

29th July 2022

BUDGETS 23-24, PRESSURES AND COST OF LIVING

Purpose

1. This paper summarises local authority pressures that were presented to the Finance Sub Group on the 14 July. It summarises our early assessment of local government spending pressures and those recently published by Wales Fiscal Analysis (WFA). It also addresses current in-year pressures including pay and non-pay inflation. Finally, we outline the next steps needed to fully understand expenditure pressures up to 2024-25.

Analysis

Non-pay inflation

2. Additional inflationary pressures that were initially flagged up at the end of the last financial year are starting to feed into this year's spending commitments and affect future financial plans in a significant way. This will impact on budgets both in the current financial year, 2023-24 and beyond. The latest data from the [Office of National Statistics announced on 20 July](#) puts CPI inflation at 9.4%.

Figure 1: Annual CPIH inflation rate highest since March 1991

CPIH, OOH component and CPI 12-month inflation rates for the last 10 years, UK, June 2012 to June 2022



Source: Office for National Statistics – Consumer price inflation

3. Local authorities in England have already done significant survey work are now reporting that spending pressures are likely to exceed councils' revenue over the coming years. The [County Councils Network and the Society of County Treasurers](#), reveals that the estimated costs of inflation in 2022-23 for 40 of England's largest councils has risen by 92% in just three months since they set their budgets in March. Some of the figures we recognise in Wales with costs overruns in some construction projects running at 25%-30%.
4. This has put additional £1.5bn pressure on those authorities especially in areas of social care and capital projects but also general food, fuel and energy inflation is having an impact on almost all service areas as well as the obvious ones like Home to School Transport and Street Lighting. Anecdotal estimates on fuel and energy indicate that new prices for supply contracts may account for 1%-1.5% of AEF.

Pay inflation

5. The scope for pay restraint is clearly limited but there is an immediate need to recruit and retain staff to aid with the pandemic recovery, we are aware of recruitment and retention challenges more broadly across the workforce and significant supply constraints in areas like social care. The Welsh Government has already committed to a substantial increase in the starting salary for new teachers and uplifting care workers' pay in line with the cost-of-living-indexed Real Living Wage.
6. The three NJC unions (UNISON, GMB and Unite) have tabled their pay claim for local government services ('Green Book') employees for 2022-23. The claim states that council workers have '...endured a decade of pay freezes and below average pay awards...[and]...have lost on average 27.5% from the value of their pay spine since 2010. The pay claim is set in the context of the cost-of-living crisis and inflationary pressures.
7. The LGS national employers side was meeting on 25 July 2022 to discuss the response to the pay claim and as responsible employers, committed to social partnership, we will be fully engaged in discussions with the unions over the coming period.
8. The local government pay bill is around £3.9bn so any pay settlement above the assumptions already made will lead directly to cuts in services. An additional 1% pressure will add around £40m to workforce costs and this is likely to be higher where increases of up to 10% will be required for those at the lower pay scales who will need larger increases to keep up with the living wage. Recent survey data indicates that this may affect around a third of the workforce. This is particularly acute for those utilising the bottom of the pay spine where action will be needed in order to remain compliant with projections for the future statutory minimum wage.
9. The report and recommendations from the Independent Welsh Pay Review Body (IWPRB) for teachers were published on 22 July 2022 and accepted in principle by the Minister for Education and Welsh Language. Broadly this includes an uplift of 5% to all statutory scale points on all pay scales and all allowances for 2022/23, a forward planning assumption of an uplift of 3.5% to all statutory scale

points on all pay scales and all allowances for 2023/24 subject to a review if there is a significant change in economic conditions compared with the current forecasts and that the starting salary for teachers is increased to at least £30,000 from September 2023. A response is being drafted by the WLGA.

Social Care

10. In the area of social care, we await the report of the Expert Group that has been established by Ministers to support the shared ambition identified as part of the Welsh Government's Co-operation Agreement with Plaid Cymru to create a National Care Service. An implementation plan which will be developed by the end of 2023, we would anticipate this will include a financial impact assessment.
11. However, we are aware of market sufficiency / stability risks, and significant pressures (and / or potential legal challenges) building around fee discussions and ongoing pressures arising from issues including:
 - Recruitment and retentions problems (and competition from other sectors, including the NHS)
 - The direct impact fuel costs have on carers who need travel to domiciliary settings.
 - Uncapped energy costs and wider inflationary impact on accommodation-based services.
 - The short to medium term impact of the eliminate profit policy on availability and cost of placements for children.

