



The future of local government services in Wales



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Foreword from Jess Turner, UNISON Cymru regional secretary



Why shouldn't Wales have world class council services?

For years, people across Wales have seen the vital local government public services they depend on disappear because politicians have said there's not enough money to fund them.

When a youth club shuts, when a library or adult day care centre closes or an outsourced leisure centre reduces its opening times and cranks up entry charges, the glue that binds a community together is loosened a little bit further. Trust that political representatives are doing right by their citizens' is shaken.

Meanwhile, thousands of Wales' local government workers go to work each day frustrated they can't provide the level of service they would wish because the resources – financial and staff, just aren't there. Round after round of redundancies mean remaining staff are burnt out from doing the jobs two people would have done in the past.

They are demoralised because successive governments have suppressed their wages for fifteen years and their family budgets have become impossibly strained.

It doesn't have to be like this. All the evidence shows investment in council services strengthens communities and means people are happier and healthier.

As this UNISON-commissioned APSE report demonstrates, a failure to adequately fund local government preventative services over decades means society now spends even greater sums, and pushes demand, on reactive services, such as the NHS and criminal justice system.

This report poses fundamental questions for the Welsh government and the parties vying to be the next Welsh government: what do we want local government to deliver and how are we going to fund it; how outsourcing services discriminates against women, undermines accountability and extracts millions of pounds of profit from Wales and into offshore tax havens.

Essentially, it asks what society we want to build? World class public services are the foundation.

Jess Turner

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1. Executive Summary

The election of the Thatcher government in 1979 marked the end of a forty year consensus on social and economic policies that had transformed Britain into a world leader in the redistribution of wealth and the provision of 'cradle to grave' public services. Since then, the redistributive, universalist principles of the welfare state have been gradually undermined to leave the country less equal and many core public services in crisis. The period of austerity that followed the financial crisis of 2008 accelerated these changes but had little impact on the overall level of public expenditure or the size of the state.

The main impacts on Wales are:

- A shift from universal services to means tested cash benefits
- Ramped up demand for reactive services as preventative services have been systematically underfunded
- A large fiscal deficit as funding fails to keep up with demand
- Record levels of taxation for middle and low income earners
- Stalled social mobility
- A housing crisis caused by the shift from building public housing to subsidising private rentals
- Public service pay and conditions falling behind that of people working in the private sector
- Increasing leakage of public money to private profit
- A two tier public service workforce with minimum pay and pension provision for those whose jobs have been outsourced
- For most the promised 'property owning democracy' where people are free to spend their own money as they please has failed to materialise.

Since devolution the Welsh Government has largely recognised these problems and adopted policies aimed at addressing them. The Future Generations (Wales) Act 2015 is a far-reaching piece of legislation that has potential to create a more prosperous, fairer Wales focused on the causes of social and economic disadvantage. Unfortunately, it fails to address the need to reinvest in preventative services as a first step toward reducing demand for reactive provision. The loss of youth service provision for example has been linked to an increase in anti-social behaviour, a decline in the mental health of young people, a loss of safeguarding opportunities, higher levels of drug and alcohol abuse and greater exposure of young people to exploitation.

Recreating universal services aimed at children and young people clearly has the potential to reduce demand for some of the most expensive of responsive services but this will not happen without an initial investment – effectively bringing forward future savings to fund it. If this does not happen the vicious cycle of cuts to preventative services leading to an increase in demand for reactive services, leading to further cuts to preventative services, that fuels further increase in demand for reactive services will continue. This is an unsustainable situation both in terms of cost and outcomes.

If Wales and the rest of the UK is to recreate a universalist welfare state, focused on life enhancing opportunities it must confront the myth of unaffordability. The UK is not highly taxed by comparison with countries that have similar social policies, nor does it perform well in terms of redistribution of wealth and income. For the majority of taxpayers improving on the latter is a more important policy objective than reducing the overall tax take and the evidence suggests that the key to achieving this lies in the balance between services and cash transfers. The Nordic countries have higher overall tax takes but much higher levels of redistribution achieved through universal services such as free childcare provision which fuel intergenerational social mobility as well as productivity and social equality. The result is that despite higher taxes these countries consistently top the league for happiness.

This report is not intended to create a wish list that ignores economic reality. Wales has limited ability to act unilaterally, and the UK is part of a global economic system. Recent experience shows what can happen when governments make unfunded commitments to cut taxes or increase spending on services. It does

however, have to be recognised that breaking the demand cycle described above is essential to tackling the public service crisis and achieving the stated objectives of the Welsh government. This may mean that the overall tax take has to increase, but more important than this is the need to reinvest in services that lead to a fairer redistribution of wealth and income, and promote social mobility as the most effective and efficient mechanism for addressing social problems. Key elements of this are:

- Refocussing on prevention e.g. early years provision to reduce demand for reactive services such as residential child-care
- Shifting the balance away from cash transfers back to universal services – e.g. from housing benefits to building municipal housing
- Promoting and pursuing greater post tax equality as a priority in itself
- Restoring the status of public service workers and recognising the intrinsic socio-economic benefits of decent pay and pensions
- Ending the leakage of scarce public money in the form of private profit through a programme of insourcing

2. Introduction and Background

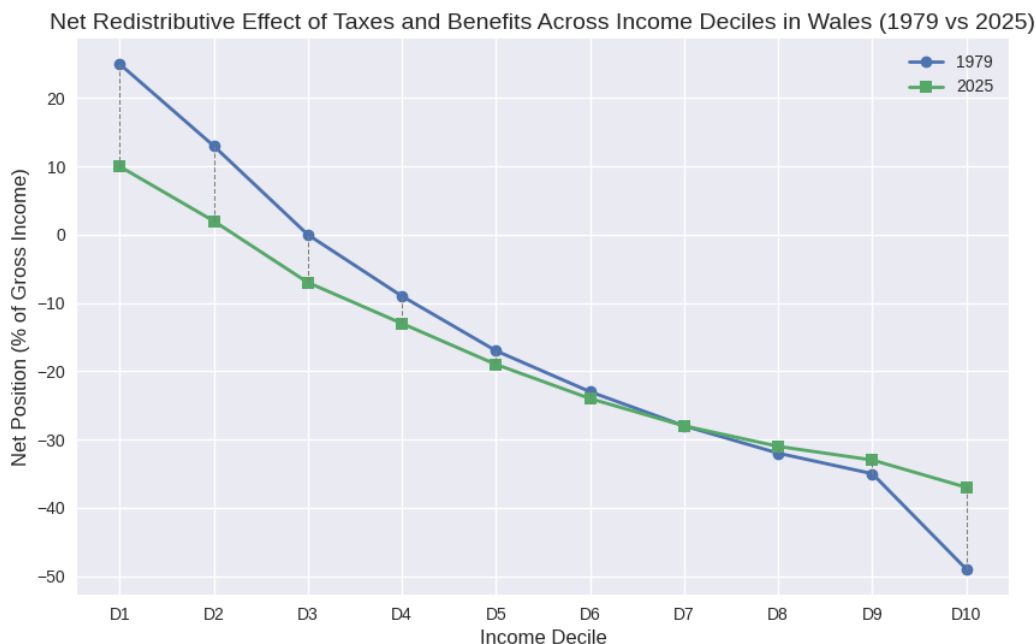
- 2.1 Social policy is mostly concerned with how to deal with the casualties of the free market economic system. For much of its history the UK treated the poor and vulnerable as authors of their own misfortune, to be punished for their fecklessness. The workhouses of Victorian Britain were consciously designed as a last resort, with punitive conditions and minimal provision. There was little if any state involvement in efforts to address the intergenerational nature of poverty and inequality through universal measures such as education or public health.
- 2.2 The social policy that emerged in the first half of the twentieth century increasingly favoured universalism and a strong government role. This shift was influenced by several factors:
 - The rise of organised labour and the growing political influence of trade unions, which led to early municipal reforms and the emergence of the Labour Party as a force for social change.
 - Military needs, highlighted by the poor health of recruits during the Boer War, prompted reforms such as the Education (Provision of Meals) Act 1906 and the establishment of school health services.
 - Industrialization and urbanization, which created public health challenges and motivated both philanthropic and self-interested reforms to maintain a healthy workforce.
 - Economic crises, such as the Long Depression of 1873-1896 and the Great Depression of the 1930s, which encouraged central planning and social reform.
- 2.3 The Labour Government's 1945 victory marked a significant expansion of state involvement, introducing universal healthcare and standardising key local government functions.
- 2.4 The post-war welfare state was not universally supported. Hayek's "Road to Serfdom" (1944) influenced Conservative rhetoric in the 1945 election but the heavy defeat saw small state conservatism relegated to the fringes of the party where it remained for two decades.
- 2.5 From 1945 to 1970, the UK experienced economic growth and social mobility, with the NHS becoming a global model, council house building peaking, and educational attainment rising.
- 2.6 Keynesian economics underpinned the welfare state, advocating increased welfare spending during downturns. However, the 1970s oil crisis led to stagflation, undermining this approach and paving the way for free-market policies.
- 2.7 The post-war consensus gave way to policies viewing public services as unaffordable and inefficient. Under Margaret Thatcher, the Conservatives implemented privatisation and marketisation, using centralised state power to reshape public services.
- 2.8 The Thatcher government championed free-market reforms, reducing state involvement in industry, privatising utilities, and opening public services to private contractors. The balance between means tested cash benefits and universal public services began to shift away from the latter towards a system that preferred last resort intervention to investment in services designed to improve opportunities for all.
- 2.9 Policies such as the sale of council houses and the expansion of private renting, shifted public wealth to private hands, with significant long-term impacts on social housing and public expenditure. Recent research concludes that the 1.9m Right to Buy sales in England resulted in £200bn of England's public wealth being given away. Although the scheme ended in Wales in 2016, this was not before 139,000 houses had been privatised. Extrapolating from the England data this suggests a transfer of £15bn of Wales's public wealth to its former council tenants.
- 2.10 Outsourcing is now firmly embedded in UK social policy. Even where services are not subject to wholesale contracting out, they operate under 'market conditions' where they are fragmented into delivery units competing against one another, whilst a pseudo customer or commissioner makes pseudo purchasing decisions.
- 2.11 This market-oriented approach is based on the belief that competition reduces costs and improves efficiency, theoretically enabling lower taxes and higher living standards. The rationale for proponents

