WLGA Executive Board **Item 4**

22nd October 2021

THE SPENDING REVIEW AND THE LOCAL GOVERNMENT FINANCE SETTLEMENT 2022-23

Purpose

1. This paper sets out our current autumn finance timetable ahead of the Chancellor's statement next week and Welsh Government draft budget proposals that will be published before Christmas.

2. We will update on the discussion that took place at the Finance Sub Group which was held earlier this week. The WLGA's paper on spending pressures is appended at Annex 1.

3. For information there is a summary of the Welsh Government's briefing on the spending review appended at Annex 2. This is useful background for local government in any discussions with UK Government in the coming months.

Spending Review and the Autumn timetable

4. The UK Government announced the Spending Review - [Spending Review 2021 launch letter - GOV.UK (www.gov.uk)] - on the same day as the health and social care announcement on 7 September.

5. The three-year review will set UK government departments' resource and capital budgets for 2022-23 to 2024-25 and the devolved administrations' block grants for the same period.

6. According to the UK Government, core departmental spending will grow in real terms at nearly 4% per year on average over this Parliament. By 2024-25 that means that core departmental spending will be £140 billion more per year in cash terms than at the start of the Parliament. In terms of the Welsh Government Budget the Wales Fiscal Analysis team estimate the amount of resource DEL to allocate will increase by 6.4% from 2021-22 to 2022-23.

7. The Welsh Government appear to be adhering to the proposed dates for their draft / provisional announcements in the run up to Christmas and final announcements in March 2022. Members should note the Senedd Finance events now programmed in for the Autumn. The current timetable for finance announcements is set out overleaf.

Autumn Timetable

07 September	Spending Review launched
14 September	WLGA Leaders and Senedd Session
14 September	Distribution Subgroup for 22-23 Settlement
17 September	Full SWT
17 September	**Survey Returns for Pressures 22-23 to 24-25**
24 September	WLGA Executive
06 October	WLGA Leaders and WG Ministers
15 October	Joint Council for Wales
15 October	Full Meeting Society of Welsh Treasurers
18 October	**Finance Sub Group**
25 October	Senedd Recess
27 October	OBR Forecasts published
27 October	**Spending Review and Budget**
01-12 November	UN Climate Change Conference (COP26)
02 November	WLGA-Senedd South Wales East Engagement Event. Host confirmed: Peter Fox MS. Leaders confirmed: Cllr Hunt (lead), Cllr Marsden, Cllr Mytton. MSs confirmed so far: Alun Davies, Jayne Bryant, Delyth Jewell, Peredur Owen Griffiths
12 November	Joint WLGA/LGA/COSLA/NILGA Finance Event
19 November	Full Meeting Society of Welsh Treasurers
25 November	**WLGA-Senedd North Wales Engagement Event**. Host confirmed: Sam Rowlands MS/Leaders confirmed: Cllr Siencyn (lead), Cllr Medi Huws, Cllr McCoubrey, TBC Cllr Julian Thompson Hill deputising for Cllr Hugh Evans. MSs confirmed so far: Mark Isherwood, Carolyn Thomas, Sian Gwenllian, Rhun ap Ioerwerth
26 November	Last date for Finance Committee WG Budget consultation.
06 December	**WLGA-Senedd South West Wales Engagement Event.** Host confirmed: Mike Hedges MS. Leaders confirmed: Cllr Stewart, Cllr Huw David, Cllr Latham. MSs confirmed so far: Email only just sent.
10 December	**WLGA-Senedd Mid and West Wales Engagement Event.** Host confirmed: Cefin Campbell MS. Leaders confirmed: Cllr Dole (lead), Cllr Harris, Cllr ap Gwynn, Cllr Simpson. MSs confirmed so far: Jane Dodds, James Evans, Eluned Morgan, Elin Jones, Lee Waters
20 December	**Draft Welsh Government Budget published**
21 December	**Provisional LGF Settlement**
1 March	**Final Welsh Government Budget published (and LGF Settlement)**
8 March	**Final Budget debate**

Recommendations

8. **Members are asked to:**

8.1 **Note the contents of the report.**

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Annex 1

WLGA Financial Outlook
Finance Sub Group
18th October 2021

Introduction

1. This paper builds on the item presented to the Finance Sub Group in July. As in previous years the Society of Welsh Treasurers (SWT) has carried out an extensive survey of the 22 local authorities to inform the next Welsh Government budget round. Last year's survey and the impact to date of COVID-19 on local government also features in the report. It is evident the need to deal with the implications of the pandemic is on-going and will likely last more than one financial year.

2. This paper summarises the results of the survey of all 22 local authorities commissioned through the SWT to collect information on the estimated financial pressure over the next three years. The survey also sought the estimated financial impact of COVID-19 on local authorities' finances. The results point to an inevitable legacy impact of the pandemic on local government. The core pressure identified in the survey is triangulated with estimates modelled by the WLGA from central returns and those done by Wales Fiscal Analysis.

3. The close working between Welsh Government and Local Government in response to the pandemic has also built up a considerable body of data on the pressures faced by the sector. This financial year FSG has received reports indicating the estimated financial impact of the ongoing response to the COVID-19 emergency.

4. The response to the pandemic has seen unprecedented partnership working between Welsh Government, councils and NHS Wales. Inevitably the pandemic has caused Medium Term Financial Plans to be revised because of the pressures. During the last year councils commenced a move to a recovery phase and see this as a key part of their role. The continuation of the Welsh Government's approach to funding Covid related pressures has played a key part in ensuring councils can continue to support their communities. Financial certainty and support will be key to the on-going recovery phase.

