



Institute for
Fiscal Studies

Local Government Expenditure in Wales

Recent Trends and Future Pressures

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WLGA Financial Conference

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Background

- UK is part-way through significant cuts in government spending as it attempts to deal with the large hole in its public finances
 - Local government expenditure is far from immune from the cuts
- The IFS's 2012 Green Budget examined the cuts in local government spending in England between 2009-10 and 2011-12
- The *WLGA* funded IFS research focusing on Welsh local government
 - Analyses cuts made to 2012-13, comparison of England and Wales
 - Examines scenarios for local government spending power to 2020-21
 - Discusses broader policy context: welfare cuts and demographic change
- Report and press release on IFS website (www.ifs.org.uk)

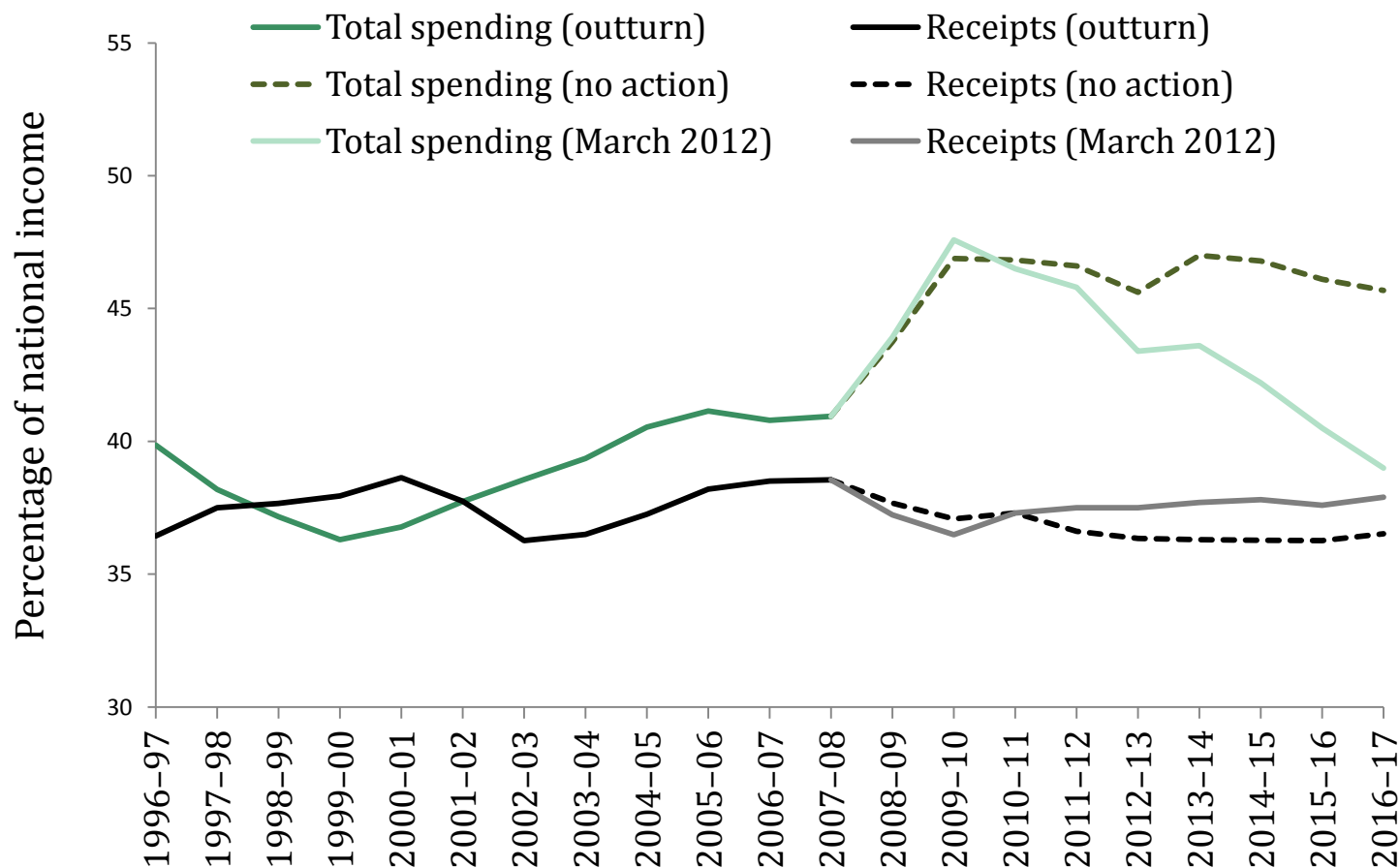
Outline of the presentation

- The economic and fiscal situation
- The cuts in local government spending, 2009-10 to 2012-13
 - How these vary across Wales and across services
 - How the cuts compare to those in England
- The prospects for the coming years
 - Implications of the indicative settlements to 2014-15
 - Scenarios for Welsh local government spending to 2020-21
- Demographic change
- Conclusions

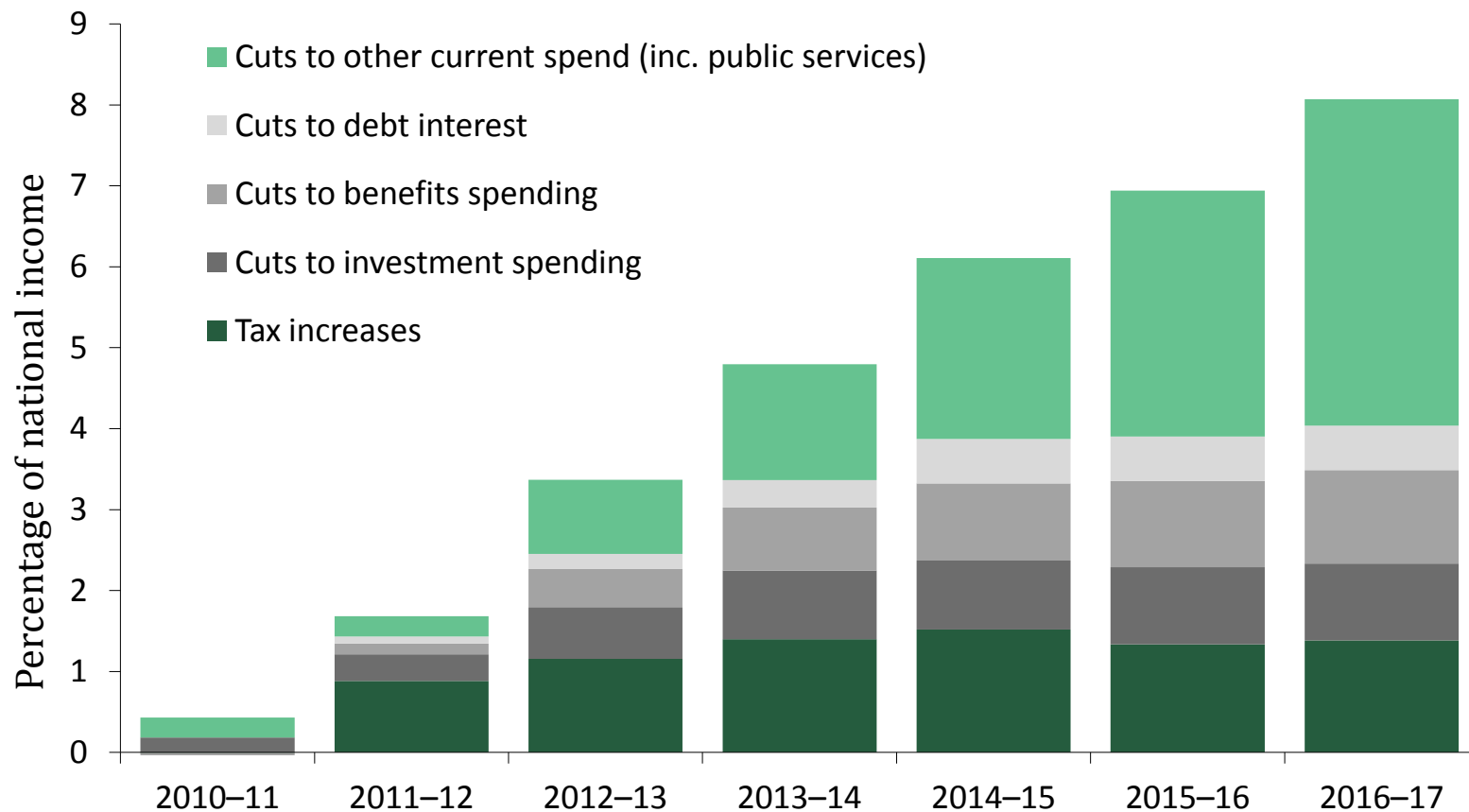
The economic and fiscal situation (I)