of this approach is a belief that markets naturally drive down cost to its lowest possible level. In theory and in line with the Thatcher (and in the US, the Reagan) vision of a property-owning democracy where people are free to spend their own money as they wish, the application of market rules to public services would allow for lower rates of taxation, boost economic growth and improve living standards for all.

- 2.12 It is impossible to fully isolate the impact of marketisation from other factors but there is nothing to suggest that it has had the desired effect. The 1950s and 60s are now seen by many as a golden era of economic growth, driven at least in part by interventionist economic policy, and the expansion of universal public services and welfare this growth paid for.

3. Current State

- 3.1 Despite 50 years of contracting out and privatisation, the UK state spends more, as a proportion of GDP now, than it did in the 1970s. The only category of expenditure to have fallen is defence. Public revenue (taxation) meantime is currently around 39% of GDP, having been 40% in 1950 and 33% in 1973. What has changed is how the tax burden has shifted to be less progressive. Steep cuts to the top rate of income tax, coupled with a corresponding increase in indirect taxes, such as VAT mean that the system is less redistributive now than when the Thatcher government came to power in 1979.
- 3.2 Even when cash benefits are taken into account, the net financial position of the poorest is significantly worse than it was in 1979. The table below shows that the poorest people in Wales, i.e. D1 are still net beneficiaries but now gain 15% to 20% of gross income rather than the closer to 30% they gained in 1979. The very richest – D8-D10 now contribute more heavily, losing 40-50% of gross income against 30-35% in 1979 but the middle deciles are now more likely to be net contributors than they were in 1979.¹

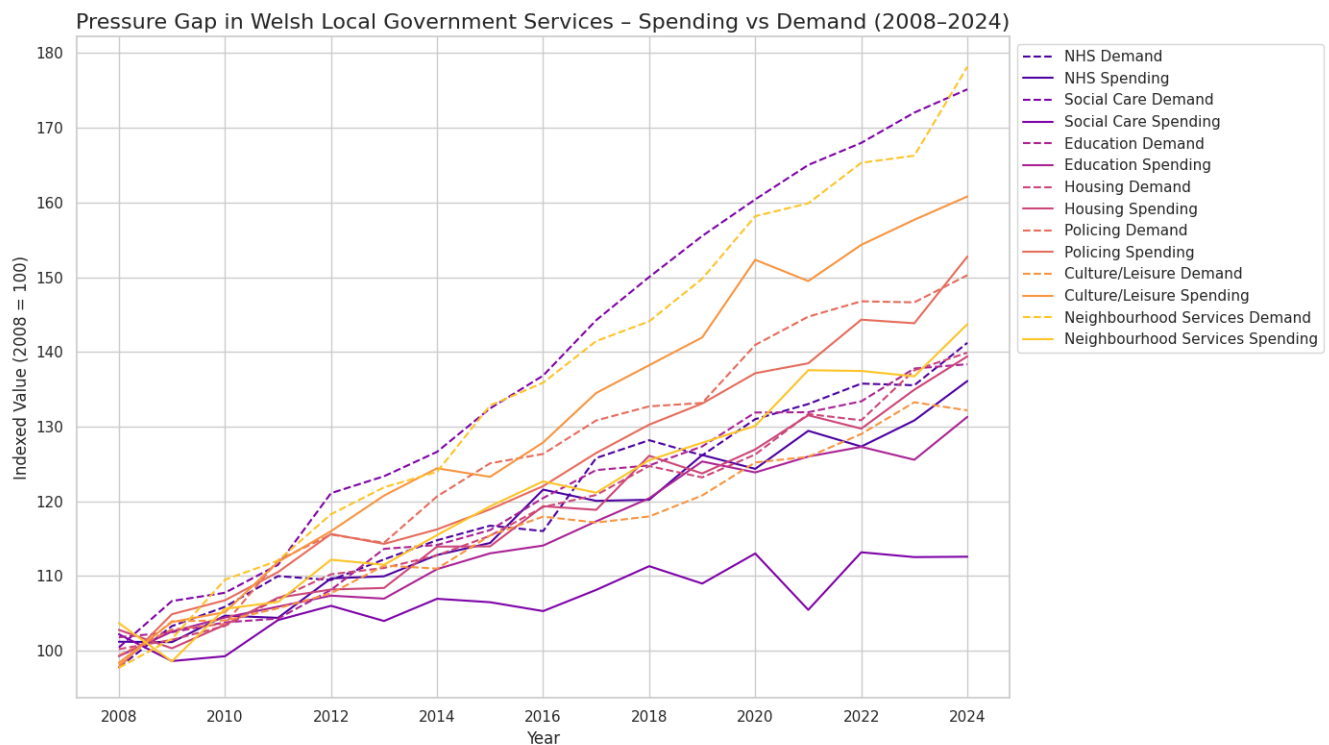


- 3.3 Marketisation through contracting out and the introduction of internal competition has not reduced

¹ Generated using Microsoft Co-Pilot drawing on data from a range of sources, including HMRC, ONS and the IFS

the cost of public services and there is no evidence to suggest that it has made them better or more efficient.

- 3.4 Decades of public spending pressure, including the period of austerity that followed the financial crisis of 2008, have had little impact on the overall level of public expenditure or the size of the state, and for most people promised reductions in taxation have not materialised. Social mobility has ground to a halt with millennials being the first generation in modern times to be worse off than their parents².
- 3.5 In real terms Welsh government revenue per head of population is higher now at around £7,400 than it was in 2008 at £6,200. Spend per head is proportionately even higher, reflecting an increased fiscal deficit. This, in turn drives so called, pressure gaps across all areas of public service provision, as shown in the table below.



Neighbourhood Services e.g. waste management, highways, street cleansing, parks and open spaces – Spending has fallen by around 15% in real terms since 2008, while demand rose by around 15%, leaving a 30 point gap.

Housing – One of the largest gaps: demand is up around 40%, whilst spending is down around 10%.

Social Care – Demand is up around 30%, spending is up but only by around 10%, so the gap is smaller than housing but still widening.

Culture/Leisure – Steepest spending cuts (around -35%) against modest demand growth (around +5%).

NHS – Demand is up around 25%, spending is up around 20% – the gap is smaller but still there.

Education – Demand is up around 15%, spending remains roughly flat in real terms.

Policing – Both demand and spending relatively flat, smallest gap of all services in the group.

- 3.6 This analysis was created with the assistance of Microsoft Copilot to collate data from a range of sources as set out below.
- 3.7 The expenditure element of the analysis is drawn from Welsh Government and Local Authority budget and documents, deflated using the ONS GDP deflator. Demand indicators are based on the following:

² Boston Consulting Group, Op Cit.