5. The survey gathered data on the estimated financial pressure faced by councils. It also sought estimates of Covid related funding requirements over the medium term. The information was also sought for schools.

6. This year's survey placed an emphasis on the medium-term financial planning that all 22 councils carry out. As a result, headline data over three years is

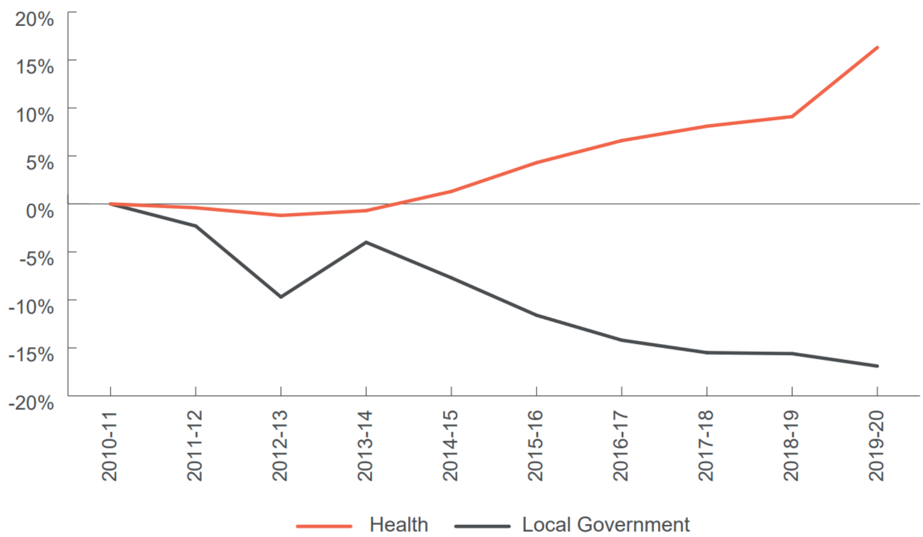
included in the report. The report also includes information provided by Wales Fiscal Analysis who recently looked at the outlook for the Welsh Budget.

7. The survey was carried out prior to the recent significant volatility in the energy sector. The significant additional costs will affect councils through direct running cost increases and also the cost of commissioned services. It is likely to see an increase in fee levels from care home providers and other suppliers of services. At the end of last week (15 October) at least one small authority was estimating an £800k pressure next year arising from gas and electricity based on pricing coming out of Crown Commercial Services.

Summary

8. The recently published report a Picture of Public Services 2021 from Audit Wales gives a useful context for the Welsh Government Budget. The Auditor General identifies just over half (52%) of the total revenue budget is now allocated to Health and Social Care. Figure 1 shows Welsh Government revenue funding for NHS Wales has increased 16% in real terms, while revenue funding to local government fell by 17% between 2010-11 and 2019-20.

Figure 1: Change in core Welsh Government revenue funding for health and local government, 2010-11 to 2019-20 (real terms, 2019-20 prices)



Source: Audit Wales 2021

9. In response to reduced Welsh Government funding, councils have increased council tax by 35% over and above inflation between 2010-11 and 2019-20. However, total revenue expenditure across local government fell by 8% over the period and these cuts have not fallen equally across all local services. The deepest cuts have come in leisure and culture and library services which have seen cuts of over 40% and regulatory services, such as development control, building control, trading standards and consumer protection which have seen cuts of over 30% over that period.

10. The past year has seen Local Government delivering a key pandemic response that has been over and above its usual role. The unprecedented situation has demonstrated the strength of the partnership with Welsh Government, the wider public sector and the third sector. Local government staff have ensured the most vulnerable have been supported in the crisis. The continuation of Welsh Government's Hardship Fund has been key to the success of the response; without this financial support councils would not have been able to meet the demand created by the pandemic.

11. At this time last year, it was noted that the response to the pandemic had understandably redirected local authority efforts to dealing with the impact of the pandemic and to deliver their community leadership role. This has continued in this financial year and local authorities continue to provide a wide range of services.

12. The impact of the pandemic has inevitably affected local priorities and council finances. However, the Hardship Fund coupled with sound local financial management has assisted the position. Even so, demand led services in the social care sector have been particularly badly affected and real concern about service continuity and the on-going impact on finances will continue.In previous years FSG have often commented that local services were reaching a tipping point because of austerity. This remains the case with COVID-19 adding a layer of additional pressure.

13. Councils are currently going through budget processes. What seems likely is that the understandable need to concentrate on the response to COVID may have deflected effort to deliver agreed savings. Councils had engaged in transformation programmes to deliver prior years' savings, and these will inevitably be complex; their delivery will be key to the longer term for councils. Any delay will potentially require deeper cuts to services.

14. The following table shows the financial gap from the result of the survey. Excluding COVID related pressures the underlying pressures for 2022-23 total £280m and similar patterns are evident in the next two years.

Figure 2: Pressures by theme, 2022-23 to 2024-25
Source: SWT Survey 2021

Pressure by theme (£m)			
	22-23	**23-24**	**24-25**
Pay inflation	105,380	95,445	95,003
Non pay inflation	75,962	70,540	70,554
Fees and Charges	- 8,482	-7,788	-7,007
Demand related pressures	101,740	90,423	85,833
Capital financing pressures	11,066	15,915	27,625
Reduction in specific grants	9,504	4,030	3,348
Local priorities	13,335	6,313	4,635
Other	23,347	26,168	16,022
Covid Pressures	75,529	26,168	16,022
Total Pressures	**407,381**	**314,451**	**304,979**

15. The above table gives the scale of challenge faced by Welsh Local Government over the next three years with pressures totalling £407m next year giving a cumulative amount of £1.03bn by 2024-25.

