

Finance Sub Group meeting – September 2019
Minutes of the Meeting

21st Meeting of the Finance Sub Group of the Partnership Council for Wales
Wednesday, 25 September 2019
10:30am to 12:30pm
Conference Room A, Tŷ Hywel, Cardiff Bay
Minutes

MEMBERS

Welsh Government Ministers

Julie James AM, Minister for Housing and Local Government – Chair
Hannah Blythyn AM, Deputy Minister for Housing and Local Government
Lee Waters AM, Deputy Minister for Economy and Transport
Kirsty Williams AM, Minister for Education
Rebecca Evans AM, Minister for Finance and Trefnydd

Welsh Local Government Association

Cllr Debbie Wilcox (Newport)
Cllr Andrew Morgan (RCT)
Cllr Rob Stewart (Swansea)
Cllr Anthony Hunt (Torfaen)
Cllr Mark Pritchard (Wrexham)
Cllr Peter Fox (Monmouthshire)
Cllr Dyfrig Siencyn (Gwynedd)

Police and Crime Commissioners

Rt Hon Alun Michael – South Wales Police and Crime Commissioner
Peter Curran – Finance Director, SWPCC

Welsh Local Government Association officials

Dr Chris Llewelyn – Chief Executive, WLGA
Jon Rae – Director of Resources, WLGA
Nigel Aurelius – Torfaen (Chief Finance Officer)

Welsh Government officials

Paul Griffiths – Special Adviser
Alex Bevan – Special Adviser
Reg Kilpatrick – Director, Local Government
Judith Cole – Deputy Director, Local Government Finance Policy and Workforce Partnerships
Matthew Wellington – Head of Budget Delivery, Welsh Treasury

APOLOGIES

Cllr Paul Miller (Pembrokeshire)

Agenda Item 1: Welcome and Introductions

1. The Minister for Housing and Local Government (the Minister) welcomed members to the fourth Finance Sub Group of 2019. She congratulated Cllr Wilcox on her recent peerage.

Agenda Item 2: Minutes and Matters Arising from Previous Meeting (Paper 1)

2. Actions were confirmed. The group noted two comments on the minutes of the previous meeting:
 - Paragraph 25, although it correctly identifies that Torfaen's budget assumption for Teachers' pay increase was 2%, it should reflect that this does not mean that the council has the funds to meet this pressure.
 - Paragraph 15, Jon Rae confirmed the details of the paper in question and suggested as it was available on line it did not need to be circulated.

Agenda Item 3: Deputy Minister for Economy and Transport – Foundational Economy

3. The Deputy Minister for Economy and Transport (the Deputy Minister) highlighted the shift away from a sector approach and a focused approach on the Foundational Economy . He set out the three strands of the 'Foundational Economy':
 - the Foundational Economy Challenge Fund, which invited projects to apply for up to £100,000 to trial different approaches, develop a strong community of practice, and learning on what works.
 - the identification and expansion of existing good practice and scaling it up through the Public Partnership Boards.
 - support for "grounded" firms, with the Deputy Minister sharing his recent experiences visiting companies with Cllr Hunt in Torfaen.
4. The Deputy Minister gave an example of work done as part of Preston Council's approach to "local wealth building", where six local anchor institutions were redirecting their purchasing power towards local firms. Without increasing their overall costs or reducing quality, the local spend increased from 5% to 18%.
5. Cllr Pritchard said that within his authority, the budget for economic development had reduced by some 60%. These reductions would not help with this initiative. The Deputy Minister specified that this was all about working smarter with what we've got, by being the catalyst to different ways of working.
6. The Minister for Housing & Local Government noted there were a lot of myths about procurement rules and what could or could not be done. She thought it would be helpful for Welsh Government to provide some guidance on this. She hoped that the approach to regional working through corporate joint committees might also help to pool skills and resource together to identify good practice and common issues. Cllr Hunt agreed; his authority was discussing with neighbouring authorities to learn good practices from one another and welcomed the advice and any myth-busting information on procurement

- 7. Action – Welsh Government to consider what guidance could be provided and to share through Public Service Boards (PSBs).**
8. Cllr Stewart agreed with the approach to “spend local” in support of the local community, but felt this increased the risk of failure or high cost. He noted this approach diverged from the original approach to the National Procurement Service. Dr Llewelyn suggested that local authorities wanted to use local companies for the 21st Century Schools Projects but could not, due to the rules placed on them. He would welcome the ideas suggested to be available before starting the 21st Century Schools Band B Phase.
9. The Minister explained that before the announcement of the Innovative Housing Programme (IHP) Year 3 they had learnt from the previous experience and come up with solutions. The Deputy Minister noted there were circumstances where there are benefits to procuring at a Wales level, for example, the Minister for Education had recently procured Microsoft licences to all schools in Wales rather than schools having to do it individually.

Agenda Item 4: WLGA Report

10. Cllr Wilcox introduced the paper, saying that although local government had received spending cuts through the years, they had worked together to reduce the impact on the quality of services. Jon Rae then presented the WLGA’s paper explaining this was a summary document from a survey conducted of all 22 local authorities to identify their budget pressures. He highlighted the increase in workforce costs which had nearly doubled and would increase further with local government pension and pay increases. The paper set out the challenge of continuing to make efficiencies and noted efficiencies were increasingly in reality simply reductions to services. Authorities had already raised their council tax. Cllr Hunt added that the cuts have led to many job losses which has disproportionately affected women and deprived communities.
11. The Minister acknowledged the workforce pay pressures that local government was facing. She explained the Minister for Finance and Trefnydd was coordinating a cross-Government approach to public sector pay and conditions and developing a set of principles. The Government would welcome local government’s views on these.

