

Finance Sub Group Meeting – 13 October 2022
Minutes of the Meeting

Finance Sub Group of the Partnership Council for Wales Minutes
Thursday, 13 October 2022 10:00-11:30 MS Teams

Welsh Government Ministers

Rebecca Evans MS, Minister for Finance and Local Government – Chair
Jeremy Miles MS, Minister for Education and Welsh Language (10.30-11am)

Madeleine Brindley – Special advisor

Welsh Local Government Association

Cllr Andrew Morgan (RCT)
Cllr Anthony Hunt (Torfaen)
Cllr Jane Mudd (Newport)
Cllr Ian Roberts (Flintshire)
Cllr Rachel Garrick (Monmouthshire)
Cllr Rob Stewart (Swansea)
Cllr Llinos Medi (Ynys Mon)
Cllr Dyfrig Lewis Siencyn (Gwynedd)
Cllr Mark Pritchard (Wrexham)

Police and Crime Commissioners

Peter Curran – Chief Finance Officer, South Wales Police & Crime Commissioner

Welsh Local Government Association officials

Dr Chris Llewelyn – Chief Executive, WLGA
Jon Rae – Director of Resources, WLGA
Nigel Aurelius – Chief Finance Officer, Torfaen

Welsh Government policy officials

Judith Cole – Deputy Director, Local Government Finance Policy & Sustainability
Emma Smith – Local Government Finance Policy & Sustainability
Tim Evans – Local Government Finance Policy & Sustainability
James Koe - Local Government Finance Policy & Sustainability
Debra Carter – Deputy Director, Local Government Finance Reform
Clare Blake - Local Government Finance Reform
Ben Crudge – Local Government Finance Reform
Matt Wellington – Budget & Government Business
Pat Moran – Education Directorate – Workforce Engagement
Fran Jeremy – Education Directorate

APOLOGIES

Cllr Paul Griffiths (Monmouth)
Cllr Paul Miller (Pembrokeshire)
Alun Michael – South Wales Police & Crime Commissioner
Reg Kilpatrick – Director General, COVID Crisis Coordination

Item 1: Welcome and Introductions

1. The Minister for Finance and Local Government (the minister) welcomed members to the meeting and noted apologies.

Item 2: Minutes and Matters Arising from the Previous Meeting

2. The minutes from the last meeting were agreed and actions noted and updated. Actions carried forward:

ACTION: The joint letter of thanks agreed in the last meeting to progressed and include reference to Ukraine and cost of living.

ACTION: A short note detailing funding arrangements to be sent to members.

Item 3: Minister's update

3. The minister provided an update on the complex and challenging budget situation. The impacts of the humanitarian crisis in Ukraine, the continuing high inflation and the associated ongoing cost-of-living crisis built on the existing pressures from the pandemic and the UK leaving the EU. The Welsh Budget for 2023-24 and 2024-25 was worth up to £4bn less in real terms as a result of inflation. As well as increased costs for capital investment such as in school buildings and on services, both local authorities and the NHS were facing significant and worrying increases in energy costs. The minister noted the impacts this was having for households, businesses, and public services. Welsh and Local Government needed to focus on how to maximise the impact of the funding available.
4. The minister updated the group on the UK context. The chancellor had confirmed the publication of a Medium-Term Fiscal Plan accompanied by an OBR forecast for 31st October. The minister said that the impact the recent tax cuts announced by the UK Government would have on the Welsh Government, and other Devolved Governments' settlements was uncertain. However, it was noted that, following the changes to the health and social care levy, around £70m could be recouped from Welsh Government. She had written jointly with the other Devolved Government Finance Ministers requesting urgent action to address the issues facing the economy, public services, and households.
5. The Welsh Government would retain its planned timetable for its draft budget. This was planned for 13 December with the local government draft settlement on 14 December. The final budget was intended to be published on the 28 February. The minister highlighted that without an increase in the 23-24 settlement difficult choices would need to be made and a Spring UK budget might worsen such a position. The minister emphasised the continued call for the UK government to recognise the impact of inflation on public services through additional funding.

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6. The minister updated on progress on the local tax reform work. This included the publication of a consultation seeking views on reforming non-domestic rates in Wales. The minister highlighted the long-term plan to consider alternative approaches to local taxation. The minister confirmed regular updates would continue to be made including following more in-depth sessions with leaders before launching the later phase council tax consultation. Councillors welcomed a partnership approach to achieve a fairer council tax following the Council Tax Reform.
7. The minister thanked the group for their ongoing support with the Welsh response to support the Ukraine people.
8. Members of the group echoed the minister's concern about the financial position and welcomed the update on council tax reform, non-domestic rates consultation and partnership working on the Ukraine schemes.

Item 4: Minister for Education and Welsh Language

9. The Minister for Education and Welsh Language provided an update to the group including the introduction of the curriculum, free school meals and teachers pay in Wales. He thanked local authorities for their efforts in delivering all these significant changes. He recognised that the teachers' pay offer did not match current high rates of inflation and that pay for non teaching staff was still subject to negotiation. Cllr Pritchard raised the importance of teaching assistants but noted the poorer terms and conditions including the lack of pay during the school holidays.
10. Members raised the impact of inflation on food prices and the energy crisis would have on the continued rollout of universal free school meals. They noted the partnership working with third sector to support families. The Minister for Education and Welsh Language confirmed that work was starting with local government to understand the unit costs of free school meals including the pact of inflation and of take up rates.
11. Members also noted the significant rise in construction costs inevitably meant that fewer schools projects could be afforded and the community schools programme would take longer to complete. The group noted that the relatively healthy levels of schools reserves would cushion most but not all schools from immediate impact but that schools too would need to make savings on the basis of current budgets.

