



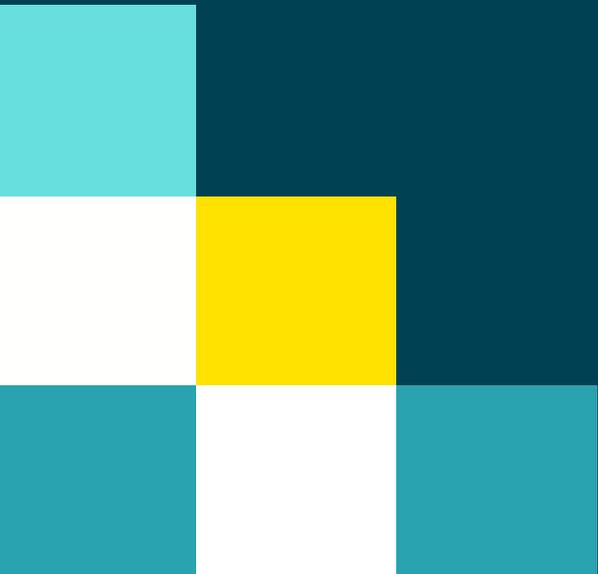
**Wales Centre for Public Policy**  
**Canolfan Polisi Cyhoeddus Cymru**

# At the tipping point?

## Welsh local government and austerity

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# Summary

- This report outlines Welsh councils' responses to austerity, drawing on interviews with Welsh council leaders, chief executives, finance directors, and external stakeholders.
- Councils have responded to austerity in three main ways: by making efficiency savings; by reducing the need for council services; and by changing the role played by councils and other stakeholders.
- Efficiency measures have mainly focused on back office savings and redesigning frontline services, with significant reductions in the size of councils' workforce. This has implications for the local economy, since Welsh councils are often the largest employers in the authority.
- There are limited examples of how councils had invested to encourage economic growth. More emphasis is being put on preventative measures to respond to austerity.
- Austerity has led to a shift in the relationship between local government and other public services, with organisations taking on responsibility for delivering some services and the public encouraged to do more for themselves.
- Education and social care have been relatively protected by local government to date, but most councils feel unable to continue this if austerity continues. The impact of protecting these services has been significant cuts in the environment, leisure, and transport (specifically roads) services.
- There are several measures, such as raising council tax and charging for services, which can help in responding to austerity, but there are concerns about their long-term effectiveness, sustainability, and fairness.
- Welsh local government is reaching a tipping point in terms of financial challenges. Most efficiency savings have now been made, and anticipated reductions in the range and quality of services in future will directly impact on citizens' quality of life in Wales.
- Welsh Government could do more to support local government to respond to austerity, such as making changes to the financial settlement and the system of grants.
- Local government could improve the way it learns from good practice in Wales and elsewhere, provide better peer support, consider alternative forms of collaboration, and improve its approach to risk-taking.
- There needs to be a debate about the sustainability of Welsh local government and how councils can be supported to be resilient.

# Introduction

Local government is considered ‘one of the foremost casualties of the fiscal austerity which has characterised UK public policy since the 2010 Comprehensive Spending Review’ (Hastings et al., 2015: 601). In England, the scale and pace of cuts to local government has been significant, with mean reductions in service spending for English councils nearing 24% between 2009-10 and 2016-17, which has significantly shrunk the capacity of the local state (Gray and Barford, 2018). In 2018, the impact of these cuts on councils was brought into sharp focus with Northamptonshire County Council declaring effective bankruptcy, and reports suggesting that a significant number of other councils are ‘vulnerable to financial failure’ (National Audit Office, 2018). A recent survey revealed that over half (54%) of local government chief executives, directors of finance, and council leaders across the UK expect to see more councils experiencing ‘serious financial crisis’ in 2019 (PwC 2018: 1).

In the 20 years since devolution, successive administrations in Wales have taken a ‘distinctively Welsh’ or ‘Made in Wales’ (Moon, 2013) approach to local government and public services. This can be identified in the Welsh Government’s response to the 2010 Spending Review, with austerity being described by then Welsh Government Finance Minister Jane Hutt AM as a ‘choice, not an economic necessity’ (Hutt, 2016), in contrast to the UK Government’s framing of austerity as an opportunity for a ‘radical programme of public service reform ... enabling sustainable, long-term improvements in services’ (HM Treasury, 2010: 8). Welsh local government was initially relatively protected from austerity, owing to the ‘time lag in English cuts feeding through the formula used to set Wales’ funding in London’ (Pill and Guarneros-Meza, 2018: 414), as well as the Welsh Government’s decision not to protect health service spending, and more collaborative working between Welsh Government and local government (Ferry et al., 2017).

Despite these different perspectives on austerity, the reduced block grant the Welsh Government received from Westminster, which has fallen by 5% in real terms between 2011 and 2019-20 (Drakeford, 2017), has filtered down to Welsh councils. Welsh councils have experienced an average reduction of around 12% in service spending between 2009-10 and 2016-17 (see Table 1) or a fall of £918.5m in Welsh Government grants to local authorities since 2009-10 (Ifan and Sion 2019). These cuts in budgets, compounded by a growing and ageing population and increased demand for local services such as social care, has created a ‘perfect storm’ (Wallace et al., 2013; Jeffs, 2013).

**Table 1: Average reductions in service spending for local government in England, Scotland and Wales (2009-2010 to 2016-2017)**

	<b>Mean</b>	<b>Median</b>
<b>England</b>	-23.7%	-23.4%
<b>Wales</b>	-12.1%	-10.9%
<b>Scotland</b>	-11.5%	-10.5%

(Source: Gray and Barford, 2018: 553)

A number of studies have explored the reaction of English councils to austerity (Ahrens and Ferry 2015; Hastings et al. 2013; Fitzgerald and Lupton 2015; Jones, Martin, and Whittington 2015), but there has been no in-depth qualitative analysis examining Welsh councils’ response. This study provides new empirical data from the perspective of senior officers and politicians in Welsh local government to address this gap by investigating three main research questions:

- What strategies have councils in Wales used to respond to austerity?
- What has been the impact of austerity on local government in Wales?
- What could local government and the Welsh government do to improve how they respond to reduced finances?

We examine councils’ responses to austerity by analysing the actions they have taken to reduce costs (a strategy of ‘efficiency’), their activities to reduce the need for council services or reduce future costs (a strategy of ‘investment’) and whether councils have reduced their role in the services they provide (a strategy of ‘retrenchment’) (Hastings et al. 2013). This report also looks at how austerity has impacted upon services. We conclude with reflections on the effectiveness of councils’ approaches, as well as issues for both local government and Welsh government to consider in the future.

This study was originally proposed as part of the Wales Public Services 2025 programme, which concluded in July 2018, and been funded by the Welsh Local Government Association.

# Methodology

Interviews were conducted with council leaders, chief executives, and directors of finance at 12 out of the 22 councils in Wales. We selected a representative sample of councils based on size, political control, and region. All 12 councils invited to participate in this study agreed to take part, though in some cases we were only able to interview one or two representatives from each council, rather than three.

We also interviewed representatives from the Welsh Government, the Welsh Local Government Association, the Society of Local Authority Chief Executives (SOLACE) and the Wales Audit Office, making a total of 35 interviews. The interviews were conducted face-to-face and over the telephone between March-May 2018, and each took between 40 and 90 minutes. All interviews were audio-recorded and transcribed, and analysed in a qualitative software package using thematic analysis.

In advance of the interviews, we conducted documentary analysis of each of the 12 councils to examine spending data at the service level, councils' medium-term financial strategies, and minutes from meetings discussing the budget.

Initial findings of the research were presented at the 'Sustaining Wales' Public Services: Austerity and Beyond' conference in July 2018. The audience included representatives from the Welsh Government, a range of local councils, health boards, the National Assembly for Wales, three AMs, and a range of other public service and third sector organisations.

# Approaches to responding to austerity

Welsh councils have responded to austerity in diverse ways and at different timescales. The response from some councils could be classed as mature, while other approaches have been less advanced (Table 2).

**Table 2: Mature vs less advanced responses to austerity**

<b>Mature responses to austerity</b>	<b>Less advanced responses to austerity</b>
Long-term approach	Short-term planning
Clear sense of purpose and priorities	Not matching budgets to priorities
Learning from the experience of others	Not learning from others
Adopting new ways of working	Resistance to change
Focusing on organisational change and development	Focus on cutting costs rather than improving efficiency
Working collaboratively with stakeholders	Working alone
Careful maintenance of reserves	Using reserves to top up the base budget
Whole-budget approach to identifying savings	'Salami-slicing' costs from individual departments

Several councils that were slower off the mark to respond to austerity had taken an ad-hoc approach to making efficiencies when opportunities arose. They argued, however, that they had now moved to taking a more mature approach underpinned by their corporate strategies. One chief executive explained that their budget strategies are no longer based on 'salami slicing', though they once were:

**'It's been many years since we've done a budget strategy here based on, "Let's make the maths work. We've got £100m. The answer equals £95m. We will take 5% off everybody"'**.

