

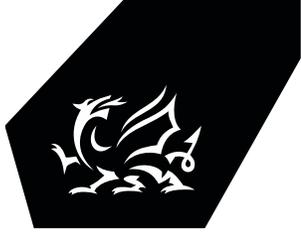
APSE Wales Seminar

The Future Funding Scenario Facing Welsh Councils

Chris Llewelyn – Chief Executive, WLGA

10 July 2024

Today's Presentation



- Future Funding 2024-25 to 2027-28 and UK Election Implications

A brief overview of the current multi-year funding settlement for Welsh councils.

We bundle this together with a look at the current spending plans of the incoming UK Government and their implications for the size of the Welsh block grant, and for our local government funding settlement.

- Service Pressures

An outline of the latest evidence on service pressures reported to the WLGA by the Society of Welsh Treasurers.

- Areas Not Covered Today

Critical areas we can't cover in today's presentation, but which are vital for our future funding, include the council tax reform agenda which could include revaluation in the next Senedd term, and the future financing of social care in Wales. We do however continue to engage with the Welsh Government in partnership on those issues.

Future Funding 2024-25 to 2027-28



Funding Position 2024-25

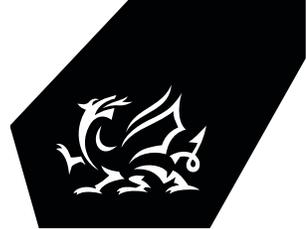
- 2024-25 is the last year of a multi-year settlement from the Welsh Government.
- Aggregate External Finance for Welsh councils has increased by 3.3% or £184m.
- 3.1% of this increase was initially announced by the Welsh Government. A further 0.2% was transferred on top of that as a result of *Barnett consequentials* triggered by spending announcements in England.
- To put this in context, the latest estimate reported to us by our member councils is that service pressures for 2024-25 amount to about £809m.
- As a result of this, councils across Wales have proposed council tax increases and service cuts to close the gap.



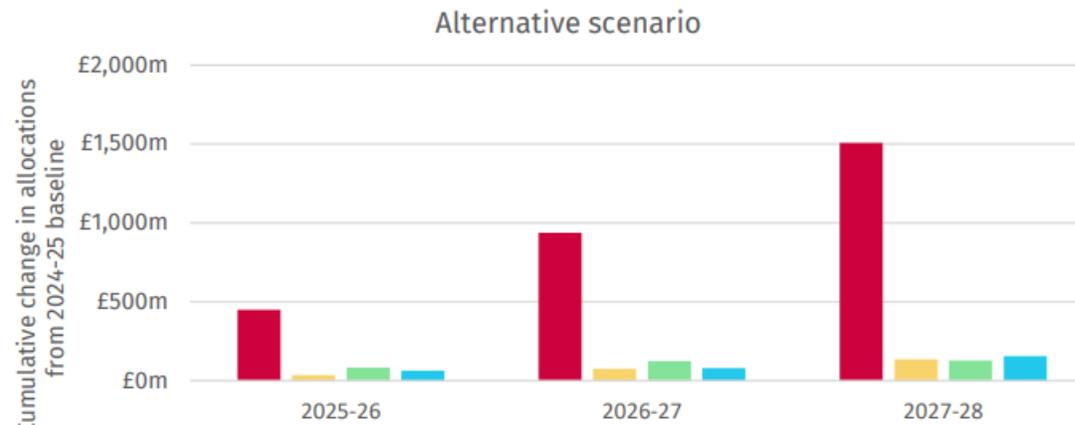
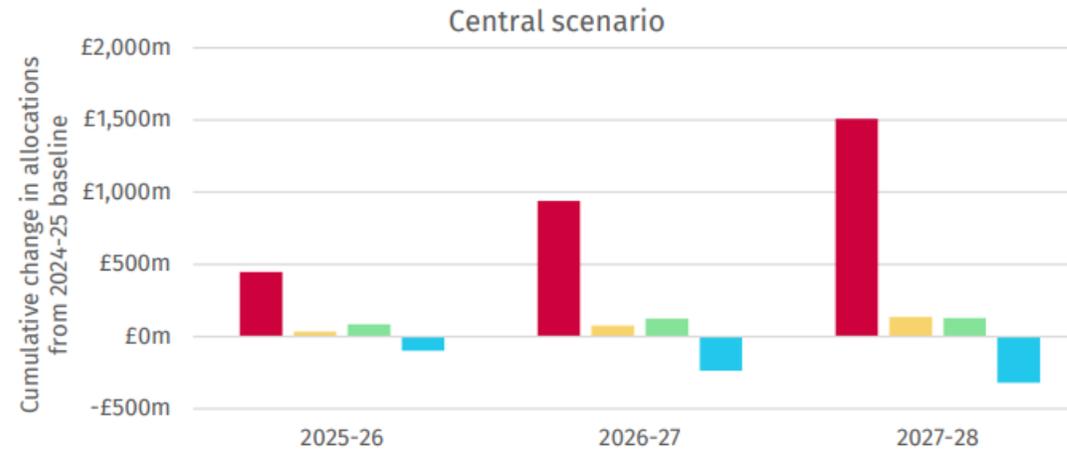
Future Funding 2025-26 to 2027-28