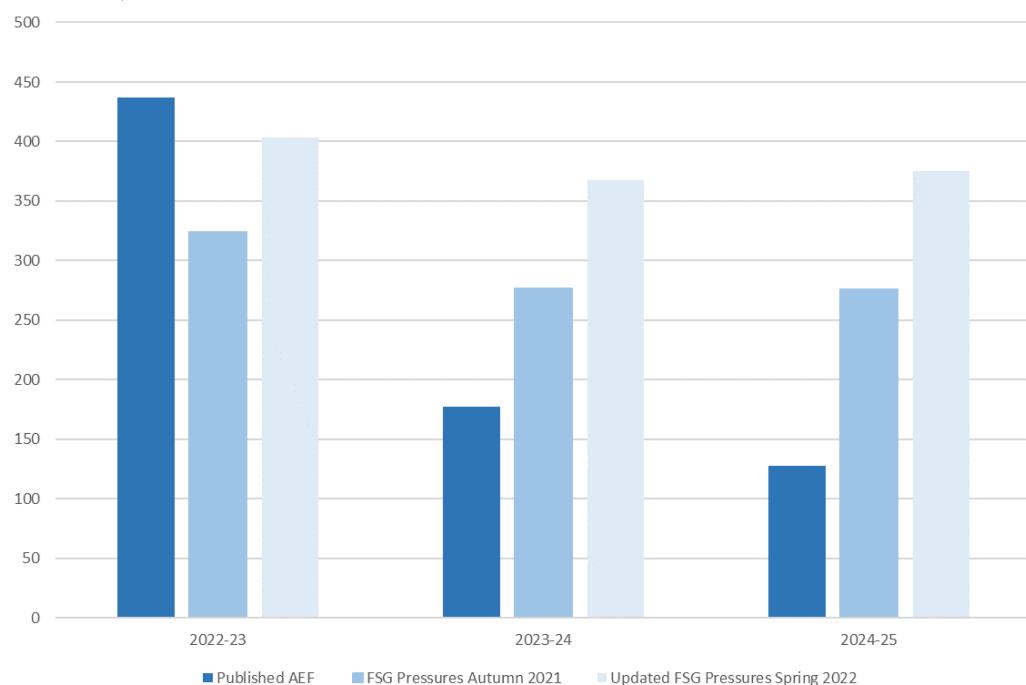
Settlements 22-23 to 24-25

12. The announcement of the 2022-23 settlement included indicative figures up to 2024-25. Following an increase of 9.4% announced as part of the 2022-23 settlement, Aggregate External Finance will grow by 3.6% in 2023-24, and 2.4% in 2024-25.
13. Wales Fiscal Analysis report that the slowdown is attributable to the profile of UK spending plans announced in October 2021, which front-loaded most of the spending increases to aid with the immediate recovery from the pandemic. No firm spending plans are in place beyond 2024-25.
14. According to [Wales Fiscal Analysis](#), the Bank of England is now projecting that the quarterly CPI rate will surpass 10% in the fourth quarter of this year, before returning to its 2% target. They report that even with annual council tax increases of 4%, maintaining services at their 2022-23 levels would leave councils facing a projected funding shortfall of £80m next year, £145m in the following year and similar amounts thereafter.
15. The WLGA's own early modelling suggests similar figures. We estimate projected shortfalls of £98m in 2023-24 and £150m in 2024-25. The council tax assumption is set at 5%, but this may prove too high given the pressure on household budgets in the current period. Regardless of Council Tax assumptions,

the current estimated pressures both in the current and future financial years are surpassing the estimates made last year that fed into the spending review.

16. The figure below shows the current and future settlements set against last autumn's estimates pressures, and more up to date estimates calculated in the late spring. The most recent estimates are higher by an additional £80m, £90m and £100m in each of the financial years respectively. Before any account is taken of Council Tax, the deficit in 2023-24 is now £190m and in 2024-25 it is £247m.

Figure 1: Local authorities' AEF and spending pressure estimates 2022-23 to 2024-25, £m



17. There is a clear need for more granular survey data from local authorities and we shall send out a comprehensive data collection exercise in the coming weeks. It is likely that the pressures will continue to mount.

Next Steps

18. Over the course of the summer, we will survey local authorities and update our own central modelling in time for the autumn, and this will give us time to assess any pressures in time for the next Finance Sub Group in September.

19. We will build on the traditional survey to capture additional information of in-year budget pressures that build in the future baselines and to give a clear picture of the impacts on revenue and capital spend. Additional information will capture more granular data on social care pressures beyond broad inflationary and demand pressures. Furthermore, the ongoing effects of COVID are likely to amplify systemic concerns and we would like to probe this further and evidence it appropriately.

20. In conclusion, our current estimates of pressures have increased since the last detailed assessment in the autumn. We need a better handle of the inflationary pressures and other service-based pressures in social care to understand these in relation to indicative spending envelope. Further work will be commissioned with the support of the Society of Welsh Treasurers.

Recommendations

21. Members are asked to:

- 21.1 note the contents of the report; and**
- 21.2 agree the next steps above.**

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