WLGA Executive Board **Item 03**

27th October 2023

BUDGET SETTING & PRESSURES 2024-25

Purpose

1. This paper provides an update to the paper presented on the WLGA Executive on 15 September. It also sets out the forthcoming key dates in the finance calendar at Annex I and the paper presented to the Finance Sub Group are set out in Annex II.

Analysis

2. Throughout the year, we have consistently reported the pressures building up across local government as being as high as they were last year when planning for 2022-23. Since the March Finance Sub Group, there has been an estimated pressure of between £600 to £750m for 2024-25. The recent Treasurers' survey confirms this is £720m. This would require a spending increase of nearly 10% in net revenue expenditure.

3. In subsequent years the annual pressure falls to £516m and £524m for 2025-26 and 2026-27, respectively. Cumulatively, the pressures building up in the system, and the resulting budget gap, means that the outlook is extremely bleak and the options for many local services will be unpalatable.

4. On the funding side, the planned increases in Aggregate External Finance (AEF) for 2024-25 is £169m, or 3.1%, which will cover just over a quarter of the pressure in the forthcoming financial year. For subsequent years, the latest estimates from Wales Fiscal Analysis shows the outlook on funding to be particularly bleak, with councils relying mostly on council tax for any additional funding.

5. Without additional funding, the risk to council services, including education and social care, cannot be overstated. The aggregate annual budget gap in each of the next 3 years is £411m, £408m and £412m in the run up to 2026-27. In total, the cumulative funding gap could potentially be £1.232bn. Some of the gap will be met through efficiencies and other measures but given the scale of the challenge, many councils are bracing for large scale service cuts and a loss of posts.

Recommendations

6. **Members are asked to:**

   6.1 Note the contents of the report and Annexes.

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Annex I

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
24 October	Local Taxation Working Group
25 October	Finance Sub-Group
27 October	WLGA Management Sub Committee
27 October	WLGA Executive Board
07 November	Finance Cabinet Members' Network Meeting
09 November	Welsh Government Tax Conference
09 November	Senedd Engagement* - Mid and West Wales (Sponsor- Mabon ap Gwynfor, Leaders - Darren Price, Bryan Davies, David Simpson)
10 November	Senedd Engagement* - North Wales (Sponsor- Sam Rowlands, Leaders- Dyfrig, Jason and Ian)
13 November	Fairer Council Tax - Leaders' meeting with Minister for Finance & Local Government
14 November	Local Taxation Working Group
14 November	Distribution Sub-Group
17 November	Senedd Engagement* - South Wales East and South Wales Central (Sponsor- Peter Fox MS, Leaders- Anthony, Andrew, Lis Burnett, Sean Morgan)
22 November	CIPFA Wales Conference
22 November	**Autumn Statement and OBR Forecasts**
23 November	**Finance Seminar**
24 November	WLGA Executive Board
24 November	SWT
30 November	Deadline for Senedd Inquiry in WG Budget 2024-25
15 December	WLGA Executive Board
15 December	SWT
18 December	Senedd Christmas recess to 07 January
19 December	**Draft Welsh Government Budget**
20 December	**Provisional LGF Settlement**

26 January	WLGA Executive Board
24 February	WLGA Executive Board
27 February	**Welsh Government Final Budget and LGF Settlement**

*An additional session for South Wales yet to be confirmed.

Annex II
Item 02

Finance Sub Group

25th October 2023

FINANCIAL OUTLOOK

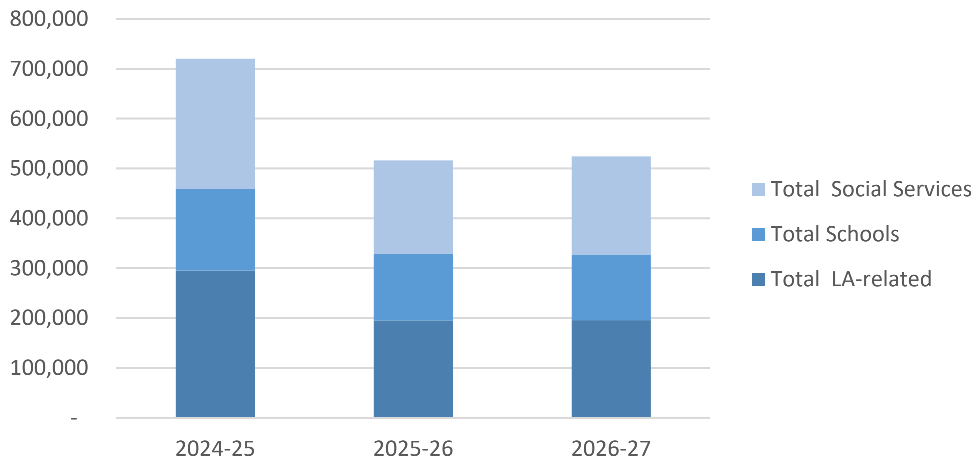
Purpose

1. This paper presents the latest assessment of council's spending pressures over the next three years based on local authorities' medium-term financial plans. This is based on the results of a full survey of councils and fire and rescue services carried out during August/September with the help of the Society of Welsh Treasurers (SWT). The results are summarised in Appendix I. The paper includes information on the in-year position for 2023-24 which is summarised in Appendix II. This will require a combination of cuts, efficiencies, and use of reserves to balance budgets.