- We will turn to UK Labour Government spending plans later in this presentation, but before doing so we will consider the existing position.
- In our next slide, we will look at two funding scenarios from the independent Wales Fiscal Analysis project, which are based on existing pre-election spending plans.
- The first and top scenario in the graph reflects published spending plans from the outgoing UK Government. The lower, alternative scenario models a 2% increase in real-terms departmental spending....the bars in the graph show what would happen if Welsh Government matches health, schools and childcare spending commitments in England. The **blue** bar represents **all other spending areas including local government.**

Future Funding 2025-26 to 2027-28



Indicative additional allocations from 2024-25 baseline (nominal terms)



■ NHS consequential ■ Schools consequential ■ Childcare consequential ■ All other spending

Source: Wales Fiscal Analysis calculations. ● Notes: See main body of text for assumptions made. Projections are for Welsh Government resource DEL allocations (including redistributed Non Domestic Rates revenues).



Future Funding 2025-26 to 2027-28

- The previous slide therefore tells us that even under an Alternative Scenario of modest spending growth, after passing health, schools and childcare consequential on to those areas, local government funding would have grown only slightly in cash-terms.
- Our next slide demonstrates the effect of this in real-terms, and again the lower part of the graph demonstrates that even if UK departmental spending increased modestly, local government funding would begin to fall in real-terms by 0.5% in 2026-27, and by 0.3% in 2027-28...

Future Funding 2025-26 to 2027-28



Projected Welsh Government grant funding to local authorities, 2023-24 to 2027-28 (£ million)

	Projection period				
	2023-24	2024-25	2025-26	2026-27	2027-28
Central scenario					
Aggregate External Finance (Revenue Support Grant and NDR revenues)	5,520	5,688	5,674	5,647	5,659
Increase (£m)		168	-15	-27	12
Nominal terms increase		3.1%	-0.3%	-0.5%	0.2%
Real terms increase		1.4%	-1.2%	-1.7%	-1.5%
Specific Grant funding	1,301	1,258	1,255	1,249	1,251
Total Welsh Government grant funding	6,821	6,946	6,928	6,895	6,910
Increase (£m)		126	-18	-33	15
Nominal terms increase		1.8%	-0.3%	-0.5%	0.2%
Real terms increase		0.2%	-1.2%	-1.7%	-1.5%
Alternative scenario					
Aggregate External Finance (Revenue Support Grant and NDR revenues)	5,520	5,688	5,745	5,786	5,869
Increase (£m)		168	56	41	83
Nominal terms increase		3.1%	1.0%	0.7%	1.4%
Real terms increase		1.4%	0.0%	-0.5%	-0.3%
Specific Grant funding	1,301	1,258	1,270	1,279	1,298
Total Welsh Government grant funding	6,821	6,946	7,015	7,065	7,167
Increase (£m)		125	69	50	102
Nominal terms increase		1.8%	1.0%	0.7%	1.4%
Real terms increase		0.2%	0.0%	-0.5%	-0.3%



Source: Wales Fiscal Analysis calculations. ● Notes: Increases refer to year-on-year changes. Real terms changes calculated using GDP deflator forecasts from Office for Budget Responsibility (2023). Specific grants for 2023-24 and 2024-25 based on Final Local Government Settlement for 2023-24, which may understate total where grants



Future Funding 2025-26 to 2027-28

What does the Labour Manifesto tell us?

