' schools by at least one percentage point higher than the change in the total Welsh block, which was itself declining. Between 2010-11 and 2016-17, the Welsh Government has stated that this resulted in a cash terms increase of an additional £146 million in resource available to schools, therefore satisfying the commitment.<sup>33</sup>

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<sup>32</sup> It should be noted that tracking per pupil spending in Wales is complicated by a number of factors. First, data after 2015-16 is not wholly comparable with previous years due to the movement of *Flying Start* expenditure from Education to Social Services (<http://gov.wales/docs/statistics/2017/170706-local-authority-budgeted-expenditure-schools-2017-18-en.pdf>). In addition, comparing spending between different types of school (e.g. primary vs secondary) is made difficult due to the inclusion of middle schools an intermediate school category in later years of the period under analysis, as well as differences in how specific spending items are recorded in the revenue outturn data between different years. For more information please contact the authors directly.

<sup>33</sup> As has been noted elsewhere, the Welsh Government reported the outcome of its policy in terms of the average annual cash growth in budgets over the period 2010-11 to 2015-16, rather than changes between each individual year as might be implied. See Dauncey (2016), 'Research Briefing – A quick guide to school funding', National Assembly for Wales, available here: <http://www.assembly.wales/research%20documents/16-045/16-045-web-english.pdf>.

**Figure 12: Region specific trend in per pupil schools expenditure, 2009-10 to 2016-17 (2017-18 prices)**



Source: Pupil Level Annual School Census returns (available here: <https://statswales.gov.wales/Catalogue/Education-and-Skills/Schools-and-Teachers/Schools-Census/Pupil-Level-Annual-School-Census/Pupils>)

Although the precise Welsh Government commitment appears to have been met, it is important to point out that in per pupil terms, and with respect to local government revenue outturns as opposed to budgeted figures, schools funding decreased by slightly more than one percentage higher than the real change in the total Welsh block. This was the case both for the All-Wales average change (-3.5%), as well as the NUTS 2 regions (-3.8% East Wales; -3.3% West Wales and the Valleys) given the 3.9 per cent real terms decrease in the Welsh Block between 2011-12 and 2016-17.<sup>34</sup> However, the decrease in schools' funding was less than the overall change in the block grant, highlighting that schools were still relatively protected.

According to the Welsh Government, 73 per cent of the additional funds for schools were channelled through the local government revenue settlement.<sup>35</sup> However, as has recently been noted in the context of the budgeted increases for schools and social care highlighted in

<sup>34</sup> Authors calculations based on PESA figures adjusted for business rates from 2015-16 and council tax benefit/reduction scheme for the years prior to 2013-14.

<sup>35</sup> Dauncey (2016), 'Research Briefing – A quick guide to school funding', National Assembly for Wales, available here: <http://www.assembly.wales/research%20documents/16-045/16-045-web-english.pdf>.

the 2018-19 draft budget narrative,<sup>36</sup> such additional revenues can only be considered notional, not least in the context of real-term reductions to councils' overall grant revenues (£808m in 2016-17 relative to 2009-10). In this regard, it is not surprising that considering local government revenue outturns as opposed to Welsh Government budgets yields contrasting results.

**Table 2: Changes to schools spending, 2009-10 to 2016-17 (2017-18 prices)**

	LA spending (2017-18 prices)		Percentage (ppt) change
	2009-10	2016-17	
<b>All-Wales</b>			
Total schools (£m)	2,712	2,590	- 4.5
Per pupil (£)	5,806	5,552	- 4.4
<i>% of total service spending</i>	<i>43.5</i>	<i>45.5</i>	<i>2.0</i>
<b>East Wales</b>			
Total schools (£m)	963	945	- 2.0
Per pupil (£)	5,688	5,415	- 4.8
<i>% of total service spending</i>	<i>44.6</i>	<i>46.8</i>	<i>2.2</i>
<b>West Wales and the Valleys</b>			
Total schools (£m)	1,748	1,645	- 5.9
Per pupil (£)	5,877	5,633	- 4.1
<i>% of total service spending</i>	<i>42.9</i>	<i>44.8</i>	<i>1.9</i>

