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WLGA Evidence

26 September 2025

Finance Committee: Scrutiny of Welsh Government's Draft Budget Proposals 2026-27

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Welsh Local Government Association - The Voice of Welsh Councils
The Welsh Local Government Association (WLGA) is a politically led cross party organisation that seeks to give local government a strong voice at a national level.

We represent the interests of local government and promote local democracy in Wales.

The 22 councils in Wales are our members and the 3 fire and rescue authorities and 3 national park authorities are associate members.

We believe that the ideas that change people's lives, happen locally.
Communities are at their best when they feel connected to their council through local democracy. By championing, facilitating, and achieving these connections, we can build a vibrant local democracy that allows communities to thrive.

Our ultimate goal is to promote, protect, support and develop democratic local government and the interests of councils in Wales.

We'll achieve our vision by
- Promoting the role and prominence of councillors and council leaders
- Ensuring maximum local discretion in legislation or statutory guidance
- Championing and securing long-term and sustainable funding for councils
- Promoting sector-led improvement
- Encouraging a vibrant local democracy, promoting greater diversity
- Supporting councils to effectively manage their workforce

Overview

1. This evidence paper addresses the questions posed by the committee in annex 2 of the commissioning letter. It is largely based on the paper that the WLGA presented to the Welsh Government in a meeting of the Finance Sub Group (FSG) on 29 September. As in previous years we have appended that paper to this submission.

Committee Questions

2. **What, in your opinion, has been the impact of the Welsh Government's 2025-2026 Budget?**

   The settlement for 2025-26 was better than anticipated, but it was still not enough to cover the financial pressures councils are experiencing. Councils must set balanced budgets but as evidenced in the paper appended to this submission, in-year financial pressures and unanticipated demands are driving a projected overspend of £184m. Shortfalls in funding for changes such as increased National Insurance contributions have had a considerable impact. However, it is demand factors that lie behind a significant proportion of this overspend. Children's residential care and additional learning needs account for over a third of the in-year overspend, as councils work to fulfil the changes driven by legislation.

3. **How financially prepared is your organisation for the 2026-27 financial year, how confident are you that you can deliver planned objectives, and how robust is your ability to plan for future years?**

   Councils plan over the medium term and over the summer the WLGA surveyed all councils and fire and rescue services to draw up an evidence base of pressures over the medium term[1]. The estimated pressure for 2026-27 is £560m, just over £100m higher than we estimated from the survey carried out last year. This would require a spending increase of just under 7% of net revenue expenditure. This pressure falls to £486m in 2027-28 and then rises slightly to £512m in 2028-29. However, these increases would still see expenditure growing by 5.5% in those

[1] National Park Authorities continue to be impacted by cost pressures being significantly higher than increases in core funding and all three are carrying budget deficits of around £1m, which is around 15% to 20% of turnover. A significant focus for all three is on generating income from other sources to make up this shortfall, however, the capacity and opportunity to do this varies across the three Authorities and it is unlikely that it will be possible to make up the shortfall through generating additional income alone.

years, and by the end of 2028-29 would be nearly a fifth higher than it is now. Much depends on how far the settlement can bridge that gap along with council tax.

4. **What action should the Welsh Government take to:**

- **help households cope with cost-of-living issues;**

The Welsh Government should continue to prioritise targeted measures that provide immediate relief for households most affected by the cost-of-living crisis, while also investing in longer-term solutions that reduce household expenditure and build resilience.[2] Priority actions should include:

  - Targeted financial support through Council Tax reductions, Discretionary Assistance Fund extensions, and emergency grants for households in severe financial stress.
  - Housing and energy efficiency investment, expanding retrofitting programmes to reduce energy bills, and accelerating the delivery of affordable homes.
  - Reducing the cost of essentials by supporting affordable childcare, transport, and food access, including local food partnerships and community initiatives.
  - Employment and skills support, particularly for those in insecure, low-paid sectors and for people receiving work related benefits, ensuring access to fair work and opportunities for progression.
  - Digital inclusion measures, ensuring all households can access online services, affordable tariffs, and employment opportunities.

- **address the needs of people living in urban, post-industrial and rural communities, including building affordable housing and in supporting economies within those communities?**

Building more homes is essential to ensure that we have enough houses for everyone who needs them, including those households who become homeless or are inadequately housed, and is a vital driver for growing and sustaining local economies. Those councils with housing stock are implementing ambitious new-build

[2] The impact of policy interventions designed to reduce poverty in Wales - Bevan Foundation

programmes and seeking to acquire existing homes (often former Right to Buy properties) to increase the numbers of homes available for social rent. Increased land, labour and material costs however mean that the much-needed building of new council homes has become more expensive - this threatens the viability of many house building schemes without increased capital subsidy from Welsh Government. All councils are also working with Registered Social Landlord (RSL) partners to build new low carbon social rented homes. It is therefore important to ensure that increased capital funding is available to support the building of social housing at the pace and scale needed to reduce reliance on expensive and unsuitable temporary accommodation and ensure the housing needs of citizens in housing need can be met. Social landlords, including those councils with housing stock, require long-term certainty over rental income in order to effectively plan for the maintenance and improvement of existing properties, and the development of much-needed new homes.

In relation to rural communities, WLGA recently produced its Rural Manifesto[3]. The manifesto calls for tailored housing policies to support the needs of rural communities, stimulate local economies and retain a younger demographic. It also suggests consideration is given the introduction of permitted development rights for single dwellings and conversion of farm buildings for residential use. Councils have welcome legislative and policy measures that have enabled local flexibility and autonomy to address issues around housing. But the most direct impact that the budget could have on meeting rural housing needs would be to increase the availability of affordable housing in rural communities.

5. **Have Welsh Government business support policies been effective, given the economic outlook for 2026-27?**

City Deals and Growth Deals have been funded jointly by the UK and Welsh Governments, as have the two Investment Zones and two Freeports. However, with the Shared Prosperity Fund (SPF - launched and administered primarily under the previous UK Government) there was no substantial involvement of Welsh Government. Councils received the funding directly, with business support being one of three broad categories of interventions that were permitted ('Communities and Place' and 'People and Skills' are the other two).

Councils worked together in the regions to agree an element of regional consistency in approach, but SPF project delivery was then down to each local council. That allowed support to be customised to meet local needs. Feedback from councils and

[3] WLGA Rural Manifesto

businesses is that this has been very effective. Councils have been able to work with local businesses to support their development and help reduce their ongoing running costs (e.g. via support for renewable energy installations). Local knowledge has played a vitally important role (and to some extent builds on knowledge and relationships developed with local companies during the Covid pandemic).