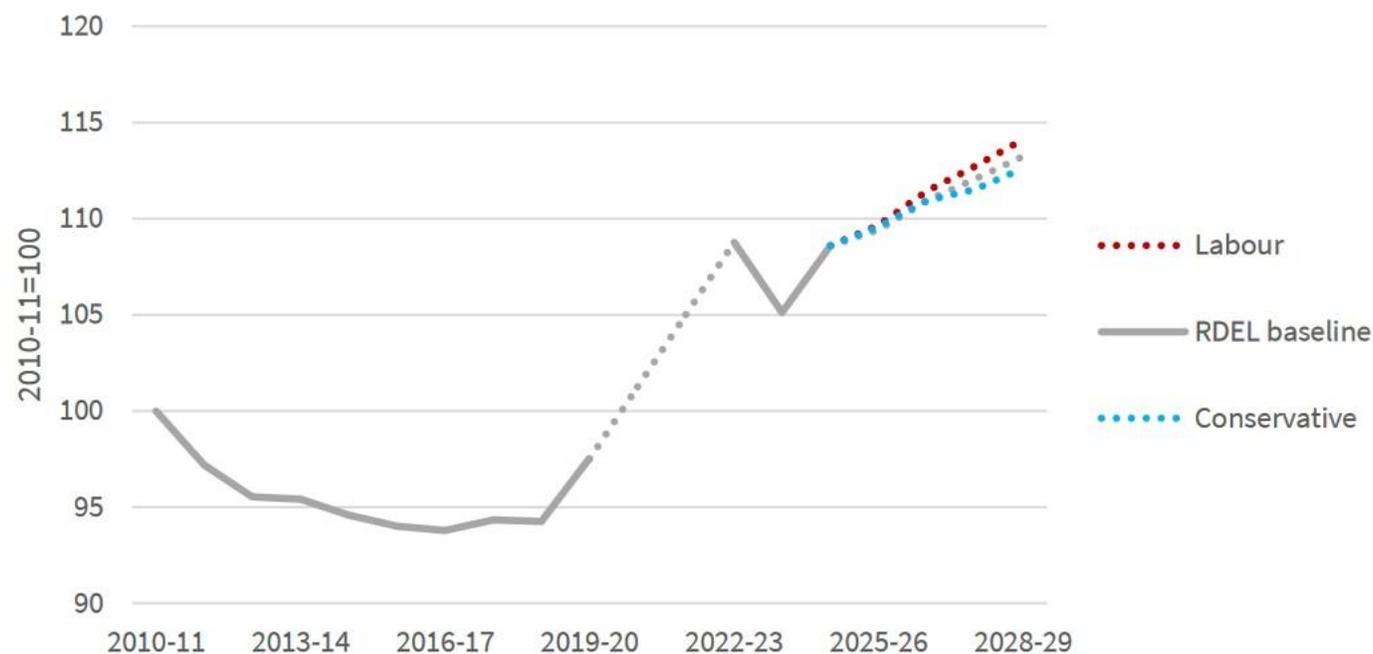
- Our previous slides considered the existing position for UK spending.
- While imperfect as a guide to the new Chancellor's true intentions for public spending, the **Labour Manifesto** remains our only guide to the spending plans of the new administration.
- The Labour manifesto promises a top-up to existing spending plans of close to £5 billion by 2028-29, and these are focused primarily on health and education spending.
- These commitments would trigger approximately £195 million of additional consequential spending for the Welsh budget by 2028-29.



Future Funding 2025-26 to 2027-28

That spending uplift is only modestly higher than the challenging projections we outlined in earlier slides....

Figure 1: Welsh Government budget for day-to-day spending (real terms, 2010-11=100)