- The late 2000s financial crisis and associated recession has been followed by only a modest recovery
 - Indeed, officially back in recession (albeit a much milder one)
- Indicative of a more permanent problem
 - Growth in trend output now thought to have virtually ground to a halt between 2007-08 and 2012-13, and slower thereafter
 - Estimates of trend output in 2016-17 now 13% lower than in 2008
- In other words, now and looking ahead we are considerably poorer than we thought we would be, meaning government needs to tax more and/or spend less

The economic and fiscal situation (II)



The economic and fiscal situation (III)

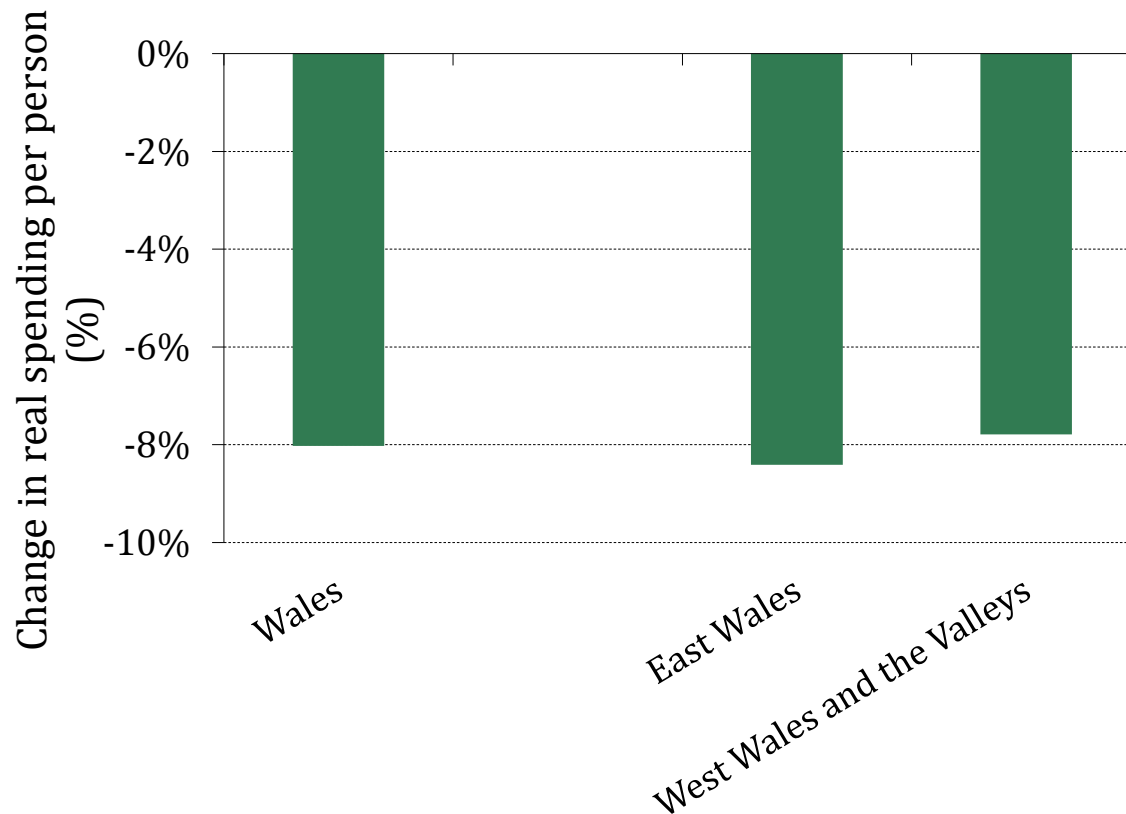


The cuts in local government spending

- Local government net current spending on services totalled £6.35 billion in 2012-13, or £2,062 per person
 - Education is 41% of total
 - Social services 23% and Police service 10%
- This represents a real-terms cut of 8.4% per person since 2009-10, before the austerity drive began
 - Driven by falls in grants from central government
 - Council tax revenues increased slightly in real terms
- The pace of cuts planned for 2012-13 is somewhat slower than those in 2010-11 and 2011-12
 - But this does not mean the cuts are coming to an end