16. The figures do not include any impact of the Health and Social Care Levy, but this is estimated to cost local government in Wales anywhere between £30m to £47m.

17. The Wales Fiscal Analysis indicated that local authority spending will need to increase by 3.4% (cash terms) to meet spending pressures over the coming years.

18. The figures do not take into account the revenue implications of commitments made recently by the 22 LAs related to the target of a net zero carbon public sector by 2030 (see Appendix). Whilst many of those commitments will require capital expenditure (see below) it is possible that at least some of the investments will have to be achieved through local government borrowing, with associated revenue implications over a period of years.

19. The commitment to ensure procurement is informed by the carbon implications of purchased goods and services (in their development, use and at end of use) will also result in higher upfront *costs*. The wider *benefits* that arise along the supply chain from such procurement practices are critically important, as procurement accounts for around 60% of councils' carbon emissions. However, they are difficult to capture and quantify directly and from a narrow financial perspective will simply appear as higher costs.

20. Other revenue implications will arise from the need to provide training in the skills needed to support decarbonised operations (e.g. retraining of mechanics, engineers, energy managers) and community support to adapt to climate change already 'built in' (e.g. responses to more frequent and severe weather events; working with communities to build resilience and ensure they are prepared for such events).

21. The financial position of some councils is likely to become critical in 2022-23 in relation to reserve levels. Financial shocks are much more difficult to absorb in some councils and it would be wrong to see overall reserves as an indication of the sector being able to navigate and deal with a settlement that does not recognize the current position.

Spending Review and Survey Responses

22. This year's survey sought the estimated position over three financial years and so matched councils' medium-term financial planning time horizons. The survey was being conducted at a time when the spending review was announced along with the introduction of a new hypothecated levy (tax) in the form of a National Insurance increase to fund Health and Social Care.

23. On 7th September the announcement of the Spending Review was accompanied by the UK government's plans for funding health and social care through a National Insurance increase. Whilst details affecting Social Care relate largely to England, the devolved nature of social care in Wales, Scotland and Northern Ireland means it will be a matter for the Welsh Government to implement the proposed changes.

24. The details relating to National Insurance will affect the four nations as this is not a devolved matter but from April 2022, there will be an increase of 1.25% on employee and employer national insurance contributions. This is in effect a 2.5% increase in the tax rate on employment earnings. It will also be extended to those in work who are over pension age. This is the first time that those over pensionable age will be required to pay national insurance. The potential unfunded impact on Welsh Local Government is estimated at £47m including schools.

25. The announcement of additional funding will potentially benefit local government but only if its role is acknowledged and an appropriate amount is passported to councils. It is estimated that over the next 3 years £36bn will be raised from which the NHS will receive around £25bn, Social Care £5.4bn and approximately £6bn going to devolved administrations.

26. Social care is a key concern for councils and the pandemic has created additional pressure. The increase in referrals and workload has resulted in increased activities undertaken and higher cost services being provided often due to lack of capacity. Children's services has seen an increase in statutory work with demand creating significant cost pressures. One authority has seen a 53% increase in Children's Services contacts to the 'front door' when comparing August 2019 and August 2021. A similar comparison of referrals to the assessment team saw an increase of 44%. The pattern was also evident in the same authority's Adult Services that saw a 66% increase in referrals to the 'front door'.

27. Of relevance to councils' Medium Term Financial Planning arrangements, it has been stated that after 3 years the increased sums for the NHS will be redirected to social care because the Covid backlog will have been dealt with. Clearly this will depend on the willingness to transfer this funding from the NHS to the care system at a time when more demand for health services is likely.

28. The survey indicated that most councils are making consistent assumptions in respect of a pay award in 2022-23. This is against a backdrop of the Treasury putting downward pressure on public sector pay increases as evidenced by the Chancellor's 7th September letter announcing the spending review. It is likely that the final position on a pay award will not be resolved for some time. On 1st October, Unison announced the result of their ballot on pay which was a 79% rejection of the Employers' final offer of 1.75% (with 2.75% for those on the lowest pay point).

29. Councils report that the pandemic has reset demand levels for some services that is very unlikely to be contained within one budget settlement and therefore the financial impact has been included for future years albeit at a reduced level. One council has identified an additional £5m for Social Services that it believes is required to invest into the service and resolve the systemic issues (primarily Children's but also Adult Services) caused by the impact of the pandemic over the last 18 months.

30. There is also concern about income loss reflecting that some income levels remain at 15% lower than pre-covid conditions. If these risks materialise without the additional funding, then interim mitigations will need to be identified during 2022-23 with a reset of priorities over the medium term.

31. Pressures noted in the survey include homelessness, adult social care, children's services and waste services. One authority indicated it is facing a potential £2m per annum cost pressure on its homelessness budget.

32. Schools account for approximately 35% of a council's budget with social care accounting for 25%. The survey responses indicate the pressure faced by these areas and this is complicated by the overall requirement to balance budgets and it seems likely that they may have to contribute savings in some councils with a consequent impact on services.

33. The survey indicated financial pressure in schools amounted to £82.3m. This is at a time when a number of school budgets are already in in deficit positions. Any cuts would further destabilise those schools seeking to deliver balanced budgets as part of an agreed recovery plan. The impact on school improvement measures would also be significant.

34. There is likely to be a hidden inflationary cost in the independent commissioned social care sector with COVID being one source. Providers will continue to require PPE for some time and this is likely (as with energy costs) to feed through intpo fee levels.

35. The Hardship Fund has played a significant role in meeting the demands placed on councils by the pandemic. As the financial support unwinds it is clear that councils will have to deal with a 'tail' of financial consequences affecting service demand and also lost income with one council stressing that leisure centres are unlikely to return to pre pandemic levels for some considerable time.