Summary

2. Throughout the year, we have consistently reported on the pressures building up across local government being as high as they were last year as we planned for 2022-23. Since the March Finance Sub Group we have estimated a pressure of between £600 to £750m in 2024-25 and the survey confirms this is £720m. This would require a spending increase of nearly 10% in net revenue expenditure[1]. This falls to £516m and £524m in 2025-26 and 2026-27, respectively. Cumulatively, the pressures building up in the system, and the resulting budget gap, means that the outlook is extremely bleak and the options for many local services will be unpalatable.

Figure 1: Budget pressures by service, 2024-25 to 2026-27, £000s



Source: SWT Survey 2023

[1] Total net revenue expenditure is budgeted at £7.373bn in 2023-24 (Source: Welsh Government RA Returns)

3. The pressure next year is around 2.5 times the pressures that we would ordinarily expect to see and figure 1 above shows how these are spread over the broad service areas. Social care accounts for 36% (£261m) of pressure in 24-25, schools account for 23% (£164m) of the pressure and other the local authority services account for the remaining 41% (£295m). The full break down is set out in Annex I.

4. While the pressures in the current financial year were offset by a better-than-expected settlement, it is becoming clear that there are additional in-year pressures amounting to £219m. This is set out in more detail in Annex II. In some authorities, these projected overspends have become particularly acute with a range of measures being implemented to balance budgets. In terms of a service breakdown, social care makes up 50% of the overspend, or £109m, with high-cost children's care and soaring demand for adults' social care accounting for most of the runaway costs. Education and schools accounts for around 22%, or £47m of the total overspend. Other council services account for the £63m which is just under 30% or the overall overspend.

5. Viewed another way, just over a third of projected overspend, around £72m, is due to inflation (including pay inflation), which is much higher than originally anticipated when budgets were set in early 2023. However much of the in-year pressures arise from unanticipated demand, especially in social care, and accounts for 50% or £109m (which is, coincidentally, the same as the total social care pressure).

6. On the funding side, the planned increases in Aggregate External Finance (AEF) for 2024-25 is £169m, or 3.1%, which will cover just over a quarter of the pressure in the financial year. The latest estimates from Wales Fiscal Analysis for subsequent years shows the outlook on funding to be particularly bleak, with councils relying mostly on council tax for any additional funding.

7. Without additional funding, the risk to council services including education and social care cannot be overstated. The aggregate annual budget gap in each of the next 3 years is £411m, £408m and £412m in the run up to 2026-27. In total, the cumulative funding gap could potentially be £1.232bn. Some of the gap will be met through efficiencies and other measures but given the scale of the challenge, many councils are bracing for large scale service cuts and a loss of posts that will run into thousands.

Analysis

8. The Welsh Government has described its budgetary position as "the most difficult financial situation since the dawn of devolution". Over the summer, cabinet ministers were asked to look at the in-year position in 2023-24 in preparation for the 2024-25 budget round. While the picture for next year is bleak, Wales Fiscal Analysis are reporting that tight public spending plans over coming years also paint a 'worrying picture for the medium-term'.

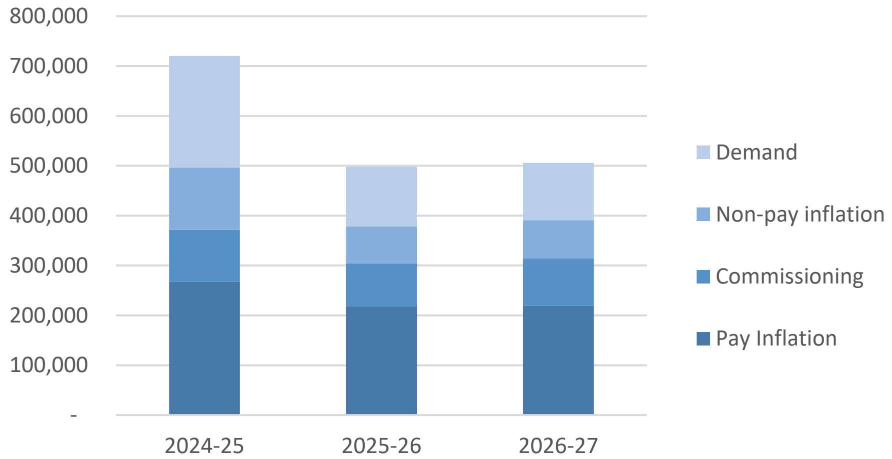
9. The medium-term position is confirmed by the Institute for Fiscal Studies' Green Budget. With the UK economy stuck between weak growth on the one hand and the risk of persistently high inflation on the other, they state: "We are in a horrible fiscal bind as low growth and high debt interest payments mean no room for

manoeuvre."

Fiscal and monetary policy must strike a delicate balance so an unfunded package of pre-election tax cuts could prove unsustainable.

10. In Figure 2, budget pressures from 2024 to 2027 are categorised under 4 main headings. Pay and non-pay inflation as well as commissioning costs in social care are unavoidable costs that must be met just to stand still. These account for nearly £500m in the next financial year falling to around £400m in the two subsequent years. With pay deals, councils have been building in expectations that have fallen well below the reality.

Figure 2: Budget Pressures by type, 2024-25 and 2026-27, £000s



Source: SWT Survey 2023

<u>Pay and non-pay inflation</u>

11. Overall, the survey returns indicate that the unplanned increase in the wage bill in 2023-24 comes to £31m: £9m for schools, £5m in social care and £17m in other council services. This is better than the low assumptions made last year. As responsible employers, committed to social partnership, councils will be fully engaged in discussions with unions over the coming period. As stated above, councils are making assumptions for £267m of pay pressure next financial year (nearly 40% of the total pressure), and £218m and £219m in the two subsequent years to 2026-27.