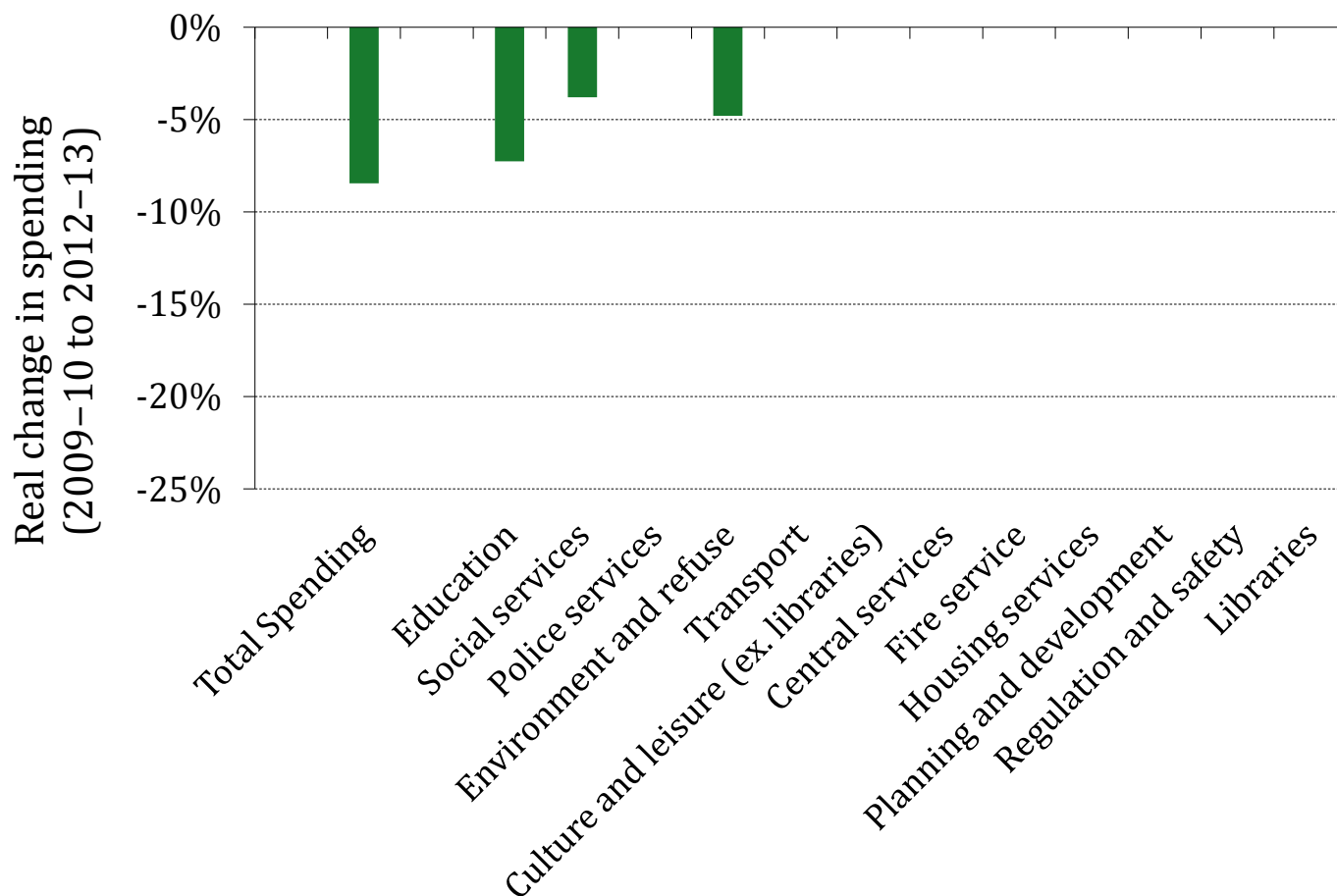
Cuts so far vary across local authorities...