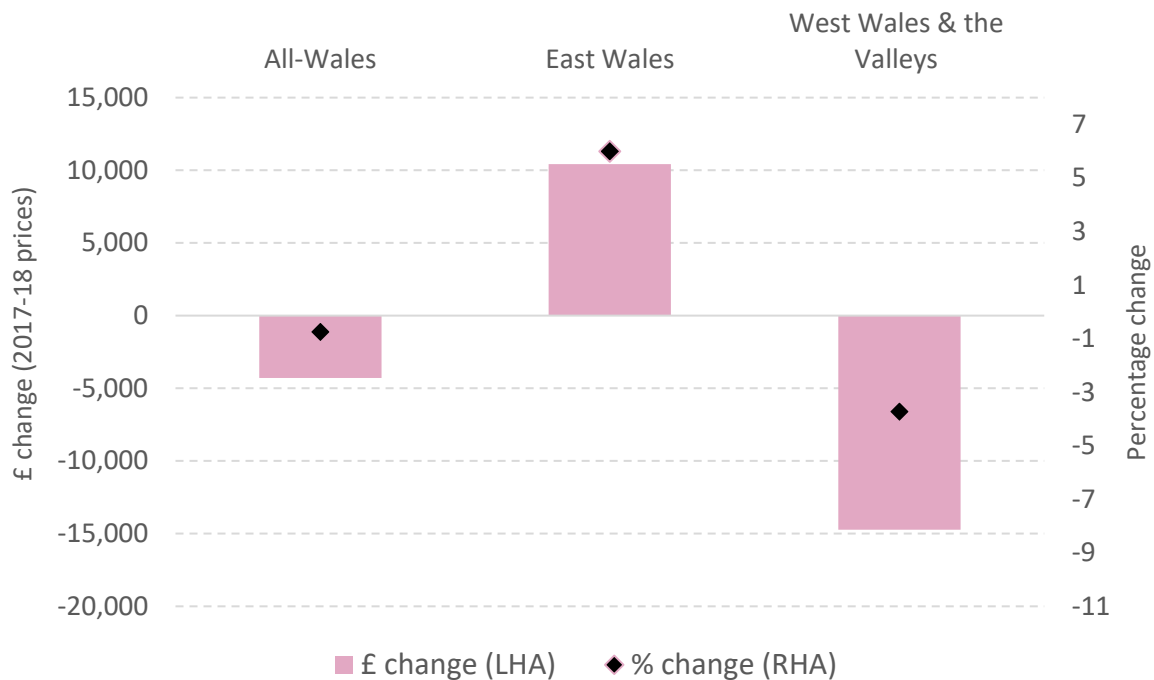
Source: Pupil Level Annual School Census returns (available here: <https://statswales.gov.wales/Catalogue/Education-and-Skills/Schools-and-Teachers/Schools-Census/Pupil-Level-Annual-School-Census/Pupils>) and local government revenue outturn data (available here: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Revenue/Outturn/revenueoutturnexpenditure-by-authority>)

<sup>36</sup> BBC Wales (2017), 'Schools' cash rise half what ministers claim, says WLGA', 25 October, available here: <http://www.bbc.co.uk/news/uk-wales-politics-41752749>

### Older adult (65+) social care

Across Wales, net public expenditure on older adult social care declined by 0.8% (£4.3m).<sup>37</sup> Figure 13 shows that this net decrease in on older adult social care spending was led principally by regions in West Wales and the Valleys, where spending declined by 3.7% (14.7m). Nonetheless, as with schools spending, the revenue outturn figures demonstrate a clear prioritisation of older adult social care services relative to most other service areas (see Table 3, p.34). Indeed, between 2009-10 and 2016-17, older adult social care rose as a share of total service spending by an average of 0.8 percentage points across Wales (1.1 ppts in East Wales; 0.7 ppts in West Wales and the Valleys).

**Figure 13: Change in net current expenditure on older adult (aged ≥65) social care by region, 2009-10 to 2016-17 (2017-18 prices)**



Source: Local government revenue outturn data (available here: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Revenue/Outturn/revenueoutturnexpenditure-by-authority>)

<sup>37</sup> Note that all revenue outturn figures quoted here related to older and younger adult social care have been adjusted to include separate funds pertaining to service strategy for all adult care services. In 2016-17 this came to £9.5m which we then divided proportionately between older and younger adult service spending.