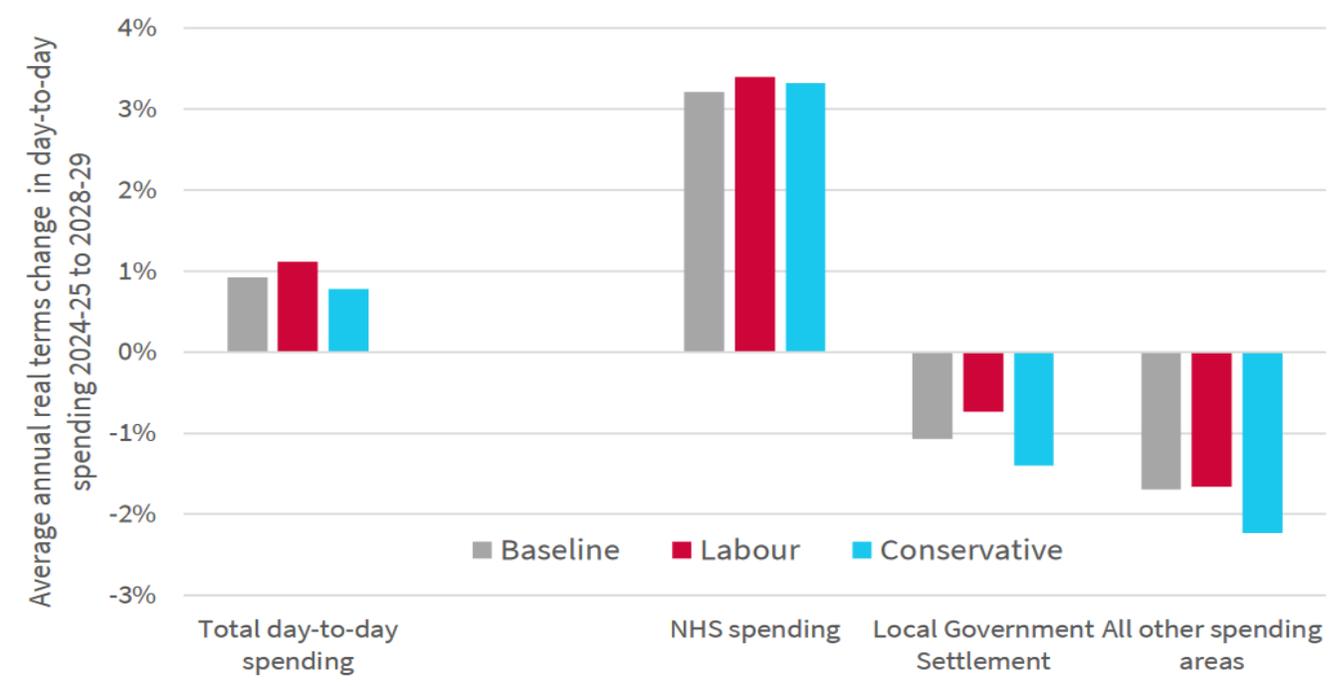
Source: Wales Fiscal Analysis (2023) Welsh Budget Outlook 2023 for 2010-11 to 2023-24; see main text for assumptions made. Covid-19 years excluded



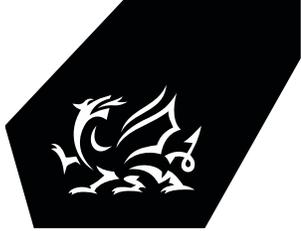
Future Funding 2025-26 to 2027-28

If the Welsh Government 'copies' the UK Labour Government's specific commitments on health and schools spending, then Welsh councils face real-terms cuts across the next four years, only slightly better than the baseline scenario...

Figure 2: Average annual real-terms change in projected Welsh Government spending (2024-25 to 2028-29)



Future Funding 2025-26 to 2027-28



Conclusion on Future funding

- There is no published evidence to indicate that the new Chancellor will significantly change course compared to pre-election spending plans published by her predecessor.
- The WLGA and Welsh councils are clear that the current spending outlook **does not enable local government to be truly fit for the future**, when faced by the Service Pressures that we will outline next.
- We will continue to work with Welsh Ministers to create a shared understanding of these pressures, and to make the case for local government to receive its **fair share of any resources made available to Wales** at the next UK budget event.
- The optimistic case for public spending is that once the new UK Government establishes itself, there will be the space for a **broader conversation** with public sector colleagues in Wales and the UK about what level of public finance is needed, in order to rebuild our public services.

