Professor Peter Murphy & Mr Bernard Kofi Dom - Written Evidence

House of Commons

WELSH AFFAIRS COMMITTEE

Inquiry: Impact of population change in Wales.

Written evidence from:

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Bernard Kofi Dom, Nottingham Trent University

Summary of Expertise

Peter Murphy is Professor of Public Policy and Management and Head of Research at Nottingham Business School, Nottingham Trent University. Prior to joining NTU in 2009, he had been the Chief Executive of a Local Authority, a Director of the East Midland Regional Government Office, and a Senior Civil Servant in four Whitehall Departments responsible for local government policy and delivery. Professor Murphy specialises in practically based and applied research which focuses on public policy and in particular the performance management, governance, scrutiny, public assurance, and value-for-money arrangements of locally delivered public services. Peter is a member of the Accounting and Accountability Special Interest Group of the International Research Society for Public Management.

Bernard K. Dom is a lecturer and researcher at Nottingham Business School, Nottingham Trent University. His research primarily focuses on Local Government Financial Resilience and service provision, and he recently submitted his PhD thesis entitled *Financial Resilience in the Face of Austerity: An Exploratory Study of Local Authorities in England.* More recently he has, with Professor Murphy and others, undertaken research for the paper *"A longitudinal study on Austerity Management and the Financial Resilience of Local Authorities in Wales from 2005/06 to 2019/20"* upon which this evidence is primarily based. This paper has not yet been published but has been submitted for academic peer review. Bernard is a member of the executive committee of the Accounting and Accountability Special Interest Group of the International Research Society for Public Management.

Terms of Reference

This evidence does not seek to respond to the committees' full agenda rather it focuses on the following aspects of the inquiry's terms of reference.

- What will the impact of population trends be on the demand for and delivery of public services, including housing, education, and healthcare?

- What steps should the Government take to mitigate the challenges of population change in Wales?

The Committee seeks to understand the reasons for population change and its impacts. It will also examine what mitigations could be put in place by the UK Government to meet the potential challenges of population change.

Introduction

It is now widely acknowledged that demographic ageing (Evandrou et al., 2015), and changes in migration (Vargos-Silva et al., 2022), have had, and will continue to have, significant impacts on the nature, pattern, and delivery of Local Authority Services in Wales.

There have been recent studies on the impacts of the UK policies of austerity-localism on Welsh authorities from the Welsh Governance Centre and the Wales Centre for Public Policy (both based at Cardiff University), and in particular, from Ogle et al. (2017), Ifan and Sion (2019) who looked at 2009-10 to 2017-18 and Downe and Taylor-Collins (2019), and Taylor-Collins and Downe (2022) who looked at 2009/10 to 2016/17 and 2009/10 to 2019/20, respectively.

This submission builds upon the research noted above and is based upon two more recent but as yet unpublished, longitudinal studies on the impact of austerity and the response from local authorities in England and Wales respectively between 2005/06 and 2019/20 Dom 2023, Dom et al. 2023).

The Welsh study used financial data consisting of the revenue income and revenue expenditure for all 22 Welsh LAs derived from 'StatsWales'. The original data was the same official data as that used by Ifan and Sion (2019) and Taylor-Collins and Downe (2022).

The English Study used financial data contained in the equivalent Revenue Summary and Revenue Outturn (RS/RO) forms published by the Office for National Statistics for the 343 local authorities (Unitary, London Boroughs, County and District) where official data was available and compatible throughout the 15-year study period. Financial values were real-term values using the GDP deflator and the financial year 2010/11 as the base year). A note at the end of this evidence provides details of the methodology used. Both studies also divided the 15-year study period into three eras the Pre-Austerity Era (2005/06 to 2009/10, the Early Austerity Era (2010/11 to 2014/15) and the Late Austerity Era (2015/16 to 2015/16 to 2019/20) which coincide approximately with the Labour, Coalition and Conservative UK administrations.

The objectives of the Welsh study were threefold. First, to explore the nature and scale of the impacts of austerity on the income and expenditure of Welsh LAs in the three distinct eras, secondly, to investigate the financial strategies adopted by Welsh LAs to absorb or respond to financial pressures and finally, to draw some comparisons between the Welsh LAs experiences over time and the experience of English LAs.