Another chief executive made a similar point in recognising the need for a different approach over time:

**'I think we recognised that we would need to undertake a multi-pronged approach to delivering savings. The nature of savings had changed, so we clearly were in a position where we could take simple cutting of budget lines, project budgets and so on. What we needed to put in place was a much more sophisticated programme of organisational development, which brought about a managed transition to a constrained fiscal environment'.**

The difference in responses to austerity is likely to reflect several factors, but leadership, by politicians or senior officers, is one of the key determinants. This could be seen explicitly in two of our councils when a new director of finance was able to challenge old-style or 'traditional' ways of doing things, and the arrival of a chief executive who, rather than dictating actions from the top, did much more to empower staff at all levels of the organisation.

Previous research (Hastings et al. 2013) has found local government approaches to managing austerity can be organised into three broad categories: efficiency, investment, and retrenchment (see Table 3). 'Efficiency' strategies are aimed at reducing the costs of council services without having a detrimental effect on the public. A strategy of 'investment' aims at reducing the need for council services allied with an eye on managing the future costs of services. Finally, the strategy of 'retrenchment' is focused on changing the role played by councils. It incorporates having a different relationship with other agencies and the public, and potentially withdrawing or reducing the provision of services. We will now use this framework to examine how Welsh councils have responded to austerity.

**Table 3: Strategies to manage austerity\***

<b>Strategy</b>	<b>Component</b>	<b>Example</b>
<b>Efficiency</b>	Reduce 'back office' and 'fixed' costs	Reduced support functions
	Redesign front-line services	Smarter working using technology
	Income generation/loss reduction	Increase traded income via selling services
	Seek savings from external providers	Re-commission existing contracts
<b>Investment</b>	Encourage economic growth	Attract investment or jobs
	(Accelerate) capital investment	Growth-orientated investment (e.g. site preparation)
	Preventative revenue spend	Re-ablement in domiciliary care
<b>Retrenchment</b>	Renegotiate division of responsibilities between council and other agencies	New models of provision such as co-operatives
	Renegotiate division of responsibilities between council and citizens	Asset transfer to community groups
	Charges (for existing services)	New or increased charging for services (e.g. bulky waste)
	Reduce range of services	'Statutory' only level of service provided
	Continue to provide service on universal but reduced level	Reduced number of facilities (e.g. libraries)
	Continue to provide service but target towards 'need'	Provision focused only on the neediest groups or neighbourhoods

\*Adapted from Hastings et al. 2013.

# Responding to austerity through efficiencies

The majority of councils we interviewed had a negative view of austerity, but there were some which acknowledged that, particularly in the early days of austerity, budget cuts had positive effects on their council. These interviewees accepted that there was, prior to austerity, a period of 'milk and honey' in Wales (Drakeford 2012: 454) which meant that councils lacked the will to consider whether there were better ways of working:

**'I think that there was a need for local government across Wales to reflect on their working practices. Because if you go back beyond the last eight years, we did live in a time of plenty. Many of the decisions that needed to be taken up in the council chamber were, "How are we going to spend this money?" rather than, "How are we going to save money?"'** (Chief executive)

A small minority of councils explained that they have used austerity as an opportunity to improve. Rather than complaining about the situation and seeing the glass as half empty, they have looked radically at the way they deliver services and been able to identify waste and inefficient processes. One council leader explained that:

**'I think it's made me more business minded in the context of public services, and not losing the public service ethos, but thinking more business-like about what we do, and the way we provide services in a different way'.**

From a political perspective, it gave one council leader the chance to challenge existing conventions: *'We've always done things this way ... Well, that wasn't cutting it'*, and austerity provided an opportunity to be creative and take calculated risks. One chief executive believed that he was able to get support for change that he would not otherwise get in easier financial circumstances.

Although one council told us that they had made significant efficiency savings pre-austerity, most began to introduce efficiencies as a direct response to austerity. In all cases, efficiency savings were the first of the three main strategies outlined in Table 3 to be implemented, and made up the vast majority of savings.

Four councils talked about making changes to the way they calculate Minimum Revenue Provision (MRP) – the minimum amount that must be charged to an authority's revenue account each year for financing of capital expenditure – to address budget shortfalls. This

technical accountancy change has, in the words of one director of finance, '*had a two-pronged impact. It delivers a revenue budget saving, and it also generates a cash amount*'. This approach is becoming increasingly common in response to austerity as it doesn't affect the frontline (Peebles 2018), but is a short-to-medium term fix rather than a solution to financial difficulties.

The two most common approaches to efficiency savings were reducing back office and fixed costs and redesigning frontline services, and within this making better use of digital and technology. Councils recognised that they could do more to generate income and there was only limited discussion on savings being sought from external providers.

## Back office savings

The most commonly cited efficiency measure was 'back office' savings. Several interviewees used the phrase 'low hanging fruit' to describe these initial efficiency savings. These were internal changes and therefore relatively straightforward to implement, being less likely than public-facing savings to elicit opposition from councillors. One council leader explained that:

**'You always looked at the impact of the service to the end users. So anything to do with the back office was an easy one to cut'.**

Dealing with the low hanging fruit can have quite substantial impacts. One council highlighted that their review of back office and clerical support reduced costs by 45%. Councils highlighted numerous examples where efficiencies have been made relatively painlessly including rationalising printers (£600,000 saving a year), centralising administration (£1m saving), making all postage second class (£250,000 saving) and changing the way they dispose of residual waste (saving £1m per year).

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## The use of reserves

**A 2016 Wales Audit Office report found that most councils in Wales generally had levels of reserves that were 'appropriate to the strategic, operational and financial risks [they] face', and that both earmarked and general reserves had increased between 2008-09 and 2014-15 (Auditor General for Wales 2016a: 12, 24), though have since fallen from their 2015-16 peak (Ifan and Sion 2019: 21). Councils we spoke to had made use of earmarked reserves in a variety of ways, from economic regeneration to winter maintenance and restructuring. A minority told us they had used earmarked reserves to support the base budget, for example to meet the budget gap in social care.**

In terms of general reserves, a couple of councils said they had increased their reserves, but almost half the councils we spoke to told us they considered their reserves to be low, with some close to minimum levels. One council described the process they used for determining acceptable levels of reserves:

**'I effectively built a risk assessment of working balance spreadsheet. Where you put your risks in, apply a percentage to the level of risk. Very high risk was 100%. High risk 75%. Medium risk 50%. You apply that to the worst-case financial scenario. A figure comes out. Add all things up from your risk. You want that to be in the ballpark of what you've got as your working balance'.**

Half of the councils we interviewed told us they had used general reserves to balance the base budget in a sustainable way. Some had determined that their reserves were unnecessarily high, and therefore had taken small amounts out – as one chief executive said, *'there was a calculation that it was not a dangerous thing to do, because if our balances were low that would be really risky, but they weren't'*. Others had taken more significant funds out of general reserves because they were unable to set a balanced budget otherwise. One chief executive was particularly concerned that *'on our reserves we could probably keep going for less than a week. That's not good. That's really poor'*. We heard of some pressure from councillors to use reserves, particularly when levels had come under criticism from Welsh Government Ministers, but officers felt able to defend their position to keep them at 'safe levels'.

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Back office savings predominantly affected councils' workforce by reducing the number of staff. Across Wales, the number of people working in councils fell by 37,000 between December 2009 and September 2018 (Ifan and Sion, 2019). This has been achieved by a range of actions including removing layers of management, centralising HR and administration teams, and voluntary redundancies. Generally, councils had avoided compulsory redundancies, but this meant that remaining staff were having to work harder and prove their worth. The reducing workforce had implications in terms of morale, stress, and the number of sick days taken.

Job losses can have a disproportionate impact on local economies, as the council can often be the largest employer in an area. Reducing the size of councils' workforce meant increased levels of unemployment locally, affecting council tax and councils' ability to generate income. This was coupled with significant redundancy costs. These changes in the council workforce are also compounded by the wider effects of austerity on other local employers also making redundancies. One council said they'd lost more than £40m out of the local economy over the past five years.

In a few cases, interviewees recognised that as difficult as it is to lose people, change has been necessary. One chief executive admitted that

**'I think in truth we were a bit top heavy in certain respects, so when I took this post up there were 23 heads of service that are now 11, or 12. A lot of staff, they were good staff but frankly they weren't up for the fight that austerity represented'.**

A director of finance from another council agreed:

**'You did have a ludicrous position before. Let me be honest. If you go back to 1996, even as a district council we must have had about 38 senior officers. The Directors team is now 4 and the corporate management team is 8. A lot of the wastage and fat in the organisation has gone, and what it means is everyone has to work harder'.**

In addition to this, other positive outcomes had also resulted from these job losses. Austerity has helped to create a workforce where people's jobs have become more varied, and managers can deploy staff wherever pressures build up. While it costs money to remove 'blockers' in an organisation, this can be money well spent for introducing organisational change.

However, some councils had reduced their workforce to such an extent that they felt any further reductions would leave them unable to deliver services. One director of finance warned that councils need to ensure that

**'You don't take away the level of resource that is required to ensure that we can continue to deliver the services longer-term into the future'.**

There was also a general sense from our interviewees that most of the efficiency savings had now been made without any significant negative impact on the public. While some small savings could be made year-on-year, it was felt that there were no longer major savings to make.