- NHS demand: activity measures such as hospital admissions, outpatient attendances, and GP consultations from NHS Wales Statistics and StatsWales.
 - Social care demand: numbers of looked-after children, adults receiving care packages, and hours of domiciliary care, from StatsWales Social Services Activity data.
 - Education demand: pupil numbers and enrolments from StatsWales Schools Census.
 - Housing demand: households on local authority waiting lists and homelessness presentations, from StatsWales Housing Statistics.
 - Policing demand: recorded crime and incident volumes from Home Office Police Recorded Crime and ONS Crime Survey for England and Wales (Welsh subset).
 - Culture/leisure and neighbourhood services: usage indicators such as library visits, leisure centre attendances, waste tonnage collected, and environmental service requests, from StatsWales Local Government Service Statistics
- 3.8 The rebalancing of public sector spending away from local government and in favour of the NHS raises concerns that reactive services are being prioritised over preventative ones. Those services that are concerned with the quality of the neighbourhoods in which people live, along with those aimed at maintaining personal health and fitness, are the council services most heavily impacted.
- 3.9 Parks and open spaces, along with other provision that is preventative in nature, such as sports and recreation, along with low level or early intervention are more likely to be casualties of spending pressure than reactive services such as the NHS. Yet they are lower cost and can save money by reducing the number of GP visits and long-term illness.
- 3.10 Across the UK the well-being value of parks has been put at £34.2bn a year. Their significance, alongside that of other core council services has been widely recognised for many years but those public bodies charged with maintaining them are unable to give them an appropriate level of priority because they have no choice but to protect contractual budgets for more expensive, outsourced reactive services or the management of buildings built and operated under PPP contracts. In this way, outsourcing prevents public bodies from making balanced decisions that optimise public expenditure in the interest of the Welsh public in favour of the narrow interest of private companies, many of which are based outside of Wales.
- 3.11 Amongst the services that have been heavily impacted by the shift in social policy since 1980 is Youth Service provision. Even before austerity this service, which is heavily preventative in nature, had been reduced to about half of what it was when the Thatcher government came to power. By 2024 expenditure had fallen from £120m³ in 1980 to £45m⁴. Wales had 91 council-run youth centres in 2023/24. Although this is a 3% increase year-on-year, it represents 62% fewer youth centres than in 2010-11.
- 3.12 The loss of youth service provision has been linked to an increase in anti-social behaviour, a decline in the mental health of young people, a loss of safeguarding opportunities, higher levels of drug and alcohol abuse and greater exposure of young people to exploitation⁵. The additional costs associated with these impacts is difficult to calculate because of the many other variables at play but with the high costs associated with youth economic inactivity, young people's crime, and poor mental health, it is highly likely that they outweigh the savings⁶.
- 3.13 For clarity it should be stressed that whilst the evidence shows there has been a shift in the balance of funding from preventative, mostly council services to reactive services and in particular the NHS, this should not be taken as a suggestion that the NHS is now overfunded. All of the services considered in this report show a negative gap between demand and resources. As will be argued, the key to managing this is to restore resources to preventative provision but this cannot be at the expense of already under pressure acute and responsive services.

³ Welsh Office / CIPFA Local Government Finance Statistic 2024/25 prices

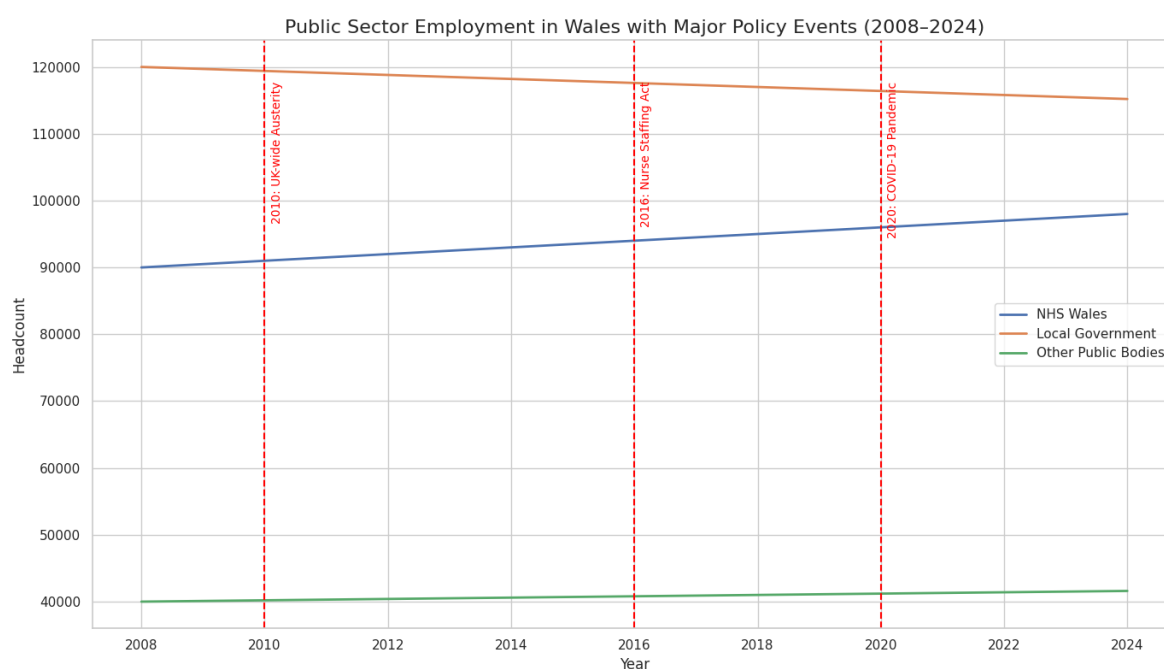
⁴ StatsWales, Youth Service Finance

⁵ Britain's Lost Generation, UNISON, 2024

⁶ The social cost of youth work cuts, National Youth Agency, 2023

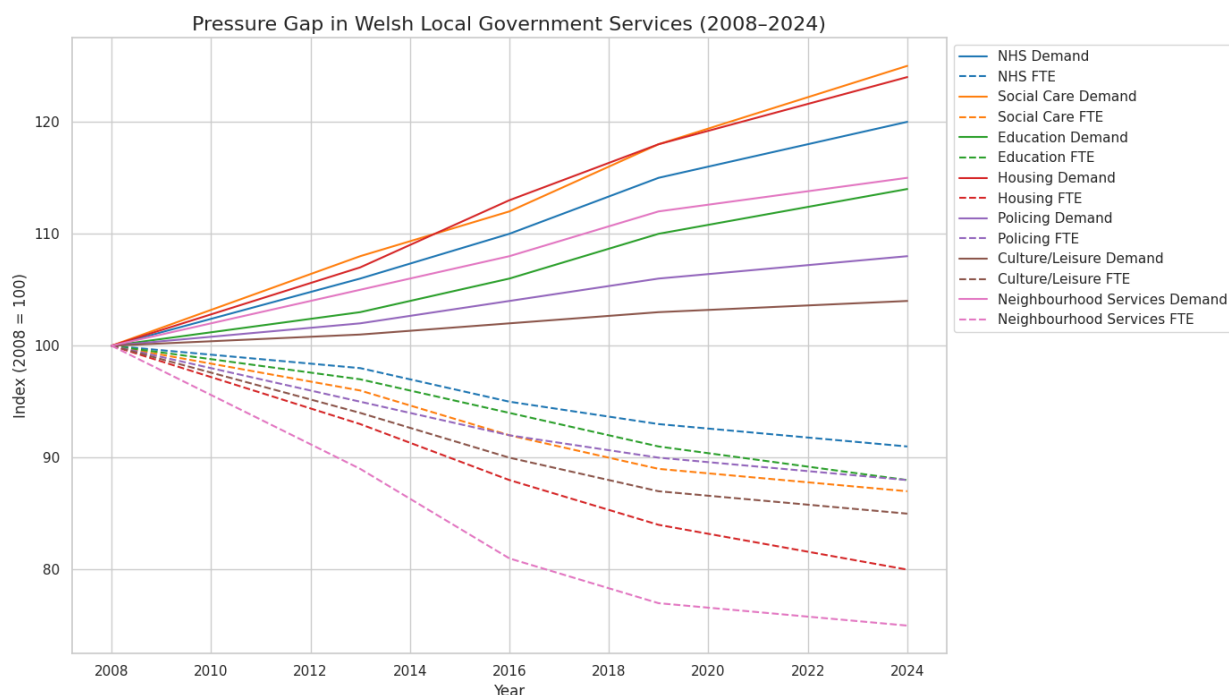
Public Sector Employment

- 3.14 Based on the most recent workforce data, the Welsh public sector employs about 300,000⁷ people which is 20% of the total workforce of Wales. This figure has not changed in overall terms since 2008 but this masks a big shift in the balance between council and NHS during the austerity years. The NHS headcount increased from 84,000 in 2008 to 115,000 in 2024, offsetting a fall in Local Government employment from 153,000 in 2008 to 127,000 in 2024. The NHS now accounts for 38% of all public sector jobs in Wales (up from 28% in 2008) whereas Councils now account for 42% (down from 51% in 2008). The chart below shows how the fall in Council staffing levels corresponds closely to the rise in NHS staffing. The blue line tracks an increase in NHS headcount which corresponds closely with a fall in Local Government over the same period which is represented by the orange line.



- 3.15 The chart below shows clearly how staffing levels have failed to keep up with the growth in demand for all services, creating pressure across all areas of service delivery and the way in which fewer people have been expected to meet higher demand. This is least acute for the NHS reflecting a tendency during the years of austerity to try and protect NHS budgets at the expense of other areas.