Our findings suggest that while there will be significant impacts from population trends on the demand for and delivery of public services in Wales (and potential improvements that the Government can take to mitigate the challenges of population change in Wales), there is, in our view a greater parallel need to significantly change the financial context within which Welsh LAs are required to operate.

Findings: Structural changes in Local Government Finances are required

Local government financial support and service expenditure generally rose in the pre-austerity era although in the last two year of the era (20080/9 and 2009/10) nearly all LAs in both England and Wales anticipated the impact of the great recession and reduced their revenue expenditure while increasing reserves.

All LAs in both countries were however, significantly challenged by the ‘twin’ pressures of increased demands for services whilst central funding was continuously reduced throughout the following two eras of austerity. Service pressures arising from cutbacks in non-local authority public budgets also meant local authorities were subject to further indirect demand pressures.

The UK government’s policy of austerity-localism, as applied indirectly to LAs in Wales and directly to LAs in England, has been by far the most significant factor affecting LAs’ delivery of services to local communities since 2010. The reductions in financial support, together with a more rapidly ageing Welsh population and increased demand for local services, created additional demand pressure on the Welsh LAs in the Early Austerity Era (Wallace et al., 2013; Jeffs, 2013) and throughout the Early and Late Austerity Eras, (Ifan and Sion 2019), Dom, 2023, Dom et al., 2023).

This was despite the Welsh Governments policies to reduce or mitigate the impacts of austerity on their LAs, which in aggregate meant Wales had a marginally less significant reduction in revenue support, although in Wales, the central-local partnership arrangements resulted in a more consistent and predictable revenue flow to LAs than in England.

The Welsh model of the central-local relationship facilitated a better coordinated and more integrated response to the consequences of the austerity. The Welsh model demonstrably performed better than the English alternative when faced with the long-term adverse impacts and challenges of austerity, and to-date, no section 114 Notices have been issued in Wales.

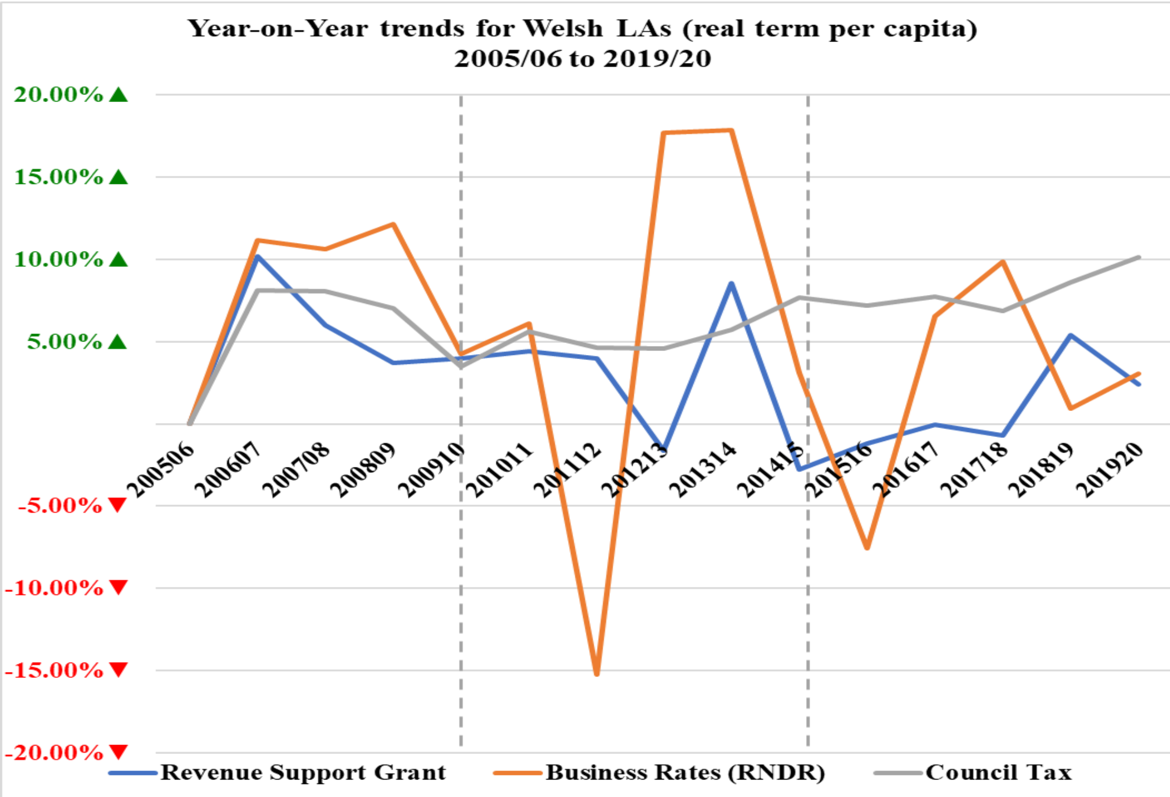
Local government finance in Wales has been distributed by the Welsh Government (Sion and Ifan, 2021) in different ways to that in England since devolution in 1999 (Atkins and Hoddinot, 2020, Sandford, 2022). The UK Government implemented austerity-localism as a ‘necessary’ strategy to reduce sovereign debt. The Welsh Government considered austerity as a policy choice rather than a necessity (Saville Roberts, 2022) and opposed in principle the policy of austerity (Taylor-Collins and Downe, 2022).

