

Local Government and Housing Committee

Date: 12 January 2023

Time: 10.45am – 12.15pm

Title: Welsh Government Draft Budget Scrutiny 2023-24

Introduction

The Draft Budget includes spending plans for 2023-24 which make changes to the indicative budgets published as part of the 2022-23 draft budget. This paper provides evidence to the Committee on the future programme budget proposals in relation to the Local Government budgets within the Finance and Local Government MEG as outlined in the Draft Budget which was laid on 13 December 2022.

Annex A provides a breakdown of the relevant Draft Budget figures for the Finance and Local Government Main Expenditure Group (MEG) by Spending Programme Area, Action and Budget Expenditure Line (BEL). These figures are reflected in the table below.

Financial Tables

Table 1: Overview of changes to the BEL tables

	2023-24 Indicative Budget £'000	2023-24 Draft Budget £'000	Change £'000	% Change
Revenue	4,346,119	4,829,952	483,833	11.1%
Non Cash	0	0	0	0
Total Resource	4,346,119	4,829,952	483,833	11.1%
Capital	222,000	222,000	0	0
Financial Transactions	0	0	0	0
Total Capital	222,000	222,000	0	0

Budget allocations

Three key changes were actioned as part of this draft budget:

- Some revenue budgets within the MEG have been reprioritised with baseline reductions taking place to these budgets; these totalled £1.709m with £609k of these reductions applied to budgets that support Local Government. There were no reductions to capital budgets required as part of this exercise. This was part of a wider Welsh Government exercise to reprioritise budgets to target limited resources to where it was most needed.
- Allocations from reserves were made; and,
- Some reprioritisation took place within the MEG to re-allocate revenue and capital budgets for one year only.

All of these changes are set out in the tables below and are also captured in the BEL tables published on 13 December 2022.

The Finance and Local Government MEG received the following allocations from reserves as part of the 2023-24 Draft Budget:

Table 2: Allocations made through 2023-24 Draft Budget

Allocation	2023-24 £'000s	2024-25 £'000s
Revenue Support Grant (Inc real living wage for social care workers)	150,000	150,500
Business Rates	292,000	144,500
Ukraine	40,000	20,000
Cost of Borrowing	897	4,496
Inflation uplift	2,000	2,000
Non cash adjustments to WRA, CIW and HIW	124	137
Total allocation	485,021	321,633

Revenue allocations are offset by an adjustment of £215m to the non-domestic rates line in AME in 2023-24. This adjustment takes account of the reduction to the distributable amount since Final Budget for 2023-24 and 2024-25, and nets off the Retail, Leisure and Hospitality Rates Relief provided for 2023-24.

The inflation uplift of £2m was intended to assist with some of the impacts of inflation felt outside of the local government settlement. The £2m uplift was allocated across the MEG as follows:

Table 3: Allocation of the £2m inflationary uplift for the MEG

Allocation	2023-24 £'000s	2024-25 £'000s
Commercial Procurement Programme Funding to provide funding for the Procurement Centre of Excellence and Procurement Capability and Skills Programme.	907	907
Welsh Revenue Authority relating to pay, inflationary and other pressures.	941	941

Allocation	2023-24 £'000s	2024-25 £'000s
Local Democracy and Boundary Commission due to increased resource and inflationary pressures as a result of taking forward changes in practice relating to electoral and community reviews and significant work on preparing for Senedd reform.	152	152
Total allocation	2,000	2,000

Due to the economic context and the pressures felt across Welsh Government to respond to inflation, cost of living and pay pressures as well as to deliver our ambitious Programme for Government, all portfolio ministers were asked to identify revenue savings within their MEG to support cross governmental priorities. A target of £100m savings was achieved across the Welsh Government with the Finance and Local Government contributing £1.709m towards this target. This was achieved by making recurrent savings in the following areas:

Table 4: Savings identified within the MEG on a recurrent basis

Saving identified	2023-24 £'000s	2024-25 £'000s
Invest to Save – considered affordable due to reduced amount of loan agreements in the pipeline.	750	750
e-Procurement – saving will be achieved by replacing a contract with one of better value.	350	350
Improvement and Support – a European transition project with a budget of £1.2m has now come to an end. The remaining funding will be utilised to support the decarbonisation of the local government estate. This saving will reduce the level of revenue support in 2023-2024, which would otherwise be available to local authorities to develop significant projects/ business cases for decarbonising their corporate estate. The effect could be to slow work in this area unless local authorities fund themselves reflecting their own commitments and the potential for long term savings. This is mitigated by the ongoing work with the Ystadau Cymru work on estates rationalisation and the WLGA programme supporting Local Government work on its Net Zero commitments.	609	609
Total savings actioned at draft budget	1,709	1,709