12. The three National Joint Council for Local Government Services (NJC LGS) unions (UNISON, GMB and Unite) tabled their pay claim for local government services ('Green Book') employees for 2023-24 on 30 January 2023. The claim states that council workers have '…endured a decade of below average pay awards and pay freezes…[and]…have lost on average 25% from the value of their pay spine since 2010. The pay claim is set in the context of the cost-of-living crisis, inflationary pressures, and recruitment and retention challenges.

13. In February 2023, the national employers responded to the unions pay claim with a full and final offer of £1,925 for all points on the NJC pay spine and 3.88% for all pay points above the top of the NJC pay spine. For the lowest paid (currently earning £20,441 per annum), the offer equates to an increase of 9.42 per cent this

year; meaning their pay will have increased by £4,033 (22.0 per cent) over the two years since April 2021.

14. The three NJC LGS trade unions declined the offer and balloted members for industrial action. Local Government Employers have maintained the offer is full and final.

15. All three NJC LGS trade unions undertook disaggregated ballots at the local level, on an individual council or service basis, rather than a national ballot. Members from Unison the largest trade union did not return a vote for industrial action and are understood to be keen to see a swift resolution so that the pay award is applied as soon as possible. Unite returned a positive vote for industrial action in three councils, overall membership numbers are low but are concentrated in services, such as waste and street scene, with strike action causing some disruption as a consequence in two of the three councils. The ballot for GMB, the second largest trade union, is due to close on 24 October 2023 and Local Government Employers are due to meet on 2 November 2023 to discuss next steps. If GMB fails to secure a vote for industrial action then it is hoped that the pay award will be accepted and the current dispute brought to a close.

16. Industrial action by Teachers in February 2023 led to the Welsh Government opening negotiations on pay and workload. The School Teachers Pay and Conditions (Wales) Document for 2022/23 was updated in April 2023 to increase the pay award from the previously agreed 5% to 6.5% and provide for an additional 1.5% non - consolidated lump sum for 2022/23 only, backdated to 01 September 2022. The *School Teachers Pay and Conditions (Wales)* document for 2023/24 was laid on 05 October 2023 and is anticipated to come into force at the end of October, this will also include a revised pay award, increased from the proposed 3.5% to 5% for 2023/24, backdated to 01 September 2023.

17. The JNC for Youth and Community Workers pay award agreed an increase of £1925 from 01 September 2022 and the Employers Side has received a pay and conditions claim from the Staff Side Trade Unions for 2023. The headline element of the claim is for a pay increase of RPI + 2%. Discussions are ongoing.

18. The National Employers remains in dispute with the Soulbury Officers' Side on pay for 2022. The National Employers made an offer of £1925 in November 2022 and have been unable to reach a pay agreement. The Association of Educational Psychologists (AEP) undertook a ballot and have voted for industrial action. Employers have made a final offer on pay which includes an increase of £1,925 on all pay points with effect from 1 September 2022 and an increase of 3.5% on all pay points with effect from 1 September 2023.

19. The NJC for Local Authority Fire and Rescue Services (LAFRS) reached agreement on pay awards for 2022 and 2023 in March 2023. These represent an increase of 7% effective from 01 July 2022 and 5% effective from 01 July 2023.

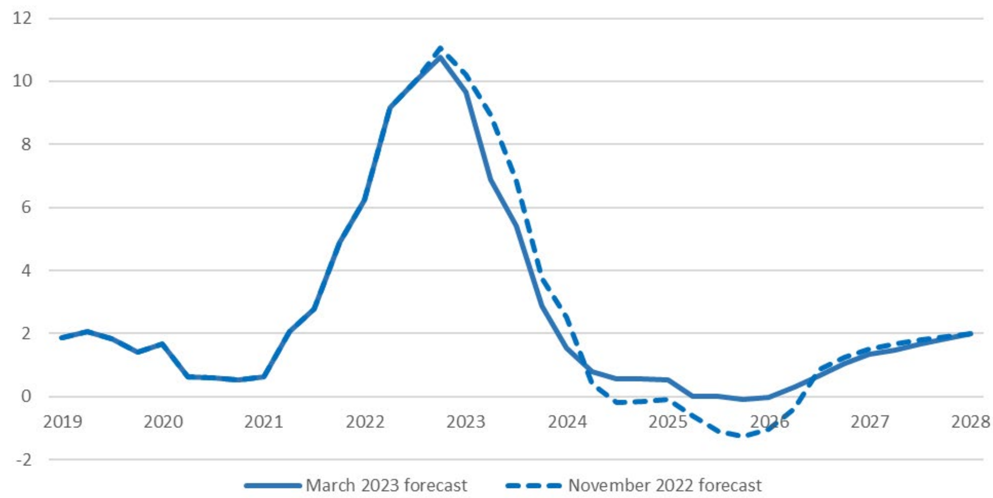
20. The NJC for Brigade Managers of LAFRS reached agreement on pay awards for 2022 and 2023 on 31 May 2023. These represent a 4% increase from 01 January 2022 and a 3.5% increase from 01 January 2023.

21. The JNC for Coroners agreed a pay award of 1.56% for 2022/23, effective 01 April 2022.

22. In terms of non-pay inflation, the estimated costs faced by councils in 2024-25 remains stubbornly high at around £125m, whereas previous surveys have shown the historic position is around half of that. The Office for Budget Responsibility (OBR) stated in March 2023 that it expected Consumer Price Index (CPI) inflation to have peaked in the fourth quarter of 2022 - at its highest rate in around 40 years. The increase was driven mostly by higher gas prices feeding into sharp rises in domestic energy bills, alongside higher fuel prices and global goods inflation.

