

## CYPE(5)-02-21 - Paper to note 1

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Dear Lynne,

Thank you for your letter of 20 November on the Welsh Government Draft Budget 2021-22.

The Minister for Finance and Trefnydd was clear in the draft budget that one of the hard choices we have faced in setting our spending plans for next year is our approach to public sector pay. The reality is that we did not receive any additional funding through the Barnett formula to provide for public sector wide pay awards next year given the UK Government's decision to pause public sector pay rises, with the exception of the NHS and those on the lowest wages. The implications of pay awards in 2021-22 will therefore need to be accommodated within local authorities' budget planning in the light of the Settlement. Our decisions in the budget target as much support as we can to health and local government to support pressure in frontline services focusing on schools and social services.

Whilst we did not receive any additional funding from the UK Government for public sector pay, in determining the distribution of funding across authorities for the local government Settlement, we have recognised the decisions made on the 2020/21 teachers' pay deal and the commitment made by local government to fund this deal by directing funding into the schools part of the formula.

Overall (excluding a transfer of funding for the Coastal Risk Management Programme), the settlement baseline will increase by £176 million in cash terms in 2021-22. This reflects a larger increase in the Revenue Support Grant (RSG) to compensate for a fall in Non-Domestic Rate (NDR) collection, largely brought about by the impact of the pandemic.

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

As in previous years, local authority budgeted expenditure is used to set the relative size of the Standard Spending Assessment (SSA) sectors. For 2021-22, in recognition of the 2020/21 teachers' pay deal, we are directing £19.973 million into the schools service SSA sector, for teachers in maintained schools from nursery to year 11, before dividing the remaining increase across the SSA sectors.

The £19.973 million figure was calculated as follows (and includes the most up-to-date position on teachers' pensions):

- £13.148m = the 5 months of the 2.6% element<sup>1</sup> of the 2020/21 pay deal that was not already in the 2020-21 settlement baseline (7 months, covering September 2020 to March 2021, was already in the baseline, at a value of £18.4m in the 2020-21 settlement).

*plus*

- £6.825m = a full 12 months of the 0.5% element<sup>2</sup> of the 2020/21 pay deal, none of which was in the 2020-21 settlement baseline (7 months of which is being paid as a specific grant, covering September 2020 to March 2021, at a cost of £3.981m)

This direction of funding into specific parts of the formula is to ensure the funding is distributed in the most appropriate way, in recognition of the pressures local authorities are facing. It is not a way of badging how much funding is in the settlement for a particular purpose. Therefore, it would not be correct to talk in terms of proportions of funding that have been included for a specific purpose.

With regards to teachers' pensions, there is no additional funding in this settlement specifically for that purpose. The funding that was delivered through the 2020-21 settlement remains in the baseline and is distributed according to the wider needs-based formula.

We hope this information will be of use when assessing local authority pressures.

Yours sincerely



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<sup>1</sup> 2.6% was the Office for Budget Responsibility (OBR) best estimate of inflation at the time of calculation

<sup>2</sup> 0.5% in recognition of the difference between the OBR estimate (2.6%) and the overall 3.1% increase to the pay bill