

Local authority funding

Welsh councils are funded by a combined funding stream from Welsh Government known as Aggregate External Financing; by income generated from grants, fees and charges; and by Council Tax raised from residents. Aggregate External Financing (AEF) comprises an annual Revenue Support Grant and a redistribution of business rates. The AEF is also known as ‘the Settlement’.

Setting a balanced budget every year is a legal requirement for local authorities under the Local Government Act 2003, irrespective of circumstances from year to year outside of councils’ control, such as funding pressures and cuts, pandemics, inflation or the cost-of-living crisis. Each budget has to be approved and to be approved must demonstrate that it is affordable.

A council’s budget requirement is what it needs to function and provide services. Some services are statutory (the council is legally required to provide them), and others non-statutory, but non-statutory services are important in their own right, or support statutory services in important ways. For example, leisure centres aren’t statutory (councils aren’t obliged by law to provide them); but in supporting people’s health, fitness and wellbeing, providing leisure centres supports statutory services, such as providing care and support to people with frailty, by helping to keep frailty lower than it might otherwise be.

In its annual budget-setting, a council assesses its budget requirement and calculates the difference between its income (the Settlement from Welsh Government; grants, fees and charges; and Council Tax) and its budget requirement. When the budget requirement is higher than the income, the council addresses the shortfall in three ways:

- Finding ways to reduce the costs of what it does (this is known as efficiency savings)
- Changing what it does, to meet people’s needs in different ways
- Finding ways to increase income (finding more grants and increasing fees, charges and Council Tax)

The national economic situation continues to challenge all councils in the UK. Inflation continues to increase the cost of delivering council services. People’s need for services continues to grow and meeting the increased volume of need increases costs.

Government policy, such as decisions on pay awards and higher National Insurance contributions, adds further costs.

All local authorities are legally required to deliver a balanced budget each year. When cost pressures exceed income, councils must reduce spend by making efficiencies in service delivery and council function or changing what it does; increase income by finding more grants and raising fees and charges; and, where these measures are not sufficient fully to close the gap between income and costs, increasing the level of Council Tax.

The Powys Budget 2025/26

The final Settlement from Welsh Government for local authorities for the financial year 2025-26 will be published on 25th February this year (although additional monies might be forthcoming from Welsh Government following that date). The provisional local authority settlement announced by Welsh Government on 11th December last year indicated a Settlement figure of £250.1 million for Powys County Council, which represented an increase on the 2024/25 Settlement of 3.3%, or an additional £7.9 million.

At the same time, however, Welsh Government provided additional funding to support pressures related to teacher and firefighter pensions and teachers and NJC pay increases to the end of the current financial year, and carried through to the 2025/26 budget this, combined with the 3.3% increase in the Settlement, equates to an additional 6% overall relative to 2024/25, equating to an increase of £14.3m overall. (The average Settlement increase across Wales taking into account the additional funding in this way is 7.2%; Powys ranks 20th out of the 22 local authorities, with only two receiving a Settlement lower than ours.)

The increase in funding remains significantly less than the difference in the cost of delivering services and functions in the current financial year, and the costs of doing so in the coming year. The cost pressures facing the council in the coming financial year over and above the council's budget this year (the amount it spent on providing services and performing its functions in this financial year) amount to £24.1 million. The pressures arise in the main from inflation and increases in need and demand for council services.

Particular challenges experienced by Powys are its sparse population, dispersed across

a very large geographic area, and its demography, in which a higher than average percentage of its population is aged over 65, and a lower than average percentage of its population is of working age.

The provision of services to a dispersed and relatively small population is expensive relative to the costs of delivering in urban settings, as a result of greater transport costs and, because of the demand for facilities to be delivered locally or within a commutable distance, the need to provide more of them across our county than smaller, more densely populated council areas require. At the same time, a smaller population represents a smaller source of Council Tax, added to which Powys is a low-waged economy and 53% of its residents qualify for partial or full Council Tax exemption.

The council's total budget comprises all of the council's costs, including salaries and wages, the purchase of goods and services, premises costs and the revenue cost of financing its capital programme. The budget is financed by all the council's income sources including Aggregated External Finance (the Welsh Government Settlement), Council Tax, fees and charges, specific grants and contributions from other bodies.

The net revenue budget is financed by the Settlement and Council Tax. The Settlement represents just under 70% of the net revenue budget, and Council Tax approximately 30%. Powys' Council Tax contribution is proportionally greater than other local authorities, because an authority's ability to raise Council Tax, and the relative proportion of its budget that will be provided in its Settlement, is calculated on its Council Tax base. A council's Council Tax Base is the number of properties in its area which are in Band D, or where households have no urgent need to move but are interested in affordable social housing (these are known as Band D-equivalent properties). Powys has a higher Council Tax Base (i.e. more Band D or Band D-equivalent properties) than most other local authorities.

