

Budget 2025-26 – Outlook

Council 26th July 2024

Report of the Corporate Directors' Group

Purpose

To advise Council of the financial outlook for 2025-26 and the broad approach that will be taken to support the setting of the Council's revenue and capital budgets for the financial year 2025-26.

Executive Summary

Recent years have been characterised by considerable volatility as a result of world and domestic events.

- The pandemic period has left a significant legacy with high numbers of people requiring support from social services, homelessness services and more young people presenting with additional learning needs and more young people needing additional help to attend school and participate in their education;
- The illegal war in Ukraine caused a further economic shock which saw energy prices, general inflation and interest rates sharply increase. Although inflation has now returned to 2%, many goods and services remain more costly and energy prices and interest rates remain high;
- The cost of living crisis continues with many of our residents and local businesses experiencing financial hardship;
- Whilst there has been a small increase in the number of people unemployed, the labour market remains very competitive and this is reflected in higher prices for services. The council is also continuing to experience difficulty filling some roles in our organisation. A worrying large number of people of working age are economically inactive and not looking for work;
- Capital projects have become more challenging to deliver as a consequence of a number of factors identified above; and
- Whilst the Council is engaged in a range of significant economic development opportunities and is also a key partner in responding to

the changes at Tata Steel UK Ltd, the cumulative impact of these developments is challenging to resource.

The revenue settlements from Welsh Government in the last two financial years – 2023/4 and 2024/5 fell substantially short of what the Council needed to deliver its services and functions. Additional pressures of some £70 million were identified for the two year period with Welsh Government providing some £26.9 million funding. Budget cuts, additional income, including council tax increases have been necessary to balance the budget – the associated change management activity has increased workloads, placing further pressure across the organisation.

The Cabinet Secretary for Finance, Constitution and Cabinet Office in her statement of 11th June 2024 (Appendix 1), recognises the challenging context and makes clear that we must prepare for difficult decisions and trade-offs in our planning. A Welsh Spending Review is to be undertaken and this will drive the Welsh Government's future annual budgets. The statement makes clear that there will be an emphasis on key priorities for Wales – reducing NHS waiting lists; support for children in early years; educational excellence in our schools; better, greener jobs; secure homes; and improved transport links across the country. The incoming Labour Government following the General Election held on 4th July 2024 is yet to signal whether it will adjust current spending plans. Welsh Government advise, for 2025-26, we should base our planning on **NO** uplift to the Revenue Support Grant.

The scale of the challenge a cash flat Settlement presents for Neath Port Talbot County Borough Council is set out in the body of this report. Work has already started to identify the measures that will need to be considered to achieve a balanced budget for the next financial year. The many years of austerity, coupled with the series of economic shocks in recent years and the prospect of further significant reductions to the Council's funding base, will have very negative overall consequences for the services and functions we operate, the number of people we will be able to employ and rates of council tax, fees and charges.

Financial Modelling

Pay and Inflation

The economic environment has seen significant fluctuations in recent years, notably in inflation rates. These fluctuations have direct consequences on budgeting for pay awards and external contracts. Local authorities must account for these changes to ensure financial stability and effective service delivery.

General Inflation

Inflation has stabilised at 2% after peaking at 11.1% in October 2022. Despite the reduction, many goods and services remain costlier than before.

Pay Awards

The pay negotiations for April 2024 are still ongoing. Any pay award exceeding the budget provision must be incorporated into the 2025-26 budget strategy. The medium-term financial plan (MTFP) assumes a 3% annual increase in pay for the next five years.

National Minimum Wage (NMW)

The latest estimated increase in NMW ranges from 1.49% to 6.47%, with a likely increase of 3.93%. Many external contracts require an uplift in line with NMW, adding pressure to the budget.

Revenue Settlement

The Welsh Government has advised local authorities to plan for no uplift in the Revenue Support Grant. A 1% increase in the Revenue Support Grant equates to £2.856 million.

A detailed schedule of the assumptions currently built into the MTFP can be found in appendix 2 of the report. Based on the current modelling the total inflationary pressure for 2025/26 amounts to c£13m.

A range of modelling has also taken place which shows a range from a 'better case' inflation pressure of £7m to a 'worse case' pressure of £20m.

Unavoidable Service Pressures 2025/26

Whilst inflation, BREXIT impacts and pay awards continue to be reflected in higher prices, we are seeing significant increases in demand in key areas of service, further exacerbating the position. We are also now experiencing the consequences of constrained capital investment in infrastructure with significantly increased risk across all categories of assets.

These pressures are not unique to NPT but are structural problems being experienced by all councils.