A case for rationalisation of business support services is often made. It is frequently claimed that the situation is too confusing for businesses, especially for those that operate in different council areas. However, the real need is for good communication between those offering support at different levels and for clarity over 'who provides what'. UK Government has involvement here (e.g. in relation to export support; taxation) as well as Welsh Government and councils. Each tier has its own roles and functions. That multi-level government approach is central to achieving effective business support but depends heavily on regular and open communication.

If councils lose access to funding once SPF finishes at the end of this financial year it will seriously undermine their capacity to participate in this. Assistance provided by UK and Welsh Governments will be less effective if there is inadequate support available at the local level, which ultimately is where companies' activities take place.

Finally, it is important to note that <u>other</u> policies, at all tiers of government, that are <u>not</u> 'business support-specific' can still impact on businesses. For example, taxation and national insurance policies, agricultural policies, environmental policies, and policies relating to holiday homes in tourist areas, can all impact on the prospects of businesses. Depending on the nature of these policies they can either enhance wider efforts at business support or, potentially, work to undermine them.

6. **Are Welsh Government plans to build a greener economy clear and sufficiently ambitious? Do you think there is enough investment being targeted at tackling the climate change and nature emergency? Are there any potential skill gaps that need to be addressed to achieve these plans?**

The Welsh Government plans to build a greener economy are clear in direction and ambitious in scope being at the forefront of other UK nations. The Net Zero by 2030 target is a prime example of the level of ambition.

There is also good emphasis and direction to drive the vision for a stronger, fairer, and greener Wales which has been supported by a range of initiatives and investment. However, we feel the level of funding allocated to these areas does not match the level of ambition, rendering progress very slow. The nature emergency has not received the same level of support and although funding is being provided through Local Nature Partnerships, it is again insufficient to stabilize or reverse nature and biodiversity decline. While the WLGA supports the forthcoming new legislation on Environmental Principles and Biodiversity targets as 'a step in the right direction', we will not see progress unless resources and funding are at an adequate level.

From a local government perspective, the current financial crisis and existing high levels of borrowing make it really challenging to prioritise investment in these areas, with an overreliance on grants.

Capacity and skills are key enablers. While the Welsh Government has directed the Regional Skills Partnerships to support delivery of its Green Skills Plans and recently funded a pilot to enable placements in environmental engineering within councils, skills and capacity are at a crisis point further impacting on the ability of public sector organisations and the private sector to deliver. Furthermore, it is important to stress that 'green skills' are also required in areas such as education and social care as well as support services such as finance, legal services and personnel, and Member development.

7. **Is the Welsh Government using the financial mechanisms available to it around borrowing and taxation effectively?**

The WLGA recognises that the Welsh Government is making progress with its limited taxation powers. The Tourism Levy is a good example of how discretionary local taxes can be implemented to support local services. In May 2025, the WLGA wrote to the UK Chancellor ahead of the Spending Review to make a strong case for greater fiscal flexibility around borrowing and reserves for the Welsh Government. The current constraints limit its ability to optimise investment and drive growth. This would ultimately help with local government funding, as Welsh Government could then take a more strategic approach to longer term financial planning. That would enable more responsive policy making and again stimulate local economic growth as well as improving public services.

8. **The Committee would like to focus on a number of other specific areas in the scrutiny of the Budget. Do you have any specific comments on any of the areas identified below?**

- **Is enough being done to tackle the rising costs of living and support those people living in relative income poverty?**

  The Welsh Government has introduced a range of welcome interventions, including the expansion of free school meals, continued operation of the Discretionary Assistance Fund, and investment in energy efficiency schemes, warm hubs, direct food grants and funding for Local Food Partnerships etc. these measures have provided a vital safety net.

The ongoing work to drive forward the Benefits Charter is also welcome.

However, the persistence of relative income poverty, particularly among families with children, single parents, disabled people, and those in insecure work, demonstrates that existing measures are not sufficient to address structural inequalities. There remains a need for:

- A whole-government approach, ensuring housing, health, education, and economic development strategies work together to tackle poverty.
- Greater focus on prevention, addressing the root causes of poverty through fair work, affordable housing, and access to affordable childcare.
- Long-term strategies, not only to relieve immediate pressures but also to reduce reliance on emergency financial support.
- Effective national campaigns to promote access to services and availability of benefits to reach the communities most in need of support and to address negative perceptions and poverty stigma[4] of claimants.

- **How could the budget further address gender inequality in areas such as healthcare, skills and employment?**

Despite limited scope for new spending, there are strategic opportunities to embed gender equality across key policy areas, particularly healthcare, skills, and employment, through further promotion of the Public Sector Equality Duty for Wales, smarter use of existing programmes and targeted interventions. Examples include:

Gender-Informed Service Design: Prioritise funding for services that address gender disparities in health outcomes, including mental health, reproductive health, and chronic conditions more prevalent among women.
Support for Carers: Enhance community-based health and wellbeing services that support unpaid carers - predominantly women - through social prescribing and early intervention.

[4] [Poverty Stigma | WCPP]

Anchor Institutions: Encourage public bodies to act as leaders in gender-inclusive employability by promoting flexible working, inclusive recruitment, and occupational health support tailored to women's needs.

Gender Budgeting: Fully embed gender budgeting pilot schemes across all departments to ensure spending decisions take gender equality into consideration. Ensure that FE colleges and training providers consider gender impacts in course design and outreach.

Skills, Employability and Childcare Pilots: Expand pilots in skills, employment and childcare to address gendered impacts of spending inequality.

Fair Work and Procurement: Use public sector procurement levers to incentivise employers to close gender pay gaps, improve job security, and offer flexible working arrangements.

Local Authority Support: Provide councils with tools and guidance to apply gender-sensitive budgeting and service planning, helping them prioritise equality despite financial constraints.

Data and Accountability: Strengthen the use of gender-disaggregated data to monitor progress and inform future policy decisions, particularly in employment and skills programmes.

- **Is the Welsh Government's approach to preventative spending represented in resource allocations (Preventative spending = spending which focuses on preventing problems and eases future demand on services by intervening early).**

Prevention is one of the priorities set out in the WLGA's Phase 1 Manifesto ahead of next year's Senedd elections, where councils have consistently advocated for a much greater investment in early intervention and prevention, particularly in areas such as social care, housing, and community services.

However, while Welsh Government policy and strategies increasingly reference the importance of prevention, this is not often reflected in resource allocations. The evidence for this is stark. Over the past decade, sustained pressures on core budgets have increased dramatically according to Audit Wales[5]. Focussing on prevention, their work highlights real-terms increases in expenditure of 18% on Additional Learning Needs, 25% on home to school transport, and 75% on children looked after – with the vast majority of these expenditures being drawn from council budgets. That is without noting the impact of pressures in pay and social care.