## Redesigning frontline services

Many interviewees talked about creating 'one-stop shops' or 'hubs' which host multiple council services in one building. These changes reduce overheads and provide an opportunity for councils to divest some of their property portfolio. This redesign of services has enabled libraries to stay open and other services to continue. While the service was still being provided, one council leader described how this had taken some adjustment by the public:

**'The public have had to get used to there being one council building in their community, rather than three or four'.**

Councils have also reduced desk space and building costs by encouraging agile working, particularly for staff who are not predominantly desk-based. Some councils have adopted lean systems thinking to reduce waste and improve productivity.

Changes to the way in which services are being delivered have resulted in significant efficiencies. One chief executive gave the example of reducing the amount of paperwork social workers had to complete, freeing up their time to deal with a significant backlog of work. The result was:

**'Our social services, particularly around elderly people, being able to hold their budget position for the last three years'.**

These changes are in some cases long overdue. Another chief executive explained that:

**'Some of the systems that we've managed to design and layer over many, many years simply are completely unnecessary, unneeded, over the top, too expensive'.**

Once redesigned, there is significant potential for a better service to be delivered to the public using fewer staff and resources.

Our research revealed councils taking different approaches in the same service area (e.g. leisure services). While most interviewees talked about the increased use of the private sector to provide a service, or setting up a trust, one council explained that they are building a new leisure centre and had refurbished another. As a result of this investment in facilities, there has been an increase in people joining the leisure centres and associated income. The service was described in one council as being *'perilously close to being self-financing'*.

A few councils had created arms-length companies (ALCs) to provide services. One council has set up two ALCs: one on careline services and another to progress the building of housing and affordable homes across the county. It means that the company can get monies

in and grants that they would not otherwise have been able to do as a council. The council is the only shareholder in these companies, avoiding loss of control and staff.

## Use of digital and technology

The use of technology to make efficiencies and improve the way services are delivered is an important topic for all councils. While one council was ahead of the curve in setting up a Digital Development Team (initially focused on efforts to collate and link performance data across the organisation) more than a decade ago, this was the exception. The majority of councils explained that they felt they could significantly 'up their game' in this area, and this is a deficiency that goes further across the wider public sector (National Assembly for Wales, 2018).

There are several ongoing developments in moving people to do their council business online. These include:

- Apps which:
  - Allow the public to pay for council services (e.g. council tax) more easily, reducing the costs of chasing payments.
  - Speed up the process of rectifying a problem, e.g. reporting fly tipping where a picture of the waste goes straight to the front-line.
  - Improve the performance of a service, e.g. providing real-time parking availability.
- The provision of information online (e.g. the timetable for waste collection) which reduces the number of calls to contact centres.
- The improvement of websites so that the public can, for example, go online to see updates on planning applications.

All interviewees agreed that they were working to expand and/or improve the number of transactions (and interactions, such as reporting problems) that are carried out online. They recognised the need to try to keep up with other organisations such as banks or energy providers, with which the public regularly engage online. However, changes to IT processes require significant investment and this is especially difficult with a reduced workforce. One council explained that they used £1m of their reserves to invest in improving their digital strategy and improving how the public engage with the council electronically.

There was an understanding that changing how services were delivered should not exclude any group of people without access to technology, or those in rural areas where broadband coverage may be poor. While councils are aiming to be 'digital by default', they recognise

that multi-channel options need to be provided for certain sections of the community. A director of finance explained that

**'Many of our customers have complex and challenging needs. Stereotypical, but our elderly population don't cope fully well with the Twitter enabled multiverse. They simply don't. Equally, some of our adult social care clients have got mental capacity issues, and we are guardians of them'.**

It may also be that some sections of the public are not ready for a 'digital by default' system. One chief executive gave an example of introducing charges for green waste which led to most of the public preferring to pay over the phone. This may reflect the demographic profile of the users, but should also raise an alarm bell not to drive everybody to digital. This does not mean, however, that archaic internal processes which use vast amounts of paper should not be moved online.

Our interviewees revealed that there was no obvious digital leader in Welsh public services from whom others could learn. One council leader explained that, *'If I'm blunt about it, there ain't a lot going on in Wales in terms of innovation'*. A director of finance agreed, saying that *'the sector at large in Wales is quite immature at the moment'*. Nonetheless, there are pockets of good practice. For example, one council has recently introduced a new Chief Digital Officer and there are high expectations of the digital investments within the City Deal having the potential to make a fundamental difference. It will be important for other councils to learn from these examples, but also to search globally for best practice examples.

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## The use of digital in local government

**One of the councils in our study was particularly advanced in terms of digital and technology, especially in winning external funding to support investment in this area. At the time of interview, they had just:**

- **Been awarded a grant worth £1.5m from the UK Cabinet Office.**
- **Partnered with councils in England and Scotland to win £2.5m of United Kingdom Research and Innovation (UKRI) funding to invest in 5G.**
- **Worked with another Welsh council to bring in £7m for a local full fibre network from the Department for Digital, Culture, Media and Sport (DCMS).**
- **Successfully brought in an Internet of Things accelerator programme.**

**They encouraged other Welsh councils to apply for UK funding to support digital developments.**

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It should be remembered that the promises from those working in digital and consultants does not always materialise. A couple of councils highlighted IT suppliers over-promising on what their systems could deliver, both in improving performance and in making efficiencies. The introduction of digital also requires the need to re-skill the workforce to use this new technology.

## Income generation

Income generation was not an area where councils were particularly advanced, or where they had ambitious plans to raise income in future. This was said to be partly because of the statutory nature of many fees, as well as the lack of general power of competence in Wales (which will be introduced by legislation). Interviewees talked about increasing charges for services such as green waste collection and car parking – examples provided in a Wales Audit Office report on charging and income generation (Auditor General for Wales 2016) – although these were acknowledged as being political ‘hot potatoes’.

Whilst these service charges can bring in much-needed income, councils recognised that they need to be cautious about the negative impact on demand. One chief executive told us:

**‘If you're not very careful, given the elasticity of demand, if you put your prices up too high too fast, then you choke off demand and you choke off income. So it's not a binary equation’.**

However, as another chief executive argued, income generation should be about more than charges:

**‘[it] is not about putting another 10% on the price of a school meal or upping your leisure centre charge. We do that. We do incrementally uplift our charging policies. But when we talk about income generation, I think we have a slightly different take on it. We tend to be talking about different and new and novel income flows that supplement what we already do’.**

There were not many examples of ‘new and novel’ income flows among the councils we interviewed. An exception was one council which recruited several specialist IT workers to build systems facilitating internal digital improvements, and then sold these systems to other authorities to raise income. Another council mentioned the potential of companies paying to put aerials on the council’s street furniture to enable 5G technology.

We also heard from one council that had used the 25% premium on empty houses and second homes to bring empty homes back into circulation. But there was little support for councils having a greater ability to raise their own income. There was limited knowledge on

the proposal for a social care levy (Holtham, 2018), but this may reflect the timing of our research and the formative stage of the idea.

Council tax is an increasingly important source of income for councils, making up 19% of gross revenue in 2017-2018, up around 5% since 2009-10 (Ifan and Sion, 2019). Around the time of our interviews, the 2018-19 council tax rates had just been announced, with increases ranging from 3.3-12.5%. Discussion centred on whether councils were prepared to or had gone above the notional 5% 'cap' set by Welsh Government. Some councils told us that they couldn't afford to keep below the cap, while others were critical of councils which had broken it. For example, one interviewee argued that '*I just think it's completely unjustifiable. I'd rather cut other services*'. Yet a chief executive from another council told us that how councils communicate to the public what they use council tax income for is crucial:

**'Why do we try and have a low level of council tax if it means that we can't support the services that people want? Getting that message across to people that "if you want these services, you'll have to pay more" is the message we'll have to put out'.**

Some councils have tried hard to explain to the public that council tax increases are needed to fund existing services such as social services and/or schools. For example, in some councils, the council tax increases may be linked to the changes in pensions and pay deal for teachers. It remains a difficult message to get across to the public. While there is some public sympathy for this position, the communication needs careful handling to manage expectations about what this rise means for services. As one council leader warned:

**'Putting our council tax up by X% gave the impression to people out there that we got X% more money to run services this year than last. You try and explain that to them and you can't. It won't work'.**

Of course, tax increases are rarely popular, especially where the personal benefits of this additional expenditure are not felt. While it is likely that council tax levels will continue to rise over time, there is significant concern about the feasibility of this as a long-term answer to balancing a council's budget, and the sustainability of significant annual increases. For some councils, a 1% rise in council tax provided only an extra £200,000-300,000. As one council leader put it: '*Dealing with austerity with council tax feels a bit like trying to bail out the Titanic with a bucket with a hole in it*'.

There was a recognition from many councils that there was much more they could do on income generation in the future so that more services (e.g. building control) could bring in sufficient income to become cost-neutral. One council had recently set up an income generation group with a budget of £750,000 to pilot some initiatives. It will be important to share the learning from this exercise with other councils in Wales.

## Seeking savings from external providers

The last component of the efficiency strategy is to seek savings from external providers. Apart from one council which had made significant savings from buying themselves out of a PFI contract, and another which extolled the work they had done on procurement in understanding categories of spend and how to extract maximum value, we heard very little from interviewees on this topic. One council was cautious about trying to seek savings from others because they didn't want to jeopardise relationships with bodies by reducing their investment in them.