Given Wales' changing demographic structure, this slight decline in total revenue spending meant that spending on a per head basis decreased by 14.4% between 2009-10 and 2016-17, equivalent to £149 per adult aged 65 and over.<sup>38</sup> Regionally, this decline was more pronounced in West Wales and the Valleys (16.5%; £180 per head) compared to East Wales (9.5 %; £90 per head), although as can be seen from Figure 14, spending in the latter region remained below the former throughout the period.<sup>39</sup> In nine local authorities spending per head declined by around a fifth or more.

As we have noted in previous work<sup>40</sup> the best available evidence for Wales from the Health Foundation suggests that demand for adult social care (that is, care services for all individuals aged 16 and over) should be rising by around 4.1% a year from 2015 up to 2030-31 due to demography, chronic conditions and rising costs.<sup>41</sup> The general direction of the Health Foundation's projection is supported by recently forecasted trends in disability and life expectancy in England and Wales up to 2025.<sup>42</sup>

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<sup>38</sup> In 2009-10 adults aged 65+ made up 18.0 per cent (547,597) of Wales' population. By 2016-17, their share had risen to 20.4 per cent (635,659).

<sup>39</sup> That a gap appears in per capita expenditure in West Wales and the Valleys and relative to regions in East Wales is not surprising. As described above, East Wales can be seen as having generally lower levels of material deprivation on average. A person who has capital of their own above £30,000 (set to rise to £50,000) is expected to meet the full costs of their residential care in Wales until their capital (including any residential property) falls below this threshold. Similarly, although there is a maximum weekly charge for non-residential care services of £70 across all authorities, a capital limit of £24,000 also applies, below which individuals are not expected to contribute to the costs of their non-residential care (see Boyce (2017), 'Paying for adult social care in Wales: Debate and Reform', available here: <http://www.assembly.wales/research%20documents/17-009/17-009-web-english.pdf>). In this way, authorities with higher levels of deprivation are expected to organise care for fewer self-funders. Indeed, around 15% of the IBA for older adult social care in the local government revenue settlement is distributed based on the relative number of pension credit claimants – an income-related benefit for low income persons aged 65 and over – which may be considered a proxy for higher levels of material deprivation.

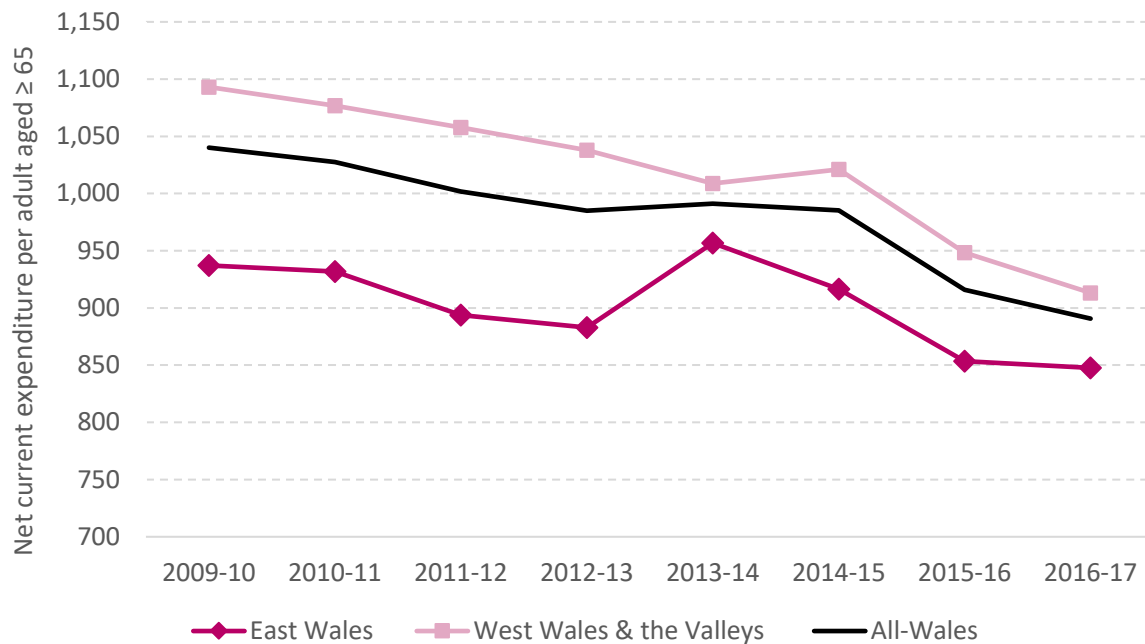
<sup>40</sup> Luchinskaya et al. (2017), 'A delicate balance? Health and Social Care spending in Wales', available here: [http://www.walespublicservices2025.org.uk/files/2017/03/Wales-health-and-social-care-final\\_amended\\_04-2017.pdf](http://www.walespublicservices2025.org.uk/files/2017/03/Wales-health-and-social-care-final_amended_04-2017.pdf).