36. The national pay award is unlikely to be resolved soon and a 1.75% employers' offer has been rejected by UNISON who will ballot for industrial action among the staff it represents in England, Wales and Northern Ireland over what it says is an "inadequate" pay offer from employers. A large majority (79%) of UNISON members who took part in a month-long consultation exercise voted to reject the 1.75% offer. The final outcome is clearly unknown but it needs to be fully funded in any settlement.

Social care

37. The WLGA/SWT survey noted the financial pressure caused by demand for social care that has been further increased due to the pandemic. The factors have also been brought to Welsh Government's attention in a letter from the President of ADSS Cymru to the Chief Social Care Officer for Wales.

38. The pressure being faced by both Adult Services and Children's Services share many common factors including the recruitment and retention of staff. This is also affecting commissioned services from providers. A resultant increase in agency related costs is further adding to financial pressure.

39. The impact of the pandemic has been significant for the social care sector and its workforce with some areas harder hit than others, for example, the care home sector has been particularly negatively affected with the high number of deaths experienced due to Covid-19. Care home residents, staff and businesses continue to be affected as community transmission remains high. However, all areas of social care work were affected by the pandemic and while some sectors have moved to a recovery model, social care is still operating at a response level and the pandemic continues to impact and affect the delivery of some services in different ways.

40. The toll of the pandemic on the workforce cannot be underestimated. During the pandemic many staff went 'above and beyond' to ensure services were provided to vulnerable people, continuing to provide face to face services and personal care and carry out their safeguarding responsibilities, developing new ways of undertaking their roles. There have been high staff absences, some due to having Covid or needing to self-isolate, and this has increased pressures on existing staff, many working longer shifts and hours and some undertaking new tasks reflecting an 'all hands-on deck' approach to cover service needs. Other council staff were also involved in supporting the care sector. While two additional payments of £500 were paid to social care staff by Welsh Government (through local authorities) in recognition of their efforts during the pandemic, this does not address the long-term low pay of social care staff.

41. Councils are working together to look at workforce action planning by examining a range of measures. However, these are likely to include a financial commitment that will need to be funded. It is evident that there is a need to attract people to work in social care to deal with the current and future demand, but this will take time and won't immediately resolve acute pressures in the system.

42. The survey indicates the pandemic has exposed the fragility of the care market, and this has a clear and direct link to the financial pressures faced by all councils. The long-term sustainability of the sector will need resources especially as the letter to the Chief Social Care Officer noted that 'demand continues to grow exponentially in comparison to capacity. Moreover, the

added complexity of those presenting to social care services is unique and unprecedented.'

43. In addition, councils are currently having to pay for facilities in care homes that cannot be used. Paid voids are a considerable financial pressure that assist the long-term sustainability of the market but means that pressure to find alternative supply is creating system wide issues. Councils also note pressure on reablement provision because some home care packages are being handed back by providers.

44. There is also evidence of pent-up demand in the system with assessment waiting lists continuing to rise. The pent-up demand may in fact be more severe because this is hidden by the significant contribution of unpaid carers. Should these unpaid carers cease to be able to provide support it will add to the pressure faced by all councils.

45. Issues faced by Children's Services are similar. Workforce shortages at a time of increasing demand is creating pressure that is heightened by the difficulty finding 'looked after' placements for children. Increasing pressures faced by families requires regular respite care and this is equally difficult to provide for similar reasons to longer term placements.

46. Social care pressures are often resolved through the collective work of different parts of councils. These areas include assisting those who find themselves homeless. The pandemic has put severe strain on this area of council activity, and it is clear that increased demand for services will remain because of unemployment, isolation and family breakdown.

47. The concern raised in the survey was that the impact of the pandemic will not end at any given point. It will continue to affect the lives of the most vulnerable and therefore create increased demand for services.

48. ADSS Cymru has set out the need for a longer-term settlement that is sustainable and able to meet local needs. ADSS has serious concerns about a variety of factors including system and market failure, increasing complexity and levels of need as well as the impact on an overstretched workforce.

49. Audit Wales recently published 'A Picture of Social Care' that summarised key information about Social Care in Wales. It noted that demand for adult social care is likely to increase significantly. Whilst being cautious about the impact of Covid it states 'The challenge of addressing the indirect impact of COVID-19 will likely continue for years into the future. The problem is compounded by the fact that there are significant, long-standing issues in the social care sector which pre-date the pandemic.'

50. The Audit Wales report also states 'The Welsh Government published its Social Care Recovery Framework in July 2021 to provide an overarching structure to support recovery planning in the sector. The Framework sets recovery priorities for people who need care and support, unpaid carers, the

social care workforce, and service providers. More broadly, the Welsh Government committed to spend £1 billion to support its recovery in health and social care in May 2021. So far, it has not set out how much funding will be available for social care.' Seeing this outcome is a matter of considerable importance to councils.