Outsourcing or bringing services in-house was also rarely discussed. For some councils, there was little political support for outsourcing and councillors would only consider it as a way to protect the highest priority services. One leader talked passionately about the value of services being delivered in-house:

**'A lot of the services we provide rely on the human contact. One of the reasons I'm keen to look at things like our domiciliary care is because I think if we employ people directly we have more control over how they fit around the person. Let's say you employ a company to do domiciliary care for you. They will work to a contract. They will give that person a block of time to deliver what you say they should have delivered to them ... Will they go in, check out what that person is feeling like, signpost them to other services that could help them, and reduce demand on you as a public service in the longer term? Get to know that person. Do all that stuff?'**

To conclude this section, it was clear from our interviewees that reducing back office costs and redesigning frontline services were the most important changes in trying to make efficiencies. Councils suggested that they had managed to make the majority of savings without directly affecting the public, but had real concerns that they could only go so far before the quality and/or extent of services would be seriously impacted either by a change in the service or potentially by service withdrawal. We will now consider where councils have responded to austerity by making investments.

# Responding to austerity through investment

## Encouraging economic growth

Our research revealed several councils making significant efforts to encourage economic growth. One chief executive explained that building a teaching hospital in their area will attract hi-tech industries wanting to locate nearby, bringing in highly paid jobs and having a knock-on effect on local prosperity.

Other initiatives varied from attracting 'big-name' retailers to an area (e.g. Tesco and M&S), to commercial activities such as forming a partnership to deliver 300 new homes and buying a business park outside their local authority boundary, which in addition to providing a yield on the land/investment, could – more importantly – help to develop the economic performance of the area.

While there was support for introducing new initiatives to attract investment or jobs, there was caution from one council that described having a large and ambitious capital programme but was nervous, in a post-Carillion environment, about contractors going bust. Another council described being: *'Stony broke like every other authority, but if we don't (invest), we'll die'*.

The City Deals were seen as being the main vehicle to drive economic growth and create jobs. The £1.2 billion investment in the Cardiff Capital Region, for example, aims to deliver up to 25,000 new jobs with the majority funding a new Metro network for South East Wales. An external stakeholder suggested that:

**'I think actually we have a real success story in the Cardiff city region. I think they have got this agenda, and they've got some really good, powerful council leaders now which are going to drive this forward'.**

The Swansea City Deal includes the Wellness and Life Science Village project, which aims to improve the health and wellbeing of people across the region by co-locating facilities on one site. It aims to create 2,000 jobs and boost the economy by £467m over 15 years. This deal is currently being reviewed by the Welsh Government to examine due diligence and governance issues.

Councils accepted that there is room for improvement in encouraging economic growth, but there also needs to be realism on enabling this in the current financial situation.

Several councils mentioned the 21<sup>st</sup> Century Schools initiative (and the introduction of area schools and all-through schools) as an example of investments they had '*on the books*'. One council described the expenditure of millions of pounds on a new Pupil Referral Unit, which would be fit for purpose and an improvement on their current Victorian building:

**'It will be a better educational outcome ... We think it will be cheaper in the long run, because it will avoid out of county placements, which can be horrendously expensive'.**

Housing and social care were other popular areas for investment. For example, one council invested £230m to bring all their houses up to the Welsh Housing Quality Standard and has now started to build and buy houses, aiming to increase their stock by 1,000 in the next five years. Another council was building an extra care facility where people can live independently but with support. These facilities aim to keep people out of expensive, long-term residential care.

## Preventative revenue spend

Even at a time of shrinking finances, councils were trying to create some room in their budget for preventative revenue spend. In one council, £500,000 was put aside for early intervention investment which could have been spent on trying to mitigate cuts. In another council, an assistant chief executive is working three days a week on the council's strategy around early intervention and prevention.

Councils provided several examples of where they were spending money now to save costs in the future. These included:

- Looking at the first 1,000 days of a child's life and Adverse Childhood Experiences (ACEs) to improve the targeting of support.
- Provision of a family support service to reduce the number of looked after children.
- Grant funding for a psychologist to work with mothers who have lost children to the care system to stop the cycle repeating.
- Introduction of an Independent Living Service which provides a first point of contact to resolve problems rather than needing to provide a more intensive package of support.
- Investing in biomass, photovoltaics, LED lighting, etc.
- Expanding the opportunities for providing home care in the community.
- Improving delayed transfers of care to improve the outcomes for service users.

These investments are important given the expanding size of the elderly population and costs of looking after children with complex care needs, but the last example saves money for the local health board, not the council. While it remains the 'right' thing to do, there are no financial incentives for councils to do this if they are not rewarded for their investment.

The view from many officers can be summed up by a director of finance who, in explaining their shift to more early intervention prevention work, said: *'I can barely afford to do it, but I've got no choice but to do it'*. The reward for this preventative work should be revealed further down the line, and if that can be proven it becomes much easier to justify further expenditure in other service areas. However, severe difficulties occur when the service pressures outstrip the preventative measures that councils have put in place.

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## Buying in advice from Big Four consultancy firms

**A minority of councils has bought in advice from one of the Big Four consultancy firms (Deloitte, Ernst & Young, KPMG, PricewaterhouseCoopers) to help identify cost-saving measures, and provide advice on the skills needed to cope in a changing environment, such as having a better commercial understanding and ways of generating new income streams. There was a mixed response from these councils about the effectiveness and value for money of these commissions.**

**Consultants provide additional capacity that is often needed after the corporate centre of councils has been stripped out. One council made use of a consultancy's database on what councils can charge for, and the market rate, which helped them quickly to identify potential areas for income generation. This resulted in the council's introduction of a green waste collection scheme that raised £800,000 in new charges. The council acknowledged that they could have gathered those data themselves, but using consultants was a more efficient process.**

**Another council has developed a strategic partnership with a consultancy firm, and by implementing the firm's recommendations on centralising administrative and business teams has saved £1m. The firm is also contributing to the council's early intervention and prevention work, providing advice based on behavioural economics on various services including recycling. However, the council leader acknowledged the challenges around persuading councillors of the value of consultants: *'There is a kind of cynicism around they steal your watch and tell you the time'*. The council had made strategic use of the consultants by buying in advice and ideas, but implementing the recommendations themselves.**

**Other organisations were less positive about their experiences of working with consultants, for two main reasons. One council felt that the cost savings identified by**

**the consultants were ‘pie in the sky’ figures that were unrealistic in terms of the level of savings that could be made, but also how quickly they could be made. This may stem from a criticism that companies tend to use a ‘one-size fits all’ approach applied in large English metropolitan areas. We also heard how one piece of work that had been conducted by consultants could probably have been undertaken at no cost by the Society of Welsh Treasurers.**

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# Responding to austerity through retrenchment

We found that there was less emphasis on retrenchment than efficiency among the councils in our study.

## Renegotiating the division of responsibility between the council and other public services

Aside from charging for services discussed above, the main area where changes had been made was in renegotiating the division of responsibility between the council and other public services. This often meant town and community councils and voluntary sector organisations taking on responsibility for providing certain services, and encouraging the community to do more for themselves.

Non-statutory services, including the maintenance of some parks and recreation grounds, libraries, leisure centres, public toilets, and even a windmill were all given as examples of assets or services that had been passed on to town and community councils, or voluntary groups, to run. Community groups running these new facilities can apply for external funding for which local authorities are not allowed to bid. In some cases, this takeover has resulted in an improved service. One chief executive mentioned a library that is:

**‘Thriving now under new management because the people that are running it know their community better than we do’.**

Another chief executive gave an example of handing over responsibility for the council-run luncheon club to a charity that raised the charges. The response from service users was positive, he felt, because of the different expectations associated with the council versus a voluntary organisation:

**‘I was actually in the room when they announced that they’ve have to put the charges up a little bit – 50p or whatever it was – and there was actually cheering and clapping. Now, if the council had done that, I’m not sure whether we’d have had the same reaction, because there is more of an expectation, perhaps, of the council providing things either free or reduced levels’.**

Selling assets was mentioned by a couple of councils, partly as a means to avoid reducing services. One council is looking to make about £40m worth of asset sales, while another explained that they have

**'A massive asset register, absolutely colossal asset register. I've got 8,086 assets. We have to tackle that ... Certainly the sale of assets is something we have to do. Unfortunately, the property market here is not good, and it's quite difficult disposing of the assets'.**

In some cases, collaborations between the council and other organisations enabled the service to keep running, but at a lower cost to the council. One council had saved around £380,000 on CCTV by creating a partnership with town councils, the police, and businesses to share the costs of the service; another was in talks with food outlets to ask them to take on some of the costs associated with litter collection. However, the small number of examples suggests there is room for further collaborations in reducing council costs.

Asset transfer was mentioned by several councils. Some councils have worked closely with community groups in facilitating them to take over council assets such as swimming pools. Often, there is still a council subsidy that tapers off over time to try to enable success. As one officer explained: *'We could have gone harder, but I think that would have ended in failure ... the aim is to make these facilities sustainable'*. In other councils, there was political opposition to transfer their more iconic buildings, and in other cases, their rural location meant there wasn't local capacity to take on such assets.

With continued financial cuts, some interviewees were concerned that subsidies could be no longer viable, which would mean councillors having to take difficult decisions on some high-profile facilities such as theatres. These are decisions that all councils have tried to shy away from as building closures, in particular, are something that local communities often galvanise against.