23. Inflation is still expected to fall rapidly to around 0 per cent from mid-2024 to mid-2026. Energy bills will fall back and some global supply pressures reverse. The OBR expects inflation to then return to the 2 per cent target by the end of the forecast as the large swings in energy prices fall out of the annual CPI calculation and output is broadly in line with the economy's productive potential.

Figure 3: Office for Budget Responsibility's March 2023 CPI Forecast, %



Source: ONS, OBR

24. However, the published September CPI is not behaving in the way forecast. While food prices saw their first monthly fall in two years, fuel prices rose sharply. The consequence is that the overall rate of inflation held steady at 6.7%, ending a run of three consecutive monthly falls. Furthermore, the Bank of England's latest forecast (August 2023) expects inflation to keep on falling in 2024 and reach their 2% target in the first half of 2025."

Education and Schools

25. Councils have reported £41m of in-year pressures for 2023-24 that have been added to school budgets, with a quarter of this due to pay. The future pressure that schools are facing is £164m in 2024-25 which represents a 5.6% increase on budgeted net revenue expenditure[2] for 2023-24. Annual pressure builds in

[2] Schools and education net revenue expenditure is budgeted at £2.941bn in 2023-24 (Source: Welsh Government RA Returns)

subsequent years with a further £134m and £131m in 25-26 and 26-27 respectively. Pay accounts for over 70% of total inflation in each of the years.

26. Many authorities have rightly assumed that the additional grants for the teachers pay deal in 22-23 and in 23-24 will be funded on a recurrent basis with the grants transferred into the funding baseline. A similar assumption is being made for anticipated changes in the employer rate for teachers' pensions. In the past, funding has come from the Treasury when the rate has increased.

27. Even the councils that have protected schools in recent years say that they cannot be given the same support in the future given the scale of funding gap. Some have identified additional financial pressures on specific schools which are linked to deprivation and significant Additional Learning Needs (ALN) demands. Some returns reflect on how head teachers are starting to report of the devastating effect of cuts on educational standards - in particular the pastoral/wrap around work that schools undertake.

28. The aftermath of the pandemic and high energy costs continues to place additional pressures on schools, and some report that they are reviewing the impact the pandemic is still having on ALN, attendance and behaviour. However in broad terms schools are beginning to burn through reserves at such a rate that they are seeking loans to cover shortfalls as one response put it: "…..school balances are expected to reduce by 50% in year. It is anticipated therefore than there will be many more schools seeking a loan arrangement in 24-25."

29. Most councils operate a system of *Licenced Deficit Agreements* and make assumptions around future funding levels. The prospect of some making it back into surplus are starting to look hopeless. One authority reports that along with this, the majority, if not all of their other schools will fall into deficit. Some of their small schools will become unsustainable because pupil/teacher ratios would fall to unacceptable levels. Many councils are now reporting a significant risk of redundancy for support staff and teachers. It concluded by saying that this cycle would escalate under current circumstances with more teachers being made redundant and some schools being unable to meet recommended pupil /teacher ratios.

30. There were many comments about how the sustainability of numerous small schools will need to be reviewed as financial pressures persist. However, the increased cost of transport to neighbouring schools could negate savings made especially in rural areas. One authority reported how a review of 6th form provision is also in the pipeline. The financial sustainability of the current provision will be considered as part of this review.

31. Significant additional risks and pressures in schools remain in respect of Additional Learning Needs (ALN) provision, increased number of pupils in special education, resource bases and facilities to support pupils with social and emotional difficulties. Part of this is thought to be linked to the after-effects of the pandemic. The increased needs and complexity of pupils is not reflected in the funding.

Social care

32. Councils continue to be extremely concerned about the current pressures facing social care. The survey responses demonstrate the continuing impact of growing demographic, cost of living, workforce and inflationary pressures facing all parts of the social care system. Increasing demand for services, and the increasing complexity add to these pressures and concerns. The impact is that budgets are not stretching as far, families and unpaid carers are facing further strains, and recruitment and retention remain huge challenges.

33. The SWT survey shows the significant in-year pressures being experienced across both adults and children's services. The survey identified £109m worth of in-year pressures in social care which is around 4.7% of budgeted net revenue expenditure[3]. This builds on a £93m overspend on social services in the previous financial year.

34. The considerable financial challenges continue into 2024-25 and beyond. Next financial year there is a £261m pressure which represents an 11.3% increase in current budgets. Commissioning costs and pay and non-pay inflation account for £180m of the pressure, and the remainder is down to demand which accounts for £81m. There is an additional £187m in 25-26, and £198m in 26-27 respectively giving a cumulative total of £646m.

35. Commissioned services, which are essential to the provision of social care, from independent providers are also affected by similar issues to local authority social care services with increased running costs for staffing and energy, as well as increases in relation to insurance and fuel which are further adding to significant financial pressure. Combined with increasing demand, complexity of need and workforce shortages this has resulted in higher costs and therefore increased expenditure for councils to meet the increasing costs of placements across both adults and children's services. Local authorities have flagged this as a significant risk. One local authority identifies that residential and nursing homes are seeking a rise in fees of around 20% and another has experienced roughly a 10% increase in fees in each of the last two years. While uplifts are being factored into medium term financial planning, concerns remain about the likelihood of demands for higher increases and therefore further costs to local authorities.