The medium term financial plan includes service pressures totalling £9.7m in 2025/26. This figure includes areas previously balanced by using reserves in 2024/25, which is not a sustainable long-term strategy. These pressures are detailed in the table below:

| Directorate | Detail | £'000 2025/26 |
|---|--|--------------------------|
| Schools | - | |
| Schools | Welsh Medium Starter School Neath Abbey | 350 |
| Schools | Address historical shortfall in teaching assistant funding | 750 |
| Total Schools | | 1,100 |
| <u>Education, Leisure & Lifelong Learning (ELLL)</u> | | £'000 2025/26 |
| Leisure | Additional cost of running indoor leisure if insourced | 1,300 |
| Total ELLL | | 1,300 |
| <u>Environment (ENV)</u> | | £'000 2025/26 |
| Environment | Core fund posts funded from service resilience reserve | 500 |
| Total ENV | | 500 |
| <u>Social Services, Health and Housing (SSH0)</u> | | £'000 2025/26 |
| Adult Services | Increase in base budget to meet current cost | 5,700 |

| | | |
|---|-----------------------------|--------------|
| Housing and Homelessness | Increased cost of provision | 1,100 |
| Total SSHH | | 6,800 |
| Grand total funded unavoidable service pressures | | 9,700 |

Overview of the Budget Gap

Based on the latest assumptions in the medium term financial plan, the budget gap for 2025/26 is £18.061m before any increase in council tax. Over the next five years the total gap is £60m.

In addition to the pressures already included within the MTFP Corporate Directors have identified other emerging pressures which will need to be considered. Any further accepted pressures will further increase the unfunded budget gap.

Some examples of areas that we will be examining in detail as we begin the budget process include:

Education and schools

All councils across Wales are seeing an increase in the number of schools reporting deficit balances. Despite providing £2 million additional funding to secondary schools in the last two academic years, the NPT position has deteriorated sharply at the end of the last academic year and detailed examination of the reasons for these balances will be undertaken as part of the budget planning exercise. The main areas contributing to the overall picture include:

- Teachers pay

Over the past two years teacher trade unions associations have secured pay awards for their members in excess of what has been included in settlements from Welsh government to local authorities as part of the revenue support grant. This has meant that schools have had to fund the difference from their reserves in the amount of £4.5m.

Over the past 3 financial years added to this the additional 1.5% uplift in teachers pay has not been included in delegated schools budgets for financial year 2024/25 and will mean a further £2m pressure in year.

- Energy

It is widely known the cost of energy has increased significantly in recent times. Schools are one of the biggest consumers of energy across the county borough. The difference in what the local authority have funded schools for energy and the actual cost of what schools have had to pay is £0.6M.

During 2023/34 an additional c£1.3m of funding was provided to schools in order to meet the rise in energy costs. The Council have invested in an energy management team to design out energy costs and schools will be a priority area within that programme. Schools will also need to participate in this work, examining additional ways to reduce energy consumption.

- Teacher Assistant costs linked to ALN

Over many years the number of teaching assistant hours linked to statements of special education needs (more recently referred to as Individual Development Plans) has been increasing with a consequential cost increase. These increased costs have not been funded by the Welsh Government. The significant number of pupils identified as having an entitlement to additional support in our schools is placing significant and growing pressure across schools.

Currently there is a funding deficit of £7.6M between what schools are funded for in the delegated school budget and the actual cost of what schools have to pay.

The impact of the funding shortfall detailed above means schools are increasingly finding it difficult to meet pupils needs resulting in increased exclusions, lower attendance and increased numbers of pupils being electively home educated.

Furthermore we are already seeing both voluntary and compulsory redundancies across our schools as Head teachers and governing bodies seek to balance their budgets. The reduction in the workforce is leading to lower staff morale and more young teachers leaving the profession and making it harder to recruit into some specialist roles. Despite these challenges NPT continues to secure very positive inspection reports in nearly all schools.

Social Services, Housing and Community Safety

Homelessness- the number of people in temporary accommodation has increased from 313 people in 2019-20 to 832 in 2023-24. It is estimated that without intervention this will continue to increase to around 2,233 people in 2027-28. In cost terms this would see an increase from £2.6 million in 2023-24 to £4.4 million in 2027-28.

Children's Social Services – As at the 17th June 2024 there were 228 children who were in the care of the Local Authority. This does not include respite provision nor the 22 Unaccompanied Asylum Seekers we look after. Of the 228 care experienced children 20 are placed in a residential care setting due to complexity or a lack of available and skilled foster carers. The cost of this residential care provision in 2023/24 was £5,119,524, which was £990,774 over the budget allocated.

Environment and Regeneration

As noted elsewhere in this report energy costs remain high and despite measures to reduce energy consumption and to generate our own energy, the costs continue to exceed the budget available. Construction Inflation which remains stubbornly high, is continuing to impact upon the cost of supplies and services which are essential to repair and maintain our buildings, highways and structures. Budgets for these areas have been cut over a number of years which, together with the deterioration of our assets over time, is placing a significant financial and safety risk on the council to maintain those assets and comply with our health and safety obligations. Welsh Government targets associated with decarbonising our assets is also proving to be expensive.