Item 5: WLGA update on local government funding issues

12. WLGA Cllr Hunt introduced the WLGA paper which set out the significant increase in pressures for 2023-24 and 2024-25. The paper covered the assessment of pay and non-pay inflation and increases in service demand and

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forecast a cumulative shortfall of £802m by the end of 2024-25. The paper was informed by a detailed collection of forecasts by Councils and more detail could be provided. Members stressed the potential loss of a significant number of jobs and cuts to services in order to balance budgets. Cllr Morgan highlighted that the increase in energy costs would significantly impact core services despite the short term UK Government energy cap.

Action: Jon Rae to share more detailed financial survey data from the WLGA report with WG officials

13. Cllr Hunt said local government continued to welcome the open engagement with Welsh Government. They recognised the position across the Welsh Government budget but nevertheless hoped that the priority Welsh Government had given to Local Government and to health meant that if additional funding was available it would be directed to respond to the serious position local government faced. Cllr Pritchard also raised the need to consider a settlement floor. Local Government had two specific asks in addition – to consider what flexibilities such as capitalisation might also help; and to explore the transfer of a significant proportion of specific grant funding to the revenue support grant to reduce the administrative burden on both local and Welsh Government and to allow local authorities to respond to priorities more flexibly. Where grants were retained monitoring and administration needed to be reduced.
14. In discussion members also asked that the Welsh Government consider whether all of the new proposals for local government delivery were appropriate at this time or whether they should be deferred in the face of the current crisis.
15. The minister confirmed that officials would take forward the possible extension of capitalisation. She was keen to broker discussion with ministerial colleagues on specific grants. The budgetary challenge was severe and the Welsh Government cabinet was, like local government, considering what had to be slowed or reduced. They also had to be aware of the need to deliver on Programme for Government commitments. She asked that WLGA write to confirm the specific grants they would wish to focus on and which new proposals were most resource intensive for local government to help inform the Welsh Government's consideration.

Action: WLGA to write to propose the specific grant areas they want more flexibility and to highlight activity areas that were most resource intensive.

Item 6: Draft DSG progress report

16. The minister introduced Judith Cole to present paper 3. The paper summarised the ongoing work of Distribution Sub Group including the work to update data used as part of the distribution formula following discussions at FSG in July. The

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paper confirmed that, subject to ongoing work not indicating significant change, the group recommended:

- The use of a hybrid approach to population data for the 2023-24 settlement;
- The retention of the use of the 2022-2023 budgeting data (which informs the sector level calculation) but the continuing use of the 2019-20 expenditure outturn (RO) data (which informs the service level calculations) as the impact of covid spending was still distorting the spending data;
- The continuing freezing of datasets such as tourism data due to the pandemic.

The group agreed the approach, although some members expressed ongoing concern at the age of some data used in the formula.

17. The group discussed medium and longer term work. Judith explained that the census data was being published in phases and much of the detailed data would not be available for the 2023-2024 settlement – for example ethnicity. Once clearer timescales for the demographic breakdowns on the Census 2021 were available the DSG workplan would reflect these timescales with the intention that where possible these would be explored for use in the 2024-25 settlement. Cllr Roberts said that he continued to be concerned about the use of old data in the social services formula. Judith confirmed that while much of the data used in the social services element was updated annually, the sparsity elements relied on significantly older data. Consideration of updated sparsity measures was included in the intended work for DSG. Judith noted that the social services formula had changed more recently when the weighting given to sparsity in social care had been increased. Similarly welfare and other indicators of deprivation such as free school meals would need to be revisited. Judith noted that the council tax reform work discussed earlier would also have significant distributional impact.

Action: Welsh Government to provide a timetable on the availability of the range of census outputs which could inform the settlement and to ensure more detail provided in the DSG workplan.

Action : Welsh Government to consider how the workplan and progress is reported in additional to the annual publication.

Item 7: Police and Crime Commissioners' update

18. Peter Curran provided an update on the key finance issues currently facing police Wales which included police pay, staffing levels and police budget. The paper highlighted the impacts of non-pay inflation and higher than planned pay increases. In summary the Welsh Forces were forecasting a shortfall of £40m and total reserves were expected to reduce by £72m by March 2024. Borrowing

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to support Capital Expenditure will increase by £129m by 2024. The forces were forecasting reductions in police staff, although the commitment to PCSOs, supported by Welsh Government, remained. He noted the lower growth in council tax income in Wales compared to England and the effect of this on police funding. Officials confirmed (in the sidebar) that no referendum is required for council tax increases for police in Wales. While there were potential powers to limit council tax increases for LAs and for police, these had not been used in recent years. Peter Curran drew the group's attention to work being done to make the case for additional funding for South Wales Police given the responsibilities for policing the capital city.

Item 8: Any other business

19. No other business.