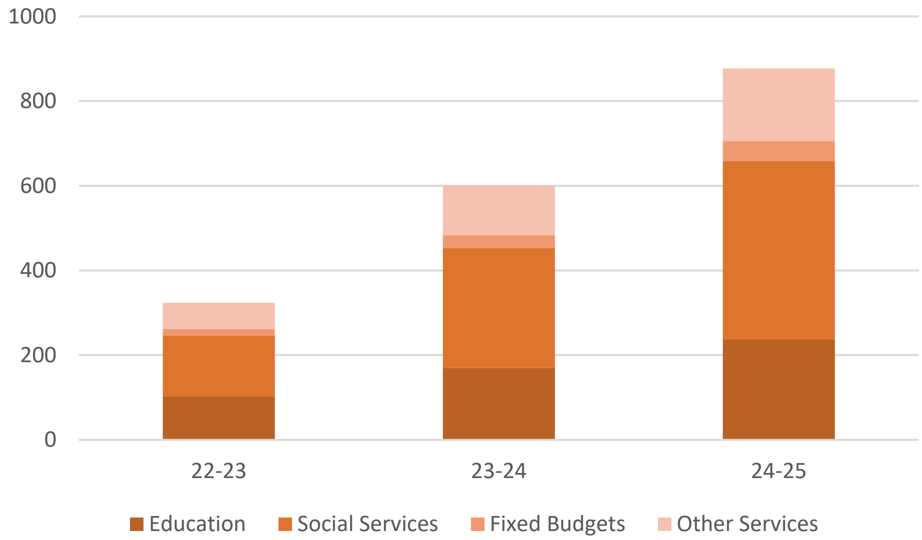
51. The pressures faced by social care and the acknowledgement of its key role in the overall system means it will need to be resourced so that early intervention and prevention ensure minimize the requirement for social care. An appropriate funding settlement will accelerate this approach and deal with issues that pre-date the pandemic but have been further complicated and deepened as a result of its impact.

WLGA and Wales Fiscal Analysis modelling

52. The returns from the survey are consistent our own modelling of local government pressures and fall in the range estimated by Wales Fiscal Analysis team earlier this year.

53. The WLGA model is most sensitive to the assumptions underpinning pay and demand and provides consistent forecasts over a 3-year period, in this case from 2022-23 to 2024-25. The underlying pressures for 2022-23 totals £324m and similar patterns were evident over the next two years: rising by £276m in 2023-24 and then by £277m in 2024-25. The increase to employer NI is built into the baseline in the latter two years. The cumulative pressure rises to £877m by 2024-25 as set out in the figure below.

Figure 3: Local Government Spending Pressures to 2024-25, £m



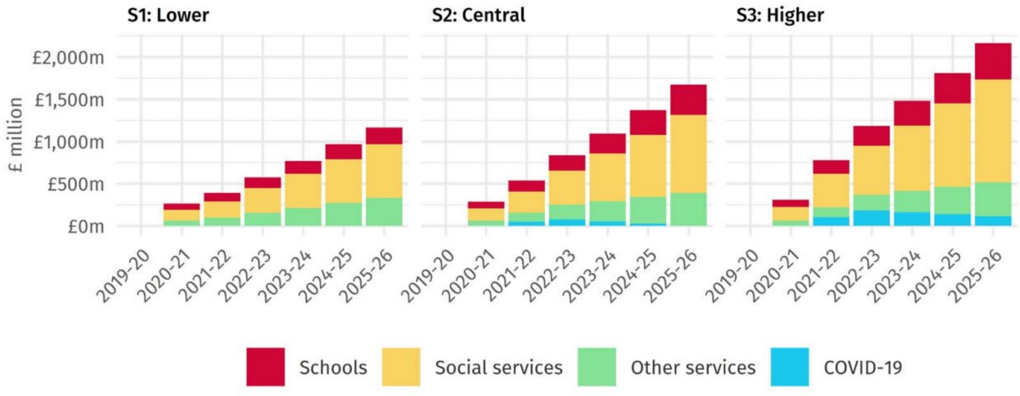
Source: Base estimates: RO and RA returns (2019-20 to 2020-21)

54. The Wales Fiscal Analysis team also made an assessment of local government pressures in their publication [Local Government & the Welsh Government Budget: Outlook and Challenges for the next Welsh Government](). This was part of a series of reports published in the run up to the elections, assessing

the implications for the Welsh Government Budget next year and beyond.

55. They produced three different scenarios of pressures facing local services, summarised in figure 4 below. Implicit in these estimates are pressures in the next financial year (2022-23), ranging from £184m in the lower scenario to £403m in the higher scenario. In the following year (2023-24) they range from £195m to £300m.

Figure 4: Wales Fiscal Analysis' Assessment of Components of Local Government Spending Pressures to 25-26



Source: Wales Fiscal Analysis 2021

Workforce

56. There are a number workforce issues that are affecting local government services at this present time. Local government in Wales has for many years has struggled to recruit in several key areas. These have consistently been in areas of Social Workers, Regulatory Officers, Legal Services, IT, Planning and Building Control. The recent additions of social care, HGVs drivers and supply teachers, have added to this list of recruitment issues. This means that most service sectors are affected in some way or another.

57. There are now real challenges in relation to recruitment and retention both for in-house and commissioned services across both adult and children's services. This issue has been exacerbated by number of issues including:

- Competition both from the Health service and other sectors who are able to offer better terms and conditions. This has been further exacerbated as a result of a reduction in immigration since the UK left the EU, which has increased the need for the hospitality industry to recruit locally, effectively competing for the same pool of staff as social care.
- A reduction in staff prepared to continue to work in the sector, with some making lifestyle choices to reduce working hours and many leaving the sector because they are exhausted.

- Some have felt let down by the lack of recognition given to social care workers, with NHS workers seemingly more valued and so some are walking away.
- Increasing demand and pressure being placed on an under-valued and over-stretched workforce.
- Difficulties in filling staff voids due to a large number of staff having to self-isolate. This has been coupled with pressures of staff trying to take long over-due leave over the summer and early autumn.

58. The introduction of the Real Living Wage would impact differently in the public and private sectors. Most in-house care roles already meet the RLW but the picture more mixed in commissioned services

59. The current jobs market is very buoyant, with many vacancies available which often leads to pay inflation to attract candidates and recruit into positions. This has placed local government in a challenging position of trying to recruit to key roles in a very competitive market, particularly competing against the private sector where they often have more flexibility to increase pay rates and salaries to meet demand.