[5] No time to lose: Lessons from our work under the Well-being of Future Generations Act

During this same period, Audit Wales calculates that core local government funding has *decreased* in real-terms by 0.55%. Councils have had to prioritise statutory services, often at the expense of non-statutory, preventative provision such as leisure, transport, and community facilities—all of which play a vital role in supporting wellbeing and preventing escalation of need. Councils need a fundamental shift in resource allocation in order to invest confidently in preventative approaches that will deliver better outcomes for citizens.

- **How should the Welsh Government explain its funding decisions, including how its spending contributes to addressing policy issues?**

Any budget is, by definition, something of a balancing act in that as one area is deemed a political priority and more money pumped into it, other lower priorities essentially lose out to some degree. There is clearly a tendency to portray any budget as being the best use of monies available, but it would be helpful to highlight areas impacted the greatest both positively and negatively. This would allow the electorate to better understand and therefore have expectations of the populace more effectively managed.

- **How can the documentation provided by the Welsh Government alongside its Draft Budget be improved?**

Much of the population find the figures and language involved in the budget impenetrable. It would be useful to have a four to five page summary "key points" with infographics that could allow people to more easily understand how their money is being allocated by the Welsh Government. This would likely be picked up in news outlets and help explain the main changes of the budget to the population.

Where changes have been made to grants (cessation, amalgamation, increase / decrease), it is sometimes difficult to read across as to what the overall funding implication in that area is and this could be made clearer.

- **How should the Welsh Government prioritise its resources to tackle NHS waiting lists for planned and non-urgent NHS treatments. Do you think the Welsh Government has a robust plan to address this issue?**

Tackling NHS waiting lists for planned and non-urgent treatments requires a whole-system approach that allocates resources not only within the NHS, but also across local government and community services, for example, ensuring people can leave hospital when appropriate by ensuring packages of care and support in the community are in place if needed. Councils and social care bring extensive expertise in prevention and early intervention, supporting people to remain independent at home—key factors in reducing demand for hospital-based care. There remains a need for greater Welsh Government investment in these areas, prioritising preventative and community-based services such as social care, rehabilitation and reablement, alongside targeted NHS funding. Councils have a proven track record of delivering integrated, person-centred support and responding flexibly to local needs, which helps to prevent escalation and avoid unnecessary admissions.

Strengthening the interface between health and social care will not only help address waiting lists in the short term but also build long-term system resilience. While the Welsh Government has set out plans to address waiting lists, including additional funding and recovery targets, the WLGA would welcome greater clarity on how these plans will be sustained, how they will address underlying workforce and capacity challenges, and how they will be integrated with preventative services delivered by councils. There is also a need to ensure that resources and timely provision are available to provide recovery health services in the community alongside social care, to limit complications and re-admission. A robust plan must recognise the interdependence of health and social care and ensure that funding responds to both immediate needs as well as building future sustainability.

- **Is the Welsh Government providing adequate support to the public sector to enable it to be innovative and forward looking through things like workforce planning?**

Workforce planning is a significant concern across the Welsh public sector from the strategic to the operational. Recruitment and retention are specific challenges in those service areas which drive major budgetary pressures – notably but not solely in social care, childrens' services, education and homelessness. Councils also report acute workforce difficulties in specialist areas such as planning and environmental specialisms.

The Draft Budget will also be laid at a time when councils are entering the early stages of technological change in society, which will require organisation learning and planning if we are to reap benefits for digitisation and efficiency.
The Strategic Partnership Agreement between the Welsh Government and Local Government recognises our position and commits to joint work to make local

government an 'employer of choice' and to meet the challenges noted above. Real action to deliver this needs to be reflected in the budget process and allocations.

To support workforce planning and innovation, the Welsh Government should commit to:

1) additional financial commitments on a longer-term basis to support organisational design to transform and sustain services, workforce planning and skills development to enable necessary creativity and innovation;

2) to undertake a review and understand the impact on service delivery and job security of the continuing use of grant funding, grant funded posts and the wider impact on workforce planning; and

3) a more thorough review into recruitment and retention challenges in services areas of critical pressure, in connection with the ability for Local Authorities to effectively deliver workforce planning.

- **Has there been adequate investment from the Welsh Government in basic public sector infrastructure?**
- **How should the Budget support young people?**

In terms of "public sector infrastructure", the WLGA is best placed to respond from a local government perspective rather than the wider public sector. There is understandably a priority regarding waiting lists in the NHS, however much of the work local government is involved with is preventative in nature so an investment in local government would bring beneficial reductions in NHS pressure. With over £1.5bn of pressures over the next three years, further service reductions will be required which will again inevitably reduce the preventative work undertaken.

Regarding actual physical infrastructure, Welsh Government's latest Local Government Borrowing Initiative for Highways has been welcome, enabling up to £120m to be invested in the county highway network by councils this year and next. Such investment is crucial in maintaining the condition of the highway, which of course many aspects of service delivery depend upon. It will be important to find ways of sustaining such levels of investment beyond the current initiative or else ongoing wear and tear and weather events will contribute to deterioration of the network again over time.

Specifically relating to educational infrastructure, one respondent to the Treasurers Survey noted that, "General investment in maintaining school buildings (a responsibility that is delegated to school governing bodies) has been impacted by funding constraints at schools. In order to reduce backlog maintenance issues, we have invested in urgent safeguarding activities across the county, but to fulfil our current capital transformation commitments and invest to achieve net zero across the schools estate, we have broadly estimated investment requirement levels of more than £400m. Borrowing to support this level of investment would require annual revenue contributions of more than £25m, levels clearly beyond affordability."

In terms of education, the budget should enable local authorities to effectively allocate resources for learners and their families, provide necessary interventions, and manage the rising costs associated with service demand and provision

Given the ongoing increase in demand on schools and local authorities regarding behaviour, attendance, and mental health or wellbeing issues, it is essential that local authorities are adequately resourced to provide appropriate support to children and their families. This will ensure engagement with education, access to suitable educational opportunities, and safeguarding from harm. The need for such support is equally significant for the Additional Learning Needs (ALN) cohort which is presenting with increasing complexity, both within school settings and in early years provision. Reforms, including unintended consequences on workload, should be fully resourced to maximise the support young people receive.

An increase in funding is necessary in school transport to meet statutory obligations and support overall attendance and participation in broader school activities.

Since 2010-11, total maintained youth work sector income has reduced by 26% (WG Youth Work Funding Review, Phase 2 Report)[6]. In this time, school attendance and attainment has declined, whilst school exclusions and youth crime have increased. Youth work has become more reliant on external (short term) funding streams as core funding has reduced. Some councils report that, given the ongoing reduction in numbers of staff, they may struggle to even be able to draw down/spend certain grants due to lack of core capacity.