⁷ ONS



- 3.16 The fall in staffing levels that has taken place in every local authority is only partly explained by the fall in funding. The table below shows that whilst the reduction in headcount more or less matched the reduction in funding during austerity, the gap between the two has increased since 2014.

Welsh Local Authority Funding against Staffing (2008 to 2024)

Year	Net Current Expenditure (£bn, 2024 prices)	Directly employed council headcount	% Change in real terms funding from 2008	% Change in staff from 2008
2008	£8.05bn	153,000	—	—
2010	£8.12bn	150,200	+0.9%	-1.8%
2013	£7.49bn	141,800	-7.0%	-7.3%
2016	£7.21bn	134,900	-10.4%	-11.8%
2019	£7.38bn	130,800	-8.3%	-14.5%
2022	£7.55bn	128,200	-6.2%	-16.2%
2024	£7.61bn	127,000	-5.5%	-17.0%

- 3.17 Funding and staffing track closely; the steepest falls in both came between 2010–2014, during the height of UK-wide austerity. However, funding has partially recovered in real terms since 2016, but staffing has not. This reflects an increase in outsourcing but also in the demands placed on individual members of the local authority workforce.
- 3.18 The gap between funding and staff change is now around 11.5 percentage points — councils are spending only 5.5% less than in 2008 (real terms) but employing 17% fewer people directly. This gap is widest for service areas with high levels of outsourcing (leisure, waste, social care), where money still flows through council budgets but staff are employed by private companies.
- 3.19 These data suggest that one of the major impacts of austerity is an increase in outsourcing, presumably driven by a perception that outsourced provision is less expensive than direct delivery. The table below estimates the number of direct jobs that have been outsourced. It shows that even where budgets have remained stable, jobs have still been lost with the number of outsourced jobs being fewer than the inhouse posts they have replaced.

Service Area	Direct Staff Loss (2008–24)	% Budget Change (real terms)	Likely % of “Lost” Jobs Still Existing in Outsourced/ALB Form	Estimated Outsourced Roles
Culture & Leisure	~-2,400	Spend broadly stable	70–80%	~1,700–1,900
Highways, Transport & Environment	~-2,400	Spend broadly stable	50–60%	~1,200–1,400
Social Services	~-3,100	Spend ↑ slightly	40–50% (mainly domiciliary care commissioned out)	~1,200–1,500
Housing (non-HRA)	~-800	Spend stable	30–40%	~240–320
Education	~-15,700	Spend ↓ slightly	5–10% (e.g. catering, cleaning contracts)	~800–1,500
Central & Other Services	~-1,900	Spend stable	20–30%	~380–570
Total	~-26,000	—	~25–30% still exist externally	~6,500–7,800

- Councils have absorbed budget pressures partly by reducing in-house staff but have maintained spend through contracts and grants to external providers.
- The workforce reduction is structural — even with modest funding recovery, councils have not rebuilt their direct employment base.
- This has implications for service resilience, democratic accountability, and local labour markets, especially in smaller authorities where the council is a major employer.

Outsourcing now accounts for nearly 50% of Welsh council expenditure on services⁸. In 2008 it was around 42%. Half of this goes on social care with some councils procuring over 70% of provision from external providers⁹.

⁸ StatsWales, Local Government Finance, revenue outturn: Third Party Payments by service

⁹ StatsWales, Revenue Outturn expenditure by authority and service and third party payments by service

Welsh Councils – Funding vs Staffing Change (2008 → 2024)

Council	Funding Change (real terms)	Staff Change	Gap*
Isle of Anglesey	-6%	-21%	-15 pts
Gwynedd	-5%	-16%	-11 pts
Conwy	-4%	-16%	-12 pts
Denbighshire	-5%	-16%	-11 pts
Ceredigion	-4%	-19%	-15 pts
Pembrokeshire	-5%	-17%	-12 pts
Carmarthenshire	-4%	-16%	-12 pts
Swansea	-5%	-16%	-11 pts
Neath Port Talbot	-6%	-16%	-10 pts
Bridgend	-5%	-17%	-12 pts
Rhondda Cynon Taf	-5%	-17%	-12 pts
Merthyr Tydfil	-6%	-18%	-12 pts
Caerphilly	-5%	-16%	-11 pts
Blaenau Gwent	-6%	-17%	-11 pts
Torfaen	-5%	-17%	-12 pts
Flintshire	-4%	-16%	-12 pts
Wrexham	-4%	-17%	-13 pts
Powys	-5%	-17%	-12 pts
Vale of Glamorgan	-5%	-17%	-12 pts
Cardiff	-4%	-17%	-13 pts
Monmouthshire	-5%	-17%	-12 pts
Newport	-5%	-17%	-12 pts
Wales total	-5.5%	-17%	-11.5 pts

*Gap = Staff % change minus Funding % change. A larger negative gap means staff numbers fell faster than budgets.

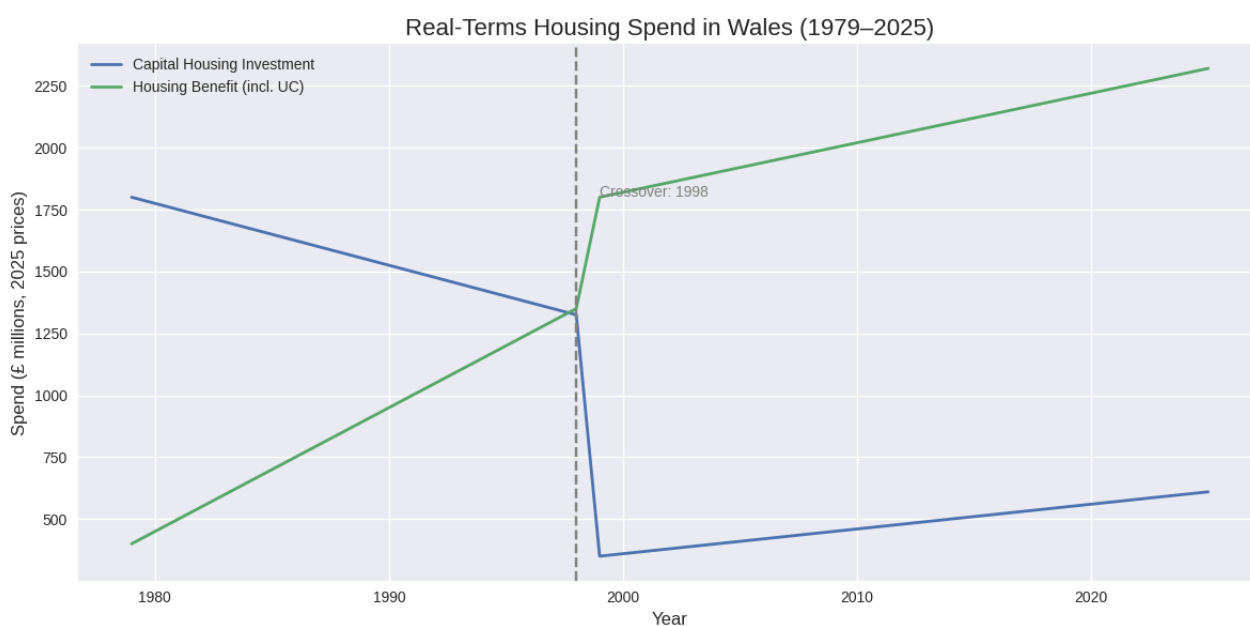
3.20 Every council has cut staff faster than budgets – the smallest gap is around 10 percentage points, the largest, 15. This suggests that even where funding has been relatively stable in real terms, councils have shifted delivery away from direct employment.

4. The Impact of Spending Cuts

4.1 The data illustrate that whilst successive governments since the 1970s have presented public services as unaffordable, overall expenditure has remained constant. Despite this, all the major services experience wide and growing gaps between demand and capacity. This is at least as much a function of changes to the way that public funds are used as it is the level of public expenditure per se. The period has seen:

- Reversal of the redistributive effect of public services
- A reduction in more efficient preventative services and a corresponding increase in inefficient reactive provision
- Shift from investment in housing to subsidies to private landlords
- A shift towards means tested cash benefits and away from universal services
- An increasing proportion of public money going to private profit via outsourcing arrangements
- A systematic undermining of the status of front-line public service providers that has disproportionately impacted female and BAME workers.