- In large part this reflects differences in size of cuts to grants
 - But also differences in non-service spending such as repaying loan principle and interest and contributions/withdrawals from reserves



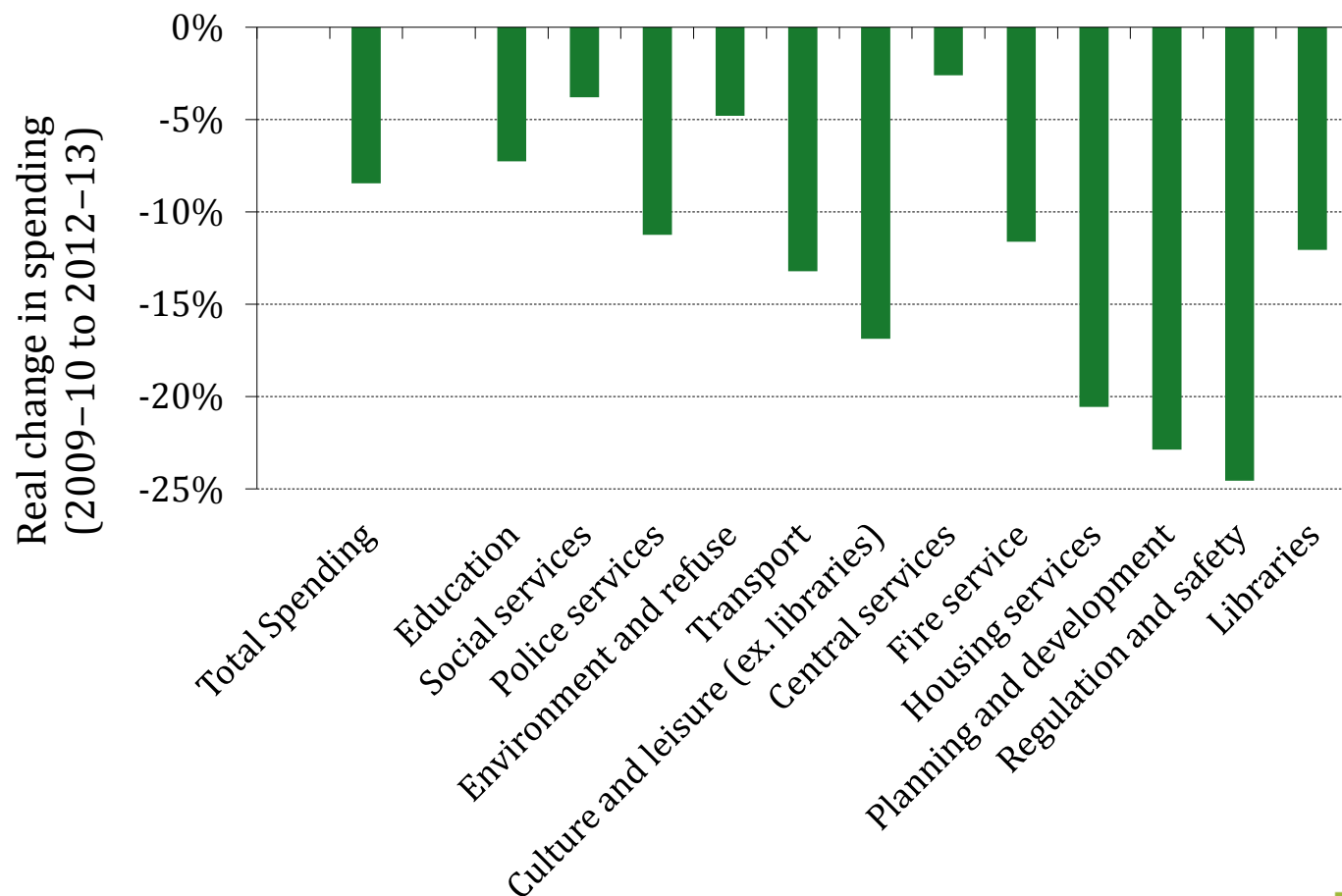
Cuts so far vary significantly across services