Wales has a single structure of LAs, all with a similar range of responsibilities and Ifan and Sion (2019) provide an analysis of Local Government finances in Wales between 2009-10 and 2017-18. The Welsh Government developed their policies and public service delivery from a New Public Governance perspective (Taylor-Collins and Downe, 2022) primarily basing their strategy on the Wellbeing of Future Generations (Wales) Act 2015.

A significant shift to Council Tax as a source of revenue.

Our research found a long-term and significant decline in government grants to Welsh LAs, although this was marginally less significant a reduction than in England (Dom, 2023, Brien, 2023, Sandford, 2023). The value of Welsh Government grants to local authorities fell by £918.5 million (18.9%) between 2009/10 and 2018/19. In Wales, government grants per capita reduced significantly over the study period. In England, there was a significant overall reduction in the equivalent 'revenue support' grants from 2013/14 to 2019/20 (Dom, 2023). Ifan and Sion (2019) found that council tax became an increasingly crucial source of revenue to Welsh LAs, as it represented 19% of total revenue by 2017/18 – an increase of more than 5% since the pre-austerity era. Dom et al. (2023) found council tax income per capita in Wales continued to increase in 2018/19 and 2019/20.

This represents the second overarching resultant trend in both Welsh and English fiscal policy over the austerity period, which has been a significant shift in the proportion of locally generated tax and revenue through Council Tax. We found that Council Tax receipts in 2019/20 accounted for 19.0% of gross local authority revenue, up from 13.8% in 2009-10. Council tax receipts in England accounted for 23.9% in 2019/20, up from 17.8% of gross local authority revenue in 2009/10 (Figure 1).



LAs in both countries used income generated from council tax to (partially) address the funding gap created by the reduced grants from central government. English LAs also experienced greater fluctuations in their Aggregate External Finance while Welsh LAs experienced more consistent central government support albeit that both English and Welsh LAs experienced substantial reductions.

Council Tax is acknowledged to be an inherently regressive and unfair tax becoming more regressive and unfair each year, particularly since the last significant changes in 2013/14 local government finance settlement (Murphy, 2019). The local government financial support and distribution system has been repeatedly acknowledged by all UK governments to be in need of radical reform since 2001 (DTLR, 2001). The continued and increasing use of council tax increases as a measure to maintain financial resilience in the long term is a clear concern given the tax's acknowledged multiple inadequacies and unfair distribution (Amin-Smith, 2017, Murphy, 2021, Dom et al., 2023).

In the long-term, the most economic, efficient, and effective way to re-organise central government support to local authorities and the devolved administrations would be to provide a regional pot of funding for all public authorities that included a proportion of locally raised income tax together with a new distributive mechanism that acknowledges a needs element based on the index of multiple deprivation. (Murphy et al., 2021) This would require radical restructuring of the local Government finance formula for the collection and distribution of financial support to local authorities. This 'regional single pot' of income should include central government support for all public service providers. This should also include revaluations for domestic and business rates purposes (for the property element) and a review of the 'Barnett' formula for determining support to devolved nations and the 'regional pot'.