Focusing on fleet transition it is likely that the funds set aside to cover the costs of renewing our fleet are insufficient to cover the costs we are about to incur (as much of our large fleet is 9 years old and failing) but the annual payments into reserve for future renewals is also insufficient. Finally, whilst we rely on our ability to increase fees and charges to cover the costs of delivering services, some of those fees are at the point where the public will stop using them which will in turn result in a decrease in income. Examples include car parking and pest control charges. The most recent increase in car parking charges has failed to cover the cost of running this service and we remain in deficit.

Corporate Services

Main Drivers for Pressures

- Social worker pay and terms and conditions are under review at all Wales level – a number of options are being considered to help improve recruitment and retention in this sector, and whilst it is too early to determine what the impact of this could be, it is possible that there will be increased costs associated.
- Similarly, work is underway at an all Wales level to review the role of Teaching Assistants (TA), including a review of the model job descriptions that link to the various levels of TA within schools. Again, whilst it is too early to determine the exact impacts of this piece of work, it is highly likely that there will be increased costs for schools.
- Software inflation costs which are currently running at around 10% year on year, creating further unfunded pressures on the Digital Services budget.
- Increases in regulatory responsibilities from Welsh Government (i.e. Special Procedure Licences) without the associative funding creates additional pressures on existing small teams.

Service Impacts

Social Services, Health and Housing

Homelessness-

Demand is being driven by a number of factors:

- Policy change from Welsh Government which has not been fully funded but has lowered the threshold for qualifying for support from councils;
- Family pressures arising from the cost of living crisis;
- A reduction in affordable accommodation in the private rented sector;
- Insufficient accommodation due to market factors, particularly one-bedded accommodation; and

- An increase in care leavers and youth homelessness.
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The Council has endorsed an 'invest to save' transformation proposal to create a strategic Housing function as well a preventative service. By preventing people becoming homeless, rapidly re housing those that do and supporting people to maintain tenancies it is expected that demands in this area will be better controlled. The transformation Programme was to be implemented over the next 3 years but given the huge budgetary pressures the Council is facing the Director and the Head of Housing are looking at the possibility of quicker implementation to realise some of the financial savings earlier. This will require the support of all Councillors when the service is looking to create new temporary and permanent housing solutions across the County Borough.

Children's Social Services

The situation has been compounded by the lack of suitable placements which are being further impacted by the Welsh Government's policy to eliminate profit from the care market. Outside of the Looked After system, there remain significant pressures in relation to the complexity of need presented across the service. Ensuring a stable workforce will need to remain a priority focus throughout the period with the need to ensure remuneration and our wider employer offer remains attractive in a highly competitive labour market.

As set out in the Corporate plan the transformational programme in this Service aims to create a small number of 'professional' foster carers who will step down suitable children who are currently in residential care into family life. This will be a much better option for the children and will save the Council money.

Adult Social Services – new contacts to the service were 9,265 in 2022-23 compared with 6,259 in 2018-19. Demand is projected to continue to rise given that the population is ageing and in particular, the number of people living with dementia is expected to double within 20 years. Covid-19 has had a major impact on the care market with a large number of providers withdrawing from the market entirely. The cost of providing care has also increased significantly, linked to the Welsh Government's policy to provide at least the Real Living Wage and the impact of infection control regimes. The number of people with

disabilities requiring a specialist residential placement has seen a sharp increase linked to Covid-19. The number of people accessing health service continues at a very high level, placing additional pressure on social services to ensure care packages are available for those who need them, to expedite hospital discharge.

The transformational programmes in Adult Services is both large and complex with significant risks attached. They include, insourcing an older person's residential unit and providing a re-ablement facility; building and running supported living for those with mental health and learning disabilities (to include significant building works to create the necessary provision); insourcing and expanding respite/foster care for adults and providing an alternative night time support offer. Alongside other risks the need to prioritise this work on a Corporate basis will be crucial if there is any chance of accelerating the programmes to realise earlier savings. There will be some difficult choices for the Council to make when prioritising which Capital programmes should be supported given the limited number of specialist staff across the workforce.

Strategic Assessment by Director of Social Services, Housing and Community Safety

The significant increase in demand seen across Wales in relation to Social Care and Housing is causing huge concern for Directors of those portfolios and their ability to fulfil their statutory duties. Welsh Government policies and funding decisions, the ongoing impact of Covid on people's wellbeing and the Home Office response to immigration dispersal has created an unsustainable position for Local Government if services continue to be delivered in their current form. Whilst some Local Authorities are shedding jobs others, like Neath Port Talbot Council, are looking to transform the services we provide.

It will be imperative that we take a whole Council approach to committing the resources needed to implement the transformational programmes that we have agreed. The aim is to drive down costs whilst maintaining support for those most vulnerable. There are currently significant risks to the success of any change programmes that involve a large scale approach to building new provision, insourcing services and managing future demand but the current and predicted cost of services, as described above, are unsustainable in their current form.