Service Pressures



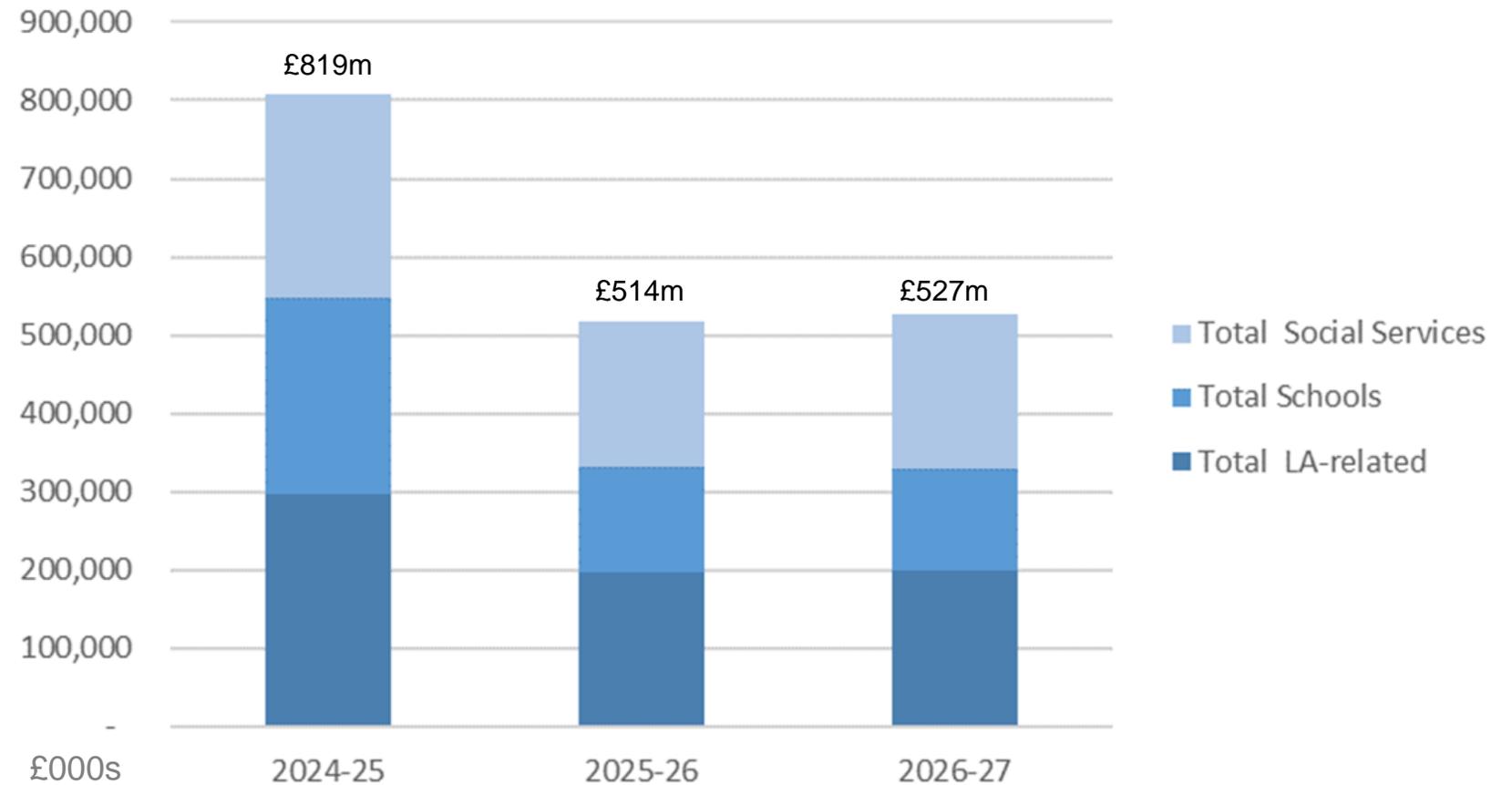
Service Pressures – SWT Survey

- The latest Society of Welsh Treasurers (SWT) Survey was carried out during August/September 2023 covering the three years up to 2026/27. All 22 Welsh councils were thoroughly surveyed by the SWT and the WLGA.
- Existing funding will of course not meet current pressures, even while those pressures decrease slightly due to inflation slowing and some changes in adult social care demand.
- Our next slide details our pressures for this year, and the next two years. Social services and schools related pressures include service demand, pay inflation and non-pay inflation. LA-related pressures include all other pay awards, and the rising costs of homelessness, public transport and other provisions.