Agenda Item 5: Minister for Education

12. The Minister for Education expressed her desire to be able to put as much funding as possible into frontline services, but recognised how difficult that was for local authorities also faced with pressures on social services and other services. She explained that she had accepted all the recommendations made by the Children, Young People and Education (CYPE) Committee and was committed to a review of education funding.
13. The Minister for Education explained that although England had announced a 3-year school budget, the UK Government had only provided Welsh Government a one-year budget. She confirmed there had been no consequential from UK Government for a teachers’ pay increase, and the Department for Education (DfE) in England had had to find the funding from within its existing budgets. Similarly, with the increased costs to pensions, the UK Government had provided Welsh Government funding for only 85% of the overall increased costs.

Finance Sub Group meeting – September 2019 Minutes of the Meeting

The Welsh Government had committed to top up the remaining costs through reserves in 2019-20. It would need to make its budget decisions in this context.

14. In discussion, the Minister for Education asked the group whether they had any desire to change the overall distribution formula noting that in any review there would still be winners and losers within the formula. Cllr Morgan confirmed the WLGA view against any changes to the formula at a time where budgets are tight. The issue lay with the quantum of funding available. Cllr Pritchard said the schools funding in Wales should be no lower than in England. He added that if the funding for local government in Wales was not improved, his authority would have to reduce the number of teachers and teaching assistants or significantly cut funding to other service areas. He acknowledged the importance of the health service but stressed that local government preventative services such as education and social care reduced the future funding need for the NHS.
15. Cllr Stewart listed the cuts required in his authority if no additional funding were given for teachers' pay increases, emphasising that just because authorities had made a planning assumption for an increase of 2% this was then reflected in cuts needed and planned elsewhere. He stressed that early communication was essential to allow councils to plan for redundancies before Christmas. Dr Llewelyn suggested transferring hypothecated grants into the settlement could improve funding getting to get into the frontline services. Cllr Hunt, gave the assurance that if additional funding was provided by the Welsh Government for schools or social care then Local Government was committed to this going into these frontline services which were a shared priority. Cllr Stewart agreed it was a historic myth that if local government receives funding for a specific purpose it is not always used for that purpose.
16. The Minister for Education thanked the group for their comments and recognised the difficult choices local government has had to make in recent years. She highlighted that in the UK Government's Spending Round, DfE's budget is increasing by 3.3% in real terms whilst the Welsh Government's Budget is only increasing by 2.3% in real terms. The same was true in some other areas. The choices for Welsh Government were not straightforward.
17. The Minister for Education said she understood the pressures local government faced in respect of pay and pensions as well the need to support the delivery of the new curriculum and to recognise issues of teachers' workload. She welcomed the assurance on unhypothecated funding.

Agenda Item 6: Minister for Finance and Trefnydd – Finance Update

18. The Minister for Finance and Trefnydd (Minister for Finance) gave details of the UK Government's fast tracked spending round, specifying that the Chancellor's statement was based on the previous administration's policies and the Office for Budget Responsibility's (OBR's) estimates at March 2019. She confirmed the revenue budget for Welsh Government was £593m higher and the capital budget £18m higher. She was undertaking budget bilateral discussions to understand each Minister's portfolio priorities.
19. Although there were increases in health and education funding, the UK Government had reduced the Welsh Budget by more than £200m apparently in respect of an adjustment to NDR. The Welsh Government was investigating the reason for this with HM Treasury, but the Minister made it clear that she had to

Finance Sub Group meeting – September 2019
Minutes of the Meeting

plan on the basis of the published figures. She highlighted that as this money had not been formally transferred there remained uncertainty for the Welsh Government's position in light of a potential general election or a no-deal Brexit. The Welsh Government budget was now planned for the earlier date of 19 November with the Final Budget to be published on 4 February subject to agreement with the Assembly Finance Committee.

20. Cllr Wilcox said that from local government perspective they expected a full transfer of any relevant consequentials to local government. Their calculations were that this was around £206m for education (£151m) and social care (£54m). Cllr Stewart said any adjustment for non-domestic rates (NDR) was a problem for Welsh Government and should not have a bearing on provision of funding for local government.
21. The Minister for Finance stressed the Welsh Government determined its priorities from the total budget made available, not from the consequential received in relation to individual UK Government departments. The Minister noted that there were considerable risks for local government in Wales if they sought to apply UK Government decisions on local government funding to Local Government in Wales. Funding for local government in England had reduced considerably. The Welsh Government had provided additional funding from its own wider resources for example for teachers' pensions.
22. Cllr Morgan asked for clarity as to whether the £30m for Regional Partnership Boards in 2019-20 would be going into the Health MEG or would stay in the Regional Partnership Boards to use. He said it would be important for Councils to understand the details of hypothecated grant allocations and terms and conditions as early as possible. It was not reasonable that some grant were only confirmed well into the financial year. He asked, as the WLGA's transport spokesperson, for clarity as to whether more capital funding would be available to continue to modernise schools, roads and bridges, some of which are in serious need of repair. Without this funding there is a risk that there could be a serious accident in Wales, so any additional support would be much welcomed.
23. Ministers confirmed they wished to be as transparent as possible with local government over the budget. There was a finite budget so changes in funding in one area inevitably meant impacts elsewhere but where such changes impacted on grants for local government care would be taken not to present this to local government as unalloyed good news and new funding. She confirmed there was unallocated general capital in 2020-21 for consideration in the budget and a second phase of the capital stimulus package would be made shortly.

Agenda Item 8: Any Other Business

24. The Minister thanked the Group for the discussions. As there had been no time for discussion and agreement on the DSG report it would be regarded as approved unless queries or comments were raised in the next week to ten days.