- This may reflect prioritisation of services due to rising demands, statutory obligations or Welsh Government targets



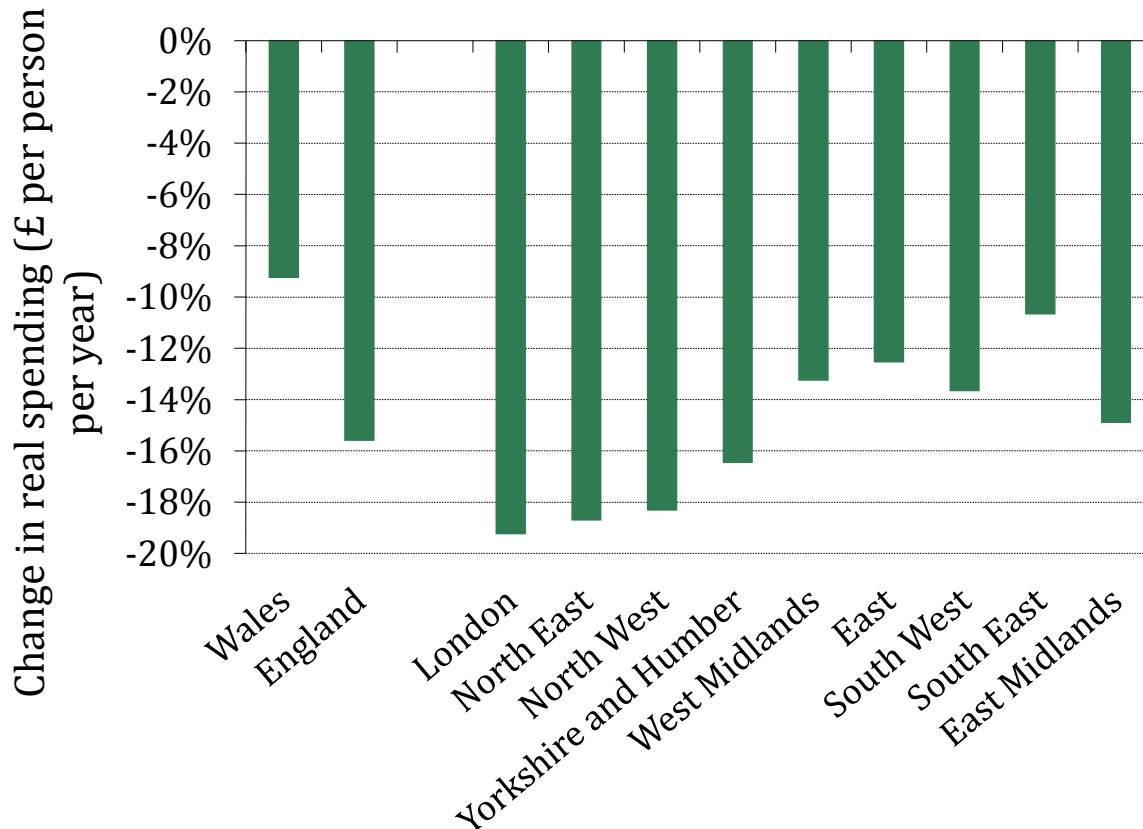
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Cuts so far significantly larger in England

- In order to compare the cuts in England and Wales need to exclude spending on education (due to Academies and Free schools)



Comparing the cuts to those in N. E. England

- Local government in North East England has made cuts of almost 19% versus just over 9% in Wales (excluding education)
- Cuts larger in all service areas bar the police
 - Cuts to social services (11.8%) around 3 times as large as in Wales
 - Cuts to planning and development (57.4%) over 2.5 times as large
 - Cuts to culture and leisure (35.7%) and regulation and safety (44.3%) are also very significant
- Shows significantly larger cuts are deliverable but not necessarily without important impacts on service quality
 - Additional cuts to planning, culture, regulation etc
 - But as cuts continue scope to project potentially more sensitive areas like social services likely to diminish

Comparing spending in 2012-13 to 2001-02

- Cuts to date have undone about one-third of the increase in local government spending between 2001-02 and 2009-10
- Spending on housing, planning and development, social services and environment and refuse much higher than in 2001-02
- Does not automatically translate into areas where cuts are easier:
 - Housing: new initiatives such as “Supporting People”
 - Social care and environment and refuse: rising demand and obligations
- But further evidence that scope for cuts in planning and development should be investigated?