Education, Leisure and Lifelong Learning

Post Covid impact

It is widely accepted that the impact Covid had on our children and young people has resulted in lower levels of attendance at school and an increase in poor behaviour for a minority of pupils. This is having an impact on the number of fixed term and permanent exclusions. Schools are having to re-direct funding to support pastoral programmes for these pupils which is becoming increasingly difficult, impossible in some schools, as reserves diminish. These additional costs have been mitigated to a point following additional funding being made available from corporate reserves agreed by Cabinet last financial year.

More pupils out of main stream school puts a pressure on local authority services, education and children services budgets in particular as we have to meet our statutory obligations to all children.

Culture and leisure services

Nearly all services in this area are non-statutory which means we do not have to deliver them. That said our public engagement efforts make it very clear that these services are very important to the wider public and deliver many benefits. To continue to deliver these services will mean securing additional earned income and external grant funding. If we are unsuccessful in these endeavours it will make services vulnerable to service cuts as they compete for resource against statutory services such as education.

Directorate's strategy

The Directorate is undertaking a number of initiatives to reduce the net running cost of services. We have commissioned EDGE on Home to School transport; we have work ongoing in relation to attendance and exclusions; we have work to reduce energy costs across the school estate identified; however, if more funding is not provided by WG we risk increased class sizes; delays in assessing pupils who present with additional learning needs; workforce impacts; all of this with consequential impacts on outcomes for learners.

We are also underpinning the delivery of a range of support services that particularly benefit more disadvantaged young people through a range of grant

funded programmes. If these are reduced or in the case of Shared Prosperity Fund (SPF) are not at least matched at the end of the current programme, outcomes for those facing the greatest barriers to learning will be severely impacted.

Strategic Assessment of the Director of Education, Leisure and Lifelong Learning

The local authority will definitely undergo an inspection of its education services in academic year 2024/25, known as LGES – Local Government Education Services. This is an inspection of how well the local authority meets its statutory obligations in respect of education delivery and not merely the education directorate. The risks currently are around attendance, exclusions, the impact poverty has on our pupils and the number of schools with a deficit reserve balance. In addition are we meeting our statutory obligations for every pupil in the County Borough and the extent to which education is seen to be a priority for the Council will also be considered.

The Council has made it a corporate commitment to give every child ‘The Best Start in Life’ Higher numbers of pupils with specialist needs and financial constraints is making it very difficult to fulfil that ambition currently.

Environment

The capital grant available from WG has changed little in over 20 years. It currently stands at c£9 million, of which, £3 million is invested in Disabled Facilities Grants. Improvements to and maintenance of infrastructure is largely supported by specific grants or through borrowing (the latter placing additional burden on an over-stretched revenue budget). Members are apprised of the condition, suitability and risk attached to all assets through asset management plans. Given the limited amount of funding available to support legacy infrastructure (much capital grant being to support new infrastructure or areas which WG consider to be priority) it is no surprise that the level of risk held by the Council has increased over time.

Consequently, there is an elevated risk of infrastructure failure which needs to be considered as part of the budget process. Areas that now need attention include: the increased number of pot holes; defects in bridges and other structures; large areas of carriageway resurfacing; and drainage infrastructure. This will mean that ‘improvement’ work will be severely constrained in the

foreseeable future unless specific new funding is made available by Government. Funding originally intended for Clean Up, Green Up programme has already been refocused to mitigate the growing risk of failure on the highway infrastructure. We will need to review existing priorities within the overall capital programme to ensure we are focusing scarce resources on the greatest areas of risk or where there is a clear business case to invest to reduce pressure on the revenue budget.

The Council has approved phase one and phase two of the accommodation strategy which seeks to reduce the number of buildings required and to improve the efficiency and economy of the operation of those premises. Complete withdrawal from Tregelles Court is contingent upon replacing the vehicle repair and maintenance garage. A business case to achieve this is well advanced but at present there are no funds identified against the project in the capital programme. A review of civic and other office accommodation is to report this financial year to identify work to progress under phase three of our accommodation strategy. A clear programme of work to design out energy costs, including a reduction in our carbon footprint is planned, with a new team funded to take this work forward. Meanwhile, Building Services are seeing an increase in emergency works needed across the existing estate and this is proving difficult to resource in the context of increased materials costs and reduced budget.

Conversely, the Council has been very successful in drawing down capital grant for priority areas set by Welsh and UK governments. The Council is also central to the new Celtic Freeport initiative and is helping to mitigate the impacts of the decarbonisation of Tata Steel UK's plant at Port Talbot. We are seeing community and economic regeneration on a scale not seen previously and this is stretching the small team of expert staff whilst also consuming significant time across a number of chief officer portfolios. Members have given their support to providing capacity funding for the Celtic Freeport and we are in dialogue with Welsh and UK governments to secure the capacity we need to deliver our contribution to the Tata Transition Board. Given the level of competition in the current labour market, there is an increased risk that we will not find it easy to recruit the expertise we need at the level needed with the burden falling on existing staff, or resulting opportunities to regenerate the communities and the economy not being fully realised.