<sup>41</sup> Watt and Roberts (2016), 'The path to sustainability: Funding projections for the NHS in Wales to 2019/20 and 2030/31', available here: [http://www.health.org.uk/sites/health/files/PathToSustainability\\_0.pdf](http://www.health.org.uk/sites/health/files/PathToSustainability_0.pdf).

<sup>42</sup> Guzman-Castillo et al. (2017), 'Forecasted trends in disability and life expectancy in England and Wales up to 2025: a modelling study', *Lancet Public Health*, available here: [http://www.thelancet.com/pdfs/journals/lanpub/PIIS2468-2667\(17\)30091-9.pdf](http://www.thelancet.com/pdfs/journals/lanpub/PIIS2468-2667(17)30091-9.pdf)



**Figure 14: Region specific trend in per capita (aged ≥65) expenditure on older adult social care, 2009-10 to 2016-17 (2017-18 prices)**

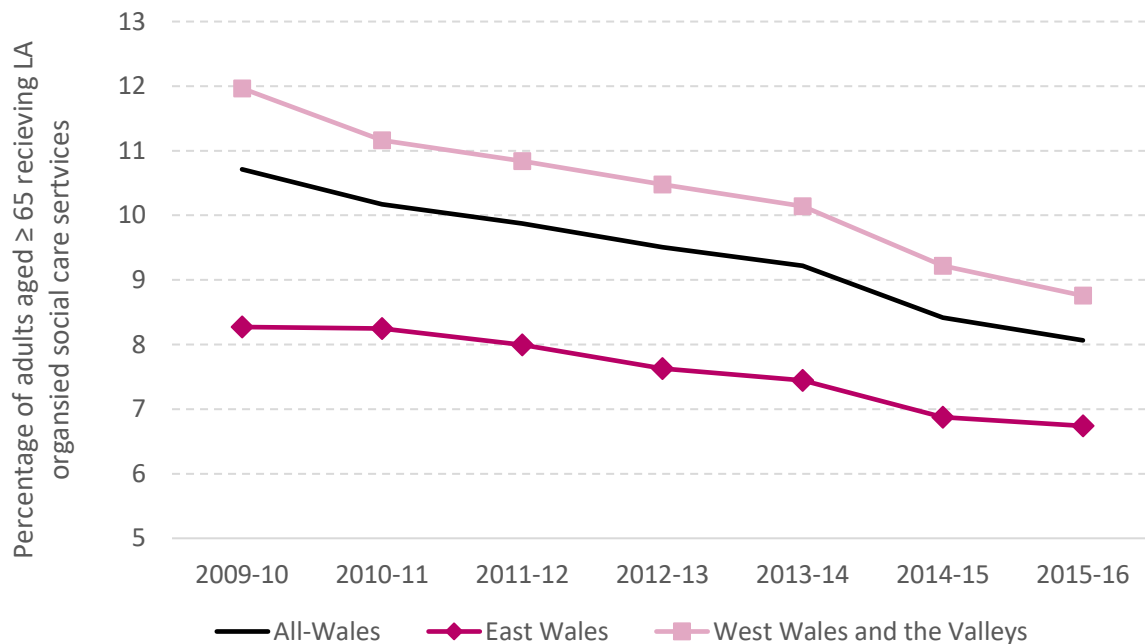


Source: Local government revenue outturn data (available here: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Revenue/Outturn/revenueoutturnexpenditure-by-authority>) and population estimates by local authority (available here: <https://statswales.gov.wales/Catalogue/Population-and-Migration/Population/Estimates/Local-Authority>).