4.2 Changes to the way that housing is subsidised from bricks and mortar to housing benefit have driven rents up faster than wages, whilst reductions and residualisation of council housing has led to a supply crisis. Total public expenditure on housing is significantly higher now than it was in 2008, but the period has seen a continuation of the increase in housing benefit costs that have seen it become the biggest element of expenditure since the implementation of right to buy and the near end of major public house building programmes in the 1980s. The graph below illustrates this.¹⁰



4.3 Expenditure on housing benefit in Wales increased fourfold between 1980 and 2000 with 80% of that increase relating to rising rent levels as private landlords increased in significance and council housing was sold off at discounted rates to tenants. The trend has continued and whilst austerity prompted the introduction of caps on HB payments, current levels of expenditure are still well above that of 2008. The shift from capital investment in new housing assets to subsidising private rents has

¹⁰ Chart generated by MS Co-pilot. Data derived from StatsWales, HM Treasury, Department for Work and Pensions and Office for National Statistics

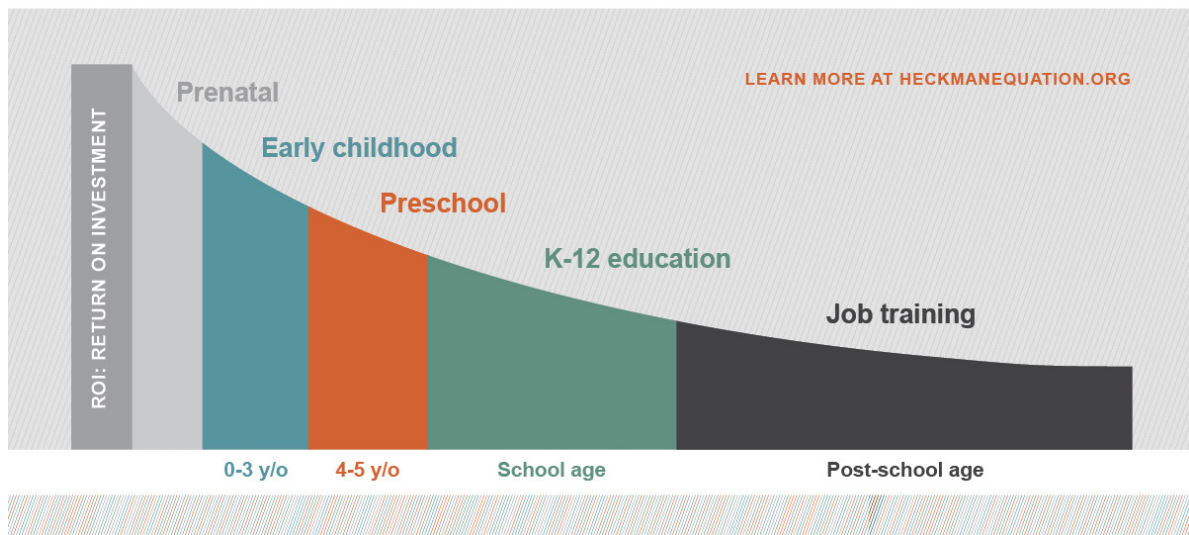
been highly inefficient; the quantity and quality of Wales's housing stock has fallen, housing has become increasingly unaffordable, and homelessness has increased.

- 4.4 Fewer lower income people are now able to afford to buy and because of high rents are unable to save a deposit to do so. The consequent increase in demand fuels further housing inflation which excludes more people from the market and exacerbates a range of other social issues associated with poor and insecure housing.
- 4.5 Swingeing cuts to preventative local government services such as youth work, early family intervention and community safety have fuelled demand for reactive services such as health care, policing, courts services and prisons. There is a clear correlation between cuts on the one hand and increasing demand on the other.
- 4.6 Since 2008 spending on youth work is down around 60%, early intervention by around 50% and community safety/diversionary programmes by around 35%. During the same period NHS emergency admissions for young people have gone up around 20%, youth custody rates by 25% and children being taken into care by about 35%. The latter group of services have unit costs that are massively higher than those of the preventative services – social care crisis intervention costs average around £30,000 to £40,000 per person per year (and can be a lot higher), compared to intensive early intervention family support per person costs of £2,000 to £4,000 per annum¹¹.
- 4.7 The benefits of early intervention are widely recognised. James Heckman of the University of Chicago received a Nobel prize for pioneering methods to evaluate social programmes. His work on the relative impact of investing early in children demonstrated that the highest economic and social benefits come from early skills development. This investment leads to lifelong success, increased productivity and reduced societal costs¹².



Return on Investment

Economic impact of investing in early childhood learning.



- 4.8 The Heckman curve provides a good and academically sound illustration of how the shift away from programmed, planned interventions in early years leads to greater costs to society and the economy.
- 4.9 Attempts to meet increased demand for reactive services have created additional pressures which, as the evidence presented in this report shows have not been fully met giving rise to a significant

¹¹ Quantifying the benefits of early intervention in Wales. A feasibility study, Public Policy Institute for Wales. August 2015
Short to Medium Term Operational Cost Pressures Affecting Social Care in Wales, Final Report to the Welsh Government, LE Wales, March 2020

¹² Heckman, James J. (2008). "Schools, Skills and Synapses," Economic Inquiry, 46(3): 289-324

and growing fiscal deficit. Current political orthodoxy demands that this is managed through further reductions in expenditure rather than increasing the tax take.

- 4.10 When taxes are increased it is the more regressive elements of the system i.e. council tax that increase at the steepest rate. Coupled with the ongoing squeeze on redistributive welfare budgets, this only widens the gap between the richest and poorest in society, directly fuelling demand for more expensive reactive services that have very little, if any, impact on the root causes of social problems.
- 4.11 There is a vicious cycle of cuts to preventative services leading to an increase in demand for reactive services, leading to further cuts to preventative services, that fuels further increases in demand for reactive services. If this is not reversed, cost pressures will continue to grow even whilst service provision fails to keep up with demand and outcomes deteriorate. Even though no government has made an overt policy decision to move away from the universalist, redistributive principles of the post war welfare state, those principles are constantly being eroded. The two key policy initiatives needed are:
- A reversal of the current balance between reactive and preventative work even if this requires initial upfront pump priming – effectively bringing forward future savings in inefficient reactive funding to fund investment in more efficient preventative services.
 - A more progressive approach to tax and spend that overtly recognises the benefits to the whole of society of redistributing income and wealth to reduce service demand associated with socio-economic disadvantage.
- 4.12 In recent years, along with allowing increases to council tax, governments have chosen to raise national insurance contributions (NICS) in preference to increasing the rates at which income tax is paid. This, along with freezing income tax thresholds, adds to the perception that people on average incomes pay more for less – the so called squeezed middle phenomenon.
- 4.13 For public authorities, increases to the employer's element of NICS seem highly inefficient as a mechanism for providing more funding as it pushes up the cost of provision and is one reason why council finance officers argue that the rate of inflation they are faced with is far higher than the general level. Anecdotally it is reported by the Welsh Local Government Association to be close to 8%.

Pay and working conditions

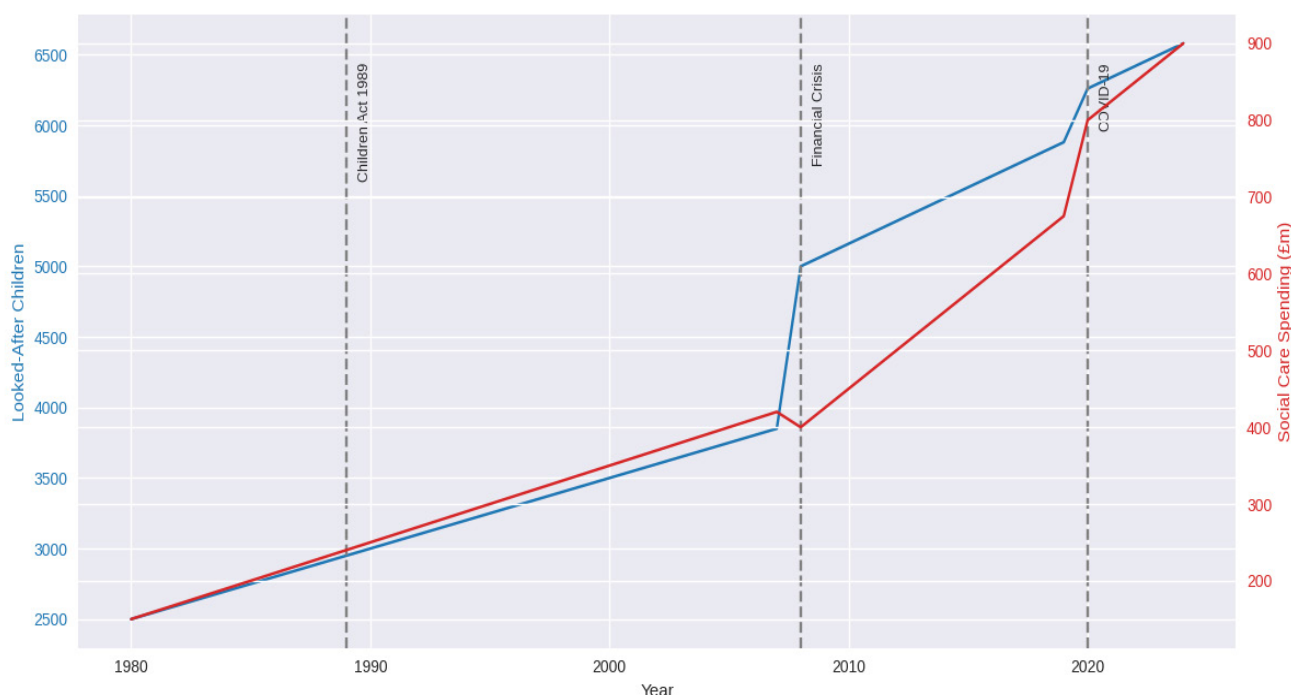
- 4.14 Public services are highly labour intensive. Pressure to cut costs therefore translates fairly directly into pressure to reduce staffing costs. Improvement to productivity through more efficient work practices and better technology are one way that this can be achieved but pay and pensions are also impacted by shortfalls in funding.
- 4.15 One of the impacts of austerity is that public sector pay has fallen behind private sector pay and in the last few years has failed to keep pace with inflation. According to the Institute for Fiscal Studies, the period 2010-2019 saw a 13% reduction in the real pay of UK teachers whilst nurses experienced a reduction of 7%. The period 2019-23 saw some improvement with teacher pay increasing by 5% and nurses by 1%, but this still leaves them worse off than they were before austerity. Overall, public sector pay in 2023 was 1% lower than it was in 2007 whilst private sector pay was 4% higher¹³.
- 4.16 A further way that staff costs are squeezed is what might be termed overburdening. Fewer staff are expected to do more with no improvement in systems or technology to help them. The result of this is often an increase in so called failure demand, i.e. that portion of work that only has to be done because of a failure to do something or to do it correctly. In public service terms this puts more and more pressure onto acute and reactive services, feeding into the vicious cycle of demand described in the previous section.
- 4.17 For public service workers themselves, squeezed pay, overburdening and inability to deliver the level of service they know is needed is enormously stressful. It is the biggest driving factor behind the recruitment crisis that many public service providers are experiencing.