Impacts on services.

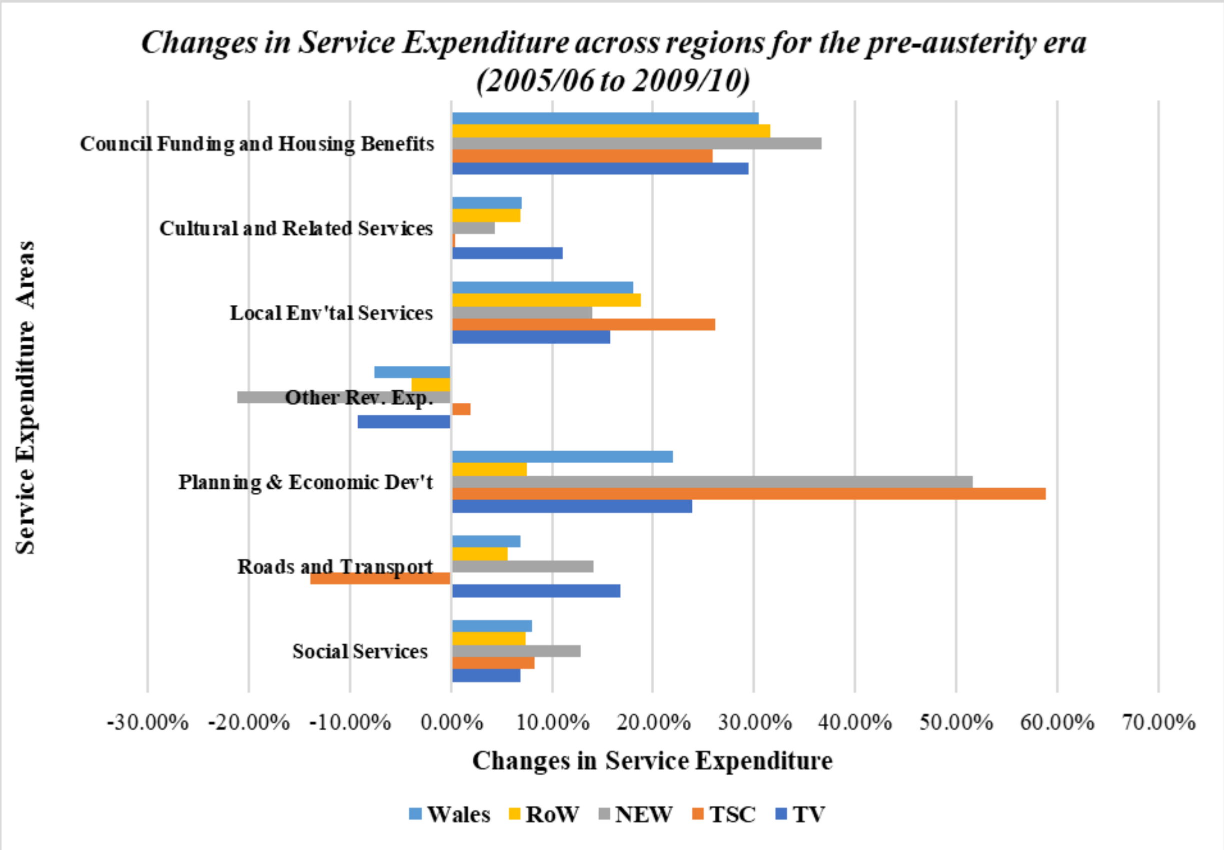
Our research reveals the changing trends/patterns in service expenditure across Welsh LAs during the three periods of Pre-Austerity, Early Austerity and Late Austerity (see Figures 2, 3 and 4) and allows broad comparisons with the situation in England. In order to reduce individual authority variations and provide more robust findings, we adopted the Institute of Fiscal Studies methodology and grouped the Welsh LAs into 4 clusters based on the similarity of the authority's characteristics (Crawford et al., 2012). The four groups were,