Strategic Assessment of Director of Environment and Regeneration

If further cuts are required across the services and functions delivered by this directorate there will be significant impacts on services provided under discretionary powers in order to redirect resources to those functions and services that are statutory duties. Many of the services at risk are those highly valued by the public e.g. grass cutting, litter picking, road and drainage cleansing, and other neighbourhood services will reduce which will impact upon the quality of our public realm. Potentially all of the recommendations in the waste strategy which lead to cost savings may need to be implemented regardless of public opinion.

The number of parks may need to reduce and we may need to start closing facilities on certain days of the week or during certain seasons, for example facilities such as our Household Waste and Recycling Centres, our public toilet provision etc. Carparks which are currently running at a loss or need significant capital investment may need to close and sold for alternative purposes. Resources within Economic development and regeneration may need to be scaled back with consequent impacts upon project delivery including Shared Prosperity project work.

It should be noted that SPF is currently used to financially support a number of services across the Council. Resources to deliver active travel and the delivery of subsidised bus routes may need to stop or be scaled back impacting upon the scale and quality of both networks

Corporate Services

Demand for support is increasing in all areas of the Directorate as a result of the ambitious programmes of work being embarked across the Council and articulated within the revised Corporate Plan 2024-27. To deliver the nine programmes of change will require significant support from the Corporate Services Directorate.

Legislative burdens, specifically the new Procurement Act 2023 and the emphasis on social value procurement places additional burdens and obligations on procurement and commissioning processes, all of which could result in increased cost to the local authority. Challenges being faced across all public sector organisations mean an increased risk of costs from Council contributions having to increase i.e. the Swansea/Neath Port Talbot Coronial Service.

The South West Wales Corporate Joint Committee has placed additional demands on officer time. The costs of meeting statutory duties placed on the CJs - which are substantial – are shared across the authorities that make up the South West region through a levy.

Recruitment activity has increased by 50% since 2020/21 with training activity increasing by 35%. The continued pace of change within the organisation and the general labour market conditions continues to be a significant demand on the People and Organisation Development function.

A refreshed digital strategy has been approved by Members to ensure the infrastructure enables the changes we need to progress across the Council whilst also managing increased cyber and other risks.

Strategic Assessment of the Director of Strategy and Corporate Services

Delivering a 5% reduction in net revenue for the Directorate in 2025-26 will mean a reduction in the workforce capacity that will significantly impact our ability to support other Directorates to deliver their programmes for change and even support business as usual activity.

The scale of the challenge now being faced by services within the Directorates is how we can continue to provide the support necessary to the Council and ensure statutory and governance obligations are met, when faced with increased demand, increased complexity of work along with increased policy and statutory requirements from Welsh and UK Government and a 5% reduction in the net revenue budget.

Strategic Approach

The scale of challenge facing the Council is unprecedented and reflected across all councils in Wales.

As can be seen in the earlier sections of this report, there are elevated risks across all service areas and increasing risks to the Council's financial sustainability.

Work done in 2023-24 and the current financial year provides a good foundation for 2025-26 but if the Revenue Support Grant is not uplifted sufficiently, the current plans will be insufficient.

The revised Corporate Plan confirms the four wellbeing objectives:

- All children get the best start in life;
- All communities are thriving and sustainable;
- Our local environment, heritage and culture can be enjoyed by future generations; and
- We create the conditions for more secure, well paid and green working the area and support local people into those jobs.

The nine programme of change that either seek to change models of service and reduce cost/raise new income, or which initiate enabling work needed to tackle future challenges are a corporate priority. Delivering all of these change programmes is essential to the sustainability of the Council. However, no increase in the Settlement in 2025-26 will require **additional** action across the entire organisation. This will mean accelerating existing plans **AND** bringing forward further measures to cut expenditure and additional measures to increase income.

Over the spring/summer, the Chief Executive and Director of Finance have met with all management teams through a series of sustainability conversations. Fifteen such conversations have taken place and have involved directors, heads of service and all accountable managers. The financial outlook for 2025-26 and beyond has been a focus of these conversations with each manager asked to outline how they intend to sustain their services in this context. The approaches and impacts on service delivery vary from service to service, reflecting the diversity of Council operations. It is very clear from this exercise that a freezing of RSG will have significant impacts. In addition to service change within directorates, we have also been able to identify areas that require further corporate attention as well as areas where support/action by the Welsh Government or others is a necessary part of the overall picture.

Further work will take place over the summer and into the autumn before details are brought forward in the budget setting process. Every service has been asked to exemplify a 5% reduction in the net revenue budget in for 2025-26 and again in 2026-27. Each of these measures will be assessed in terms of

impact to inform the advice that members will receive as the budget process gets underway.