According to this research, although total life expectancy at age 65 years will increase by 1.7 years up to 2025, life expectancy with disability will increase more in relative terms, with an increase of roughly 15% from 2015 (4.7 years) to 2025 (5.4 years), implying greater age-specific demand pressures on older adult care services. Indeed, in the context of care services for younger adults (aged 16 to 64), the period 2009-10 to 2016-17 did see increases to both total and per capita expenditure, with total spending at the All-Wales level rising by £13.1m, equivalent to a 4.8 per cent increase on a per head basis.

One narrative that could explain the observed trend is that service delivery for older adult services has switched focus over the recent period toward concentrating support on a smaller number of relatively higher needs individuals. While we cannot test this hypothesis directly, data available for the period 2009-10 to 2015-16 does show that the total number of older adults supported by one or more kinds of local authority organised care services declined by 14.1 per cent, or 2.6 percentage points as proportion of the older adult population (Figure 15).

**Figure 15: Region specific trend in adults aged ≥65 recorded as receiving LA organised social care support as a proportion of the total older adult population, 2009-10 to 2015-16**



Source: Adults receiving services by client category (<https://statswales.gov.wales/Catalogue/Health-and-Social-Care/Social-Services/Adult-Services/Service-Provision/Prior-to-April-2016/adultsreceiving-services-by-localauthority-clientcategory-age>)

This meant that spending per service user actually rose by 17.0 per cent across Wales (11.8% East Wales; 18.6% West Wales and the Valleys), equivalent to £1,646 per head (£1,336 East Wales; £1,696 West Wales and Valleys) by 2015-16 (Figure 16). However, newly available data showing service user frequencies produced for the first time using the computerised Welsh Community Care Information System (WCCIS) in 2016-17 does cast some doubt on the accuracy of previous years’ figures, which appear relatively underestimated.<sup>43</sup>

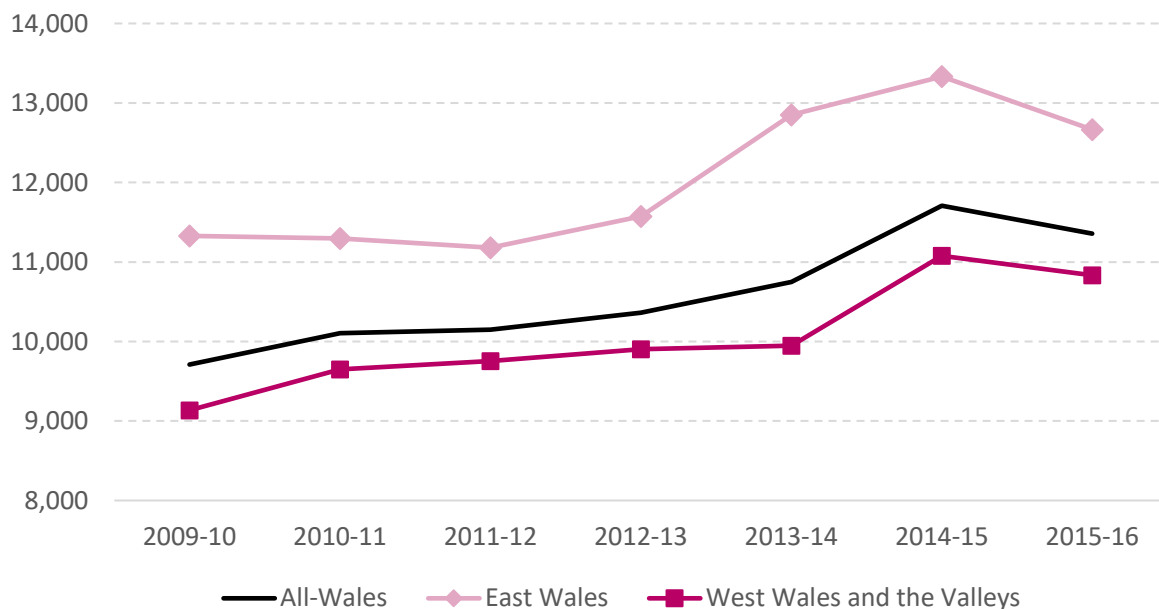
Whether or not older adult social care spending has been becoming more or less concentrated, it is apparent that commonplace predictions of increased service demand pressures resulting from Wales’ rapidly aging population are not clearly reflected in the latest available revenue outturn figures. Unfortunately, we cannot test whether changes to the way