36. The survey indicates that the social care market remains fragile, and this has impacts for the long-term sustainability of the sector. It also reveals councils' concerns about growing demand for both adults and children's services, their capacity and resources available to meet these demands, along with reductions in quality and choice available. The difficulty of recruiting and retaining care workers continues to be a major concern highlighted by councils. In order to mitigate some of the recruitment and retention challenges some councils continue to have to rely on the use of agency staff and these costs further add to financial pressures in future years.

37. The survey highlights concerns that continue to be raised in relation to the provision of packages of care. Increased demand, along with a lack of suitable providers has

[3] Social care net revenue expenditure is budgeted at £2.302bn in 2023-24 (Source: Welsh Government RA Returns)

previously been identified as an issue in the provision of domiciliary care. Local authorities identified an increase in the complexity of the care home packages needed to be put in place, alongside increasing costs meaning that councils can struggle to have enough capacity to be able to meet the assessed need and ensure the sustainable provision of care. Issues in relation to access to Continuing Healthcare were also flagged meaning that local authorities were continuing to have to fund the majority, if not all, of these care packages rather than health. In addition, some authorities have referred to the financial impacts of Social Care 'Tourism' with clients moving over from England to benefit from the more generous capital threshold limits in Wales when moving into a care home setting and councils seeing individuals who have had delayed accessing healthcare and so now on presentation to social services have higher dependency requiring more costly care provision.

38. Councils also report seeing increased demand and complexity of cases in particular client groups. For example, pressures and costs in packages of care and support across mental health and learning disability services are identified in the survey responses. One local authority pointed to the increasing numbers of under 65-year-olds with a learning disability requiring support which will continue to need to be met in future years.

39. The impacts of the cost-of-living crisis were highlighted as leading to rising pressures on families which has meant that some councils are experiencing increased numbers of children entering care. Concerns continue to be highlighted over challenges finding appropriate and quality placements for children and young people. In particular, insufficient provision for children with complex needs with a lack of both fostering and residential placements available. Unprecedented levels of emergency placements for residential placements, increased use of independent placements and increased pressures to find foster placements were all highlighted with the cost of out of county placements continuing to rise and demand for specialised placements exceeding supply. Weekly costs of up to £20k per week for placements were identified and one local authority reported that their children's services budget has increased by £11m (56%) over the last 3 years, with specialist placement costs increasing by £6.6m (44%) over the same period.

40. The result of these existing placement and system pressures has meant the need for local authorities in some circumstances to have to consider the establishment of bespoke placement arrangements for children and young people that operate without registration under the Regulation and Inspection of Social Care (Wales) Act 2016. These types of placements place further pressures on local authorities, are expensive and direct funding away from prevention work into managing placements. In response councils are seeking to create their own in-house provision, but this takes time and resource to establish.

41. The survey responses also pointed towards some of the policy direction in Wales leading to increased financial pressures. The commitment to eliminate private profit from the care of looked after children was highlighted as having a detrimental impact on the availability of placements with risks around the adequacy of the grant funding to fully cover transitional costs and the risk if the period of transition does not extend beyond the current funding period of 2024-25 identified. Survey responses also recognised that the need to place children via the National Transfer Scheme (NTS) has increased cost pressures and has resulted in Unaccompanied

Asylum Seeking Children (UASC) often being placed out of county/country to meet their identified needs which comes with significant cost pressures. As a result of recent court judgements it was highlighted that this could mean there will be an increase in UASC's who will need to be placed in ever reducing numbers of placements.

42. Similarly concerns over the tapering of the Regional Integration Fund were raised with a reflection that any reductions in grant funding levels across social services will require reviews of service provision to be undertaken and the risk that service reduction proposals would need to be considered as part of this. The implementation of the Real Living Wage for social care workers was also highlighted and that although funding is providing by Welsh Government to support this there is a need to further consider the effect of the price differential of senior staff/managers and concerns that funding is not keeping pace with the extra costs associated with implementing this policy with councils having to continue to support providers in being able to deliver this commitment. One suggestion put forward by councils in response to some of the challenges being seen is the need to review the current maximum charge for non-residential care.

43. Earlier this year WLGA published research examining the challenges facing the social care sector and local government's priorities for social care. The research identified a system under enormous pressure due to: rapid demographic changes across Wales; the on-going impact of the COVID-19 pandemic; workforce challenges; funding difficulties; and the increase in the costs of living. Workforce issues topped the list of key concerns, alongside a lack of sustainable funding, and challenges associated with meeting more complex needs. The financial estimates of the 22 Welsh councils further supports these conclusions but also raises the very real concern that with the scale of the financial challenges being faced the level of protection that has been afforded to social services to date will not be possible for much longer putting councils' ability to successfully deliver social care services at risk in future years.

<u>Ukraine and wider migration</u>

44. Wales is proud of its record in supporting people who have arrived seeking asylum and in welcoming refugees. Local government works closely with the Welsh Government in achieving the ambition of Wales as a Nation of Sanctuary and in developing a place-based approach that best reflects contributions different areas can make. However, this work is not without its costs to councils and other public bodies and while asylum and migration are reserved matters, there is limited funding provided by the UK Government to cover costs incurred by councils.

45. As highlighted in the section above, the National Transfer Scheme for unaccompanied children is a significant cost pressure on councils and while the Home Office provide some funding, this does not cover the full costs of care, particularly in relation to any complex cases and as the number of UASC cared for by Welsh councils increases, councils are losing out financially. The funding for care leavers is also minimal and as this group increase this funding gap will increase as well.