Some budgets within the Finance and Local Government MEG have also been reprofiled in 2023-24 where savings could be identified on a time limited basis to support pressures in other areas of the MEG. As part of this exercise a decision was made to reprofile budgets as follows within the Finance and Local Government MEG for one year only:

Table 5: Budgets repurposed within the MEG for one year only (2023-24)

Budget Expenditure Line	Repurposing 1 Year Only £'000
Transformation and Legislation - a reduction to this budget will mean that some activity will need to be scaled back or delayed until 2024-25.	(613)
Emergency Financial Assistance - allocation for remediation costs that will be incurred by local authorities as a result of the February 2020 floods.	491
Election policy which will be achieved by scaling back activity for one year only.	(1,000)
Welsh Revenue Authority - pressures related to implementation and ongoing delivery of various activities.	1,122
Invest to Save (Capital) – considered affordable	(195)
Welsh Revenue Authority (Capital) – pressures relate to the renewal of licences as well as other activity.	195
Total	0

Local Government Settlement

Despite significant pressures reported by the Welsh Local Government Association across local authorities, our settlement from the UK Government did not enable us to meet these pressures arising from inflation and increased demand for services in full. In a bid to protect public services as far as possible no reductions to the local government settlement were considered as part of the wider Welsh Government exercise to repurpose budgets.

In 2022-23, the Local Government settlement increased by £437million (9.4%) on a like-for-like basis to £5.1 billion to support front line services. As part of the 2022-23 Budget further increases to the settlement were planned at 3.5% (£177m) in 2023-24 and 2.4% in 2024-25.

Local authorities have been affected by the soaring cost of energy and inflation across all services including two of their biggest service areas schools and social care. This is alongside overall increases in demand in many service areas.

Schools in Wales are directly funded by local authorities – funding for schools is provided mainly through the local government settlement. The Welsh Government's education budget also supports spending in and on schools, teachers, and wider education programmes, including free school meals, the rollout of the new curriculum, teacher training and support to help learners recover post-pandemic.

As a result of spending decisions made in relation to education in England, Wales received additional funding in the Autumn Statement. This is being provided in full to local government through increases to the settlement and through the education budget.

In making decisions about the level of funding for local government I have responded to the need to support key front line services. In particular I have included funding to enable authorities to continue to meet the additional costs of introducing the Real Living Wage for care workers.

As a result of the decisions I have taken, I am providing an additional £227m in 2023-24 and £268m in 2024-25 to the local government settlement; this builds on the £0.75bn we outlined up to 2024-25 as part of our 2022 spending review.

Non-domestic rates relief package

All businesses in Wales will benefit from the £460m package of non-domestic rates support we will be providing over the next two financial years. The package will operate in addition to our permanent relief schemes which provide around £240m of relief to ratepayers across Wales every year.

We will continue to provide support for those sectors most directly affected by the pandemic through a 2023-24 retail, leisure, and hospitality rates relief scheme. This will provide more than £140m of non-domestic rates relief for eligible businesses.

Retail, leisure, and hospitality ratepayers in Wales will receive 75% non-domestic rates relief throughout 2023-24. Like the similar scheme announced by the UK Government, the Welsh Government's scheme will be capped at £110,000 per business across Wales. Our approach ensures that businesses in Wales will receive comparable support to that provided in other parts of the UK.

In addition to the retail, leisure and hospitality rates relief scheme, the non-domestic rates multiplier in Wales will be frozen in 2023-24. This will support all ratepayers in Wales at an estimated cost of more than £200m over the next two years.

The next non-domestic rating list will come into force on 1 April 2023, following revaluation. The Welsh Government will provide all ratepayers whose liability is increasing by more than £300, as a result of revaluation, with transitional relief. Any increase in non-domestic rates liability as a result of revaluation will be phased in over two years.

A ratepayer will pay 33% of their additional liability in the first year (2023-24) and 66% in the second year (2024-25), before reaching their full liability in the third year (2025-26). The Welsh Government is providing £113m over two years to fund this transitional relief, supporting all areas of the tax- base through a consistent and straightforward transitional scheme.

We are committed to supporting businesses to recover from the impacts of the pandemic and to support them through the current cost-of-living crisis, to ensure Wales continues to have a thriving economy.