60. The pay inflation implied in the above estimates are arguably pragmatic and understated. We are in an uncertain time around the impact of wider pay inflation in the economy and indeed general inflation itself which impacts on how we reward our workforce.

61. The current pay negotiations have significantly stalled with all 3 unions balloting for industrial action having rejected the 1.75% offer. The NHS unions, who include many of the local government unions, are proposing industrial action having rejected a 3% offer.

62. Local government will find itself in a highly competitive and challenging situation around pay, trying to keep pace with public sector counterparts, the wider economy and inflation itself.

Free School Meals

63. The survey indicated that Free School Meals is featuring in budget planning because of the significant financial impact of the necessary policy response during the Pandemic. The Welsh Government policy of paying for free school meals vouchers during school holidays created through Covid response has resulted in significant uptake, especially during the holidays and there is evidence that an expectation that this will be provided is now in position making it hard to remove.

64. There is a significant unfunded cost if councils have to maintain the voucher scheme going forward.There is a case that this should be treated as a new burden and funded as clear additionality in the settlement.

Homelessness

65. A consistent theme from councils is the increase in numbers of those impact of those facing homelessness. For one council this is a £2m cost pressure. Councils have worked hard to provide accommodation and support those who are homeless during the pandemic.

66. Councils have a statutory duty to help those who are sleeping rough, or at risk of finding themselves without accommodation and on the street. The response is often to provide emergency accommodation. Councils have also been acutely aware of the need for rapid action because Covid spreads easily especially as those without accommodation are forced to use accommodation or sleep on the streets making it difficult to keep to the government health advice for hygiene, self-isolation and social distancing.

Capital

67. The survey confirms the considerable capital commitments still being made by councils with a consequent impact on local regeneration and the post pandemic recovery phase. Total capital expenditure is estimated at £853m in 2022-23 with £671m in 2023-24 and £467m in 2024-24. Over the term of a three-year medium term financial planning horizon this amounts to nearly £2 billion of investment of which £521m is schools related and £747m is Housing.

68. Funding includes 21st Century schools' allocations but over the period councils are showing a sizeable commitment with £24m of capital financing costs being built into financial plans over the three years. The eventual level of expenditure could be higher, given the commitment to establish and address the cost differential of building schools to net zero or carbon positive standards (see Appendix A).

69. There are other implications for capital expenditure arising from the commitments set out in the Appendix. These include, for example, investment in low carbon heating and renewable energy sources, fleet electrification and flood management measures.

70. Some of these investments may be best tackled by Wales-wide programmes. They would ensure a co-ordinated approach and raise the possibility of developing the supply base within Wales. These may require specific grant support from Welsh Government, and acceptance by LAs of such hypothecation in light of the climate change emergency situation that has to be tackled by working together.

71. In addition, there is an increased likelihood of having to make repairs to infrastructure damaged by severe weather events. Whilst such events are difficult to predict and cost, it is clear these occurrences (e.g flood damage; coal tip remediation works) could increase. It is therefore prudent – or

perhaps necessary - to plan ahead and make additional allowances for them in capital budgets.

72. Construction inflation is a concern for council capital projects. One industry body notes the adjustment to the 2021 forecast is their largest upward revision on record. Whilst 5.5% is now expected in 2021, some projects may experience inflation of up to 10.0%. Following these highs, inflation will then settle for a period before normalising to 4.5% in 2025.

Conclusion

73. Last year's report showed how councils had been relatively resilient despite the prolonged period of real terms budget reductions. The last year has seen councils meet the unprecedented challenges of dealing with the impact of COVID-19.

74. There is little doubt the substantial in year support from Welsh Government and effective partnership working meant services were maintained at a time of crisis. As councils move ever more deeply into the recovery phase it is important to indicate residual pandemic pressures remain and that a fair 2022-23 settlement will be needed to avoid deep cuts in key areas of local government.

75. Budget pressures in the forthcoming financial year will total over £324m which is 7% of Aggregate External Finance or just over 5% of net revenue expenditure and there is the possibility that pressures are exacerbated by the withdrawal of funding such at the Integrated Care Fund that is currently supporting the core social care offer.

76. Finally, on social care, it is evident from the social care profession that the current demand across adults and children's services is having a profound impact on the whole system. Local authorities are finding it very difficult to manage the pressure in these services for the most vulnerable people in our communities

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Cleared by: Councillor Anthony Hunt

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APPENDIX A

LA DECARBONISATION COMMITMENTS

These commitments, agreed by Leaders, have been included in the draft 'Public Sector' chapter of the Net Zero Wales document being prepared for release to coincide with COP26 and Wales Climate Change week.

LA Key commitments for 2021-2025

<table>
<tr><td colspan="2">Local Government strategic commitments

Commitment # - Strong structures in place for strategic planning and communication and a two year programme of support through the WLGA funded by WG.
Commitment # - All LAs have living decarbonisation action plans in place, which will be reviewed regularly with lessons and best practice shared through the WLGA support programme, the first review by end of 2021.
Commitment # - from 2021 onwards emissions will be monitored annually, using baseline data. Annual reviews will report progress and drive improvements</td></tr>
<tr><td>Buildings
Commitment # - Develop and deliver a strategic plan for the local authority estate decarbonising existing (retained) buildings including retained council housing, moving to renewable energy sources for electricity and heating, and ensuring any new build is to net zero standards (in construction and operation)

Commitment # - Ystadau Cymru as strategic lead for the public sector will work with LA estate managers to identify and shape what the estate will look like longer term (following recovery from the pandemic) ensuring decarbonisation is at the forefront of this agenda, and help drive the next three commitments:
• Develop a strategic plan for decarbonising buildings by the end of 2023
• All public buildings are supplied with low carbon heat by 2030 and generate their own electricity where feasible.
• All new [new build and new acquisitions, e.g. hubs and lease arrangements] public sector buildings are built to net zero standard, including supply chain impacts as soon as practicable/dates to be confirmed as part of strategic plan. (net zero build and net zero operation)

Commitment # - Work with the 21st Century schools programme to establish and address cost differential and barriers to building net zero/carbon positive schools [note assuming a a separate 21st C Schools programme contribution in the NZW – this could come out?]