- **How is evidence and data driving Welsh Government priority-setting and budget allocations, and is this approach clear?**

Data is fundamental in driving budget allocations through the formula for the Revenue Support Grant (RSG) which underpins the local government finance

[6] Youth Work Funding Review: Phase 2 March 2024 - Research Repository

settlement. There is increasing concern at how out of date some of the data are, with some remaining linked to the 1991 census, and whether the indicators remain the correct ones and are weighted appropriately.

While councils hold diverse views on the strength of the funding formula depending on the characteristics of their communities, the WLGA recognises that datasets underpinning both sparsity and deprivation are outdated and that this is a cause of frustration for our local authorities. Joint work between WLGA officials and the Welsh Government has been undertaken through the Distribution Sub-Group, where an ongoing work programme seeks to address the operation of the funding formula. But calls from local authorities have been growing for a thorough, independent and external review to be undertaken.

The WLGA collectively remains of the view that the overall size of the local government finance settlement is the pressing issue which determines the future of local services. The Welsh Government could make better use of data to anticipate future service demands, particularly in modelling projections around demographic and population change. It is also imperative that data are used to model possible scenarios for future growth in pressures around ALN, childrens' services and social care.

- **Is the support provided by the Welsh Government for third sector organisations, which face increased demand for services as a consequence of the cost of living crisis and additional costs following increases to National Insurance Contributions, sufficient?**

The third sector plays a vital role in supporting communities through the cost-of-living crisis, providing advice services, emergency food and fuel support, and building long-term community resilience. However, demand for these services has risen sharply, while organisations are also facing higher operating costs such as energy, staffing, insurance, and employer contributions. Councils require sufficient funding for commissioning local voluntary sector services, as current funding arrangements are insufficient to sustain this increased demand. Funding is often short-term, fragmented, and project-based, which undermines stability and long-term planning.

To enable the third sector to continue to deliver effectively, the Welsh Government should consider multi-year funding settlements to support financial stability and forward planning and provide capacity-building support to strengthen resilience, not only emergency response.

- **What are the key opportunities for the Welsh Government to invest in supporting an economy and public services that better deliver against the well-being goals in the Well-being of Future Generations (Wales) Act 2015**

There are a range of opportunities which should build on the recommendations within the Future Generations Commissioner's 10-year report. Local government is working towards its commitments in Net Zero Wales, Welsh Government's Carbon Budget 2. As well as reducing carbon emissions, increased longer-term investment in these commitments (including decarbonising municipal buildings, transitioning vehicles, reducing carbon in procurement, and using land more sustainably) can deliver wider benefits for the economy, employment, communities, and public health, as well as councils' budgets.

Investing in these areas will ensure that we are working towards the statutory target of net zero by 2050. It will also increase resilience throughout Wales in the face of a changing climate, whilst developing a workforce able to mainstream the use of new technologies and make necessary adaptations in the delivery of public services.

Investing in local government services can have a significant preventative impact, improving well-being in a 'whole system' approach in line with the WFG Act. Investment in areas such as youth services, social care, education, active travel and public transport, leisure facilities, social housing, local business support etc all have wider benefits, for example in relation to improving health (reducing pressure on the NHS), reducing anti-social behaviour (easing pressures on the police), and reducing absenteeism in the workforce (improving business productivity).

One of the main blockers we can see is the continuation of 'budget silos' within WG. These silos limit opportunities for multi-benefit activities and projects but also drive short-term thinking. A recent Audit Wales report highlighted that the Act is not driving the system-wide change that was intended. Notably, this relates to the need for long-term planning. This may be driven by a lack of long-term financial planning or national strategies being too shortsighted and not being supported by long-term delivery plans.

ANNEX I

FINANCIAL OUTLOOK

Summary

1. Local services are the cornerstone of our communities with dedicated elected members and officers striving to make a difference. Across the country from Amlwch to Abergavenny, from Holywell to Haverfordwest, councils are helping to build thriving communities investing in the people and the infrastructure that will create the conditions for sustainable and inclusive local economic growth that ultimately contributes to the improved health and well-being outcomes for everyone.

2. Against this backdrop, the WLGA sets out the financial challenges facing local government over the next three years based on data extracted from councils' medium-term financial plans. This information is also based on the results of a comprehensive survey of councils and fire and rescue services carried out during July/August 2025 with the help of the Society of Welsh Treasurers (SWT).

3. The results are summarised in Annex I and over the 3-year period of the spending review, pressures will approach £1.6bn. Net revenue expenditure of £8.3bn in the current financial year would need to rise by 6.6% next year and 5.5% in each of the two subsequent years to reach £9.9bn by the end of the spending review period.

4. However, there are immediate challenges in the current financial year. Annex II shows that in-year financial pressures and unanticipated demand are driving a projected overspend of £184m. Shortfalls in funding for issues such as national insurance contributions have had a considerable impact. However, it is demand led factors that lie behind a significant proportion. Children's residential care and additional learning needs account for over a third of the in-year overspend fuelled by past, current legislative changes playing a significant part.

5. Investment in council services is one of the few areas where central government can achieve the biggest payback for preventative spending. The work of the Marmot regions, Health Determinant Research Collaborations[1], the Charted Institute of Public Finance and Accountancy (CIPFA) and individual local authority initiatives are starting to compile an impressive evidence base for investment in local public services.

6. Councils provide the foundation for thriving communities and touch the lives of all - especially the most vulnerable. Councils provide the national wellbeing and prevention services which alleviate pressure on the National Health Service in

[1] Health determinants research collaborations | NIHR

Wales. They employ over 120,000 people, including 20,000 teachers providing employment for a tenth of the workforce. Alongside the £5.5bn spend on goods and services, each council operates as the very heart of local economic growth.

7. In recent years, much of the pressures due to funding gaps have been shifted onto Welsh households, with average Council Tax having increased by more than 22%[2] (the highest being 29%) over the previous three years. With the cost-of-living crisis, this is both unpalatable and unsustainable for hard-working families who understandably complain of paying more whilst receiving less service.