Ukraine

As a Government, we made a clear commitment to welcome people fleeing the conflict in Ukraine. We originally set up our super-sponsor scheme to directly sponsor 1,000 people from Ukraine – to date, we have been able to support almost 3,000 people who have arrived in Wales via the super-sponsor route. This clearly demonstrates Wales is a Nation of Sanctuary.

We have funded our super-sponsor scheme, including accommodation and wrap-around support, from our own budget. We will continue to do this in 2023-24 and have committed a further £40m for this to ensure people fleeing the war in Ukraine continue to have a place of safety and sanctuary in Wales. This additional funding will ensure local authorities are able to continue delivering services in support of our scheme. The UK Government has provided no funding commitment for the Homes for Ukraine scheme in 2023-24.

Programme for Government

The Local Government Directorate supports the delivery of a number of Programme for Government commitments. In accordance with Welsh Government budget management principles, allocations made at the 2022-23 Spending Review to support the delivery of these commitments have been targeted towards interventions that are affordable and offer value for money. No new allocations have been made to support the PfG commitments through the 2023-24 draft budget. Details of the PfG commitments and the BELs from which they are supported are set out below.

Seek to reform council tax to ensure a fairer and more progressive system -

I announced my plans for the reform of the council tax system on 7 December 2021 and launched a Phase 1 consultation on 12 July. The responses to the consultation are being analysed. Provision for this work is made through the Local Taxation, Research and Analysis BEL.

Make the case for clear and stable tax devolution - The two local taxes, council tax and non-domestic rates, form an integral part of the local government finance system in Wales. Alongside my plans for reforming the council tax system, I set out my plans for reforming the non-domestic rates system on 29 March and launched a consultation on proposals on 21 September. Provision for this work is also made through the Local Taxation, Research and Analysis BEL.

Strengthen the autonomy and effectiveness of local government to make them more successful in delivering services -

This Programme for Government commitment will be delivered through the funding for local government sector-led improvement, including around digital transformation (which also delivers against the PfG commitment to deliver the Digital Strategy), through the Transformation and Legislation BEL. Work to improve Community Council financial management and governance is funded by the Community and Town Council BEL and an allocation from the Transformation and Legislation BEL. Any direct engagement with local authority specific statutory intervention and support programmes are funded through the Improvement and Support BEL. Other work which will contribute includes our financial reform and work on reforming council tax; and increasing democratic

participation. This will be funded through the Transformation and Legislation BEL and the Local Taxation, Research and Analysis BEL.

Reduce the Administrative burden on local authorities - A task and finish scoping exercise is underway, working closely with local government to explore perceived barriers and key areas that are identified as unnecessary areas of administrative burden. The intention is to identify opportunities for change to existing processes and requirements and agree a set of underpinning principles to shape the definition of the need for, and shape of, administrative and other bureaucratic overhead going forward. There no funding implications from undertaking the scoping exercise.

Explore & develop effective tax, planning and housing measures to ensure the interests of local people are protected - As part of the three-pronged approach announced by the Minister for Climate Change in July 2021, the Welsh Government consulted last summer on possible changes to the local taxes to help local authorities in managing the impact of second homes and self-catered accommodation in their areas. Having considered the responses to the consultation, on 2 March I announced the plans for amending the relevant legislation. The Local Taxation, Research and Analysis BEL includes provision for implementing any changes and the additional analyses of information on second homes and self-catering accommodation within the local tax-base

Reform local government elections to reduce the democratic deficit - In 2022-23, we held pilots on the use of digital technology to enable flexible voting options for voters in four local authority areas and concluded outreach activity to promote registration and engagement. These workstreams culminated in the May 2022 local elections. Evaluation of the pilots by the Electoral Commission and of the outreach work by a network of organisations has been received and is informing the next stage of our work in advance of our next scheduled sets of devolved elections in 2026 and 2027. In October 2022 we published a White Paper on electoral reform and administration, including proposals on voter information and engagement, improved accessibility to the electoral system by automatic registration, and some structural changes to support better administration. We also developed the next stage of our direct engagement support as a new multi-year grant proposal. This work is being undertaken in conjunction with work on expanding the Access to Elected Office programme, increasing diversity in democracy and Wales Centre for Public Policy work on defining, measuring, and monitoring democratic health. This work will be funded from the Elections Policy BEL and funding provided to principal councils through the RSG, which also recognises the costs of implementing the Local Government and Elections (Wales) Act 2021

Expand our Access to Elected Office programme - The pilot Access to Elected Office fund was available to candidates with disabilities and ran in advance of the Senedd elections in May 2021 and the local government elections in May 2022. It is now being formally evaluated but early indications are the Fund was valued and welcomed. The learning from the evaluation and other recent research will be used to consider how the fund and other forms of potential support could be improved and

expanded to encompass people with other protected characteristics. This work will be funded from the Transformation and Legislation BEL.

