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Ein Cyf / Our Ref: Leaders/Senedd

Dyddiad / Date: 12 November 2025

Gofynnwch am / Please ask for: Jon Rae

Peredur Owen Griffiths MS  
Chair of Finance Committee  
Senedd Cymru / Welsh Parliament  
Bae Caerdydd,  
Caerdydd,  
CF99 1SN

### **By email**

Dear Peredur,

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

Thank you for your letter of 30 October about the evidence we have submitted to support your scrutiny of the Welsh Government Budget. You have raised three issues that require further clarification.

You correctly identify the cost pressures in the next financial year as £560m and we have said that this is 6.6% of budgeted expenditure<sup>1</sup>. This captures the totality of local government inflation which can be broken down into 4 elements, pay inflation, non-pay inflation, commissioning and demand. Stripping out demand would leave £328m as a standstill pressure, which is approximately 4% of budgeted expenditure. The appendix to the evince paper, on pages 26 and 27, breaks down all inflationary

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<sup>1</sup> A £560m pressure would require an increase of 9.2% of aggregate external finance (AEF) and an increase of £328m would require an increase of 5.4%.

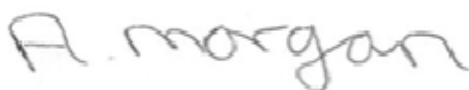
elements in some detail.

Your second bullet is linked to the first in that CPI, the consumer price index, is not an adequate measure of local service inflation. It is a measure of household inflation for a basket of goods and services. That said, projections are used by councils for financial planning purposes, but a large proportion of our inflation is linked to pay which was settled at 3.2% for this year and we are awaiting the unions pay claim for 2026-27. Some inflationary assumptions, for example for commissioned social care can be quite high and we've seen figures as high as 10% used in previous years.

Your final question on alternative metrics has probably been addressed but just to reiterate, the OBR's forecast of CPI is probably as good a measure as any for non-pay inflation. The alternative inflationary metrics are the ones we have presented. They are the most appropriate for local services and are derived from the medium-terms financial plans of councils.

In summary local service inflation tends to be driven by specific demand and pay inflation that is much higher than forecast CPI. As we said in our recent letter to Senedd political group leaders, a rollover budget would be extremely challenging for local services, set against the backdrop of our own financial pressures.

Yours sincerely,



**Councillor Andrew Morgan OBE**  
**WLGA Leader**