

15<sup>th</sup> September 2023

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## **APPROACH TO BUDGET SETTING 2024-25**

### **Purpose**

1. This paper provides an update on the approach to budget setting in the next financial year. It also sets out the forthcoming key dates in the finance calendar in Annex 1 and general press lines in Annex 2.

### **Analysis**

2. The collective pressures building up in the system are leading to an outlook as bad as this time last year. Back then, the WLGA referred to those as 'potentially catastrophic'. Even though pressures in the current financial year were offset by a better-than-expected settlement, it is becoming evident that there are additional in-year pressures amounting to £200m to £300m. This becomes a cumulative pressure of £600 to £750m by the end of 2024-25. A survey has been sent to Treasurers' and once the responses have been analysed, they will provide further detail and information.
3. On the funding side, there is a planned increase in Aggregate External Finance (AEF) of 3.1% for 2024-25, which will yield £170m in additional grant. A reasonable estimate of increased council tax revenue would be £90m. Taking these two funding streams together equates to potentially £260m of additional income, leaving a shortfall of anywhere between £340m and £490m by the end of 2024-25.
4. Welsh Government Ministers have been clear in their messaging that it is extremely unlikely that additional funding will be forthcoming and have pointed to the impact inflation has had on the Welsh Government Budgets. In August, the First Minister issued a written statement ([Update about Budget 2023-24](#)) on the current in-year pressures and the preparations for the 2024-25 budget round. In the absence of additional funding, the First Minister stated there will be discussions exploring measures to mitigate the potential risks based on protecting frontline services and targeting support to those in greatest need.
5. Members should also be aware that Wales Fiscal Analysis are undertaking a piece of work to assess the medium-term prospects for local government funding which should be published some time in the week beginning the 18<sup>th</sup> September.

## **General Lines**

6. The key issues to pursue with the Welsh Government in forthcoming discussions are set out below:

- Continue with robust lobbying lines in discussions and correspondence with the Welsh Government and UK Gov on fully funding pressures in 2024-25 and the next spending review period
- A focus on specific grants through the administrative burdens review. A complete transfer of the 120 grants that comprise £1.2 billion would be preferable but we have to be realistic about this. A special meeting of the Finance Sub Group is convened for 12 October to consider the issue.
- Extended tapering for the Regional Integration Fund
- Updated capitalisation directions with wide ranging flexibilities
- The scope for the Welsh Government tax raising and council tax increases - councils are already planning for council tax increases
- Any new national initiatives that are adding to cost pressures should be funded - there are currently 115 'Programme for Government' priorities in the [Welsh Government Annual Report 2023](#)
- Implementation of an externally funded 'floor' for 2024-25 and beyond, so that planning can be put on as firm a footing as possible
- A structured and nationally co-ordinated conversation/programme about service withdrawal and radical service re-design and the timing of some of these
- Following from the last bullet, a conversation with Inspectorates, especially with CIW and ESTYN, on how the larger services will be impacted - similar to that initiated by SOLACE last year.

## **Education**

- In 2019 Luke Sibieta carried out a review of school funding. What is happening in relation to this and what effects will this have on future school funding?
- Local Authorities are facing massive financial challenges which are impacting on schools – LAs are experiencing significantly diminishing resources when demand for services/interventions are higher than ever
- Too many new initiatives for LAs/Schools to manage – there is a need to return to core business
- Short term grant funding for initiatives with a variety of terms and conditions, with short timelines for spend do not allow for strategic use of resources and result in variable outcomes.

- Rising demand for expensive and specialist provision for many learners
- Rising costs of specialist provision – with LAs at the mercy of the providers
- Union pay demands (widening gap between school leaders/teachers and LA officers)
- Recruitment and retention challenges in schools and LAs
- Budget cuts leading to a rise in deficit budgets in schools and redundancies (which cost!) and greater demands on LA teams, which are often small, to manage deficit procedures/impacts on curriculum and staffing etc
- Future pupil demography – falling numbers, school surplus places, management of school estate, presumption against small school closure
- Expanding remit of Estyn – equity and poverty – places more demand on reduced LA education teams and societal issues that cannot be solved by schools and education portfolios alone. More Health & Safety recommendations creeping in from Estyn – resulting in increased costs to schools/LAs (some conflict with LA Corporate Advisers)
- Risk of in-year claw back/reduction in grants/AEF not at indicative levels previously reported to Councils
- Middle tier review – implications of cuts in funding to School Improvement Partners
- Education and local government have to work to legal and balanced budgets. This leads to frustrations that other public bodies, are able to have massive overspends in addition to initially taking a large proportion of the Welsh Government budget. It does not appear that other areas, including Health, have been subject to the same level of cuts to funding as experienced by councils.