Next Steps

We are already maintaining a tight grip on spending and income across the organisation. We are currently on track to deliver all but one of the savings and income measures Council approved as part of the 2024-25 budget. We will identify what further in-year action might be taken to avoid new expenditure that impacts on the revenue budget, maximise income and reduce costs.

By end October, we will identify all available actions to deliver a balanced budget in 2025-26 and 2026-27 based on the assumptions highlighted earlier in this report. An impact assessment will be undertaken so that the consequences of the actions identified are clear. Where possible, we will bring forward decisions on specific proposals as early as possible to maximise savings or income proposals and to enable effective consultation with stakeholders.

Over the same period we will engage with key stakeholders to ensure the consequences of no increase in the RSG are fully understood. This will include working within WLGA to seek an improvement to the proposed Settlement and briefing the newly elected members of the UK Parliament on the situation. We will also put forward a range of proposals to Welsh Government where policy change could assist in mitigating the overall position – for example, lifting the cap on fees in certain instances; improving the intervention rate on capital investments; as well as other practical measures.

Between the end of October and end of December, we anticipate the incoming UK Government will provide greater certainty about spending priorities for 2025-26. This will indicate if there is likely to be an improvement in the Welsh Government's financial position and any consequential improvement in local government budgets. Assumptions in the financial model can then be updated, enabling final advice to be prepared for Members and any proposal not yet consulted upon will be made available to stakeholders.

The last two financial years have been very challenging but the outlook for 2025-26 and beyond is currently projected to be on an even greater scale. All members of Council will need to actively engage in the budget process,

offering constructive comment and challenge and also helping to explain resultant changes to services to our many stakeholders.

Financial Impacts:

No implications. This report is designed to provide general context to support the budget process.

Integrated Impact Assessment:

There is no requirement to undertake an Integrated Impact Assessment as this report is for information purposes. Individual budget proposals will be subject to the IIA process in due course with an overarching statement of impact included within the final budget report.

Valleys Communities Impacts:

This report sets out the context for the budget process 2025-26 – whilst no direct impacts have been identified to date on valleys communities, the scale of the budget challenges are likely to impact every community across NPT.

Workforce Impacts:

No implications as this is an information report providing contextual information. The budget scenarios referenced are likely to see a reduction in the overall size of the workforce, together with changes to the way services are to be delivered. As proposals are worked up, they will be subject to the usual social partnership arrangements and the impacts of changes on the workforce will be reported as part of the budget process.

Legal Impacts:

The Council has a legal duty to set a lawful budget by the 11 March (Local Government Finance Act 1992). Members jointly and severally (individually and collectively) have a fiduciary duty to council tax payers so they have a duty to facilitate the setting of a lawful budget, a process that requires flexibility

and compromise. Failure to set a lawful budget in time will lead to loss of revenue – through not collecting council tax – both for the council and the precepting authorities such as the police and Town/Parish councils, significant additional administrative costs as well as reputational damage.

In addition, individual officers within the Council have a statutory duty to advise members and facilitate specific courses of action:

- Pursuant to the Local Government and Elections (Wales) Act 2021, the Council must provide its chief executive with such staff, accommodation and other resources, which in the chief executive's opinion is sufficient to allow the duties of the chief executive to be carried out. This will include the way the Council exercises its different functions and ensuring that appropriate arrangements are in place in respect of financial planning, asset management and risk management.
- Section 151 of the Local Government Act 1972 requires the Council to make proper arrangements for its financial affairs and appoint an officer to have responsibility for those arrangements (the Chief Finance Officer) and who must ensure that a local authority's financial functions are fit for purpose. Section 25 of the Local Government Act 2003 also requires the Chief Financial Officer to report to Council on the "robustness of the estimates" used in calculating the budget requirement. In the event that a Council incurs expenditure which is not approved or unlawful, the S151 Officer has the power to issue a notice providing that no new expenditure is permitted except to fund statutory services although existing commitments and contracts are honoured, and staff wages are paid. Councillors must then meet within 21 days to discuss the situation and consider what action to take.
- The Council's Monitoring Officer is an officer appointed pursuant to the Local Government and Housing Act 1989. Amongst other duties such as monitoring conduct and overseeing the constitution, it shall be the duty of the Monitoring Officer to prepare a report to the authority (or to the Executive with a copy to all councillors) if, at any time, it appears to him/her that any proposal, decision or omission of the authority, a

Committee or sub-committee, an officer or a joint committee or by or on behalf of the authority's executive has given rise to, or is likely to or would give rise to, a contravention of any enactment or rule of law.