8. It is possible to estimate the budget shortfall and its impact under a number of scenarios set out below. The Council Tax levels below reflect what would be required to fill budget shortfalls:

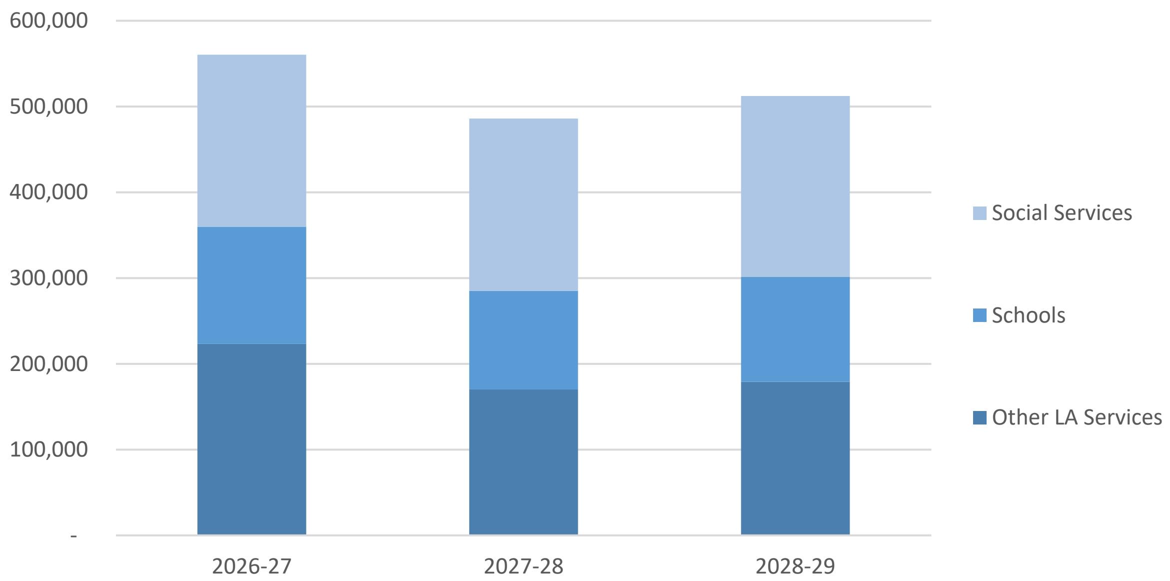
Settlement Increase	Budget Shortall (£m)	Overall council tax increase (%)	Equivalent post reductions (000s)
2.0% or £125m	£436m	22%	14k
3.0% or £187m	£373m	19%	12k
4.0% or £249m	£311m	15%	10k
5.0% or £312m	£249m	12%	8k
7.0% or £437m	£124m	6%	4k
9.0% or £560m	0	0	0

Overview

9. The estimated pressure for 2026-27 of £560m is just over £100m higher than that estimated in last year's survey. To bridge that shortfall would require a spending increase of just under 7% of net revenue expenditure. This pressure reduces to £486m in 2027-28 and then rises slightly to £512m in 2028-29. However, these increases would still see expenditure growing by 5.5% in those years, and by the end of 2028-29 would be nearly a fifth higher than it is now.

Figure 1: Budget pressures by service, 2026-27 to 2028-29, £000s

[2] Annual percentage increase in average band D council tax, by year



Source: SWT Survey 2025

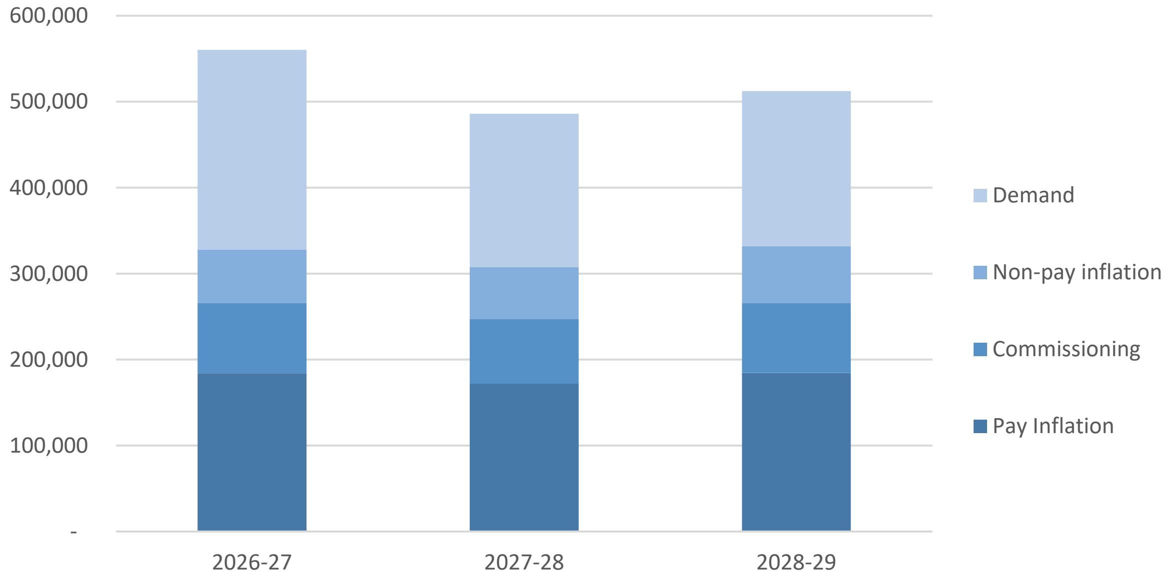
10. The pressure next year is considerably higher than we would ordinarily expect to see. Demand and unfunded NI contributions are driving the higher-than-expected estimates. Figure 1 above shows how these pressures are spread over the broad service areas. Social care accounts for 36% (£201m) of pressure in 2026-27, schools account for 24% (£137m) of the pressure and other local authority services account for the remaining 40% (£223m). The full break down is set out in Annex I. Cumulatively, the pressures building up in the system amount to £1.559bn, and the resulting budget gap, means that the outlook is extremely challenging and the options for local services will be unpalatable.

11. In a letter over the summer to political leaders in the Senedd, the WLGA leadership expressed its concern regarding preparations for a 2% rollover budget in 2026-27. To address a pressure of £560m without additional funding over 2% will require a mixture of high council tax increases and cuts to services and loss of jobs. The gap is equivalent to a 22% increase in council tax, or the loss of just over 14,000 posts[3]. To that end all political parties are urged to work together so that a budget proposal is passed in the Senedd that prioritises the protection of local services and avoids or minimises such potential outcomes.

12. The main objective of the SWT survey is to capture and condense the information held in Medium-Term Financial Plans. Figure 2 below summarises budget pressures over the 3 years to 2028-29 under 4 main headings: pay inflation, non-pay inflation, commissioning costs (in social care) and demand.

Figure 2: Budget Pressures by type, 2026-27 to 2028-29, £000s

[3] Council tax (net of CTRS) is £2.009bn (Source: Welsh Government RA Returns) Costs of an average post is estimated at £31,000 (including oncosts).



Source: SWT Survey 2025

13. Demand is clearly a significant element of pressure in all three years accounting for 41% of total pressure in 2026-27 of £232m. Children's social care and Additional Leaning Needs (ALN) are often cited in the responses as the services where these pressures are greatest. The demand element of the pressures falls to around £178m in the next financial year and rises slightly to £180m in the year after that.