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## Local government and austerity – collaboration

**There have been several calls from Welsh Government in recent years for local government in Wales to collaborate further. This has been framed as a more palatable alternative to merging local authorities as well as a way to mitigate the financial effects of austerity. We heard several examples of collaborative working across councils in Wales, from shared regulatory services to IT systems, framework contracts for property, health programmes, and the City Deals. Other examples, such as shared legal services, waste partnerships, and collaborative procurement, can be found in the WLGA's Collaboration Compendium (WLGA 2019). A few interviewees were clear that much of this was not necessarily a response to austerity, but earlier**

attempts to become more efficient and cost-effective and improve services. Importantly, collaboration wasn't seen as a good in and of itself – it was only considered positively when it made sense for all the partners involved, and when it benefitted the region.

Interviewees also raised concerns about the benefits of collaborative working. A small number of councils talked about how austerity had acted as a barrier to collaboration – as one council told us,

**'Our civil defence responsibility was joint with [neighbouring authority]. We now do our own thing. We had a joint music service with [neighbouring authority]. We now run our thing. Partly, because of austerity, individual authorities are making different member decisions on what to remove subsidy from, and you ended up with a disproportionate funding, and then one authority ends up funding more than the other'.**

Others were clear that collaboration doesn't always save money. Not only can it mean that additional layers of governance are sometimes required, but it was felt that the extra work required to collaborate – staff from different councils travelling across the country for meetings, for example – needed to be taken into account. This is echoed in recent analysis which shows not only that shared services do not necessarily lead to efficiency savings, but also that 'it seems undeniable that the benefits of shared services have been oversold in recent years; and highly likely that, in some cases, investments of time, attention and finance required for collaboration might have been better spent elsewhere' (Dixon and Elston 2019: 34). In our study, a bigger challenge was seen to be a perception that whilst some councils wanted to collaborate, others were resistant, and so councils sometimes struggled to 'find the willing partners to dance with', as one director of finance put it.

At another council, the chief executive felt that mandated collaboration was the only way to challenge authorities to think differently about the way they work and the way they deliver services:

**'Unless it's mandated, we will do what we've continued to do, which is put it off...everyone wishes to continue to preserve their own sovereignty'.**

But most felt that mandated collaboration was not the best approach to encouraging councils to work together.

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## Renegotiating the division of responsibilities between the council and the public

Strategies based on renegotiating the division of responsibilities between the council and the public reflect the most significant cultural shift in any of the approaches taken to austerity. There was a general sense that councils could no longer continue to provide the same level of service as they had in the past, and there was a need to *'recast the relationship'* between the council and the public. This manifested in encouraging the public to do things for themselves and each other, instead of relying on the council.

One council had begun to consider creative ways to change this relationship, such as through creating a 'hub and spoke' model of service delivery, with the 'hub' as the council relying on community members as 'spokes'. The leader of that council gave an example of a local park in his ward:

**'Every six months we used to have this meeting where people would turn up, and everyone would complain that the park isn't what it used to be, and that the council were awful ... There was one of those meetings where I just had to bite the bullet and say, "Look, I don't like this as much as you don't, but if you were a councillor, would you spend less money on social care, and on schools, and more money on keeping a park tidy? You probably wouldn't." ... Now there's a team of 50-something volunteers who help make that park look better. We've met them halfway'.**

Another council was clear that, given the significant levels of social capital among the local population, they needed to think of new ways of mobilising them to deliver services in different ways. As such, they set up a volunteers scheme which focuses on maintaining locally accessible services, as this is one of the public's priorities.

The key message from several interviewees was the importance of long-term planning, and putting working practices in place that encourage communities to do things for themselves. This means that if the funding to run specific services needs to be cut in the future, the community is prepared. This new relationship between the council and the public is important in mitigating the effects of austerity, but it also represents a fundamental departure from existing models of local government. This means that it can take time for the public to get used to the change. One leader provided an example of a local bowls club where

**'At the beginning there was quite a bit of local discontent, but I think our officers did really well working with these groups and giving them the help that they needed to take these things over themselves, and they do seem to be working'.**

Council staff also need additional training to work in a new environment. One chief executive explained that

**'Amongst our leaders and managers there is a variable understanding of what building capacity in the community actually means and what skills we need to do that well. None of us have been trained in doing that, and now we're trying to engage with it'.**

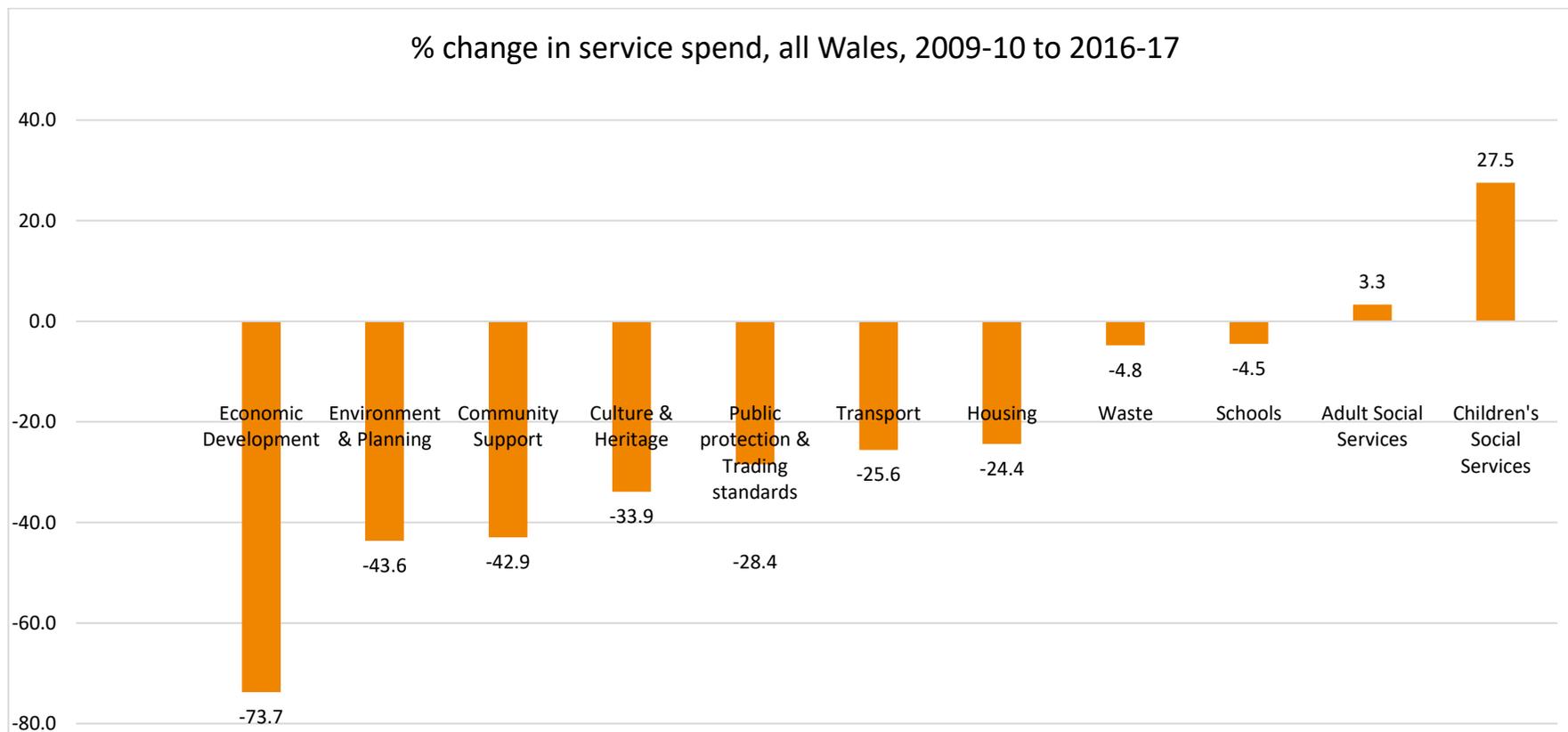
However, there is a need for councils to work differently with the public beyond litter picking or community-run leisure facilities in the face of increased demand for services and reduced budgets. This behaviour needs to be applied and scaled-up in attempting to transform services such as adult social care, helping communities to help themselves by providing support on home care, for example. This means a move away from a dependency culture of reliance on the council to joint responsibility between a council and its citizens.

# The impact of austerity on services

A focus of this research was to explore the impact of austerity on services: where the greatest impact of cuts to public spending had been felt; whether the larger spending services had been protected; the impact on the quality of services; and the ways councils had found of mitigating the impact of cuts on non-statutory services.

Data from all councils in Wales shows that economic development has faced the most significant cuts between 2009-10 and 2016-17, with education and social services being relatively protected (Figure 1).

**Figure 1: Changes to net current service spending in Welsh local government 2009-10 to 2016-17 (2017-18 prices)\***



\*Data from Ogle, Luchinskaya, and Trickey (2017).