## **Social Care**

- Investment in social care and vital preventative services has always been overshadowed by the immediate funding challenges for acute and hospital care.
- The social care sector remains under enormous strain, following years of chronic under-funding and now facing a huge recruitment and retention crisis.
- Significant and urgent additional funding is needed to address both the short and long term challenges the sector is facing to ensure care is available when needed

- Social care must be seen as an essential service in its own right – valued equally highly as the NHS
- Rapidly increasing demand and complexity of needs, along with constrained funding is placing significant pressure on children's social care services
- The lack of availability of appropriate placements is driving up costs in children's services
- There needs to be a focus on more upstream interventions and approaches to support families at earlier stages, preventing escalation of issues and the need for crisis responses

## **Economy and Environment**

- Whilst significant commitments have been made by local government to contribute to the goal of a net zero public service by 2030, councils will struggle to make the changes needed without additional financial support. Work has been undertaken that shows purchased goods and services account for over 60% of the carbon associated with councils' operations, so procurement is seen as a key area where specifications can encourage suppliers to consider carbon implications of the goods and services they supply to councils, but it is acknowledged that upfront costs of low carbon products and services are generally higher.
- Essential maintenance of the highway and associated structures is vital both on safety and on economic grounds (and to reduce insurance claims), especially in the face of more extreme weather events. (Over recent years additional revenue support has been provided by the Welsh Government via the Local Government Borrowing Initiative – c£170m 2012-13 to 2014-15. There was then a succession of revenue grants at c£20m p.a., but no grant was awarded for 2023-24)
- Without additional funding to enable councils to tender for s63 bus services there will have to be further cuts to services and Bus Transition Fund ends on 31 March 2024. Home to school transport costs are escalating dramatically due to increased fuel and labour costs
- Shortages of technical staff and HGV drivers (e.g. for waste) and difficulties recruiting are impacting across all services in these areas, with staff attracted away by higher salaries in other sectors
- CJC activity will be increasing as work develops on Strategic Development Plans, Regional Transport Plans and promotion of economic well-being. These activities will put pressure on councils to contribute financially
- New workplace regulations from April 2024, will require separate presentation of waste streams for collection which will increase costs for schools and council buildings and could see councils required to provide separated collections from commercial premises if no private sector service is available

- Increased energy costs have impacted in particular on costs of waste collection, fleet, energy for buildings and streetlighting
- Ash die-back remains a major risk, especially where trees are adjacent to the highway and need to be removed. Total costs have been estimated at nearly £15bn for Britain as a whole. Other than use of a short term Green Recovery Grant scheme, no additional funding has been made available to councils

## **Housing and Migration**

- There has been a sustained increase in homelessness presentations to Councils in the period since the pandemic, core homelessness services are overwhelmingly dealing with responding to crisis which reduces the capacity to work to prevent homelessness.
- Unprecedented numbers of homeless people are being accommodated in emergency temporary accommodation provided by Councils (10,869 individuals as at end of June 2023), with significant unplanned additional costs.
- Inflationary pressures and other cost rises mean that commissioning preventative and housing support services from a fixed Housing Support Grant is increasingly difficult, with service providers increasingly declining to bid for tender opportunities, leading to a loss of vital services.
- Increased land, labour and material costs mean that the building much-needed new Council homes is becoming continuously more expensive, and threatens the viability of many schemes without increased capital subsidy from Welsh Government. The number of separate grants and complexity of the application processes could be significantly reduced to improve efficiency in delivering new affordable homes.
- The UK Government's Streamlined Asylum Process, while increasing the speed of decision-making, is resulting in a sharp increase in the demand for many Council services, including homelessness