What's coming? Prospects until 2014-15

- Welsh Government has set out indicative figures for the size of the general grants it will give to UAs in 2013-14 and 2014-15
- If specific grants change in line with the rest of Welsh Government spending
- And council tax bills increase in line with forecast whole-economy inflation
- UAs will see their real-terms spending power (grants plus council tax) continue to fall at a similar rate to 2012-13:
 - 1.4% in 2013-14
 - 1.9% in 2014-15

After 2014-15, things are more uncertain...

- Size of grants to UAs will depend on decisions of the Welsh Government, which in turn depends on UK Government and state of the public finances
- We therefore examine a number of scenarios involving different decisions by the UK and Welsh Governments and different outlooks for the public finances and overall public spending.
- For full details see chapter 4 and appendix C of the report

Cuts will continue in 2015-16 and 2016-17...

- Let's assume that the OBR's forecasts for government spending are correct and
 - £10 billion in further Welfare cuts are found by 2016-17
 - The rate of cuts in the Welsh Government budget is the same as that of UK public service spending as a whole
- If grants to local government were cut at the same as the Welsh Government's budget for current spending then:
 - UAs spending power would fall by 2.9% per person per year
 - (If council tax continues to rise with inflation)
- If the Welsh Government protects NHS spending from further cuts after 2014-15 and cuts spread across other services
 - UAs spending power would fall by 4.7% per person per year

... at a faster pace than required so far

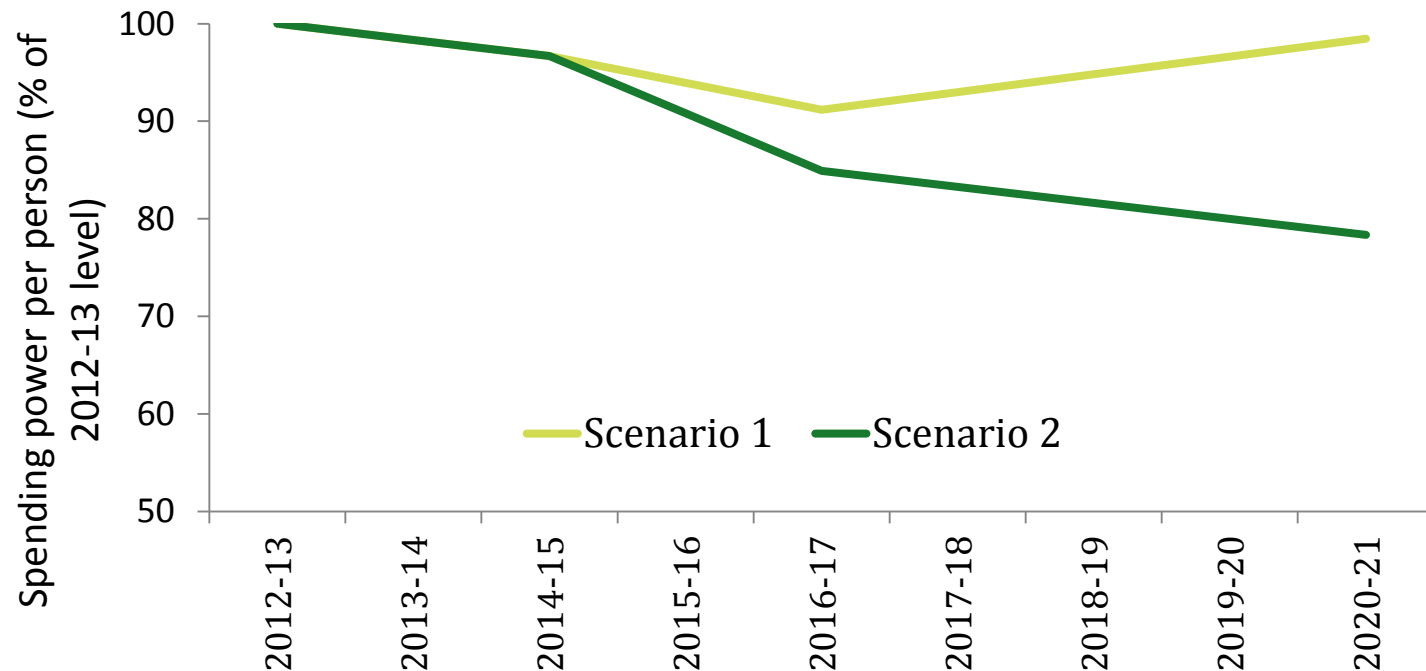
- Both scenarios represent more rapid cuts than have been delivered between 2009-10 and 2012-13, on average
 - And much larger than the cuts facing UAs in 2013-14 and 2014-15
- UAs' spending power per person would be 9% or 12% below its 2012-13 level in 2016-17 under these scenarios
- If the UK Government does not deliver further cuts in welfare and instead cuts spending on public services by more, the picture could be even bleaker