While most councils had continued to provide their full range of services, and in some cases invest in and improve services, some councils were not optimistic that they would be able to continue doing so if austerity continued. As one chief executive told us:

**'If we're looking at another five years of £5 million cuts per year, I don't think we can be sustainable without getting into cutting social services or education or the highways and roads'.**

While a small number of councils told us that the cuts had been evenly spread across services, in most cases the cuts have fallen most heavily on particular services, and generally those which are non-statutory. However, the distinction between statutory and non-statutory services in the way cuts to services are perceived by the public was not considered helpful by a couple of the councils interviewed. As one chief executive put it:

**'If I said I was closing all our leisure centres, I can guarantee you everybody would be up in arms, and using the defence that "it isn't a statutory service" wouldn't wash terribly well'.**

However, the discussion of the nature of cuts in most authorities was along statutory versus non-statutory lines, which reflects the data in Figure 1.

## Cuts to non-statutory services: environment, leisure, and roads

Cuts tended to be concentrated on the environment, leisure, and transport (specifically roads), with education and social services being relatively protected. Councils spend around 70-75% of their budget on education and social care, but felt that this would not be sustainable if austerity continued. As such, cuts fell disproportionately on other service areas – as one council leader put it, *'everything else gets squeezed so much that the pips start to squeak'*.

As Figure 1 shows, most councils had made significant cuts to the environmental services they provide. One council had made it part of their corporate priorities to protect spending on the environment, partly because councillors felt that *'some of the Brexit outcome was something due to the shabbiness and the general feel'* of the local area, but they were in the minority. Grass cutting, litter picking, street lighting provision, and fly tipping were all areas which had been subject to cuts, although other councils acknowledged that the visibility of these service areas meant an increased risk of a negative response from the public. Spending on planning has also been cut significantly, and this makes it harder for the service to drive local economic growth. Reduced capacity also means that councils are more likely to be reactive in this area, and make it more difficult to undertake long-term strategic thinking.

Leisure services had also been subject to significant cuts in several councils, though in some cases these cuts had been mitigated by the council's ability to increase the amount of income raised. There was a concern shared by several councils that cuts to leisure services could have negative implications for other service areas, particularly health. Some had invested in leisure for this purpose, aiming to increase footfall (and income) and improve well-being. In one council, the leader explained that:

**'Investment in a leisure 'village' has already reaped rewards. We've done that refurbishment, we've made them all singing, all dancing and that shows in the figures, in the increase in membership, that shows in the income that we get from that'.**

The third area where cuts had been made was on roads. This was felt to be an easy target because the public would be unlikely to notice if roads are not tarred for a year. However, several interviewees noted that the resulting reduction in road quality was likely to be felt in the future, with roads becoming more dangerous and therefore potentially costlier. One interviewee pointed out that the council would be more likely to get more insurance claims as a result of the poor road quality, and so these costs would simply be transferred elsewhere within the council. This is also another service that the public often have daily experience of using, making the lack of investment especially visible over time.

## Education

Education budgets have generally been relatively protected by councils in Wales. Yet as some councils told us, in real terms budgets have reduced. Over half of councils we interviewed said that the schools in their authority were in a difficult financial position and running budget deficits. Closing schools (usually smaller schools) reaped the biggest savings, with one council suggesting that closing schools had saved them £9m. However, this was considered the most difficult approach to reducing the education budget, in terms of both negative public response (and therefore often the lack of political will to do so) and the long process involved. Several councils had capitalised on the 21<sup>st</sup> Century Schools programme to reduce the number of schools overall but also to make improvements to existing schools.

Second to school closures in terms of cost saving measures was reducing the number of teaching staff. One council anticipated a minimum of 40-80 job losses in schools in the next financial year. These cuts could hit the most vulnerable children because teaching assistants providing additional support to those children were usually the first to go. Where teachers were also made redundant, a chief executive expressed concern that

**'The fewer teachers you have, the more limited the curriculum is, and the more limited the curriculum is, the more limited the choices for people to go into future career paths. The more we constrain that, the more we dumb down the ability and capability of future workforces of supporting inward investment for the local economy'.**

Some alternative forms of support (other than financial) and models for delivering education provision within a council were suggested by our interviewees. One council had taken over the finances of a school to help them achieve a balanced budget. Another had reviewed and subsequently reduced cleaning hours in schools and therefore costs, and centralised procurement so that schools could make purchases through the authority's contracts. A similar approach to centralisation, with the introduction of a single business manager working across all schools rather than having individual school managers, was suggested by one council as a way of saving money without reducing teaching costs.

## Social care

There has been a significant increase in demand for social care in recent years, as has been widely reported, and for which councils we spoke to offered multiple explanations:

- Demographic pressures created by an ageing population.
- An increased number of looked-after children entering the care system – there has been a 146% increase in the number of court applications to remove children into care in Wales between 2008-09 and 2016-17 (Cafcass Cymru, 2018).
- Wage inflation.
- The increased complexity of care needed.

This led to challenges in forward planning and budget projections. One director of finance told us that

**'If someone took the social care problem away from me in a funding sense, I would be reasonably confident that we could manage everything else. Because everything else is people; it's buildings, it's tangible, it's roads, it's things we can anticipate. I don't know how many children are going to come in to be looked after, you know?'**

This also highlights the need for a wider discussion about the services that local government could and should offer in the future, especially if cuts continue to be made. As one chief executive revealed:

**1 personally think that a unitary authority should focus on education, social care, roads and the environment. Everything else it needs to be really creative about, and it doesn't have to do'.**

## Range and quality of services

Despite cuts to a range of services, most councils could point to examples of where the quality of their services had improved under austerity. One council leader described how the youth services budget had been cut, and fewer youth clubs were open, but that the new service – providing youth workers in secondary schools – was preferable: *'the majority of the young people I spoke to thought that it was a better model'*. Other examples included leisure centres being taken over by private sector companies and a school music service, considered 'average' when run by the council, had been handed over to the third sector and was now winning awards.

Whilst one council felt it could improve the quality of services in future by reducing the range available, the majority of councils believed that the general quality of services would suffer if austerity continued. They predicted that changes to the quality of services would be less about providing a poor quality service and more about downgrading the standard of services. Councils talked about moving from gold to bronze, or as one council leader put it, *'swapping a Rolls-Royce for a Ford Focus, where a Ford Focus will do'*. There was a recognition that councils had previously been in a position to provide services to a high standard, but that this could no longer be the case. One chief executive described how

**'I think my team of officers will need to look at [a service] and say, "Actually, if we did A, B and C, that meets the requirements". Whereas, we may do A, B, C, D, E and F at the moment ... because there's money in the system'.**

# The impact of austerity on the public

Councils have used various methods to consult and engage with the public on austerity and to raise awareness of their constrained financial position. These methods include public and staff roadshows, consultation events, surveys, press articles, and use of websites and social media. The success of these methods is mixed. In one council, public meetings were held around the county which were poorly attended, involving only around 100 people. In contrast, a cabinet member in the same council ran Facebook Live events which attracted about 8,000 inputs. Another council conducted their consultation exercises in supermarkets as a way of reaching a more representative sample of the local population.

Councils have found meaningful engagement about austerity and debates about the impact of council decisions to be difficult unless it affects individuals personally. One council leader provided the example of a proposed £0.5m cut to the education budget which barely provoked a reaction, but the idea of cutting a £20,000 grant to a community centre caused uproar. The proposed closure of small schools had provoked similarly negative responses in other authorities. A director of finance explained that

**‘Whilst at a very intellectual level, we all understand that social care is the biggest demographic, and the biggest pressure we’ve got, members get much more complaints and much more issues from dog fouling, the state of the roads, and greening and cleaning’.**

This is perhaps unsurprising, but it highlights the importance of the public understanding the financial pressures on councils. While public expectations continue to be high, there is a gap between this and actual service provision. There were mixed views on whether the public *‘get it’*. While one politician believed that *‘most people are quite realistic about the financial situation and understand that economies are necessary’*, for another interviewee, while *‘the public value a lot of what we do, reputationally councils are always up against it, because they’re a soft target’*.

Given the difficult financial situation, Welsh local government has performed well in terms of public satisfaction, with surveys revealing consistent levels of satisfaction with their performance over the period of the cuts (National Survey for Wales, 2012-2017). This reflects a similar pattern in England, where residents’ satisfaction with waste, library and road maintenance has stayed level over the last few years despite the cuts (Local Government Association, 2017). This could be a sign that the public has become accustomed to the idea

of services being cut, or that the efficiency savings implemented to date have not directly impacted on residents. This may change if the range and quality of services in Wales reduces in future, but highlights the need for an open, ongoing discussion between the council and the public on this issue.

# What could the Welsh government do to improve their response to austerity?

It is unsurprising to find some consistency of message when representatives from local government are asked what the Welsh Government could do in supporting them to respond to austerity. Some of these issues extend beyond the last decade (particularly changes to the grants system), but are still important to report. The main issues mentioned include:

- Longer-term financial settlements.
- Changes to the grant system.
- A more coherent vision for local government.
- The balance of funding between the NHS and local government.