<sup>43</sup> The WCCIS service provision data shows that in 2016-17 there were 62,598 older adults recorded as receiving one or more forms of support; a figure which does not include figures for Merthyr Tydfil and Carmarthenshire which were unable to collate data (see source: <https://statswales.gov.wales/Catalogue/Health-and-Social-Care/Social-Services/Adult-Services/Service-Provision/adultsreceiving-services-by-localauthority-clientcategory-agegroup>). By contrast, previous year’s figures show a steady decline in provision from 2009-10 (58,657) to 2015-16 (50,386). Although a sharp rise in provision between 2015-16 and 2016-17 is feasible, the shift in trend does suggest that data collected prior to the WCCIS system in April 2016 may be less accurate.

services were organised over the period have resulted in significant efficiencies without impairments to service quality or the breadth of delivery.

Indeed, a recent report by the Royal College of Occupational Therapists demonstrated that a review by therapists into 227 care packages in Cardiff between April 2015 and March 2016 led to a saving of £395,279 for the council, as individual care packages were ‘right-sized’ for service user needs.<sup>44</sup> Moreover, it is not clear whether or not funds pertaining to the Welsh Government’s Integrated Care Fund (ICF) are ultimately recorded in local government revenue outturn figures.<sup>45</sup> However, if local authorities are in fact responding to heightened resource pressures by applying more restrictive eligibility criteria to prospective service users, then the impact that this might have on the health and well-being of both those deemed ineligible for local authority organised care and their carers will be difficult to measure directly in Wales.

**Figure 16: Region specific trend in spending per adult aged 65+ recorded as receiving social care support, 2009-10 to 2015-16**



Source: Adults receiving services by client category (<https://statswales.gov.wales/Catalogue/Health-and-Social-Care/Social-Services/Adult-Services/Service-Provision/Prior-to-April-2016/adultsreceiving-services-by-local-authority-client-category-age>)

<sup>44</sup> <http://3clw1r2j0esn1tg2ng3xziww.wpengine.netdna-cdn.com/wp-content/uploads/2017/07/ILSM-Phase-II-WELSH-ENGLISH.pdf>

<sup>45</sup> NHS Wales Health Boards act as a lead organisation for the ICF and paid the full funds. If a local authority incurs a cost as part of activities associated to the aims of the fund – that is, supporting people to maintain their independence and remain in their own home – then the health board would pass the relevant funding on to the local authority which would appear as income from joint arrangements in the revenue outturn figures. However, we are not aware of any source which details how much of the ICF (£60m in 2017-18) is maintained by the Health Boards and is hence excluded from our analysis.

In England, the English Longitudinal Study of Aging (ELSA) - a panel study of a representative cohort of men and women living in England aged  $\geq 50$  years and funded partially by the Department of Health, DWP and the Department for Transport – contains information on the health and receipt of support from different sources by older people who report difficulty with daily activities. Investment by the Welsh Government into representative data sources that can monitor the interaction between older people with varying degrees of life-limiting conditions and local public services would improve the evidence base on which future resource allocations can be made.