## **Recommendations**

### **7. Members are asked to:**

- 7.1 Note the contents of the report; and**
- 7.2 Agree the key issues at para 6 and lines to take in Annex 2.**

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### Finance Key Dates 2023-24\*

06 September	Distribution Sub Group formula workshop
07-08 September	SOLACE Conference
08 September	SWT Survey deadline
08 September	SWT Development Day
11 September	Senedd returns from summer recess
14 September	WLGA Conference
15 September	WLGA Executive Board
26 September	Joint Council for Wales
29 September	SWT
12 October	Finance Sub Group on Administrative Burden Review
16 October	Fairer Council Tax Leaders' meeting with Minister for Finance & Local Government
17 October	Local Taxation Working Group
19 October	Launch of Phase II Council Tax Reform – 12-week consultation – <b>BEST CURRENT ESTIMATE</b>
25 October	Finance Sub Group
27 October	WLGA Executive Board
27 October	SWT
14 November	Distribution Sub Group
17 November	Senedd Finance Committee Evidence Deadline – WG Budget 24-25- <b>BEST CURRENT ESTIMATE</b>
<b>22 November</b>	<b>Autumn Statement and OBR Forecasts</b>
<b>23 November</b>	<b>Finance Seminar – potential date</b>
24 November	WLGA Executive Board
24 November	SWT
15 December	WLGA Executive Board
15 December	SWT
18 December	Senedd Christmas recess to 07 January
<b>19 December</b>	<b>Draft Welsh Government Budget and Provisional Settlement- BEST CURRENT ESTIMATE</b>
<b>20 December</b>	<b>Provisional LGF Settlement - BEST CURRENT ESTIMATE</b>
26 January	WLGA Executive Board
24 February	WLGA Executive Board
<b>27 February</b>	<b>Welsh Government Final Budget and LGF Settlement</b>

\*We need to programme in some Senedd engagement events, last year there were four of these.

### General Funding lines to take:

- Local authority budgets are also under considerable pressure, with councils drawing down over £330m from reserves in the last 2 financial years.
- This is not sustainable despite the Welsh Government providing good funding settlements over that period.
- The impact of inflation, together with pay and increased service demand, is producing serious pressures across local government services.
- Schools' budgets are under severe strain with school balances falling by a third in the last financial year.
- Soaring demand and costs for social care has meant large overspends from last year are spilling over into the current financial year.
- We are also worried about the implications for next year and in the medium-term.
- We estimate there could be a budget gap of between £330m to £480m next year which will have a serious impact on local service delivery, and we are currently surveying councils to get more precise estimates and assess the risks.
- The gap could not be covered by council tax, the gap is equivalent to a 20% to 30% increase.
- Local services are pivotal in responding to current challenges and councils are a key partner along with the NHS and the Welsh Government in responding to those affected by the cost-of-living crisis and the services upon which people rely.
- We work closely with the Welsh Government on these issues and we have recently written to the Chancellor setting out a case for additional funding.
- A return to austerity would be devastating for our communities.
- Cuts will have an impact on services and jobs.
- Health Boards must manage their budgets better, look for efficiencies & ensure every penny possible is spent on patient care.
- If NHS budgets aren't managed better, pressures will mean they will suck money out all other public services.

## On the funding formula

- *The formula should distribute resources fairly and equitably across Wales, using the most up to date information.*

## On Council Tax Revaluation

- *We support the principle of council tax revaluation and making it more progressive*
- *As highlighted in our response to Phase 1, we remain concerned about the timing of the revaluation and the impact on council taxpayers.*
- *A transitional support scheme should be implemented and be as generous as possible.*

## On Procurement

- *Greater funding certainty for councils through multi-year settlements and more clarity on financial reform is vital so councils can plan and publish future procurement pipelines effectively.*
- *We have strong reservations about new administrative burdens in the proposed procurement reforms. It is our wish that any burdens be minimized not duplicated and managed out where possible.*
- *We support the Welsh Government's intention to create a single digital platform, which should be the default for any new procurement requirements arising from multiple pieces of legislation.*