## Longer-term financial settlements

Councils consistently told us that having longer-term financial settlements would help them plan for the future. One argued that a business wouldn't be run on a one-year cycle, so why should it be acceptable for multi-million pound organisations such as councils to do so? Without good forecasting on future budget levels, councils are likely to manage risk by planning for the worst-case scenario, and make short-term decisions which can then be altered if further funding is released (as has often been the case). A Welsh Government interviewee recognised this as an ongoing issue:

**'[Councils are told] you're going to get a massive cut this year. And at the 11<sup>th</sup> hour, ministers have said, "Let's find some more money for local government." So there is no wonder that they don't believe us when we say, "Life is going to get tougher." Because we have done everything to undermine our own position, and lose ministerial positions'.**

This makes it difficult for senior officers to persuade councillors to make tough budgetary decisions, because past experience has helped to create a mindset within the sector that the Welsh Government will continue to find additional funding. The addition of late grants in the budgetary cycle also leads to short-term thinking and spending.

Uncertainty over financial planning has resource implications for councils as they have to carry out sensitivity analysis on an annual basis, and prepare a number of budgets based on inaccurate forecasts, an inefficient use of limited resource.

Where the Welsh Government has provided multi-year settlements in the past, they turned out to be unreliable. Interviewees recognised this difficult situation for Welsh Government, but wondered if more could be done to reach a compromise. One chief executive summarised the view of many by suggesting that

**'If the Welsh government were able to say, "Over the next three years this is what you're looking at: 1% or 2%", whatever it is, and stick to it. I think they're in a position to do it because they get exactly that from Westminster, they don't have to plan on a yearly basis, they get a four-year plan. They could apply the same to local government. I think that would help enormously'.**

Councils are told to plan for at least three years. If future settlements were set within some parameters – with an acceptance that changes to the block grant, outside the Welsh Government's control, will have implications for Welsh local government – it would enable councils to make longer-term decisions than they can at present. In England, the last spending review in 2015 saw the sector given a four-year funding settlement, and there are hopes that this can be repeated.

## Changes to the grant system

Making changes to the grant system and hypothecation was another popular area for reform and a long-running issue. Generally, it was argued that putting more money into the settlement would enable councils to make decisions locally and be accountable for them. For local government, specific grants are problematic in a number of ways. First, there is significant bureaucracy involved and high administrative costs, meaning councils have to jump through a number of hoops for relatively small sums of money. For example, we heard of 15-page grant conditions related to a grant of less than £20,000. The grant system also creates job insecurity for those staff employed on grants. For those service areas in receipt of grants, however, having money in a hypothecated grant means that this resource cannot be used for different purposes.

The Welsh Government has had some success in reducing the number of grants, but the implementation remains contested. One chief executive provided an example:

**'If you just take the environment grant, a classic example, we were arguing, "Rather than give us shed loads of different grants in the**

**environmental field, give us one grant”. Which they did, they piled all the individual grants into one grant and then they made us fill in shed loads of forms saying what we were going to do with those grant monies, that one grant money. We had to ensure that we covered all the individual areas which they were talking about. All we had then was more bureaucracy. Filling forms essentially. It was an illusion. They create these illusory schemes which tick the box but do nothing to actually correct the fundamental principles behind it’.**

Since the Welsh Government considers grants as a tool to ensure local government delivers specific policy objectives rather than focusing on outcomes or outputs they want to achieve, releasing grants into the settlement can mean ministers lose control over achieving intended outcomes in their portfolio.

Nonetheless, in 2018-19 councils had greater ‘fine grain control’ over their total spending than in previous years (Ifan and Sion 2019: 47). There is the potential to make further changes to the grant system which could be a win-win for both the Welsh Government and local government, but this requires trust from both sides. As some of our interviewees told us, the Government could work in a macro way by setting out the outcomes they want councils to deliver, putting this resource into the settlement, and holding the sector accountable for delivery. There is also an opportunity for the Welsh Government to be upfront about reducing the amount in the pot, as one interviewee explained:

**‘I’ve never understood why Welsh Government don’t put a lot more grants in the settlement, because if they put, I don’t know, an extra £20m of grants into our settlement and said, “Right, there’s £20m this year, but you know what, we’re going to take a couple of million off it. But look, you’ve got £18m worth of flexibility,” we’d probably say, “Wahey, that’s great.” Because we would probably back ourselves to be able to spend that money differently’.**

A reduction in specific grants would mean putting trust in local government to deliver, but if successful would produce savings in both administration and monitoring. It would also recognise the different responsibilities of levels of government, where the Welsh Government sets the outcome and lets councils decide the best way of delivering that maximises citizen outcomes.

However, trust is built over time, and our interviews revealed calls for greater honesty from the Welsh Government, particularly in relation to the handling of settlements. We heard a common ‘*smoke and mirrors*’ story of frustration in the way ‘additional money’ was being offered, but the reality for councils was different. This has also been recognised in Assembly committee reports that have called for greater transparency in terms of the budget (see for

example National Assembly for Wales Finance Committee 2019). A council leader summarised the view of many when he said that:

**'I thought the way that it was presented by Welsh Government was disingenuous, even dishonest. If you read the headlines, talking about extra £60m for Social Services and £40m for education. Whereas, being honest, that was not extra money; that was money they'd put back in, having made a cut ... the public has been told that there's new money. We were having to then come in behind and say, "Actually, there isn't".'**

Not only can this make it particularly difficult for Labour-controlled councils under a government of the same colour, as one leader told us, but more significantly it helps to undermine public confidence in the political process and in local government.

## **More coherent vision for local government**

Our interviewees felt there has been an inconsistent Welsh Government view on the vision for local government over time, particularly in relation to its functions and possible structures. Local government needs some security and consistency in this area, but according to one chief executive, they *'haven't detected a Welsh government view on local government, there are at least five or seven different views, depending on which department you're engaging with'*. This is exacerbated by the local government department in Welsh Government being narrow, with the two biggest spending areas of social services and education being outside their remit.

Linked to the discussion on grants above, if the Welsh Government set out a vision on what outcomes they want from local government, this would help to provide focus. As one chief executive argued:

**'There's too much engagement over what Welsh government want to do in each area and too little on what outcomes they expect. If you ask, for example, "What is the Welsh government's expectations in education over the next five years?", who knows the answer? They haven't articulated it in high level terms in terms of expected outcomes. There is an enormous amount of intervention on how things are managed at a local level, which is wasting a lot of money and causing confusion'.**

An agreed vision and prioritisation of service areas may also reduce the pressure from Ministers on councils about cutting services in their portfolio areas. As one leader explained, *'I've had some very forthright letters from some ministers saying, "You can't possibly do this, this, this and this", because it happens to be their service'*.

## Balance of funding between the NHS and local government

A common theme from our interviewees was a concern about the balance of funding between the NHS and local government. Funding for health currently makes up nearly half of the Welsh Government's total resource budget (Ifan and Sion, 2019) and has increased steadily since 2012-13. There was general acceptance from all interviewees that health should be the priority and that local government was *'always going to finish second in a race for money with health'*, but that there needed to be further discussion on the implications for local government. There were three main concerns: accountability for the 'over-spending' in health; the lack of learning from councils which have successfully delivered efficiency savings; and the financial impact of 'prevention' measures.

Councils have to balance their budgets on an annual basis by law, while 2018 figures suggest that four health boards overspent by £163m in the 2017-18 financial year (Clarke, 28 March 2018). This raises questions of inequity, with local government bearing the brunt of the cuts while the NHS receives additional resources. If the Welsh Government continued to increase NHS spending at the same rate planned in England, this 'would likely mean central government support for local authorities continuing to fall in real terms' (Ifan and Sion 2019: 7). Respondents believed that there is not enough scrutiny of spending on the health service and insufficient effort to address the problem strategically. While there have been numerous White/Green papers on local government reorganisation, there has been little equivalent debate on the size and/or configuration of health boards.

There are opportunities for health to learn from local government about how they have responded to austerity and make efficiency savings as a result. One director of finance suggested that: *'Whilst I'm sure there is rigorous performance management [in health], I'm not sure that it's rigorous performance management of the right things'*. Interviewees believed that some of the methodologies that local government has applied could have the potential to deliver efficiency savings in health.

Furthermore, spending by councils on areas such as sport participation and active travel can positively impact on the need for health service funding, but these are often areas which have been negatively affected by austerity. Currently, the health service reaps the benefits of this council investment. In addition, interviewees raised the perennial issue of health and social care integration. These issues spark the need for a mature, cross-party debate about

how changes to existing funding arrangements could change this, and the need to learn from other countries that are further down this road.

## Additional proposals for consideration

Our interviewees suggested further ideas that the Welsh Government could consider which would support their response to austerity:

- Consider a re-examination of the funding formula, which was described as '*not fit for purpose*'. We heard concerns that each council's special position (such as rurality, sparsity, visitor numbers, or winter maintenance for the transport network) was not fairly recognised by the formula.
- Provide more flexibility for councils to raise additional money through charges, such as for domiciliary care or an increased rate for certain planning applications.
- Consider the increased use of rapid prototyping rather than introducing a new programme without a proper pilot stage.
- In order to incentivise local/regional economic regeneration, allow regions to retain an agreed proportion of business rate growth where this is linked to growth deals.
- Examine the value-for-money of regulatory services in Wales and their role in providing expertise on how councils can find efficiency savings.
- Ensure that the introduction of any new policy is accompanied by long-term funding rather than short-term grants, so that their implementation is cost-neutral.

# What could local government do to improve its response to austerity?

Unsurprisingly, we heard more from our interviewees about what the Welsh Government could do differently than what local government could change, but we have identified several areas where there are opportunities for improvement.