14. The remaining inflationary costs account for 59% of next year's pressure. Commissioning costs, along with pay and non-pay inflation comprise the basic inflationary costs that are all unavoidable and must be met just to stand still. These account for just over £328m in 2025-26 and fall slightly to around £308m in the next financial year and return to £332m in the year after that. It is recognised some of the pressure derives from decisions made by the UK Government to only partially fund the employers NI increase for the public sector and not to fund them for other organisations, such as commissioned bodies that deliver services on behalf of local government and expect councils to meet this gap.

15. The 2025/26 National Joint Council (NJC) pay award for local government services, which introduced a 3.2% increase across all spinal column points, adds to the growing financial pressures faced by local authorities in Wales. This uplift follows a 2.5% increase in 2024/25 and reflects a continued upward trend in pay settlements that local councils must absorb within already constrained budgets. While the pay rise aims to support staff amid ongoing cost-of-living challenges, it falls below the current inflation rate of 3.8%, and lags behind other public sector settlements such as the NHS (3.4%) and Scottish local authorities (4%), potentially exacerbating recruitment and retention issues.

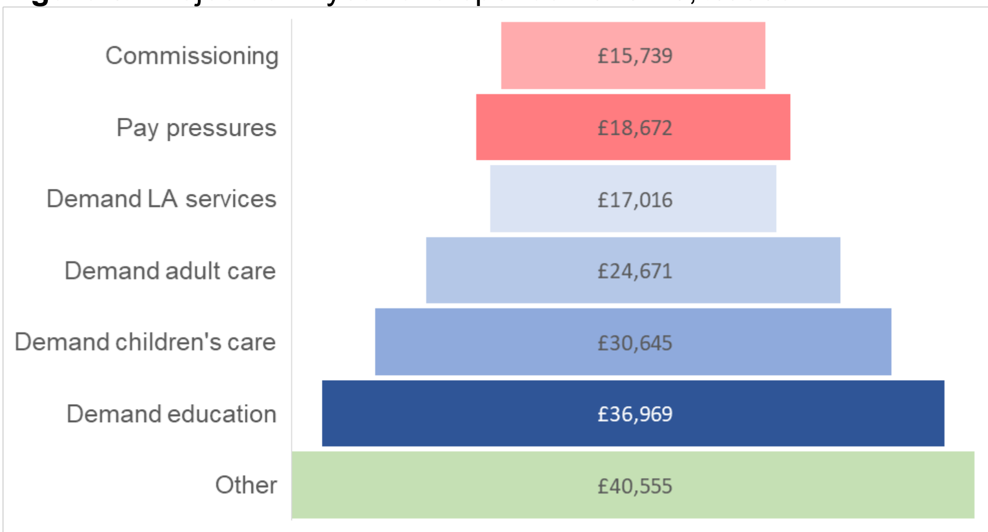
16. The deletion of Spinal Column Point 2 from April 2026 signals further structural changes that may require regrading and pay spine reviews, adding complexity to workforce planning. In the context of Welsh local authorities, which are already grappling with funding shortfalls, rising service demands, and inflationary pressures, the cumulative impact of consecutive pay awards presents a

significant challenge. Without corresponding increases in central government funding, councils may be forced to make difficult decisions around service delivery, staffing levels, and budget allocations to accommodate these mandated pay increases.

17. In the current financial year, it is becoming clear that there are projected in-year pressures and overspends which are large by historical standards, totalling £184m. This is set out in more detail and a full breakdown given in Annex II. In some authorities, these overspends have become particularly acute with a range of measures being implemented to balance budgets. In terms of a service breakdown, social care makes up 38% of the overspend, or £69m, with high-cost children's care and soaring demand for adults' social care accounting for most of the runaway costs. Education and schools account for a similar amount of £71m which has doubled from last year. Other council services account for £44m which is just under a quarter of the overall overspend.

18. Figure 3 below shows that it is the demand rather than financial and other factors that are driving the projected overspend. The blue bars below reflecting elements of demand that account for nearly 70% of the total. Again, complex needs are driving the vast majority of costs.

Figure 3: Projected in-year overspends 2025-26, £000s



Source: SWT Survey 2025

19. The scale of the financial challenges councils have already overcome, and of those they face going forward, are not dissimilar to those in England. Over the border, it is not surprising that the financial sustainability of some councils is being severely tested. This is clearly demonstrated by the fact that the number of councils that are reliant on Exceptional Financial Support from the Ministry of Housing, Communities and Local Government has risen to 30. Over £1.5bn has been borrowed to secure their current financial sustainability. The sheer scale of this intervention by the Government indicates the risk of financial failure is potentially becoming systemic.

20. Budget setting over the autumn following the 2025 Spending Review is taking place in the context of challenging economic and fiscal conditions. At the same

time the new UK Government has set out an ambitious programme to reform and restore key elements of public services. Our submission is aimed not only at improving the lives of those in our communities but also at helping the Welsh Government deliver its programme in the context of these financial challenges. The 22 councils, the Fire and Rescue Services and National Parks are key partners in delivering Welsh Government objectives.

21. However, we cannot shy away from the fact that councils are under severe financial strain. Inflation, wage pressures and growing demand and complexity of need mean that councils face a sizable funding gap over the next 3 years. And this needs to be seen in the context of the estimated £3bn of cuts and efficiencies in service spending that councils have made since 2009-10. This is more or less equivalent to the current cost of the social care system across Wales. If councils' service spend had grown in line with inflation, wage growth, demographics and demand since 2009-10 it would have been over a third higher than it actually was in 2025-26. Accordingly, benefits to the NHS that would have derived from that social care expenditure have been lost too. Councils have had to absorb these huge pressures through service cuts or efficiencies. Many discretionary services have been hollowed out, with an impact on visible/place-based services that residents experience every day in their communities.

22. The remainder of this submission paper sets out our 5 priority areas that were stated in the recent letter to the Welsh Government and read across to the priorities set by the Prif Weinidog last year.