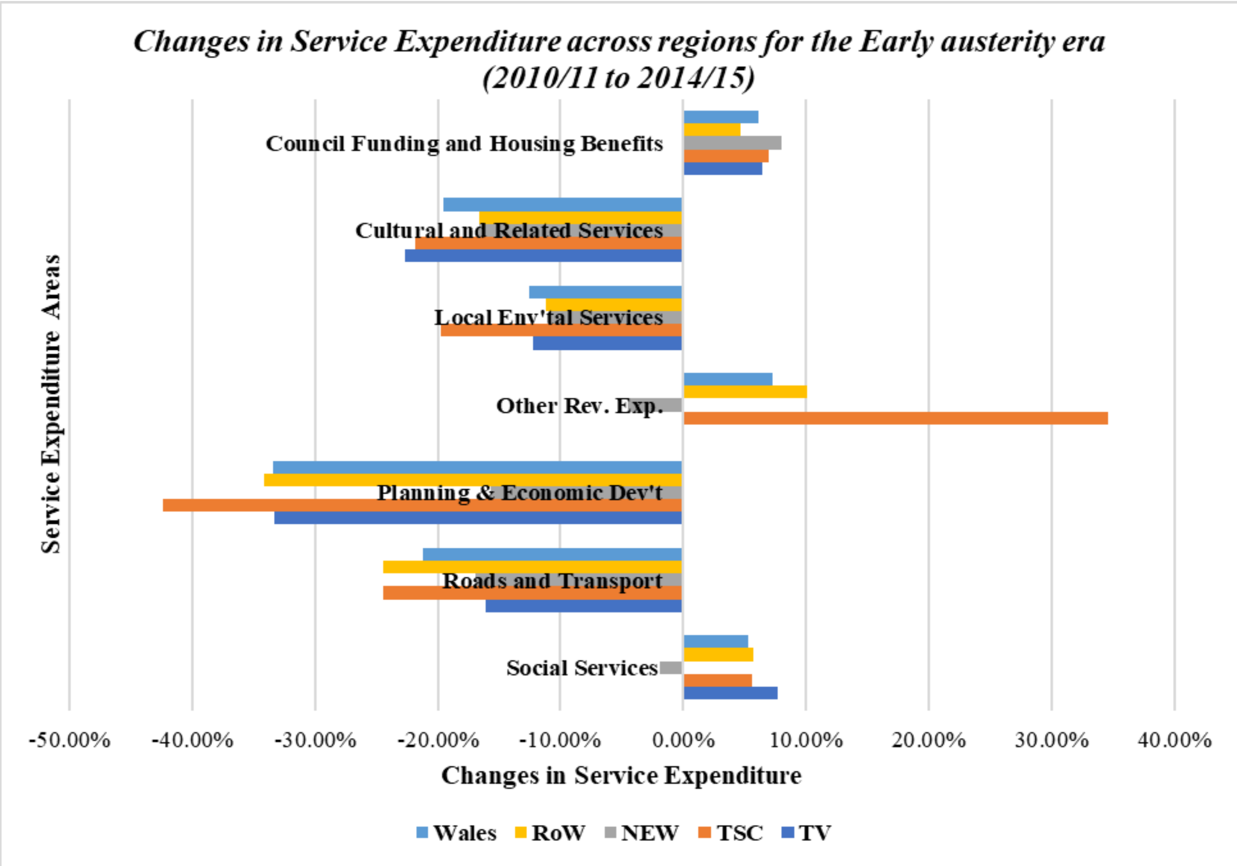
- The Valleys, (Blaenau Gwent, Bridgend, Caerphilly, Merthyr, Neath Port Talbot, Rhondda Cynon Taf and Torfaen).
- The Southern Cities, (Cardiff, Newport, and Swansea)
- North-East Wales, (Denbighshire, Flintshire, and Wrexham) and
- The Rest-of-Wales, (Isle of Anglesey, Gwynedd, Conwy, Powys, Ceredigion, Pembrokeshire, Carmarthenshire, Vale of Glamorgan, and Monmouthshire).