- The Council must appoint a person to be its Director of Social Services who has numerous duties set out in the Code of Practice on the Role of the Director of Social Services (Social Services Functions). The fundamental responsibilities of this role are to (1) ensure the Chief Executive, executive and councillors have access to the best, up-to-date professional advice and information on all aspects of care and support services and prepare an annual report; (2) assure the Chief Executive and councillors that statutory functions laid on the Council have been carried out, and that proper management information and accurate records are being kept (3) ensure effective performance management processes are in place; (4) identify and advise councillors on priorities, challenges and risks across all aspects of social services, including areas of co-dependency between agencies and circumstances where staffing issues affect the Council's ability to discharge its statutory responsibilities; (5) brief the Chief Executive and councillors on high-profile cases and other matters likely to cause public concern; (6) advise councillors on strategies for improving methods of intervention, service provision, practice and use of resources; and (7) lead and support continuous engagement with inspectorates and regulators
- The Local Government (Wales) Measure 2011 provides that the Council must designate one of its officers as Head of Democratic Services to discharge a number of functions, specifically, the number and grades of staff required to discharge democratic services functions; the appointment of staff to discharge democratic services functions and the organisation and proper management of staff discharging democratic services functions. The Council must provide that officer with such staff, accommodation and other resources as are, in its opinion, sufficient to allow his or her functions to be discharged.

- Section 27 of the Children Act 2004 requires the Council to appoint a lead director for children and young people's services to co-ordinate and oversee arrangements to improve the well-being of children in the local authority area.
- The Council must appoint a fit person to be the Chief Education Officer of the Council pursuant to the Education Act 1996. It will be the duty of that officer to ensure that the Council is complying with our duties pursuant to the Education Act 1996 and other related education.

It should be noted that in respect of these officers, if they feel that they are not able to exercise their statutory duties because they do not have sufficient resources, then they are provided with a power to bring a report to Full Council and Council must give consideration to the issues raised and provide such resources that may be necessary for such services to be provided.

Risk Management Impacts:

The report sets out a strategic assessment of service, organisational and financial risks that will be assessed in more detail as the response to the budget gap is developed over the coming months.

Consultation:

There is no requirement for external consultation on this item, however, the report will be used to inform a range of stakeholders over the coming months about the impact of no increase to the Revenue Support Grant in 2025-26.

Recommendations:

That members of Council note the potential for there to be no increase to the Revenue Support Grant in 2025-26 and note the serious implications this will have for services, jobs, fees and charges and council tax levels.

Reasons for Proposed Decision:

This report has been developed to provide early advice to all members of Council on the budget likely to be required in 2025-26 and the serious consequences that will follow if there is no uplift to the Revenue Support Grant as currently advised by Welsh Government.

Officers holding statutory office have duties to make sure that advice is provided to elected members on various matters including the need for early action to be taken to ensure the sustainability of the Council.

Further reports will issue over the coming months setting out detailed options for Members to consider so that the Council can meet its statutory duties, including the requirement to set a balanced budget. Without additional Government funding, it is inevitable that the Council will need to cut services, jobs, raise fees and charges and consider further increases to Council Tax.

Appendices:

Appendix 1 - Statement by Rebecca Evans MS

Appendix 2- Inflation Assumptions

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STATEMENT

BY

THE WELSH GOVERNMENT

TITLE **Context for, and Approach to, the Next Spending Review Period**

DATE **11 June 2024**

BY **Rebecca Evans MS, Cabinet Secretary for Finance, Constitution and Cabinet Office**

I am pleased today to outline the Welsh Government's preparations for the next Spending Review period and to reflect on the challenging economic and fiscal context as we try to set plans for the next few years.

We cannot underestimate these challenges. 14 years of economic mismanagement by successive Tory UK Governments have led to austerity budget after austerity budget. We've had to deal with the fallout of Liz Truss and Kwasi Kwarteng's disastrous mini-budget, which almost crashed the economy and sustained, double-digit inflation in recent years has taken its toll on our already stretched settlement.

Overall, our budget is worth £700 million less in real terms than expected at the time of the last UK Spending Review in 2021.

Additional factors such as the continuing impact of Covid, the war in Ukraine and the cost-of-living crisis have had a huge impact, making it very difficult for us to focus on anything other than the short term.

The past few years have been characterised by crisis after crisis, and this has limited the opportunity to consider longer-term opportunities which maximise the impact of our available funds.

We won't know detail of the next UK Government's spending plans until after the General Election. However, given that our current multi-year funding settlement will end after this financial year, work has begun to develop our plans beyond April 2025.

It is in this challenging context and taking stock of the lessons learned I want to implement a new approach which will support a medium to long term fiscal strategy and inform how we decide to spend and raise money in Wales. An approach which includes our statutory responsibilities, drives future budgets, and aligns with our priorities as a Government.

We want to take a collegiate approach to this work, and as ever, I welcome new ideas and proposals, from wherever they come, in this Siambur and beyond, where there is a clear benefit to Wales. As part of this work, I want to hear from diverse voices and from right across our communities.

It is in that spirit that I make today's statement.

It is important we recognise the wider context within which we are undertaking these preparations. The challenges we face are significant.

Public sector net debt in the UK is currently nearly 100% of GDP, its highest level since the early 1960s.