Service Pressures – SWT Survey



Source: Society of Welsh Treasurers Survey 2023



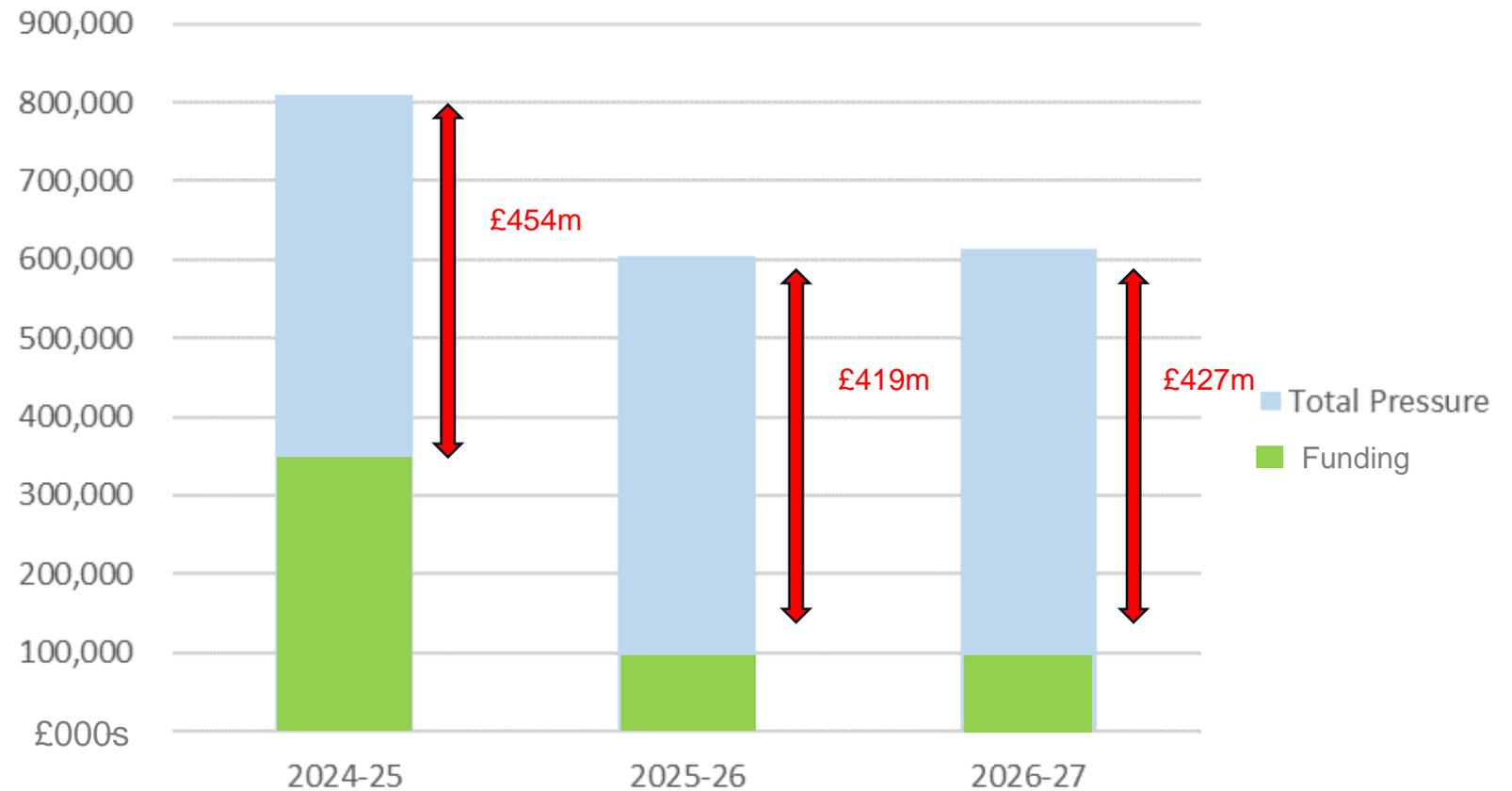
Service Pressures – SWT Survey

- These pressures do not ‘reset’ to zero every year but represent increased costs which are baselined into council finances.
- The next and final graph demonstrates for 2024-25 the total amount of funding we received in Aggregate External Finance, and the outstanding costs of the pressures which have been met by service cuts, efficiencies and drawing down on reserves.
- For 2025-26 and 2026-27 we assume a cash flat settlement for the time being. Real-terms growth in the local government settlement would reduce the anticipated funding gap and require fewer service cuts and job losses.





Service Pressures – SWT Survey



Source: Society of Welsh Treasurers Survey 2023



Conclusion

- Even as inflation and pay award growth slows, demand-led pressures continue to mount on a recurring basis.
- Anticipated increases in local government funding and council tax revenues **are not sufficient** to cover these pressures.
- Councils will do all they can to make efficiencies and savings, whilst prioritising the key statutory services. Job losses will be unavoidable on an increasing scale.
- The best way forward lies in an open and honest conversation about the need for sustainable funding for Welsh public services – **or to face the reality that we will not be able to provide existing service levels in the future.** Thinking about making councils Fit for the Future offers us a framework to understand that we need more sustainable funding in order to meet climate change, technological change and demographic change.



Diolch i chi am wrando

Chris Llewelyn
Prif Weithredwr / Chief Executive
CLIC / WLGA

www.wlga.wales