46. However, the biggest cost is from the full dispersal of asylum seekers across all Welsh councils but is more keenly seen in the long-standing asylum dispersal areas. The funding provided by the Home Office, recently introduced, is minimal, despite many impacts at the local level and services, for example, access to housing, schools, social services, advice and information.

47. The recently introduced Streamlined Asylum Process as the Home Office aim to clear the backlog of asylum cases awaiting decisions, will significantly impact on Cardiff, Swansea, Newport and Wrexham in terms of homelessness presentations and support services, which are already under immense strain at this time. It is clear that councils are under funded by the UK Government for planning and responding to the impacts of asylum seekers being accommodated at the local level and it is likely this pressure will increase as full dispersal continues.

Housing and homelessness

48. Wales has continued with the approach of "no-one left out" in relation to homelessness, following the end of the public health emergency. This approach is supported by councils, however, the numbers of households approaching Councils for assistance has continued to increase. This sustained increase in homelessness presentations to Councils in the period since the pandemic means that core homelessness services are overwhelmingly now dealing only with crisis and unable to work to prevent homelessness. The recently published White Paper on homelessness will also add additional financial pressures on councils and it is important that a robust and thorough assessment on the financial implications of any legislative proposals are undertaken, in partnership, so that appropriate levels of funding are provided in terms of implementation.

49. The latest data reflects that there are currently more than 11,000 people in temporary accommodation. This comes at a significant cost to council budgets and the level of funding provided by the Welsh Government is not keeping pace with such increased demand and the feedback from the survey undertaken reflects overspend on homelessness budgets and is an increasing financial pressure on councils. One authority cited homelessness pressure contributing to a £660k overspend in the current year as demand outstripped the available budget. The Supporting People budget is also critical in supporting homeless people and those at risk, including funding for third sector bodies, and the WLGA stresses the need to maintain the current level of funding if additional funding is not available.

50. Building more homes is essential to ensure that we have enough for everyone who needs them, when they are needed. Those Councils with housing stock are implementing ambitious new-build programmes, and seeking to acquire existing homes (often former Right to Buy properties) to increase the numbers of homes available for social rent, others are working with the RSL partners to ensure identified housing need is addressed. All councils are also working with RSL partners to build new low carbon social rented homes. It is therefore important to ensure that capital funding is available to support the building of social housing at

the pace and scale needed to reduce reliance on temporary accommodation and ensure the housing needs of citizens in housing need can be met.

51. Councils support the achievement of Welsh Government's key housing objectives, set out in the Programme for Government, however, adequate funding is required to enable successful delivery. In addition to the above issues, other financial pressure in housing come from reform of the building safety regime, the revised Wales Housing Quality Standard, workforce pressures and meeting any gaps (for example the recent Audit Wales report on Building Control) and the ambitions in relation to decarbonisation of more homes.

Highways, Transport, Economic and Environmental Services

52. Essential maintenance of the highway and Active Travel networks 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 Welsh Government via the Local Government Borrowing Initiative (c£170m 2012-13 to 2015-16) and then a succession of revenue grants at c£20m p.a.. In 2021-22 there was an option for highways expenditure as part of a general capital fund allocation of £70m that could be carried forward into 2022-23 by displacement. However, no grant was awarded for 2023-24.

53. Support for bus services remains a major concern. With the Bus Transition Fund (BTF) due to end in March 2024, bus services will need to revert to a combination of commercial and subsidised services from 1st April. During 2022-23, underspend on the Concessionary Fares (CF) budget was redirected into to the BTF to support services. However, with CF trips gradually rising post-Covid, the underspend is anticipated to be less in 2023-24. Whilst the increasing income from CF reimbursement will help operators, uncertainty over income on routes, combined with the need to give statutory notice of service cancellations, creates the risk further of service cuts. An early indication of funding from Welsh Government for next year has been called for. It is likely that regional allocations will be made in the first instance to facilitate network planning, followed by tendering of subsidised routes by individual councils. It is widely anticipated that tendered costs will be high due to increases in fuel and labour costs in particular. This will also impact on home to school transport costs where significant increases are expected.

54. Shortages of technical staff and HGV drivers and difficulties recruiting are impacting across all services in these areas, with staff being attracted away by higher salaries in other sectors. This also impacts on efforts to run apprenticeship schemes to draw in new people, as they can be tempted away once trained.

55. As the work of, and expectations on, Corporate Joint Committees picks up, this is another source of financial pressure on councils. Work is commencing on Strategic Development Plans and Regional Transport Plans. This needs to be co-ordinated with use of the of economic well-being power (a power which is concurrent with

councils). Welsh Government is planning to provide £125,000 to each region upon the production of RTP implementation plans but all regions have identified that further funding will be needed to take these plans forward in a meaningful way.

56. New workplace regulations coming in from April 2024, which require the separate presentation of waste streams for collection, will increase costs for schools and council buildings. They could also see councils required to provide separated collections from commercial premises in cases where no private sector service is available.

57. Increased energy costs have impacted in these service areas, in particular on the costs of waste collection, fleet, energy for buildings and streetlighting.

58. Ash die-back remains a major risk, especially where trees are adjacent to the highway and need to be removed. Total costs were estimated at nearly £15bn for Great Britain as a whole. Other than use of a short-term Green Recovery Grant scheme, no additional funding has been made available to councils for this essential work.