At the same time the overall UK tax burden is higher than at any time since 1950 and is forecast to continue rising over the next few years because of the UK Government's changes to the personal allowance, for example.

Options for whichever party forms the next UK Government will be constrained by this legacy of 14 years of chaos and mismanagement by the Conservatives at Westminster

It is clear there is a very challenging fiscal backdrop as we look ahead.

Whilst the economy is forecast to grow over the next few years, the average growth rate of 1.7% is historically low.

The current Shadow Chancellor, Rachel Reeves has bold and ambitious plans to deliver growth and jobs across the UK after more than a decade of low growth. I very much hope that the General Election affords us the opportunity to work with her to implement these plans in Wales.

Faster economic growth would help to alleviate these pressures and the Welsh Government will, of course, be doing whatever it can to improve the prospects for growth and more and better jobs here in Wales.

However, we cannot plan on the basis of optimistic scenarios for the UK economy in the short term. It is more important than ever that the Welsh Government ensures it is making the most of the resources available to it and deploying those resources in the most effective way possible.

We will learn of the next UK Government's plans over the coming months, but we must be prepared for difficult decisions and trade-offs in our planning.

In 2021, we set three-year spending plans and undertook a zero-based capital review. This enabled us to provide a multi-year settlement covering the period 2022-23 to 2024-25.

We continue to be dependent on the overall settlement from UK Government but this new approach enables us to construct longer-term solutions to the challenges we face.

The Welsh Spending Review will drive our annual Budgets, extending beyond short-term priorities to focus on the key medium to longer-term challenges and opportunities we face, setting the foundations for longer term settlements and embedding a whole Government approach to identifying priorities and supporting delivery outcomes for Wales.

This significant and wide-ranging work will enable robust and fully informed decision-making regarding future fiscal policy for the Welsh Government and ensure that our spending continues to align with our priorities, over the medium to long term.

At the forefront of this work will be an emphasis on this Government's five key priorities for Wales - Reducing NHS waiting lists and support for children in early years educational excellence in our schools, better, greener jobs, secure homes and improved transport links across the country. To echo the words of the First Minister, when he made his statement on these priorities to this Senedd in April, we will find Welsh solutions to Welsh problems which goes to the heart of what devolution is all about, setting out an ambitious future for a fairer Wales.

I want all of us to have a greater understanding of both the current and potential future profile of Wales enabling us to adapt and react to changing circumstances, whilst creating the conditions for more informed and continuous fiscal planning.

We are in the very early stages of this work, and I anticipate that it will continue throughout 2024 and into 2025.

But I wanted to start the debate in the Siambr early, so I can listen to – and work with – all colleagues and ensure there is an opportunity for early engagement.

I look forward to your thoughts.

Appendix 2 – Inflation assumptions

2025/26 Budget Assumptions

| Expenditure head | Base Budget £'000 | Modelled Assumptions | | FYE 1% variation £'000 | Comment |
|--|----------------------|----------------------|-------|---------------------------|---|
| | | % | £'000 | | |
| Teachers Pay | 70,145 | 3% | 2,104 | 701 | |
| Non Teaching Pay | 188,421 | 3% | 5,653 | 1,884 | IMF CPI assumption (as at April24) - 2% by 2025 |
| Premises costs excluding utilities | 7,721 | 2% | 154 | 77 | |
| Electricity | 5,208 | -19% | -984 | 52 | |
| Gas | 1,557 | -16% | -252 | 16 | |
| Home to school transport | 10,599 | 3.5% | 371 | 62 | |
| Materials | 1,959 | 2% | 39 | 20 | |
| Waste disposal | 7,096 | 2% | 142 | 71 | |
| 'Other Services' (External Domiciliary Care) | 12,444 | 3.93% | 489 | 124 | UK Gov Low - High NMW projections (as at Mar24) |
| Subcontractors | 3,168 | 2% | 63 | 32 | |
| Levies including Fire Authority | 10,846 | 3% | 325 | 108 | Linked to pay but who knows based on last 2 yrs |
| Out of county placements | 2,767 | 3% | 83 | 28 | |
| 'Contribution to third parties' | 14,947 | 0% | 0 | 149 | Grant funded no inflation allowed |
| Residential Care | 77,468 | 3.93% | 3,047 | 775 | UK Gov Low - High NMW projections (as at Mar24) |
| Foster care allowances | 6,264 | 3% | 188 | 63 | Linked to pay |
| Grants and contributions | 13,122 | 0% | 0 | 131 | |
| Bed and breakfast payments | 2,633 | 3% | 79 | 26 | |
| Council Tax Reduction Scheme | 20,784 | 7% | 1,455 | 208 | |
| All other expenditure heads | 63,656 | 0% | 0 | 637 | |

Appendix 2 – Inflation assumptions

| | | | | | |
|--------------|----------------|----|---------------|--------|---|
| Income | -111,505 | 0% | 0 | -1,115 | Not including services which have income efficiency savings |
| Total | 409,301 | | 12,957 | | |