## Learning from ‘good practice’

The local government sector is often described as being like a ‘small family’, but in some respects it behaves like a family who don’t talk often or share information on what they have been doing. Of course, there is some sharing of good practice within service areas and amongst cabinet members, which is often supported by the WLGA, but there is room for improvement. The general feeling from interviewees was that the sector does not often share success stories, making it harder to find good practice. When this does happen, a director of finance explained that

**‘You get envy. I can never work it out. You get envy from other authorities. We get a lot of English authorities coming in, wanting to see what we’re about, but not so much with Welsh councils’.**

There are challenges around sharing good practice related to context. For example, while Welsh cities can compare themselves with others across the border, it can be more difficult for small unitary councils to find similar counterparts. In addition, those on the border consider it easier to learn from English neighbours, but those which are further west find this more challenging, as a cabinet member admitted to us:

**‘[We] have always been too inward looking, I think that is something which is part of where we are, we’re at the end of the line really. Sometimes we’ve just internally gazed rather than gone out there and looked for innovative solutions elsewhere’.**

There is an opportunity for Welsh local government to learn from how English councils have coped with austerity, given that the cuts have been more severe in England. Some of this learning is already happening, with councils making visits to English unitaries to learn about how they have communicated financial challenges to the public and reduced demand on

services. We also heard of a council copying their digital strategy from an English council, but such examples are rare.

## Learning from beyond the UK

There doesn't seem to be a culture in the local government sector of searching for good practice beyond the UK. Only two interviewees (both council leaders) mentioned learning from countries outside the UK: one on learning from German practice in education, and another on how cities have enabled transformation through income generation.

It was unclear from our research who was responsible for sharing good practice. One council paid a consultancy to provide support on the ways that local authorities could charge for services; in another council, the WLGA commissioned a finance expert (through CIPFA) from an English authority who examined processes and identified significant cost-saving measures. But it was not apparent where responsibility sits for sharing the learning from opportunities like these, which would be relevant across Welsh local government. As such, a decision about whether this learning should be shared by individual councils, or through organisations such as the WLGA, the WAO, and the Society of Welsh Treasurers, would make this process easier.

## Support each other through difficult times

Austerity is an opportunity for councils to support each other. Currently, the sector seems to do this at critical junctures and often when things have gone wrong, such as in the event of service failure. However, setting up a peer review of financial arrangements, for example, could have a significant benefit for councils.

Peer support would help to identify weaknesses in financial management and spread good practice on the effective management of resources. For the Welsh Government, it is much cheaper to aid authorities which are struggling than it is to rescue those which have failed. A busy council leader asked: '*Would I be able to make myself available for three peer assessments a year, or something? I would make that time*'. Others may be willing to do the same.

The Welsh Government and Wales Audit Office spend significant time gathering intelligence on the financial performance of councils, but the extent to which the following is shared with councils is unclear:

- Who is responsible for analysing councils' Medium-Term Financial Strategies (MTFS), so that there is an understanding about councils' projected performance in three years' time?
- What assumptions are councils making around local taxation, Revenue Support Grant (RSG), income, etc.?
- Where is there good practice (e.g. in raising income) from which other councils can learn?
- What percentage of cost-recoverable income is being collected?
- What are the council tax collection rates?
- What do short-term and long-term borrowings look like?
- What are councils' level of reserves?

There need to be continuous conversations between local and Welsh Government in ensuring there is full awareness of any signals of budgetary failure.

## New forms of collaboration

There is an opportunity for councils to consider more sharing of services and management. While unsuccessful attempts have previously been made – e.g. the attempt to share back office functions – further consideration could be given to sharing services such as payroll, legal, specialist services, democratic services, and general administration. A centralised function from which all back office services could be managed – spanning local government, fire and rescue, Natural Resources Wales, and national parks – could save money long-term, though there would be a need to learn from elsewhere on how shared services are implemented and managed, and such collaboration is not always effective, as discussed above (Dixon and Elston 2019). In addition, greater regional working between government and health could also help to improve the relationship between the two sectors.

## Risk-taking

The introduction of new arrangements such as those suggested above are associated with an element of risk. We heard very little from either senior managers or politicians about innovative approaches to service delivery, which seems to stem from a concern about possible failure. One stakeholder told us that: *'Councils aren't experimental groups, really. They've got to be careful about delivering services that are thoroughly checked for risk ... So they need to be risk-averse, to an extent'*. However, as one chief executive explained:

**'Leadership is a hope business. You're meant to create hope ... if you can't paint a positive, emotionally charged picture of what tomorrow and the next day could look like, are you leading? We're not paid a lot of money to be bean counters. We're paid a lot of money to create pictures'.**

For instance, following the discussion above about digital and technology, there is space for a serious examination of the potential for artificial intelligence (AI) to transform public services. Where can it change service delivery? How can the public be brought along the journey? Which areas of social care do not need to be provided 'socially' through interaction between people? What ethical issues need to be considered?

The introduction of digital or changes to financial processes require senior managers to have the skills to put these service transformations into place. While some councils felt that their finance professionals, and particularly Section 151 officers, were strategic thinkers, able to support in 'bigger picture' decisions, others felt that these skills – crucial for the effective operation of local government finance – were missing. Recommendations for improving the capabilities of finance professionals mainly centred on training around strategic thinking, commercial management, and influencing skills. But some of our interviewees also agreed that this needed to be coupled with enabling finance professionals to '*sit at the top table*' and put these skills into practice. One council leader told us he thought there were '*real pockets of good – if they're allowed to come forward and flourish*'.

Finally, there is a challenge for local government in balancing dealing with the problems they are facing now and investing in the future. Our interviewees understood their well-being obligations under the Future Generations Act, but putting those into practice is much harder at a time of austerity – particularly when several felt that the Act is not cost-neutral, as it has been framed. One director of finance explained that

**'The amount of money I can afford to put into flood defence and sea alleviation, and low emission vehicles, and cycle networks, is very, very limited when I have to, pardon the vulgarity, but provide personal care services and wipe people's bottoms, and attend to their personal care needs on a daily basis'.**

Councils will need to continue to be innovative in delivering basic services, but there is concern about how far finances can be stretched.

# Conclusions

Austerity has challenged Welsh local government to become more efficient and effective. By streamlining back office functions and redesigning the way some services are delivered, councils have responded well and largely avoided the removal of services.

While local government is always likely to call for additional funding, whether under austerity or not, the clear message from this research is that Welsh local government is at the tipping point in terms of the financial challenges they face. This is also the message the WLGA communicated in response to the 2019/20 draft budget – that local government in Wales is ‘running out of road’ in terms of budget choices (WLGA 2018: 2). Our research found that it has become harder each year for councils to make efficiency savings, and therefore a strategy of retrenchment – which might mean having to make cuts to key services, including education and social care – and further staff redundancies are likely in the future. This anticipated reduction in the quantity and quality of services, accompanied by increases in levels of council tax, will directly impact on citizens’ quality of life.

Existing approaches to austerity have ‘kept the show on the road’, but not lifted councils out of financial difficulty. Current strategies to respond to austerity can also often have knock-on effects in a number of ways: making cuts in one service area can create pressures in others; collaboration between councils can often mean moving at the pace of the slowest partner and slow down efficiency savings; the reduction in the size of the workforce negatively impacts on the capacity of councils to develop innovation; and the cost of redundancies is also substantial and affects the local economy. Changing the responsibilities between the council and citizens (and other organisations) is important, but is unlikely to have a significant impact on finances unless activities are scaled up. There are also limitations on the long-term use of council tax to plug funding gaps.

As councils have largely managed austerity to date, there is a danger that short-term approaches to bailing them out may continue. While most interviewees were adamant that a Northamptonshire County Council situation was unlikely to happen in Wales any time soon, it has raised warning bells about the future of local government. The use of sticking plasters to try to ‘solve’ long-term challenges is not a viable strategy. As such, there needs to be a debate in Wales about the sustainability of local government. On a UK level, according to the Ministry of Housing, Communities and Local Government, a council is sustainable if it has enough resources ‘to deliver the statutory services which it is required to do’ (LGC, 27 November 2018). But is there a similar understanding in Wales? Are there greater ambitions for Welsh local government, and if so, what actions need to be carried out to support councils to be resilient?

There is a consensus that 'ticking along' is not an option and innovation in service design and delivery (e.g. through better use of digital) is required to respond to future challenges. Perennial issues such as the integration of health and social care and ways to fund social care pressures need to be tackled urgently. Councils argued that increased spending on prevention by local government would support health and ultimately improve public services. There also needs to be consideration of whether additional resources should be devoted for the sector to help themselves and a discussion on the favoured approach to change.

Our interviewees indicated that they enjoyed being part of the research because it gave them the opportunity to reflect on their approach to austerity and their future plans. Local government in Wales could do more to provide these opportunities for shared reflection, working more closely together and with councils outside Wales to learn from one another and share good practice.

While there are close links between local government and the Welsh Government, with regular opportunities for contact, a theme that permeated many interviews was the issue of trust. It was argued that ministers needed to stop acting as if they were running a 1970s' county council and allow councils more freedom to deliver. Forging a closer alliance on discussing the future of local government could help to improve both trust and outcomes and recognise that everyone is 'batting for the same side' in aiming to improve public services.

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