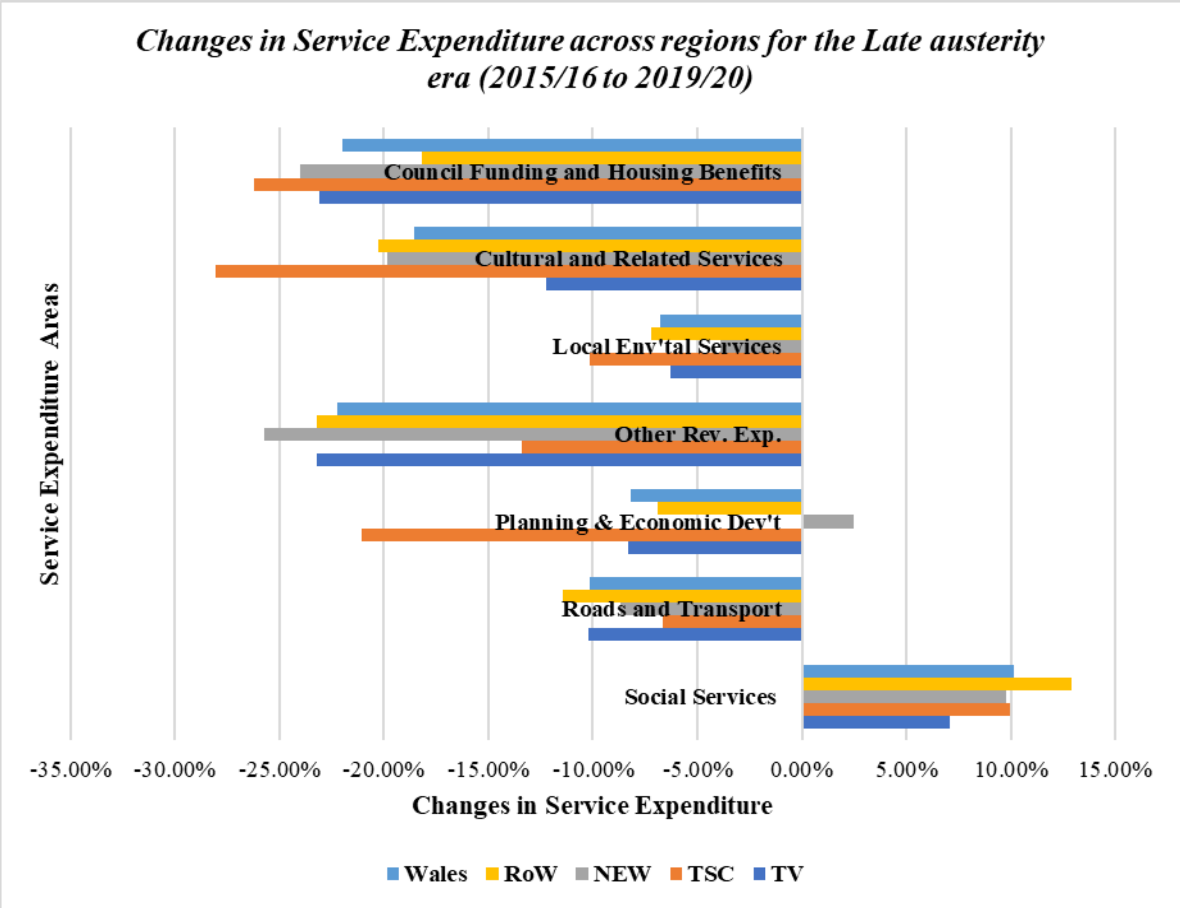
Local authority service spending fell by £232, or 12.87% per head, between 2009/10 and 2019/20 in Wales. In England, Dom (2023) found a reduction in service spending of 27.8% from the start of early austerity (2010/11) to the end of the late austerity era (2019/20). This cluster analysis also revealed a consistent and similar trend in the continuous increase in social service expenditure across the whole study period. This was evident in both countries as they increasingly prioritised social care over other demand-led and discretionary services such as cultural and related services throughout the austerity era. In Wales, it is relatively steady increase that became most pronounced in the late austerity era.

In effect, LAs in both Wales and England prioritise resources to social care over other services throughout the time series. Since 2009/10, expenditure on social services (excluding the Flying Start programme) increased by £106.4m (6.5%) in real terms in Wales (Ifan and Sion, 2019).

For English LAs, there was a continuous increase in total social care spend by £719.9m from 2010/11 to 2019/20.