<u>Capital</u>

59. The survey also gathered evidence on capital programmes and pressures. The responses indicate that a tightened revenue settlement will impact capital programmes. Across capital programmes we are seeing an increase in costs from when the programme was approved at feasibility stage, to the design and development stage of capital projects, due to the current inflation rates and volatility of the construction market. With little or no additional funding available, there has been a lot of reprioritising between schemes and scaling back schemes where possible.

60. In relation to Twentieth Century Schools Band B Programme, many authorities are reporting a reduction in the number of schemes that are now affordable against what was anticipated when the programme was first set in line with the funding envelope. Following the completion of the Band A and the majority of Band B projects, councils are considering how sustainable it will be to continue to use borrowing, to support its percentage of the intervention rate going forward to the next iteration of the programme, given the impact of borrowing pressures on the Councils Medium Term Financial Strategy (MTFS). Similar rationing will take place for the next WG Sustainable Communities programme.

61. Where grants are withdrawn they carry specific service risks. For example, the removal of the Public Highways Refurbishment Grant continues to put a significant pressure on the resources councils can allocate to Highway Asset Management Plans. With the increase in costs and reduced budget, it’s difficult to carried out the amount of work to maintain a steady state of investment required relating to resurfacing, structures, streetlighting and traffic signals.

62. The impact of market volatility will continue to be monitored closely during this financial year. The re-profiling of schemes from prior years may affected the

delivery works in year, resulting in a high level of carry forward requests to re-phase budgets into the 2024-25 programme.

63. Additional grant funding from WG is always welcomed and appreciated, however volume of late notification of funding makes it more difficult to displace in year spend with grant. More flexibility around when/how the grant needs to be spent would be beneficial. This would enable services with planning schemes to deliver value for money, and support with the pressing needs the Council are facing. Any capital funding available for schemes that will help reduced revenue pressure around homelessness and out of county costs would also be welcomed.

64. The main source of funding is the Public Works Loan Board and long-term rates are currently around 5% although there is a lot of volatility in the markets. This is significantly above rates when capital programmes were set in March 2022. This carries significant risk to affordability and sustainability, particularly in respect of housing schemes and extensive core asset infrastructure assumed to be paid for by borrowing.

Climate change

65. Councils have made a number of commitments to contribute towards the target of net zero emissions in the public sector by 2030. Many of the steps required involve capital investment (e.g. in relation to property and energy, fleet transition, land-based decarbonisation). A wide range of funding streams will be required to make the sort of changes needed at the pace required. That could include borrowing to meet upfront costs that will then have to be repaid from revenue budgets over a number of years. It could also involve leasing or hire (e.g. for vehicles) rather than a capital outlay. There are workforce implications that will need to be addressed, working with unions in a social partnership approach, including retraining and recruitment in many cases (e.g. vehicle maintenance; energy and environmental management; financial accounting methods). Current labour shortages in many 'green' jobs in councils have highlighted not only the shortage of staff with the required skills but also wage differentials with the private sector, with retention of trained staff a growing issue.

66. Other important measures relate to procurement, where councils need to reduce 'Scope 3' emissions, which relate (amongst other things) to their purchased goods and services. Where suppliers have developed carbon plans to reduce emissions associated with their goods and services, the direct costs will tend to be higher (although there are compensating environmental, and often social and wider economic benefits – e.g. arising from local purchasing). At a time of significant financial pressure, it will be a challenge for councils to 'do the right thing' as opposed to choosing the most affordable option.

67. There will be a payback from climate change actions (in terms of adaptation as well as mitigation). However, the issues are, first, the timescales for that payback and, second, that many of the benefits do not accrue to the council in a direct or financial sense. Rather, they will often contribute to well-being goals for the wider community – for example more local jobs, healthier food, better quality environment, biodiversity gains, greater resilience against future extreme weather events. The risk is that the necessary measures will be a casualty of current

financial pressures causing them to be deferred, whereas ideally, they should be prioritised to ensure timeliness and maximum potential impact.

68. The Climate Strategy Panel (CSP) has set up four task and finish groups, chaired by Chief Executives, to oversee and drive progress in relation to local government's commitments towards net zero. These cover key areas of procurement, transport, land use and buildings. The CSP is also establishing a group to focus on adaptation. The UK Climate Change Committee has recently produced two important reports on progress in Wales, on mitigation and on adaptation that have financial implications for local government.

69. On **mitigation/reducing emissions** it made the following points of relevance to councils (requiring a mix of capital and revenue measures):

- Action on decarbonisation overall must accelerate
- Progress on waste and recycling, whilst historically good in Wales, has stalled and needs to pick up
- Greater effort is needed to transition to use of electric vehicles
- There is a need for long term plans to decarbonise public buildings, social housing and fuel-poor homes
- Tree planting and peatland restoration rates are too low, requiring capacity building and skills development

70. On **adaptation/improving resilience** to climate change it highlighted:

- The changing climate has risks for infrastructure, ecosystems, communities and the economy
- Around half of the 61 risks and opportunities it has identified for Wales require urgent action before Welsh Government's next adaption plan is produced in 2024
- There is insufficient progress with implementation of measures and monitoring is poor, making it difficult to evaluate progress
- There is a lack of clarity in responsibilities for responding to climate risks across the public sector
- Unless climate risks are addressed, other societal goals will not be achieved.

71. The work of the task and finish groups is being informed by the UKCCC work. Much of what needs to be done requires upfront capital and supportive revenue funding. However, in several cases there will be a financial return on investment as well as the carbon savings. There are also more intangible 'downstream' financial savings in terms of preventing future spend having to respond to climate change impacts (e.g. flooding, damage to infrastructure, road closures, storm damage, health problems etc). Maintenance budgets are often a casualty at a time of financial constraint, but it will be vital to protect these to provide the resilience that is required.