Delivery of the Local Government Chapter in the Race Equality Action Plan -

The Welsh Government is committed to enabling an anti-racist Wales. As part of this I will ensure the legislative and governance framework for local government promotes actions and decision making that is anti-racist. I am taking forward a range of changes to the legislative framework to ensure local authority governance takes place within a statutory framework that supports equality and diversity and actively promotes anti-racism. This will also enable local government to review its own recruitment, internal human resources policies and complaints processes to ensure they are anti-racist. This work will be funded from the Transformation and Legislation BEL.

Ensure that each region in Wales has effective and democratically accountable means of developing their future economies -

Specific grant funding was provided in 2021-2022 to help regions put in place arrangements to establish the constitutional arrangements for their Corporate Joint Committees and transition across existing regional governance arrangements as appropriate.

This is now reflected in the core funding received through the un-hypothecated Local Government Settlement, to reflect the fact that undertaking and supporting collaboration between local authorities is part of the core operating model for local government.

Change the performance framework for local government to better enable innovation, transparency, and local ownership -

This relates to implementation of the new performance and governance regime in the Local Government and Elections (Wales) Act 2021. Support for local authorities to undertake self-assessments and panel assessments is provided through the local government sector-led Improvement and Support Programme, funded through the Transformation and Legislation BEL. Any direct engagement with local authority specific statutory intervention and support programmes are funded through the Improvement and Support BEL.

Preventative spend within this portfolio

Funding provided through the revenue support grant is un-hypothecated; it is for local authorities to determine priorities for its use. Providing this significant funding un-hypothecated means local authorities have the flexibility to plan, fund and deliver their services in the way that works best for their local populations.

The Wellbeing of Future Generations Act requires local authorities, alongside other public bodies, in Wales to think about the long-term impact of their decisions, to work better with people, communities and each other. This funding will prevent persistent problems such as poverty, health inequalities and climate change.

Strategic Integrated Impact Assessment

The Strategic Integrated Impact Assessment (SIIA) continues to outline the contextual evidence that has supported our spending decisions. It is just one of a suite of documents published as part of our Draft Budget, with the impact of spending decisions outlined as part of the main narratives in chapter four, complemented by the SIIA at Annex A. In this year's Draft Budget, we have reprioritised funding from within our existing plans to re-focus our limited resources towards the areas of greatest need, to ensure every pound invested makes the greatest positive impact and to also enable us to protect key areas. We recognise that by doing so, there will be negative impacts for those areas where funding has been reprioritised. Further details of these choices will be outlined as part of individual Ministers' responses to their respective Senedd scrutiny committees; this will provide a more detailed account as to how Draft Budget decisions have impacted on different groups.

We also continue to outline the steps we are taking to reform budget and tax process improvements as part of our Budget Improvement Plan which is published alongside the Draft Budget. This year we have worked collaboratively with the Budget Improvement Impact Advisory Group (BIIAG) to explore how we undertake the Strategic Integrated Impact Assessment (SIIA); this has resulted in some changes within the SIIA published as part of this Draft Budget. Further longer-term actions are being explored through continued working with the BIIAG to review our approach to assessing impacts of budget decisions as part of the Budget Improvement Plan (BIP).

As part of this draft budget we have made allocations to support public services including the NHS and local government; we have also made allocations to support vulnerable individuals impacted by the cost of living crisis including through the Discretionary Assistance Fund, the Pupil Development Grant and homelessness services.

Within my own portfolio I am pleased to be able to provide an uplift to local authorities through the settlement and to be able to provide additional support through non domestic rates reliefs. It has, however, been necessary to find savings in other areas in order to be able to target spend across Welsh Government towards areas where it has been needed most. This has meant a reduction of £1.7m within my own portfolio on a recurrent basis. I have set out in table 4 above the savings I have made.

Support to those most adversely affected by the cost of living crisis

People struggling to afford accommodation or food will turn to local services for support. Our increased support for local authorities through the unhypothecated settlement will help ensure these services are in place to support those impacted by the cost of living crisis.

Climate Change and Net Zero Wales

The local government capital budget was planned to increase by £50m between the 2022-23 draft budget and the 2023-24 indicative budget. £20m of this will be directed specifically to address decarbonisation and support Net Zero Wales. Revenue funding also exists within the Improvement and Support BEL and the Ystadau Cymru BEL to assist with plans to decarbonise both the Local Government and Welsh Government estates.