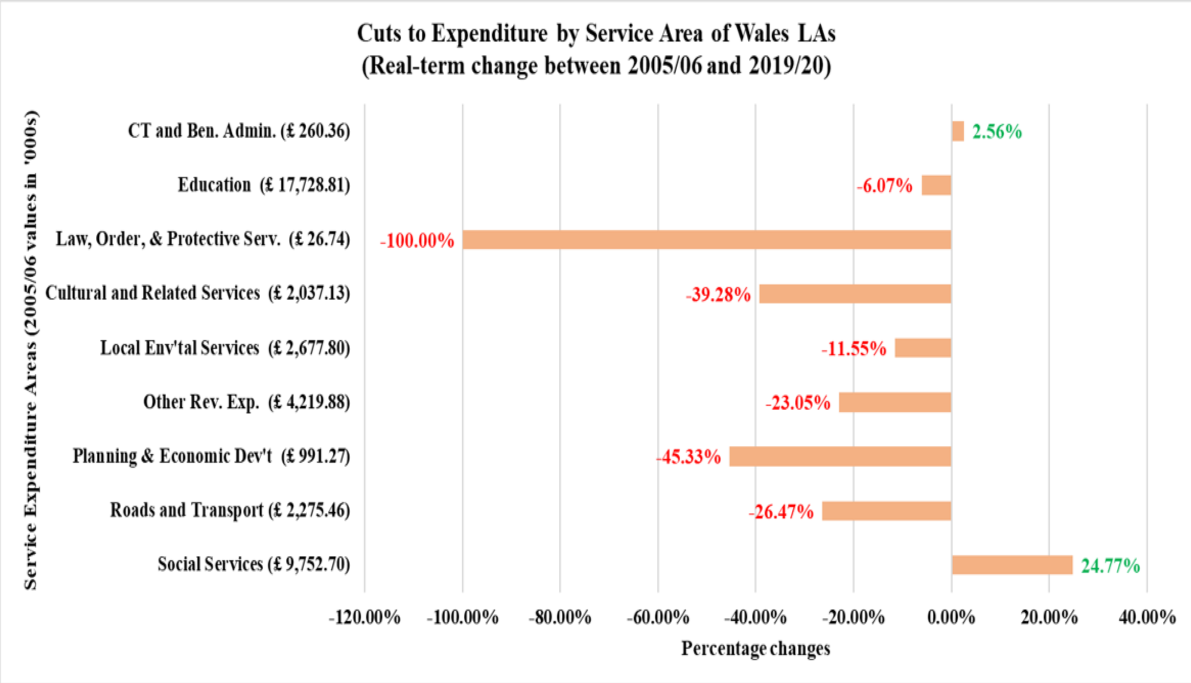




While social services were a consistent service category in Wales throughout the time series, in England social care was disaggregated into (i) children's services and (ii) adult social care in 2012. This enabled Dom (2023) to demonstrate that the greatest increase in demand for social service expenditure was in adult social care, a trend that Ifan and Sion (2019) found was replicated in Wales, although per person spending on older adults' social care (over 65) fell by 14.8% from 2009-10 to 2017/18 in Wales (Ifan and Sion, 2019 p.57).

LAs in both countries faced increasing demand pressures from an ageing population and from rising poverty and inequalities in the long-term have therefore had to reduce discretionary (non-statutory) service spends to meet the increasing demand for statutory social care services. Both countries use an assessment of spending need to redistribute grants to LAs more equitably, such that LAs with less capacity to mobilise council tax receive a greater share of grants than others in more affluent regions. In Wales, LAs in the Valleys had the largest proportions of their income from Welsh Government Grants, whilst LAs in the Rest of Wales mobilised the largest share of council tax. The shift away from Welsh Government grant support was more pronounced in those local authorities with the fewest deprived areas. There was increased reliance on Welsh Government Grants by LAs in the deprived regions than in the more affluent Southern Cities. A similar trend was found in England.

The impact on services over the whole study period is shown in Figure 5 below.



External Investments as a strategy to generate revenue.

Despite suffering from the twin pressures of limited resources and rising demand Taylor-Collins and Downe (2022, p. 943) found "little appetite or potential to generate additional income from local taxes or user charges". In terms of investment Taylor-Collins and Downe found Welsh councils preferred to 'dilute' rather than withdraw services and only pursued investment strategies on a small scale.