- Priority Area 1 – Schools and Education
- Priority Area 2 – Social Care and Prevention
- Priority Area 3 – Housing and Homelessness
- Priority Area 4 – Regional and Local Economic Development
- Priority Area 5 – Capital and Investment

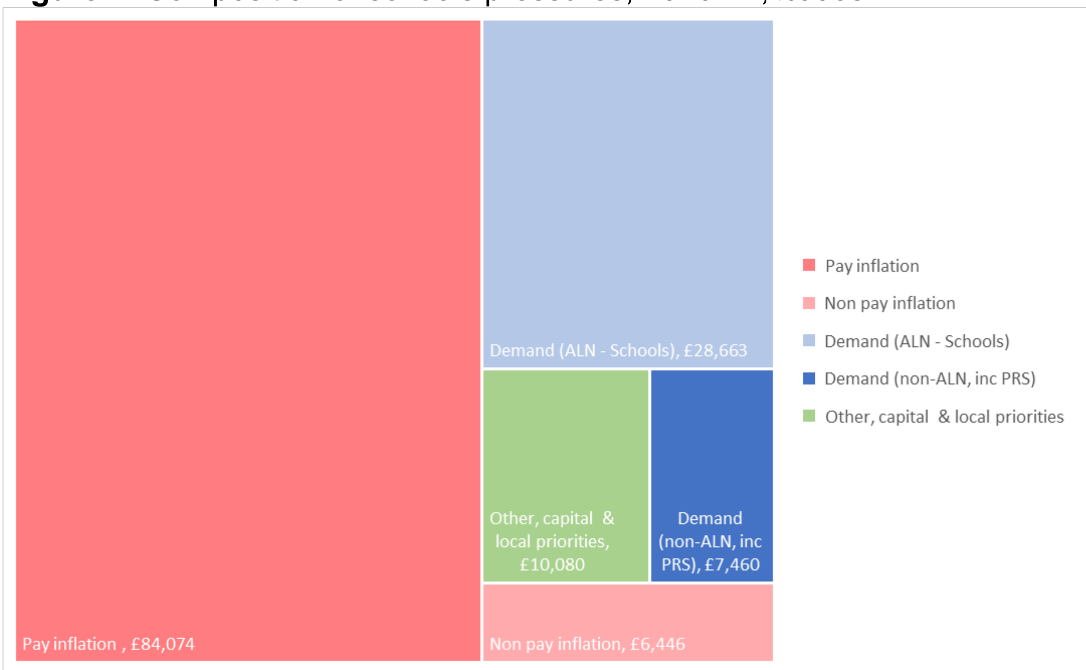
Priority Area 1 - Schools and Education

23. During the last financial year, the Cabinet Secretary for Education approved new 9-year investment plans totalling £4.5 billion for schools and £0.9 billion for colleges, building on the existing £2 billion already invested. Additional funding of £35 million was secured for capital maintenance and Microsoft licences, reflecting responsiveness to emerging needs. All Band A projects are now complete, with over £4 million released in final retentions, and the programme continues to lead on Net Zero Carbon (NZC) initiatives, with projects exceeding 2030 targets and integrating renewable technologies like photovoltaic panels.

24. Councils have reported £71m of in-year pressures added to school budgets for 2025-26. Whilst in the previous financial year over 55% of the overspend was due to "stand still" inflationary pressure (pay and inflation), for 2025-26 that figure stands at just 11%. For 2025-26 the majority (over 52%) of the pressures are demand led, with Additional Learning Needs demands being cited in the majority of the narratives. Exacerbating the challenge is the reality that reserves have been largely exhausted. Numerous reports highlight growing school deficits, leaving reserves no longer available as the financial buffer they once provided. This is discussed in greater depth below in paragraphs 27-29.

25. The future pressures that schools are facing are a cause for concern, figure 4 below showing the elements of the estimated £137m of pressure in 2026-27. There is a further £115m and £122m in 2027-28 and 2028-29 respectively. Spend on education will need to rise from £3.3bn in the current financial year to £3.7bn by 2028-29, the end of the spending review period.

Figure 4: Composition of schools pressures, 2026-27, £000s



Source: SWT Survey 2025

26. Previous surveys have shown pay accounting for around 80% of schools' pressure in each of the years, however this survey shows this at around 60%, equivalent to £84m for 2026-27. This is further evidence of increased demand-led

pressures on the education budgets. ALN pressures are now accounting for just over a quarter of the schools' pressures in 2026-27. This is a repeated theme emerging from the survey responses, schools' budgets are facing relentless pressure from ALN requirements. One such response stated:

"The in-year deficit is in the region of £10.5 million and is fuelled by ALN pressures of demand outstripping supply which shows itself not just in placements outside of LA Schools but also within mainstream schools as well. The significant increase in ALN is primarily Emotional Health and Well Being although complex needs numbers are also increasing."

27. It is not just the ALN provision itself causing strain, but the wider costs incurred as a result of the needs identified. The growing demand for ALN education has led to a corresponding increase in Home-to-School transport contracts. This rise is largely driven by the specific and often complex requirements of ALN pupils, many of whom require tailored transport solutions. Due to logistical constraints, and the individualised nature of support, transport arrangements frequently involve small groups of pupils or, in some cases, single occupancy journeys via private taxis. This provision is expensive.

28. School budgets starting from an already precarious position as reserve levels have been eroded over the previous years is another recurring theme. The starkness of the situation is illustrated by a response stating:

"Schools reserve deficit April 2025 is £4m. Schools are running at a recurrent budget deficit of £2.6m based on current funding models. This represents an unsustainable position over the medium term. Whilst budget recovery plans are in place for all schools in deficit, the scale of the deficits alongside the continued challenges faced in ALN, behaviours and attendance will mean that recovery plans will take 8 to 10 years to fully deliver. In the interim, the accumulated deficits are placing significant strain on balance sheet resources"

29. The implications of the declining reserves are clearly stated, with responses noting:

- *"School budgets are projecting an overall deficit of over £5m at the end of 2025-26 which is unsustainable and schools are saying they cannot cut further and deliver the curriculum / meet statutory or safe staffing ratios"*
- *Schools <are> currently reliant on around £3.5m use of balances to set budgets. This is unsustainable and needs permanent funding, without which further job losses will be necessary and risk of class sizes being above statutory levels*

30. The actual level of school deficits is mentioned in a number of returns, with just some examples being:

- *Schools continue to draw against their reserves and there is now an overall deficit of £1.1 million which is projected to grow by £1.6 million in 2025-26, based on school budgets submitted in May 2025*

- *School balances continue to decline, with the majority of schools setting budgets in excess of the funding they receive, fourteen of our 61 schools having deficit balances in 2025-26*
- *Schools have completely eroded a £15m surplus balance into a £2m deficit and are projecting a £9m in year overspend in 25/26. Not only are we credibly not going to be able to make budget reductions to the single largest area of council spending, it is hard to see how we can set a realistic budget without additional funding*
- *There are 33 primary schools, 6 secondary schools and 2 special schools (69.5% of all schools) projecting a deficit balance at year end*
- *At the end of financial year 2023/24, there were 15 Primary Schools (£0.559m collectively) and 6 Secondary Schools (£2.9m collectively) carrying forward a deficit balance position. As of 31st March 2025, this position is updated to 18 Primary Schools (£1.035m collectively) and 9 Secondary (& Middle) Schools (£5.3m). For 2025/26 we are forecasting this number to increase and to be in an overall deficit position*
- *The majority of our Schools are finding it extremely hard to set a balanced budget for 25/26 and being able to implement deficit recovery plans without losing staff which will impact on teaching & learning, class sizes etc*
- *Total school balances decreased by £3.023 million during 2024-25 to a negative balance of £619,000 at the end of the financial year. At the start of 2025-26, projections indicate an overall deficit balance for school delegated budgets of £5.206 million at year end*