Commitment # - Plan ahead for a coordinated programme of boiler replacement in council-owned properties

Commitment # - Work with colleges to develop a 'pipeline' of skilled workers, through apprenticeships and training, to support LA retrofit work.</td>
<td>Procurement
Around 60% of a council's carbon emissions are from procuring supplies and services. There are significant opportunities for councils and other public sector bodies to collaborate on specifications to minimise the carbon impact of goods and services procured (e.g. setting contractual expectations in respect of reusable packaging, delivery of goods by electric vehicles, elimination of single use plastics, waste recycling targets for each business)

Commitment # - Develop a good understanding by end of 2022 of all procured goods and services and its emissions profile.

Commitment # - Set out carbon reduction specifications in all new or reviewed contracts to accelerate the decarbonisation agenda.

Commitment # - Focus on a number of prioritised scale/impact contracts and share the learning regarding decarbonisation across all LAs by end of 2022 to develop a robust decarbonisation reduction approach to be applied to all contracts by 2023.</td></tr>
<tr><td>Mobility and Transport
Commitment # - Accelerate transformation towards a zero emission fleet. Building on LA fleet reviews completed in 2021, develop business plans through 2022 setting out how LAs will decarbonise their fleet, including:
• Accelerate the roll-out of EV charging infrastructure
• All new cars and light goods vehicles being net zero/ultra-low emission by 2025.
• Reduce the carbon footprint of buses, taxis and private hire vehicles to zero by 2030.

Commitment # - Grey Fleet review completed by end of 2022 to identify how to support staff and service delivery to reduce travel requirements where possible and transition to low/zero emission transport.

Commitment # - Support remote working by staff where possible and appropriate, at home or in 'hubs', and encourage travel to work via active travel and public transport to reduce car journeys.</td>
<td>Land Use
Commitment # - In collaboration with NRW / WLGA / WG map out LA land holdings by April 2022 to identify types of land and their sequestration potential to develop plans to maximise carbon benefits, renewable energy and to identify potential flood management measures

Commitment # - Carbon sequestration seen by leaders as a valid core purpose for use of public land and opportunities actively pursued by LAs on their own land, including habitat restoration, tree planting etc as appropriate

Commitment # Develop a specific five-year training and apprenticeship programme on peatland restoration to support the supply chain (which could tie into proposals for a National Nature Service).</td></tr>
</table>

APPENDIX 2

Spending Review 2021 - Supplementary Briefing on the Welsh Government's priorities.

Background:

- This briefing provides additional detail on the Welsh Government's main priorities for the UK 2021 Spending Review as set out in the written statement published on 14 September 2021.

Areas where UK Government has responsibility for spending

- Coal tips pre-date devolution, and Wales is disproportionately affected with nearly 40% of all disused coal tips in Wales. The reclamation costs are on a scale far in excess of anything anticipated when devolution began in 1999 and are not reflected in our current funding arrangements. The cost to Wales of **long-term remediation, reclamation and repurposing of coal tip sites to deal with the legacy of pre-devolution mining industry** is estimated to be at least £500m - £600m over 10-15 years. This must be front loaded because risks to life and livelihood are increasing fast as rainfall intensifies and temperatures increase. This is an area where UK Government can act to tackle a long-standing issue which links to COP 26 and helps address regional inequalities. There are significant economic and environmental benefits from investment in this essential work. These sites have the potential to contribute significantly to improving biodiversity, and in some cases become part of our National Forest.

- The UK Government negotiated a deal with the EU which means **Border Control Posts are required** in Wales. There are significant capital costs to put this infrastructure in place as well as annual running costs. This isn't about the decision to leave the EU, it is about the extra cost to Wales of implementing the UK Government's exit deal.

- Over £150m is being lost to Wales because the **HS2 project** is pulling investment away from South Wales where most of our rail lines are. This is not offset by the small gains which North Wales may see. We urgently need to see electrification of the South Wales line to Swansea, and the investment in infrastructure and lines which needed to deliver timetable improvements and improve cross-border connectivity. **This investment is needed to support the principles and objectives in our Wales Transport Strategy.**

- It will be devastating to millions of families across Wales that the UK Government intends to end the £20 per week **Universal Credit** uplift payment on 6 October. We await sight of an impact assessment for this measure which will be the biggest welfare cut in over 70 years and will undermine working families. We need to see the UK commit to use its powers over the tax and welfare systems to protect those who through no fault of their own cannot work, and lift households, carers and other low paid key workers out of poverty.

- We will continue to manage the Covid-19 pandemic here in Wales. The economic and financial impacts will be felt throughout the Spending Review period. The UK Government should ensure the **Coronavirus Job Retention Scheme and the Self Employment Income Support Scheme** are still available to be deployed if it is necessary to re-introduce restrictions to respond to changes in the virus either in Wales or across the UK.

Areas where Welsh Government has devolved responsibility but funding has not been provided by the UK.