¹³ Recent trends in public sector pay, IFS, 2024

5. The Impact of Outsourcing

- 5.1 There is compelling evidence to show that outsourcing drives up costs for many key service areas. This is clearly illustrated through an analysis of children's social care.
- 5.2 The number of children being taken into care has risen sharply since 2008, continuing and accelerating a trend that dates to the 1980s. Cost per looked after child has also increased in real terms, driving an exponential increase in total expenditure.
- 5.3 Policy initiatives such as the 1989 Children Act played a part in the growth in the number of children being taken into care, but a spike in numbers coinciding with austerity and later the pandemic suggests a causal link with spend on preventative work. It is difficult not to conclude that the well above inflation increase in unit cost is a direct result of outsourcing.

Looked-After Children and Children's Social Care Spending in Wales (1980-2024)



Workforce

- 5.4 The outsourcing of thousands of public service jobs has left critical areas of the welfare state in crisis. The for-profit orientation of private providers, or, perhaps more accurately that of their investors, has seen a focus on cost minimisation that has impacted heavily on the front line workforce.
- 5.5 Despite now receiving their pay from private companies, most care workers are still public service providers, ultimately funded through taxation. But, unlike their directly employed colleagues in the NHS, for example these key workers have seen their pay and conditions suppressed to a point where they are now the Cinderellas of public service.
- 5.6 Direct comparisons are difficult between organisations with different functions but a band 3 NHS healthcare assistant with 2 years experience currently earns £26,599. A similarly experienced care worker working for a private provider is never likely to earn more than the Real Living Wage of £12 an hour or £23,000 per year and many receive less than this. The disparity is much greater than this however as NHS staff have access to a pension scheme that currently has an employer contribution rate of 23.7%, whilst most care workers are enrolled on schemes with the 3% minimum level of employer contribution. Similar disparities exist between outsourced staff and those working directly for local authorities.
- 5.7 It is well recognised in economics that profit flows from cost control. In a market economy it is those companies that are able to keep costs lowest that are able to offer the lowest prices for a given level

of service. In labour intensive services such as social care, staff costs are the main element of cost making it inevitable that companies try to bear down on them to win contracts, service their debts and generate a profit.

- 5.8 Given that the overall cost of social care has not reduced since the onset of mass outsourcing, it is difficult not to see it as mainly an exercise in transferring wealth from some of the least well rewarded but most valued workers in the economy to the owners of, and investors in, the private companies they now work for. Many of these are internationally based private equity investors with little if any interest in the wellbeing of UK care workers or the people they care for.
- 5.9 Aside from the direct impact of low pay and pension provision, outsourcing also generates additional costs to the state in the form of in-work benefits, (including housing benefit) and post-retirement benefits. These are hidden costs of outsourcing that are rarely, if ever, taken into account when public authorities make decisions about how best to provide services. If they were to be included in the cost calculation it is unlikely that outsourcing would ever come out as the best value option.
- 5.10 To the extent that contracting out reduces the immediate cost of services, it also has a detrimental impact on the pay and conditions of directly employed staff. The Thatcher government's Compulsory Competitive Tendering policy was as much about depressing internal costs as it was about contracting out. Although it was abolished in 1998, the principal that direct provision should be cost competitive with private provision has lingered. The inevitable result is that the pay and particularly, the pension arrangements, of directly employed staff have been subject to intense downward pressure.
- 5.11 Direct employment, particularly in areas such as social care, is regularly argued to be unaffordable but cost comparisons are narrowly drawn, with little attention paid to the long-term wider cost implications of minimum pay and pensions for vital public service workers. The once self-evident case for recognising the value to society of the work they do in the pay and pensions they receive has been lost. It is ironic that the period following the pandemic, during which people stood on their doorsteps clapping to show their appreciation of nurses, care workers and others, has been followed by further pressure on public service expenditure and all that that means for public service workers.

6. Is Outsourcing Intrinsically Discriminatory?

- 6.1 The public sector workforce is disproportionately female. 70% of Welsh council workers are women as are 77% of the NHS workforce. Outsourcing public services therefore affects women more than it does men but it is also the case that the services that are most likely to be provided through contracts with private companies have even greater proportions of female front-line staff. The social care workforce, for example is thought to be 82% female.
- 6.2 Front line care workers and those in soft Facilities Management roles, such as cleaning, are far more likely to be employed by a private contractor than their better paid public service colleagues, particularly those in senior or professional positions. Across the UK women make up 85% of the cleaning workforce and 75-78% of the catering workforce. These members of the workforce are also disproportionately likely to be drawn from black and ethnic minority groups.
- 6.3 Equal pay legislation does not allow comparison across un-associated companies. This means that the pay and pensions of privately employed, predominantly female care and Facilities Management workers can and does fall behind that of male workers delivering work of equal value directly for public bodies.
- 6.4 There is a clear correlation between the cash that private companies extract from public service budgets and the difference between the pay and pension costs of public and private sector workers. Including pension costs, front line staff employed by a local authority typically cost around 20% more than those employed by private sector care companies. But this 20% difference in cost does not translate into 20% lower costs to the taxpayer; it goes to profit and the other extractive mechanisms firms use to divert public money into private coffers. In this sense, outsourcing can be seen as a transfer of wealth from low paid women, many of whom are delivering highly valued public services

such as social care, to wealthy, mostly male, owners or investors in private companies.

- 6.5 Research for UNISON by the Smith Institute illustrates how outsourcing undermines the pay and pensions of public service workers and how the 'staggering array of different terms and conditions' and lack of transparency 'makes it much more difficult for trade unions to monitor equal pay issues'. The report found that 'in the private sector, market rates for jobs predominantly performed by female, part time workers are much lower than in those in the public sector'¹⁴.
- 6.6 Equal pay legislation creates a broad duty to pay men and women equally for the same work or work of equal value. Legal cases have seen care workers compared to refuse collection workers, cleaners compared to street sweepers and other broadly based comparators being recognised as valid. The duty does not extend to comparisons between different employers unless it can be shown that the two are 'associated' which has been interpreted as one being under the control of the other or both being under the control of a third party.
- 6.7 Whilst equal pay legislation clearly does not allow women whose jobs have been outsourced to private companies to mount a challenge, case law does confirm the validity of comparing the pay of care workers and cleaners to that of refuse collectors and street cleaners for example. Whether legally challengeable or not, the discrepancy between the pay and pensions between these groups of workers is objectively, if not legally, unfair, whoever the respective employers are.
- 6.8 It is at least arguable that in a situation where an outsourcing option is likely to result in unfair pay, this should be taken into account when options are appraised. Policy initiatives, including implementing the Public Sector socio-economic duty and the Well Being of Future Generations (Wales) Act of 2015 create an obligation on public bodies to have due regard to the desirability of exercising their functions in a way that is designed to reduce the inequalities of outcome which result from socio-economic disadvantage. This suggests that in deciding whether to outsource or deliver services directly, regard should be had to the impact on the front line workforce as well as the wider community.
- 6.9 It is important to be clear that the disadvantage that women and those from BAME groups experience arising from outsourcing is not an inevitable result of the pursuit of efficiency – outsourcing in general is a policy choice, as is the decision about which services to outsource.

