

EXPENDITURE PRESSURES AND BUDGETS 2022-23

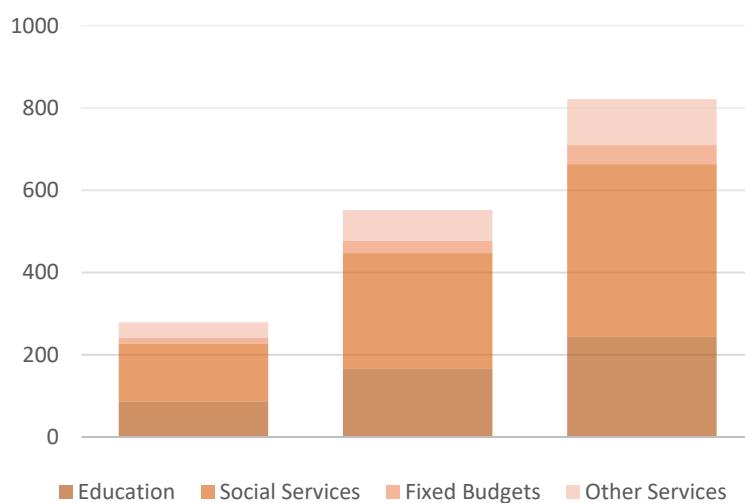
Purpose

1. This paper prepares the ground for further work to feed into finance discussions going into the next budget round. It summarises the early assessment of local government spending pressures recently published by Wales Fiscal Analysis and the next steps needed to fully understand expenditure pressures to 2024-25 and align these with authorities' own medium-term financial plans.

Background

2. With the focus on COVID and the Hardship Fund in the first half of the last financial year, the timetable in the run up to the WG Budget and LGF Settlement last year ran later than usual. Some of the key dates are appended to this paper in the Annex. A full assessment of local government pressures was not presented to the Finance Subgroup until the meeting in early November.
3. The paper to the November Finance Subgroup, detailed the pressures from our own modelling calculated over a 3-year period from 2021-22 to 2023-24. The underlying pressures for 2021-22 totalled £279m and similar patterns were evident over the next two years; rising by £272m in 2022-23 and then by £270m in 2023-24. This aligned closely with local authorities' own medium term financial plans. The cumulative pressure rises to £822m by 2023-24 as set out in figure 1 below.

Figure 1: Local Government Spending Pressures to 2022-23, £m



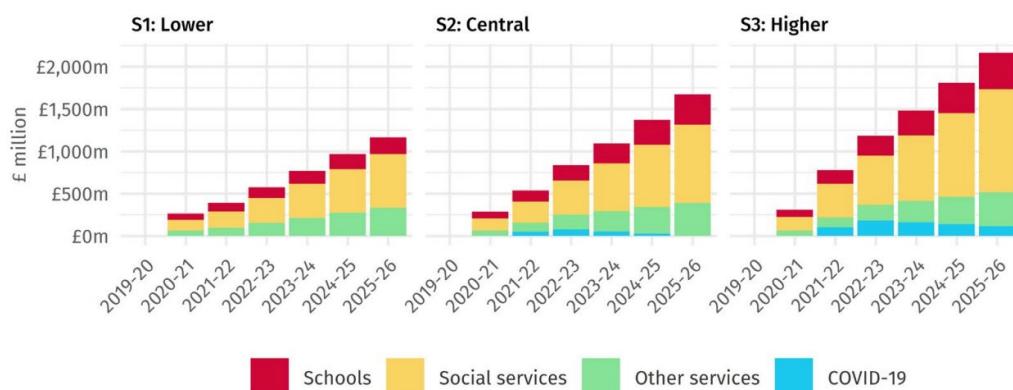
Source: Base estimates: RO and RA returns (2019-20 to 2020-21)

4. 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 the elections, assessing the implications for the Welsh Government Budget next year and beyond.

5. They produced three different scenarios of pressures facing local services, summarised in figure 2 below. Implicit in these estimates are pressures in the next financial year, 2022-23, from £184m in the lower scenario to £403m in the higher. In the following year 2023-24 they range from £195m to £300m.

Figure 2: Wales Fiscal Analysis' Assessment of Components of Local Government Spending Pressures to 25-26



Source: Wales Fiscal Analysis 2021

6. In conclusion, there is a consistent picture of those pressures in as much as our own estimates fit in between the scenarios set out by the Wales Fiscal Analysis team. If the Finance Subgroup convenes early, we will have something to present to ministers before the summer recess. A Programme for Government will likely be published by the Welsh Government, most likely before the summer recess, which will give a clearer picture of the incoming government's objectives and timescales.

Next Steps

7. Over the course of the summer, we will make our own up to date assessment of pressures that will reflect any developments within the Programme for Government. We propose to run a survey with Treasurers over July to align our own estimates with local knowledge and medium-term financial plans.
8. As in the last financial year, COVID funding will be treated separately through the Hardship Fund. As members will know, there is a broad commitment to operate the fund to the end of September this year. However, it is likely that pressures will continue beyond September and we will work with the Welsh Government on an income loss and expenditure survey to cover the last half of the current financial year.

Hardship Fund Update

9. The out-turn for the 2020-21 Hardship Fund is currently in the process of being finalised as the last of the claims were submitted to the Welsh Government the week beginning 17th May. This will give a clear picture of how the £661m has been allocated to different service pressures and areas of income loss. Our own estimates suggest that there will be an overall underspend of around £60m.
10. Looking forward to the operation of the Hardship Fund guidance that has been issued by Welsh Government, there has been an allocation of £206m which sounds more than enough to take us to September, and much will depend on what happens to social care (funding was guaranteed for Q1 only). A data collection exercise is being developed to get an understanding of what pressures look like in Q3 and Q4 next year under various 'Alert Level' scenarios which will feed into early (in-year) budget discussions.

Recommendations

11. Members are recommended to:

- 11.1 **note the contents of the paper; and**
- 11.2 **commission two surveys from Treasurers: one of COVID pressures for the latter half of 21-22 and another on medium-term pressures up to 24-25.**

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Key Finance dates over 2020-21

20/10 – Welsh Government Second Supplementary Budget 2020-21

02/11 – Finance Subgroup

19/11 – Virtual Conference: Reforming Local Taxes

25/11 – UK Government Spending Review

08/12 – Joint Finance/Economic Development Cabinet Members

21/12 – Draft Welsh Government Budget

22/12 – Provisional Local Government Settlement 2021-22

11/01 – Evidence Session with Equalities, Communities & Local Government

02/03 – Final Local Government Settlement 2021-22

09/03 – Senedd debate on the Local Government Settlement