Gypsy, Roma and Travellers and Ukrainian arrivals

There are no allocations within the FLG MEG to support Gypsy, Roma and Travellers and there have been no specific transfers into the RSG in respect of these communities.

Within the Education and Welsh Language MEG there is £11m grant funding to local authorities for ethnic minority and Gypsy, Roma and Traveller learners (MEGRT), which supports children and young people from ethnic minority backgrounds, including Gypsy, Roma and Traveller communities, to access education and opportunities and provide equity of outcome.

The grant is provided to local authorities in Wales based on the numbers of learners from ethnic minority backgrounds within the local authority. As well as generally being used to support learners from these backgrounds, the grant is used by local authorities to support refugees and asylum seekers who may have English as an additional language (EAL) or Welsh as an additional language (WAL) need. The grant has also been used to support those arriving from Ukraine and Afghanistan.

In 2022-23 the Emergency Financial Assistance BEL in the FLG MEG was used to meet the costs of our emergency response to the humanitarian crisis in Ukraine. This BEL supported the costs associated with arrivals through the super sponsor route which included the costs of initial accommodation, wrap around support, the contact centre and arrival hubs. A general tariff for each arrival and an education tariff for children aged 2-17, funded by the UK Government, was also payable to local authorities through this BEL.

Within the Social Justice MEG the Gypsy Traveller Sites capital budget is £3.19m for 23-24 which is unchanged from the indicative budget published in December 2021. The budget covers the development of new sites, site extensions and refurbishment projects at local authority owned sites across Wales.

Annex 1

EXTRACT FROM FINANCE AND LOCAL GOVERNMENT MAIN EXPENDITURE GROUP (MEG)				
RESOURCE				
Budget Expenditure Line	2023-24 Indicative Budget	2023-24 Draft Budget 2023-24	Change	% Change
	£000s	£000s	£000s	£000s
Local Govt General Revenue Funding	4,169,557	4,498,298	328,741	7.9%
Non-Domestic Rates Rates Relief	27,700	143,900	116,200	4.2%
Police General Revenue Funding	112,349	112,448	99	0.1%
Local Govt PFI Revenue Consequences	2,728	2,728	-	0.0%
Transformation & Legislation	7,760	7,519	(241)	-3.1%
Non-Domestic Rates Collection Costs	5,172	5,172	-	0.0%
Emergency Financial Assistance	1	40,492	40,491	40491.0%
Action: Funding Support for Local Government	4,325,267	4,810,557	485,290	11.2%
Valuation Office Agency Services	8,896	8,896	-	0.0%
Valuation Tribunal for Wales	1,074	1,074	-	0.0%
Local Taxation Research & Analysis	4,300	4,300	-	0.0%
Action: Valuation Services	14,270	14,270	-	-
SPA: Local Government Funding	4,339,537	4,824,827	485,290	-
Sponsorship of the Local Democracy and Boundary	598	750	152	25.4%
Expenditure to Promote Local Democracy	126	126	-	0.0%
Election Policy	2,500	1,500	(1,000)	-40.0%
Action: Building Local Democracy	3,224	2,376	(848)	-26.3%
Improvement & Support	1,550	941	(609)	-39.3%
Action: Local Government Improvement	1,550	941	(609)	-39.3%
Academi Wales	1,134	1,134	-	0.0%
Action: Academi Wales	1,134	1,134	-	0.0%
Community and Town Councils	144	144	-	0.0%
Public Services Boards	530	530	-	0.0%
Action: Supporting Collaboration and Reform	674	674	-	0.0%
SPA: Improving Services, Collaboration & Democracy	6,582	5,125	(1,457)	-22.1%
EXTRACT FROM FINANCE AND LOCAL GOVERNMENT MAIN EXPENDITURE GROUP (MEG)	4,346,119	4,829,952	483,833	11.1%

EXTRACT FROM FINANCE AND LOCAL GOVERNMENT MAIN EXPENDITURE GROUP (MEG)				
CAPITAL				
Budget Expenditure Line	2023-24 Indicative Budget	2023-24 Draft Budget 2023-24	Change	% Change
	£000s	£000s	£000s	£000s
Local Govt General Capital Funding	200,000	200,000	-	0%
City & Growth Deals	22,000	22,000	-	0%
Action: Local Government General Capital Funding	222,000	222,000	-	0%
SPA: Local Government General Capital Funding	222,000	222,000	-	0%
EXTRACT FROM FINANCE AND LOCAL GOVERNMENT MAIN EXPENDITURE GROUP (MEG)	222,000	222,000	-	0%