7. Communities and Local Economies

- 7.1 Public service employment is critical to the Welsh economy. Public service workers make up a substantial portion of local communities; suppressing their pay and pensions through outsourcing therefore impacts on the wider social and economic wellbeing of those communities. Outsourced workers have less money to spend in the local economy than their directly employed colleagues. At the same time, public money flows out in the form of profit and other forms of extraction.
- 7.2 There is therefore a so-called negative multiplier effect associated with outsourcing, whereby the value that is added to money from wages spent locally as it moves through the economy is lost. The 'cost' of outsourcing to non-local companies is therefore much greater than the sums that are paid to them for the services they provide. Additional costs associated with in work and post-retirement benefits add further to the real economic cost of contracting out.
- 7.3 The economic case for insourcing and therefore improving the pay and pensions of insourced workers whilst ending the outflow of public money to companies based outside the local area, relates in large part to the added economic value that this can create. Studies have demonstrated that the multiplier effect associated with front line public service workers is amongst the highest of any group of workers. Care workers for example are likely to spend a bigger proportion of their income rather than saving it and are more likely to spend it locally than the owners of the businesses that employ

¹⁴ Outsourcing the cuts: pay and employment effects of contracting out, The Smith Institute, UNISON, 2014

them. This spend becomes the income of other people and gains value as it goes through the local economy.

- 7.4 Research by APSE and CLES into the value of local employment in one authority found that every £1 that a locally employed front line worker earns and spends creates an additional 64p of value to the local economy¹⁵. This means that in that case every £1 saved through pushing back on the cost of front-line staff would cost the local economy 64p.
- 7.5 Diverting money away from profit and extraction to put it back into the pockets of public service workers, even if it results in a marginal increase in delivery costs, would benefit local economies and local communities and by so doing have a positive impact on demand for reactive services.

8. Policy Direction

- 8.1 In recent years the Welsh government has signalled its recognition of the importance of taking a long-term approach. The Well-being of Future Generations (Wales) Act 2015 creates a statutory basis for a shift in culture away from the short termism that prioritises short run cost reduction over long term best value. The vision focuses on seven key objectives:
- A prosperous Wales
 - A resilient Wales
 - A healthier Wales
 - A more Equal Wales
 - A Wales of Cohesive Communities
 - A Wales of Vibrant Culture and Thriving Welsh Language
 - A Globally Responsible Wales
 - A More Equal Wales
- 8.2 Many of the trends discussed in this report fly in the face of this laudable commitment to the future of Wales. Cuts to preventative services have resulted in an increase in demand for responsive services, whilst wholesale outsourcing has had a negative impact on the wellbeing of thousands of key public service workers.
- 8.3 Suppressed pay and pensions damages local economies, stores up hidden costs and undermines the quality of core services such as social care. Cuts to early intervention services, such as youth work, are linked to an increase in demand for expensive criminal justice services and negative outcomes for current and future generations alike. In the long run this is unsustainable both in terms of outcomes and cost.
- 8.4 Looking after the interests of future generations demands an approach that prioritises preventative investment in the wellbeing of individuals and the proper maintenance of the places in which they live. Social policy must recognise the intrinsic value of high-quality, person-centred personal services and the added value that looking after the public realm brings. It needs to be able to differentiate between expenditure that is investment in future generations and that which results from a failure to make that investment. This is the key to managing demand for expensive, reactive services and in the long run the only way to begin to close the gap between public revenue and the escalating cost of public services and means tested cash benefits.
- 8.5 The future generations case for insourcing is a strong one. The transfer of wealth from front line public service workers to the owners and financiers of private companies and the impact this has on

¹⁵ McInroy N, Jackson M and Bramah M, Creating Resilient Local Economies, exploring the footprint of public services. APSE, CLES, INLOGOV, 2008

communities and local economies is self-evidently detrimental to the wellbeing of those to come. Even if there was a way to bring private sector pay and pensions in line with the public sector, this would not stop the leakage of scarce public resources to private profit. These resources cannot be spared in a situation where reinvestment in public services and the public realm is an essential prerequisite to the future wellbeing of Welsh communities.

- 8.6 There are a set of key national well-being indicators to assess progress towards the aims of the Future Generations Act. Most, if not all of them support the need for restoring budgets for universal services focused on community well-being and early intervention. Virtually every indicator references 'a more equal Wales' and the need to build prosperity. These central objectives will be better met by tackling the underlying causes of socio-economic disadvantage than through minimalist safety net provision or services that deal with consequences not causes.
- 8.7 Some of the measures lend direct support to tackling the impact of low pay and pensions associated with the austerity driven squeeze on public services and the bid to cut cost through contracting out. These measures include:

16. Fair pay

- A prosperous Wales
- A healthier Wales
- A Wales of cohesive communities
- A globally responsible Wales

17. Pay difference

- A prosperous Wales
- A more equal Wales

18. People living in poverty

- A prosperous Wales
- A resilient Wales
- A healthier Wales
- A more equal Wales
- A Wales of cohesive communities
- A Wales of vibrant culture and thriving Welsh language
- A globally responsible Wales

19. People living in material deprivation

- A prosperous Wales
- A resilient Wales
- A healthier Wales
- A more equal Wales
- A Wales of cohesive communities
- A Wales of vibrant culture and thriving Welsh language
- A globally responsible Wales

20. Pay set by collective bargaining

- A prosperous Wales
- A healthier Wales
- A more equal Wales

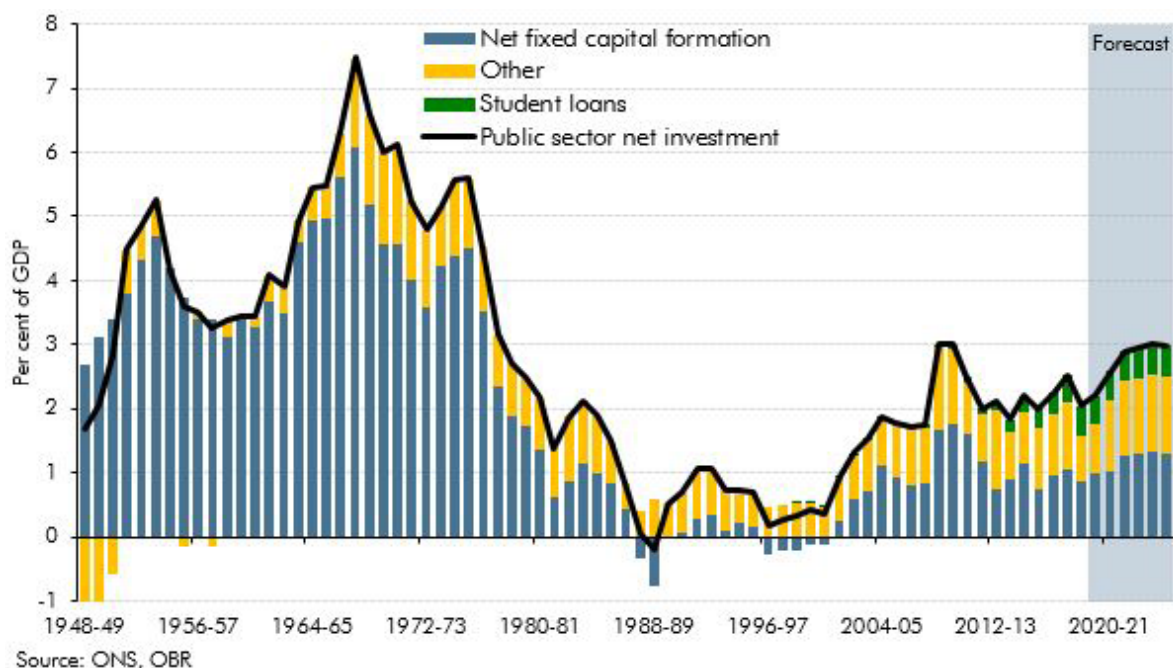
- 8.8 These measures envisage a society which consciously avoids the deepening inequalities that inevitably result from the shift away from the principles of universalism and redistribution that spawned the UK welfare state. The Future Generations Act is therefore a direct challenge to the politics of austerity.
- 8.9 Austerity is not just about cutting back on public expenditure – if it is, it has failed as there has been no overall reduction. It is also (perhaps primarily) about changing the fundamental basis of UK social policy. Rather than prioritising social and economic outcomes, austerity gives preference to cutting taxation. As we have seen however, the overall burden of taxation has not actually reduced. What has changed is that the burden has shifted away from the better off paying more, towards a flatter, less progressive approach whereby the poor shoulder an ever greater part of the cost.
- 8.10 Other fundamental changes in social policy, such as moving from providing social housing to subsidising private rent, further undermine the redistributive impact of the welfare state. Ironically, as this report shows, they also make the system less efficient and drive up demand for reactive and acute services that could have been avoided had preventative provision been in place.
- 8.11 Austerity cuts to council budgets failed to reduce the overall cost of public services and tax levels but have:
- Damaged preventative services
 - Driven an increase in reactive services
 - Accelerated outsourcing in key services areas
 - Created higher unit costs
 - Driven a growing gap between supply and demand
 - Depressed pay and pensions for public service workers in all sectors
 - Increased leakage from public funds and from local/regional economies to private investors and owners
 - Halted social mobility
 - Worsened the equality gap between low paid disproportionately female and BAME front line outsourced public service workers and higher paid local government managers
 - Further shifted the balance away from universal, whole life enhancing services towards means tested cash benefits that have no if any impact on intergenerational disadvantage

