

Cllr Andrew Morgan OBE
Leader, Welsh Local Government Association
By email

30 October 2025

Dear Andrew,

Scrutiny of the Welsh Government Draft Budget 2026-27: Inflationary pressures

Thank you for submitting written evidence in response to the Committee's consultation on the Draft Budget 2026-27.

During our evidence session on 16 October 2025, the Cabinet Secretary for Finance and Welsh Language confirmed that the Welsh Government took into account the Office for Budget Responsibility (OBR) March forecasts for the GDP deflator (1.7 per cent), consumer price index (CPI) inflation (1.9 per cent) and average earnings growth (2.2 per cent) for 2026-27 in basing the inflationary uplifts in departmental budgets for 2026-27. This included a 2.2 per cent uplift on fiscal resource provided for public sector pay elements and 2 per cent on non-pay fiscal resource, general capital and for Financial Transaction Capital in each department. The Cabinet Secretary further explained that:

"I have to use a figure that is independent and authoritative. I'm offered all sorts of figures of what some people think inflation may be next year, but I can't take an estimate of inflation just on the basis of the say-so of a particular interest group. I have to go on the most authoritative, the most independent source that we have ... If we were to do anything else, we would be an outlier, and we would have an awful lot of explaining to do. I think it is much stronger ground for us to do what is the accepted way of doing these things and to rely on the advice that we get from an independent and authoritative source of advice, as every other UK Government does."

Whilst the Cabinet Secretary also confirmed that local government will receive a slightly higher uplift (2.5 per cent) due to retention of non-domestic rates as well as a funding floor, the Committee is interested to know the following:

- Your response to the Committee's consultation estimates that inflation and demand pressures were estimated to be around £560 million next year. What are the costs of delivering services, excluding the increase in demand, so we can get a deeper understanding of how different sectors may experience different levels of inflation to provide the same service?
- What is the impact of inflation on the cost of delivering services of local government next year, and does the consumer price index (CPI) inflation, used as a basis for the OBR's forecast, accurately reflect the cost pressures faced by local authorities?
- Are there any alternative metrics that you use to more accurately estimate the inflationary cost of providing services year-on-year?

I would be grateful if you could provide a response to this request by **Friday 7 November** to enable your views to inform our scrutiny of the Draft Budget ahead of the committee's reporting deadline and the Draft Budget plenary debate in December.

I am copying this letter to the Local Government and Housing Committee given it relates to policy matters within its portfolio.

Yours sincerely,



Peredur Owen Griffiths MS, Chair of the Finance Committee

Croesewir gohebiaeth yn Gymraeg neu Saesneg. | We welcome correspondence in Welsh or English.