Conclusion

72. In conclusion, our current estimates of pressures remain exceedingly high. Without further funding, local authorities face impossible decisions. Any return to austerity

would be disastrous for the preventative services that local government provides and the people who rely on them. It would be catastrophic for the NHS which relies on a well-funded care system and utterly demoralising for our workforce.

73. Over the past couple of months there has been renewed interest in the financial resilience of local authorities, especially with some high-profile examples of failure in England. According CIPFA, the causes of failure can be complex with a single event tipping some to issue s114 notices. However, it is clear to us that austerity and the ongoing funding reductions are a consistent underlying casual factor. There is growing awareness and interest among our own membership in the issue and what can be done to prevent financial failure.

74. Last week the Welsh Government announced a series of budget measures to address the in-year problem that has built up. While we remain concerned about how this could spill over into 2024-25, we are grateful that the Minister has protected local services and we continue to welcome the partnership approach that we have forged with Welsh Government, and the close working relationship that has developed in recent years between ministers and leaders. We are committed to continuing with that approach to protect our shared priorities from the worst effects of the economic headwinds to come.

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Appendix I

In-year (2023-24) projected financial pressures (in excess of budget)

	2023-24 £000s
A. Local Authority Related (excluding schools and social services)	
Pay inflation pressures	17,078
Non pay inflation pressure	12,901
Inflation (Stand Still) pressures	29,979
Financial pressures	
a. Demand related pressures	28,543
b. Capital financing pressures	- 2,218
c. Reduction in specific grants	2,013
d. Local priorities	1,002
e. Other	3,664
LA Budget Pressures	33,004
Total LA Related	62,983
B. Schools	
Pay inflation pressures	10,064
Non pay inflation pressure	10,875
Fees/Charges inflation (positive)	
Inflation (Stand Still) pressures	20,939
Financial pressures	
a. Demand related pressures	22,269
b. Capital financing pressures	-
c. Reduction in specific grants	484
d. Local priorities	100
e. Other	3,588
Total Schoos Pressures	26,441
Total Schools	47,380

In-year (2023-24) projected financial pressures (cont.)

	£000s
C. Social Services	
Pay inflation pressures	5,281
Commissioning Cost Pressures - Adults'	7,887
Commissioning Cost Pressures - Children's	5,314
Non pay inflation pressure	3,866
Inflation (Stand Still) pressures	22,348
Financial pressures	
a. Demand related pressures	
Adults Services	
Domiciliary Care (incl supported living)	15,209
Residential Placements	20,578
Other	9,896
Childrens Services	
Domiciliary Care	4,052
Residential Placements	26,427
Foster Care	2,132
Other	8,119
Total Social Services Budget Pressures	86,412
Total SC Pressures	108,761
Total projected financial pressures (A+B+C)	219,123

Appendix II

Projected financial pressures, 2024-25 to 2026-27

	2024-25	2025-26	2026-27
A. Local Authority Related (excluding schools and social services)			
Pay inflation pressures	109,550	82,457	83,391
Non pay inflation pressure	68,231	53,844	55,921
Fees/Charges inflation (positive)			
LA Inflation (Stand Still) pressures	177,780	136,301	139,313
Budget pressures			
a. Demand related pressures	49,074	28,308	30,858
b. Capital financing pressures	29,199	18,402	13,314
c. Reduction in specific grants	2,418	4,536	2,870
d. Local priorities	1,857	899	1,538
e. Other	34,896	6,530	7,670
LA budget pressures	117,443	58,675	56,250
Total LA-related	**295,223**	**194,976**	**195,563**
B. Schools			
Pay inflation pressures	115,656	101,097	100,866
Non pay inflation pressure	29,400	17,862	18,268
Inflation (Stand Still) pressures	145,055	118,959	119,134
Budget pressures			
a. Demand related pressures	8,479	10,917	9,232
b. Capital financing pressures	633	2,243	1,351
c. Reduction in specific grants	1,528	282	20
d. Local priorities	1,357	546	387
e. Other	6,853	942	673
Total Schools Budget Pressures	18,849	14,930	11,663
Total Schools	**163,905**	**133,890**	**130,797**

Projected financial pressures, 2024-25 to 2026-27 (cont.)

	2024-25	2025-26	2026-27
C. Social Services			
Pay inflation pressures	41,944	34,156	34,546
Commissioning Cost Pressures - Adults'	83,894	69,689	77,665
Commissioning Cost Pressures - Children's	20,308	16,854	18,244
Non pay inflation pressure	27,377	19,991	20,265
Fees/Charges inflation (positive)			
Inflation (Stand Still) pressures	173,523	140,690	150,720
Budget pressures			
a. Demand related pressures			
Adults Services			
Domiciliary Care (incl supported living)	21,008	13,568	13,335
Residential Placements	15,869	10,049	12,121
Other	10,358	2,504	2,755
Childrens Services			
Domiciliary Care	976	-	-
Residential Placements	26,171	10,189	9,666
Foster Care	862	699	942
Other	6,202	1,465	1,629
b. Capital financing pressures	-	-	-
c. Reduction in specific grants	3,047	6,383	4,753
d. Local priorities	500	127	218
e. Other	2,621	1,405	1,649
Total SC Budget Pressures	87,613	46,389	47,068
Total Social Services	**261,136**	**187,079**	**197,788**
Total Pressures	**720,264**	**515,945**	**524,147**