9. The Way Forward

- 9.1 This report is not intended to create a wish list of public service reform that ignores economic reality. Whether it wants to or not, the Welsh government is not in a position to make unfunded spending commitments. Notwithstanding this, meeting its own objectives will require it to adopt a much longer-term approach to the question of affordability if it is to break the cycle that sees cuts to efficient preventative provision leading to ever increasing demand for inefficient reactive services.
- 9.2 The problem of how to tackle this is being explored elsewhere in the UK. Having concluded that ‘high levels of public resources are devoted annually to alleviating social problems and tackling ‘failure demand’ – demand that could have been avoided by earlier preventative measures’, the Christie Commission, which reported to the Scottish Government in 2015, also argued for reinvestment in preventative service provision. The Commission did not offer any solution to the quandary of how to refocus onto services that can be seen as social investments when consequential savings to reactive budgets will take time to materialise, but states that ‘there is no alternative: if we do not manage to effect a shift to preventative action, increasing failure demand will swamp our public services’ capacity to achieve outcomes’.

- 9.3 This report chimes with the conclusions of the Christie Commission and notes that the policy thrust of the Welsh Government is also aligned with its understanding of the necessity to refocus on prevention and universalism. All of the governments of the UK nations must find ways of restoring funding to those service areas that address the key issues of inequality, prevention and a high quality public realm. Alongside and as part of this, they should also remove the perverse incentive that contracting out creates when it allows private companies to generate profit by suppressing the pay and pensions of public service workers and damaging local economies. Headline recommendations include:
- Bringing forward future savings on failure demand to pump prime reinvestment in early intervention and preventative provision
 - Funding borrowing for reinvestments – e.g. in public sector housing – over a much longer term – 100 years rather than 20 or 30 years
 - Differentiating between investment, including in people, and consumption and prioritising the former
 - Recognising the intrinsic value of a well maintained public realm
 - Recognising the intrinsic benefits to the entire community of paying public service workers what they are worth and providing them with adequate pensions
 - Restoring the principle of redistribution as an essential element of the welfare state
- 9.4 These measures require reevaluating the fiscal rules that govern UK government spending plans.
- 9.5 The current UK government's 'stability rule' requires the current budget to be on course to be in balance or surplus by 2029/30. This means moving to a position where day to day (revenue) expenditure is funded from revenue and borrowing is only used for investment. At present, investment (capital) spend is mostly made up of expenditure on physical assets, such as roads, etc. Student loans are an exception to this which provide an example of how investment in people, e.g. early years education, can, should the government choose, be distinguished from consumptive expenditure and excluded from the definition of day to day expenditure¹⁶.
- 9.6 Fiscal Rule number 2 states that net financial debt should fall as a share of the economy in 2029/30. The Chancellor has adopted a new measure of this called Public Sector Net Financial Debt which incorporates a wider range of government financial liabilities than the previous definition, Public Sector Net Debt. According to Office for Budget Responsibility forecasts, it is expected to be met, whilst leaving more headroom for investment expenditure than would have been the case under the previous definition.
- 9.7 The reasons why the UK budget deficit and public sector debt have risen to high levels are complex. Demographic factors play a major role – expenditure on pensions for example is now around 7% of GDP compared to just 2% in the 1950s reflecting a major extension of life expectancy. It is not however unreasonable to point to the shift in the balance between prevention and reaction and between safety net cash benefits and universal investment in people as contributory causes.
- 9.8 The table below shows how investment expenditure has fallen since it's mid-sixties peak when the public sector house building was at its height

¹⁶ For a detailed exploration of this see Zaranko. B, Public investment: what you need to know, Institute for Fiscal Studies, April 2024



- 9.9 As discussed, reinvestment in preventative services is an essential element of managing the failure demand that manifests as cost pressures on acute and reactive services. Bringing forward future savings is the key to this but there is also likely to be a need for a long term increase in overall expenditure on public services if the policy of objectives of the Welsh government are to be achieved.
- 9.10 This is a matter for the UK as a whole, but the Welsh government can and should make clear to the UK government what is required. In making these arguments it is important to counter the myth that public services are unaffordable. How much tax the nation pays, how this is levied and how much different groups in the population pay are policy choices.
- 9.11 At present the policy choice is to tax at a lower level than other countries with comparable social policies and for the net redistributive effect of that expenditure to also be lower. The result of this is the so-called squeezed middle that makes many people feel that they are paying more for less and makes any attempt to close the fiscal gap politically difficult.
- 9.12 No overt corresponding decision has been made to move away from the key pledges of the UK welfare state however - free health care, education etc. The result is the demand gaps identified in this report and the continual ramping up of demand for reactive services that results from cuts to preventative provision. This situation is unsustainable.
- 9.13 Wales and the UK have policy choices. They can choose to adhere to the promises made by the government of 1945. They can choose to have a redistributive system with high quality public services. But this model cannot be delivered without a corresponding model of progressive taxation.
- 9.14 Redistribution of income was an essential feature of post-war social policy and remains an essential feature of any modern welfare state. The UK does not do this as strongly as the Nordic countries or Western European states like France and Germany, but post tax inequality in the UK is significantly lower than in other English speaking states such as the US, Canada and Australia.
- 9.15 Ramping up the overall tax take and the level of redistribution to get closer to that of comparator states should be a policy objective rather than a policy to be adopted as a last resort. But any move to do those should also address other - possibly more significant differences between the social policies of more equal states and that of the UK, which is the balance between means tested cash transfers and service led redistribution. The UK is unusual in Europe: it redistributes a lot through cash benefits, especially pensions and means-tested transfers, but invests less in services that reduce inequality over the life course.
- 9.16 Redistribution in the UK is achieved through 60% cash transfers and 20% services, with the

remaining 20% representing the redistributive impact of progressive taxation¹⁷. In the Nordic countries the proportion is nearer to 40% cash transfers and 40% services with tax also contributing 20% to the overall level of redistribution¹⁸.

- 9.17 The example of how housing benefit has replaced bricks and mortar as the main component of public sector expenditure on housing illustrates how means tested cash transfers can be less efficient and deliver worse outcomes than universal, high quality services. It is telling that the Nordic states with their higher levels of taxation and correspondingly higher levels of investment in universal public services regularly come out on top on measures of happiness. Finland has taken top spot for eight years in a row, whilst the UK comes in at around 20th place¹⁹.
- 9.18 As well as having one of the highest levels of tax take in the OECD (42% of GDP)²⁰, Finland also achieves one of the highest levels of redistribution²¹ (around 30 Gini points)²² and does so predominately through universal services with little means testing. High quality free childcare, elder care and healthcare are predominant elements in the country's social policy. Finland is also one of a handful of nations to have introduced a land tax. This is something that has long been advocated by a range of experts for the UK and has broad cross-party support.²³
- 9.19 Investment in services that reduce inequality throughout life – housing, universal childcare, youth services and preventative health interventions, for example, are a better use of public money than means tested cash benefits that do little more than bring people up to a bare minimum standard of living and do nothing to address intergenerational poverty. Tackling this may require an overall increase in the level of taxation and redistribution but a commitment to the principle of rebalancing towards universal, life enhancing, services and away from means tested safety net benefits is the first and most essential step towards a more equal and happier UK.

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¹⁷ Effects of taxes and benefits on UK household income: financial year ending 2024, ONS, Sept 2025

¹⁸ OECD Social Expenditure (SOCX) database, OECD Income Distribution Database (IDD)

¹⁹ World Happiness Report: The Full list of countries for 2025, Time Out, March 2025

²⁰ Revenue Statistics 2024, Finland, OECD, 2024

²¹ Development of Income Inequality, 1986-2023, Gini coefficient, StatFin Database, 2024

²² The Gini coefficient is the measure of income or wealth inequality used to compare different states

²³ See for example, To fix Britain's broken property taxes – Labour must back a Land Value Tax, Qureshi M. Labour List, Nov 2, 2025 and Radical land tax proposal gains traction with support from across the political spectrum, Young J, Business Matters, August 27, 2024

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