**Table 3: Changes in older adult social care spending, 2009-10 to 2016-17 (2017-18 prices)**

	LA spending (2017-18 prices)		Percentage (ppt) change
	2009-10	2016-17	
<b>All-Wales</b>			
Older adult ( $\geq 65$ ) social care (£m)	569.6	565.3	- 0.8
Per capita (£)	1,040	891	-14.4
<i>% of total service spending</i>	<i>9.1</i>	<i>9.9</i>	<i>0.8</i>
<b>East Wales</b>			
Older adult ( $\geq 65$ ) social care (£m)	174.2	184.6	6.0
Per capita (£)	937	848	-9.5
<i>% of total service spending</i>	<i>8.1</i>	<i>9.1</i>	<i>1.1</i>
<b>West Wales and the Valleys</b>			
Older adult ( $\geq 65$ ) social care (£m)	395.4	380.6	-3.7
Per capita (£)	1,093	913	-16.5
<i>% of total service spending</i>	<i>9.7</i>	<i>10.4</i>	<i>0.7</i>

Source: Local government revenue outturn data (<https://statswales.gov.wales/Catalogue/Local-Government/Finance/Revenue/Outturn/revenueoutturnexpenditure-by-authority>) and population estimates by local authority (<https://statswales.gov.wales/Catalogue/Population-and-Migration/Population/Estimates/Local-Authority>).

## Conclusion

Welsh local government, along with much of the public sector, has experienced the longest sustained period of budget cuts in recent times. The Welsh Government protected local government funding in Wales to a greater degree than was the case in England, on top of which the decision to enable local authorities to raise council tax moderately year-on-year was a key factor in mitigating the impact of the still significant cuts in government grants.

That authorities in West Wales and the Valleys, a region with a higher prevalence of relative deprivation, proportionately lost more grant revenues compared with East Wales authorities, and also appear to have raised council tax rates proportionately higher to replace lost revenues, is likely to be a matter of increasing concern as government grants continue to fall. However, it is important to note that grant per head still remains higher in West Wales and the Valleys than in East Wales.

That council tax was taking up an increasing share of household disposable income in Wales by 2016-17, more so in West Wales and the Valleys, may give pause for thought about the impact of further increases if growth in household disposable incomes remains weak. Success in achieving the Welsh Government's stated goal of making council tax more progressive could make a difference.

Local authorities as a whole generally responded to the cuts by making clear priorities rather than 'salami-slicing' their budgets. The Welsh Government commitment to protecting schools and social services was respected at the local level – and may well have chimed with councils' own priorities. The protections were not absolute, for example per pupil funding fell, but in broad terms held good.

The downside was the significant impact on 'non-protected' services, where overall spending across Wales fell by 26 per cent, rising to 40 percent or even higher in some service areas. The extent to which these were straight cuts or to which local authorities found other ways of delivering the services is outside the scope of this paper. There will be concerns about the continued viability of the full range of services, if these figures decline further, and the potential impact on wider well-being goals.

Within social services, there were some marked changes, including an increase in funding for younger adults and possible signs of a shift in how resources were being used in relation to the over-65s. Here, the increase in spending per older service user, in contrast to a significant fall in spending per older person as the number of over-65s increases, suggests that authorities may be concentrating their resources on higher-needs older people and relying

more on informal care or different approaches to care for others. Whether this also means that there are care needs which are not being met is difficult to judge on the current evidence base.

So far, there has not been a revolution in local government finance in Wales, but neither has it been 'business as usual'. There may be limits, though, as to how far the strategies employed in the first years of austerity can provide a continuing way forward unless fiscal pressures ease.

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## Annex 1: Additional tables and figures