Local Authorities in England had both more flexibility, and in some case,s more reserves and were encouraged to innovate to create new revenue streams. A number of local authorities invested in property development both in their own administrative areas and outside. Unfortunately, the property market has changed significantly, and this has recently led to a spate of authorities issuing Section 114 Notices, including Northamptonshire, Nottingham, Woking, Croydon, Thurrock, Slough and most recently Birmingham. Moody's the international credit rating agency anticipates that more are expected to fail "as falling prices lead to large impairments on commercial property, and high inflation, interest rates and service demand also widen budget gaps" (Moody's, 2023).

In Wales Taylor-Collins and Downe (2022) "It had become "harder each year for councils to make savings, and further retrenchment – in particular, withdrawing discretionary services – is therefore more likely in future". Despite the best efforts of the Welsh Government and LAs, if current UK policies persist, there is likely to be more Section 114 notices issued by local authorities, especially in England but also in Wales.

Conclusions

Although there will be significant impacts from population trends on the demand for and delivery of public services in Wales and potential improvements that the Government can take to mitigate the challenges of population change in Wales there is, in our view, a parallel need to significantly change the financial context within which Welsh LAs are currently required to operate within.

The UK government's policy of austerity, as applied indirectly to LAs in Wales and directly to LAs in England, has been the most significant adverse factor affecting LAs' delivery of services to local communities since 2010. It has also resulted in a sustained and significant shift in service expenditure towards social services and welfare payments. It has meant increasing reliance on Council Tax in both countries. Council Tax has long been acknowledged as an inherently regressive and unfair local tax that urgently needs to be replaced, although governments of all political affiliations have lacked the political will and the leadership to replace it with a new comprehensive central-local financial support and distribution system.

We found revenue raising opportunities for LAs are more limited in Wales, and Welsh LAs are faced with a more rapidly ageing population with increasing inequalities that have both contributed to increasing demands for council services most notably social care and welfare support. Our findings also strongly suggest that levels of financial and organisational resilience in Welsh LAs are likely to be lower than in England.

This study adds to the mounting evidence that suggests that the UK, its devolved nations, and its LAs urgently require a new comprehensive central-local financial support and distribution system. This should include:

- New local and national revenue raising arrangements,
- A revised distribution system for central government financial support that includes an assessment of local community needs, and
- A mechanism for ensuring equitable distribution across communities.
- This should also include revaluations for domestic and business rates purposes and
- A re-evaluation of the 'Barnett' formula for distributing financial support to devolved administrations and (to include) English Regions.

The new system should also include,

- an element based upon local and regional income tax collection.
- an element to replace NNDR, which more accurately and comprehensively reflects wealth created in the non-domestic sectors.
- revision of the outdated domestic property ratings upon which the property-based elements of the new system would depend.

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Annex A. Data Collection and Analysis: A note on the methodology.

A five-stage approach was adopted in collecting and analysing the data, namely:

Stage 1: All financial data on Welsh LA's revenue income was collected from a publicly available, reliable, and accessible source (StatsWales).

Stage 2: The principal researcher used the data to create a "Welsh LA" data set and converted the financial values from nominal to real-term values, using the GDP deflator and the financial year 2010/11 as a base year (the financial year that policies austerity policies were translated into UK local government finance settlements). After this, the real-term prices were divided by the population for each LA to determine the revenue income per capita by the various income streams (i.e., Welsh Government Grant (WGG), Non-Domestic Rates (NDR), or Council Tax (CT).

Stage 3: The 22 LAs were classified based on their similar characteristics as well as geographical location, as used by Crawford et al. (2012) and others in similar studies. The 15-year study period (2005/06 to 2019/20) was sub-divided into three (3) eras, namely, the (1) pre-austerity (2005/06 to 2009/10), (2) early austerity (2010/11 to 2014/15), and (3) late austerity (20015/16 to 2019/20) eras.

Stage 4: A trend analysis was conducted to gain insights into how Welsh LAs' principal sources of revenue were affected during the time series.

Stage 5: A proportional analysis was conducted to examine how Welsh LAs have (re)prioritised their revenue sources in response to the increasing financial pressures during the austerity era.