- The UK Government needs to use this Spending Review to recognise the climate emergency and use the levers at your disposal to ensure this is the decade of action to meet our net zero targets. The UK Government must ensure there **is a route to market for renewable energy generation** and take a long term view by providing specific support for emerging technologies including tidal. The UK Government must support the step change needed in the way we heat and cool buildings in the UK. We need a credible path to end the use of fossil fuels in heating and the UK Government must put the necessary funding into innovation and demonstration to drive forward the changes required.
- **The UK Shared Prosperity Fund** and other UK Government delivered development funds fall significantly short of the at least £375m annually of EU regional funding which the Welsh Government was able to invest in skills, employability, apprenticeships, the Wales Development Bank, strategic infrastructure and regional economic development. The UK Government has told us it wants to work with the grain of Devolved Governments' policies. We welcomed that assurance. A new round of EU funding would have started nine months ago, so meeting this promise is now well overdue and delivery arrangements to support skills, business and regional investment are already close to closing down.
- It is **critical the spending review prioritises support for sectors important to Wales** and addresses acute effects we are seeing of the loss of skilled EU workers in bare supermarket shelves, queues at petrol stations, rising prices and lack of critical supplies for our health service. The Welsh economy relies heavily on effective and efficient supply chains, especially in the high value manufacturing sectors of aerospace, automotive and space. The knock-on effect of increases in energy prices and supply chain disruption will inevitably be passed on to the consumer and we are increasingly concerned this will threaten our fragile economic recovery.
- We disagree with the methodology HMT used for calculating **replacement EU Farm Funding**, costing Wales £137m in 2021. The UK promised to replace EU funding in full, so it isn't right to net off receipts we claim back from the EU, or to penalise us for the policy choice made in Wales to transfer money into our Rural Development Programme in 2020 to protect the environment and support the rural economy.

- We have seen funding reductions across the board in the value of several smaller but still important replacements for EU funding to deal with **cross border programmes, Bovine TB, Creative Europe, Horizon Europe, and the Turing scheme which partially replaces Erasmus**. This is not within the spirit of the promises made by the UK Government before EU exit. The problem is compounded where the replacement arrangements, such as for creative industries, do not provide fair funding for Wales.
- **The UK has only funded 80% of recent Public Sector Pensions** changes, leaving Wales with a £50m annual cost. This is not in line with the agreed statement of funding policy which is clear policy changes should be funded in full.
- The UK Government is moving ahead with the creation of **Freeports** in England but has suggested that funding would only come to the Devolved Governments through Barnett consequentials, despite an average investment of £25m per Freeport in England. As a place-based policy, a population share of funding is not appropriate. We are yet to see the evidence of the benefits of freeports but are prepared to work with the UK Government to use our tax and planning powers to develop a Freeport here, provided an appropriate funding settlement is provided.
- In anticipation of the forthcoming UK White paper, the Welsh Government is **seeking a collaborative process that meaningfully involves all Devolved Governments in the co-creation and governance arrangements of the wider UK Research strategy**. Historically, UK Government investment in RD&I remains highly geographically concentrated with public spending on RD&I heavily skewed towards London, and the South and East of England. In 2017 the UK total expenditure on R&D was £34.8 billion, while in Wales it was £742 million, equivalent to 2.1% of the UK total spend. We want the regional funding White Paper promised by the UK Government to appreciate and nurture the strengths of the devolved nations and English regions by address long standing inequalities and regional disparities in R&D investment.
- We want to see **a spatially targeted RD&I fund for each region and devolved nation**, of a size to make good regional funding inequalities and designed to grow capacity across the spectrum. It will also be essential that the UK Dual Funding Support (Funding Councils & Research Council) systems make the fullest contribution to the addressing regional inequality by explicitly targeting the need to grow greater research capacity in disadvantaged but RD&I well performing regions of the UK
- The UK Government and its agencies should make more use of existing Welsh Government support and infrastructure and integrate regional and local knowledge and advice. It is critical to ensure that elected Devolved Governments are treated as partners (not just stakeholders) and that there is a **greater regional voice and representation in the critical UK RD&I decision making bodies**.

How we want the UK Government to use its fiscal levers to benefit Wales.

- There should be **no return to austerity or fiscal consolidation** – this would undermine our efforts to reconstruct Wales. The UK Government should consider the cumulative impacts of the changes it is making and avoid creating unintended cliff-edges when removing Covid several support measures at the same time.,.
- The Welsh Government is focussed on ensuring value for every pound of taxpayer's money we spend. **To deliver better value for money, we need greater fiscal flexibility** to transfer late funding to subsequent years. We argue that at least a full financial year should be available to spend any funding we are allocated in the course of a financial year.
- If the UK Government is to meet its ambition in relation to the climate and nature emergency and tackle regional inequality, Wales will need to manage a scale of funding that was not foreseen when current borrowing limits were set. **We would argue for borrowing limits to be expanded** to reflect our shared ambition to deliver Net Zero.
- During the COVID crisis, the UKG recognised that **the current fiscal reserve was too restrictive** and undermined delivery, adopting a more flexible approach. An OECD analysis of the COVID crisis indicates that comparable regional devolved governments worldwide with greater flexibility and the ability to accumulate larger reserves were better placed to respond and reprioritise spending.
- Following two years of work with the UK Government, the Welsh Government made a formal request for the devolution of new powers for a 'vacant land tax' in March 2020. Despite prior agreement the UK Government had the necessary information to proceed with the process, their response has been to seek yet further information relating to the operation of the specific tax, rather than on the case for devolving the powers. It has become clear that the current process is not fit for purpose and the **process for seeking the devolution of new tax powers** needs urgent reform.