The Powys Cabinet has published its draft budget for 2025/26. It includes £12.2 million of proposed savings and cost reductions across council departments. Once the cost reductions, the Settlement, grant transfers and increased fees and charges are factored in, a budget gap of £9.4 million remains. To close this gap, a Council Tax increase of 8.9% is proposed.

Please note, however, that this is a draft budget, and will be revised in line with any future income not yet known about. For example, as part of the six-week consultation on the Welsh Government provisional Settlement, local authority leaders across Wales

are lobbying Welsh Government to implement a funding floor (a minimum funding increase level). Should a funding floor be implemented, and set at a higher level than the Settlement increase received by Powys of 3.3%, Powys would receive additional funding to raise its Settlement increase to the level of the floor. This would result in amendments to pressure costs and to a reduction in the budget gap, and changes to the final budget.

The final budget will be presented to Full Council for approval on 20th February 2025, but might be adjusted thereafter to accommodate any late changes in the Welsh Government's final budget, published on 25th February. In that eventuality, the revised budget would be presented to Full Council for approval at its meeting on 6th March, or at a bespoke Full Council meeting arranged for that purpose.

The draft budget was discussed at Cabinet on Tuesday 14th January. Included in the budget papers is the draft Medium Term Financial Strategy for 2025-2030. Tables on pages 18 and 19 of the report set out the budget requirements for each council service, the baseline budget from the current year, the additional pressures on services anticipated in the coming year, savings each service proposes to make in the coming year, and the budget gap between the funding available and the cost of delivering services. Pages 20 and 21 provide some narrative about each of the pressures. Also included in the papers is the Finance Resource Model (FRM), a table setting out the figures referenced above.

All of the papers and the recording of the meeting are available publicly on the county council's website, via both the direct link and the pathway below:

The direct link to the page is:

<https://powys.moderngov.co.uk/ieListDocuments.aspx?CIId=137&MIId=8931>

The pathway is:

PCC homepage > My Council (top menu bar) > Committee Meeting Information (select 'Cabinet and Committee Meetings') > Calendar of Meetings > The relevant date and meeting in the calendar grid.

Future Budgets

The amount the county council will receive from Welsh Government to deliver services is expected to be less in real terms each year for the next few years. Projections about

future public sector spending are formulated at a national level, by national bodies such as the Office for Budget Responsibility and Wales Fiscal Analysis. Using that data, the council is assuming funding increases of around 1.3% each year from 2026/27, which for the Powys budget would equate to a projected funding gap of £39.1m by 2029/30.

Across Wales, council leaders and lead officers are openly discussing the position all local authorities are now in: available public finances are no longer sufficient to provide the range and volume of services they provided until the advent of austerity, and have continued to try to provide, in ever-diminishing ways, in the years since.

Throughout the years of austerity, over annual budget rounds, councils have required all service areas to increase efficiency and to reduce costs, but this form of cost-reduction is now becoming unsustainable; services are already much reduced, staffing depleted, efficiency maximised, costs continuing to rise and finances continuing to deplete in real terms. These financial pressures are running in parallel with the developing pressures from demographic trends, particularly an increasing percentage of the population being aged over 65; increasing longevity and, with that, an increasing volume of care and support need; and a steadily reducing working age population to provide it. Each of these trends is UK-wide but particularly acute in Powys.

The funding shortfalls facing the county council are not sustainable and cannot be addressed by the council trying to continue to do what it customarily does but at reduced cost. Along with local authorities all over Wales, Powys has for some time recognized that it can no longer provide services in the way it has been providing them, and that it must fundamentally redesign itself.

Several programmes to transform the way in which services are delivered have been ongoing for some time. Added to these is a comprehensive unfolding programme called 'Sustainable Powys', which aims to collaborate with residents, communities, town and community councils, service providers, institutions and other organisations to create a shared and more streamlined system of service provision allied with deeper, stronger community self-sufficiency and resilience. Further information about Sustainable Powys is available on the county council website, here:

<https://en.powys.gov.uk/sustainablepowys>

The Sustainable Powys page also invites you to contribute your thoughts, ideas and views, and provides a link by which to do so.

Please don't hesitate to contact me to discuss or ask questions about anything above. I believe that democracy is better, richer, more intelligent, more creative, more innovative and more effective when citizens are involved in a meaningful way in its processes.

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