**Table A1: Local government revenues by source. All-Wales and NUTS 2 regions, 2009-10 to 2016-17 (2017-18 prices)**

	LA spending (£m)		Percentage (ppt) change
	2009-10	2016-17	
<b>All-Wales</b>			
Welsh Government grants (ex. HB)*	4974.7	4169.6	-16.2
<i>% of total revenues</i>	<i>70.2</i>	<i>63.6</i>	<i>-6.6</i>
Council tax (collected)*	1198.7	1445.1	20.6
<i>% of total revenues</i>	<i>16.9</i>	<i>22.0</i>	<i>5.1</i>
NDR	913.4	943.3	3.3
<i>% of total revenues</i>	<i>12.9</i>	<i>14.4</i>	<i>1.5</i>
<i>Total</i>	<i>7086.8</i>	<i>6557.9</i>	<i>-7.5</i>
<b>East Wales</b>			
Welsh Government grants (ex. HB)*	1664.4	1427.8	-14.2
<i>% of total revenues</i>	<i>67.5</i>	<i>61.1</i>	<i>-6.4</i>
Council tax (collected)*	467.5	560.1	19.8
<i>% of total revenues</i>	<i>19.0</i>	<i>24.0</i>	<i>5.0</i>
NDR	332.2	347.1	4.5
<i>% of total revenues</i>	<i>13.5</i>	<i>14.9</i>	<i>1.4</i>
<i>Total</i>	<i>2464.1</i>	<i>2335.0</i>	<i>-5.3</i>
<b>West Wales and the Valleys</b>			
Welsh Government grants (ex. HB)*	3310.3	2741.9	-17.2
<i>% of total revenues</i>	<i>71.6</i>	<i>64.9</i>	<i>-6.7</i>
Council tax (collected)*	731.2	884.9	21.0
<i>% of total revenues</i>	<i>15.8</i>	<i>20.0</i>	<i>5.1</i>

NDR	581.2	596.2	2.6
% of total revenues	12.6	14.1	1.5
<i>Total</i>	4622.7	4223.0	-8.6

Note: \*Council tax receipts are net of council tax benefit/reduction scheme which has been included within both the 2009-10 and 2016-17 Welsh Government grant figures.

Source: Financing of gross revenue expenditure (available here: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Revenue>) and in-year council tax collection (available here: <https://statswales.gov.wales/Catalogue/Local-Government/Finance/Council-Tax/Collection>).

## Annex 2: Classification of local public services

Grouped services	Ref. number
Schools	1
Non-school Education	1.1
Transport	2
Children's Social Services	3
Social Services – adults aged under 65	4.2
Social Services – older people	4.1
Culture & Heritage	5
Economic Development	6
Environment & Planning	7
Public protection & Trading standards	9
Waste	10
Community Support	11
Other expenditure	99
<b><i>NB: Exclusive of housing benefit; adult social care figures include expenditure on service strategy, divided proportionately between younger and older adult services</i></b>	

Single services	Ref. number
Schools expenditure (including delegated and non-delegated funding)	1
Non-school education expenditure	1.1
Transport planning, policy and strategy	2
Highways and roads	2
Transport	2
Social services - children and families services	3
Service strategy adult services	4.1/4.2

Social services - older people	4.1
Social services - adults aged under 65	4.2
Cultural and heritage services	5
Library service	5
Recreation and sport	5
Open spaces	5
Tourism	6
Cemetery, cremation and mortuary services	9
Coast protection	7
Environmental health	9
Street cleansing (not chargeable to highways)	9
Community safety	11
Own flood defence and land drainage services	7
Own agriculture and fisheries services	6
Trading standards	9
Waste	10
Building control	7
Development control	7
Planning policy	7
Environmental initiatives	7
Business support	6
Economic research	6
Economic development	6
Community development (county and county borough councils)	11
Coroners' and other courts services	99
Housing council fund	8

Other council fund housing	8
Local tax collection	99
Other central services to the public	99
Corporate and democratic core	99
Non-distributed costs	99
Other central costs	99

## Wales Public Services 2025

The Wales Public Services 2025 Programme is investigating the long-term financial, demographic and demand pressures confronting public services in Wales and possible responses. Hosted by Cardiff Business School and independent, the Programme is a unique partnership between Cardiff University and five national bodies in Wales: the Welsh Local Government Association, SOLACE Wales, the Welsh NHS Confederation, the Wales Council for Voluntary Action and Community Housing Cymru.

Our goal is to create a civic space in which public servants, civil society, politicians and people across Wales can engage in open, informed, radical debate on how our public services need to change and what we need to do to get there.

Established in 2012, the Programme works with national bodies, research bodies and think tanks across the UK, including the Institute for Fiscal Studies, the Health Foundation, the Wales Centre for Public Policy (formerly the Public Policy Institute for Wales), Wales Local Government Association, the Wales Audit Office and others.

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