The state of the public finances plays a key role...

- The Government plans and OBR forecasts are for the cuts in public spending to be complete by 2016-17
 - But economy and public finances continue to underperform
 - Possibility that further downward pressure on public spending after 2016-17
- We again examine two scenarios:
 - Overall public spending grows in line with the OBRs long-term forecast for economic growth after 2016-17
 - Overall public spending is the same, in real terms, in 2020-21 as in 2016-17
- This shows the state of the public finances and hence the scale of cuts to come is likely to have a striking effect on local government

The outlook for spending power per person...

- Scenario 1: Welfare cut, Welsh NHS cut, and public spending grows in line with forecast economic growth after 2016-17
- Scenario 2: Welfare not cut, Welsh NHS not cut, and public spending the same in real terms in 2020-21 as in 2016-17



The picture looks challenging until at least 2020

- The pressure on budgets takes place in the context of rising demand for key services such as social services for older people
- Cuts on the scale of our more pessimistic scenarios would require a fundamental reassessment of what services local government can provide and how they are funded
- For instance, limiting the cuts to social services, education and environment and refuse to half the average under scenario 2, would mean cuts of over 50% to other services

Long term pressures due to an ageing population

- The ageing population means that the UK (and by extension, Welsh and local) Government will face a difficult fiscal situation for decades to come.
- The OBR's *Fiscal Sustainability Report's* central estimate is that demographic change could increase government spending by 5.2% of national income by 2060-61
 - Additional spending is mostly on health and pensions
 - Means tax rises or additional squeeze on other spending areas
- Central forecast is based on rather optimistic assumptions about productivity growth in the NHS
 - If instead grow at same rate as since 1979, further 7.5% of national income to be spent on the NHS in 2060-61

Demographic change differs across Wales

- Ageing will affect all parts of Wales, but to a different extent
- The local authorities covering the South Wales cities are projected to be hit less than average
 - Cardiff sees a rise in the number of over 65s per 1,000 working-age adults (aged 16 – 65) of only 30 by 2033: from 191 to 221
 - But Cardiff, and to a lesser extent Swansea are projected to see substantial increases in the number of children (aged 0 – 15)
- In contrast, significant further ageing in already old parts of Wales
 - Numbers per 1000 working-age adults increase from 414 to 723 in Powys, 439 to 660 in Conwy and from 370 to 655 in Monmouthshire

Conclusion (I)

- Welsh local government has had to deliver significant cuts over the last 3 years
- But the majority of the cuts look set to come even if the austerity drive is complete by 2016-17
 - The pace of cuts is likely to pick up in 2015-16 and 2016-17
- More uncertainty about what to expect after 2016-17
 - Even in a relatively benign scenario, spending power per person in 2020-21 would be less than in 2012-13 in real terms
 - Entirely possible that further substantial cuts will be required
 - Local and national government would be wise to plan how they could deliver such big cuts well in advance

Conclusions (II)

- The cuts in England, to date, have been substantially larger than in Wales
- There may be scope for Welsh local government to learn from the English experience
 - How can the impact on service quality be minimised?
 - What scope is there for increasing charging?
 - Do councils have to withdraw some services entirely?
- North East England shows cuts significantly larger can be delivered
 - More research is needed to investigate the impact on services