31. Many councils highlight significant capital investment needs for school buildings, whilst noting there is not sufficient money in the system to allow for major works, with one authority commenting:

    "General investment in maintaining school buildings (a responsibility that is delegated to school governing bodies) has been impacted by funding constraints at schools. In order to reduce backlog maintenance issues, we have invested in urgent safeguarding activities across the county, but to fulfil our current capital transformation commitments and invest to achieve net zero across the schools estate, we have broadly estimated investment requirement levels of more than £400m. Borrowing to support this level of investment would require annual revenue contributions of more than £25m, levels clearly beyond affordability"

32. There were comments about how the sustainability of small schools will need to be reviewed as financial pressures persist. However, it was also noted that the increased cost of transport to neighbouring schools could negate savings made, especially in rural areas:

    "The county still has some smaller schools, the sustainability of which needs to be reviewed as financial pressures persist however the School Reorganisation Code does not always make this straightforward. The increased cost of transport to neighbouring schools offsets some of the savings made in particular as we are a rural county. The strength of political decision-making needed for School Closures can't be underestimated"

33. Local Authorities are doing all they can to relieve cost pressures, as one response demonstrates:

"Pressure on Home to School Transport continues but not currently included as waiting to confirm numbers for September and for contract prices to be confirmed for contracts retendered. New matrix processes are in place for evaluating the most appropriate model of transport"

34. The fact remains, however, that faced with the immediate situation of declining balances and £374million of cost pressures in the subsequent three years, schools are already being asked to reduce budgets. One council noted that as part of their medium-term financial strategy, schools had been tasked with a 1% efficiency target for 2025-26. Without additional funding, more authorities are likely to be forced to make similar savings targets of their schools with the impact being felt by future generations.

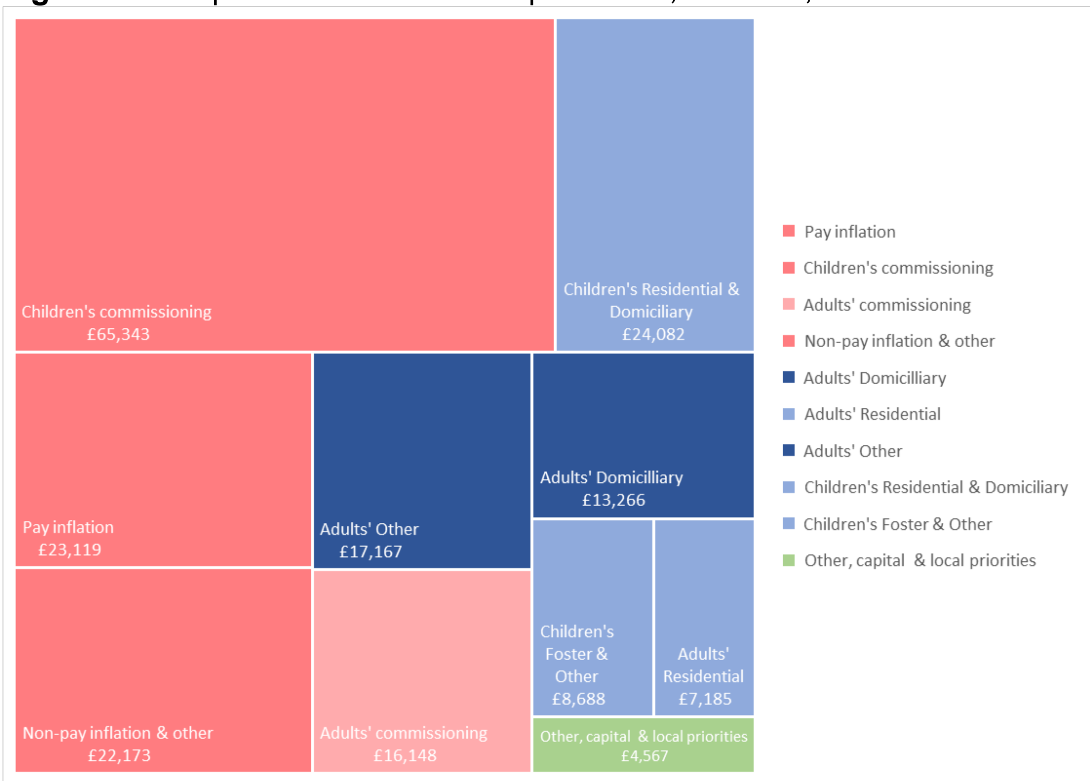
Priority Area 2 - Social Care and Prevention

35. Social care plays an essential role in supporting individuals, families, and communities across Wales. It is not only a vital safety net for those with care and support needs, but also a cornerstone of prevention and early intervention—helping people to live independently, stay connected, and avoid crisis. For adults, social care enables older people and those with disabilities or mental health needs to remain in their homes and communities, reducing hospital admissions and facilitating timely discharge from acute settings. For children and families, it provides safeguarding, stability, and support that can prevent escalation into costly statutory interventions. By promoting wellbeing, resilience, and inclusion, social care reduces pressure on the NHS, both primary and secondary care and delivers better health outcomes for citizens.

36. However, this preventative potential can only be fully realised through sustained investment. The survey shows the significant in-year pressures being experienced across both adults and children's services. The projected in-year overspend for 2025-26 currently stands at £58m. These considerable financial challenges continue into 2026-27 and beyond and builds on an overspend of £106m that was projected this time last year for 2024-25 and £107m in 2023-24.

37. In the next financial year there is a projected £201m pressure equivalent to 7.2% of net revenue expenditure. Figure 5 below shows the breakdown of this considerable pressure. Commissioning costs, pay and non-pay inflation account for £126m (63%). The remainder is due to pure demand which accounts for £70m (35%) and other costs pressures of £5m (2%).

Figure 5: Composition of social care pressures, 2026-27, £000s



Source: SWT Survey 2025

38. There are further increases of £201m (6.8%) and £211m (6.7%) in 2027-28 and 2028-29 respectively. Spend on social care will need to rise from £2.8bn in the current financial year to £3.4bn by 2028-29. By the end of the spending review period, it will be 22% higher than now. On current trends, it will reach over £4bn by 2030-31 and will surpass education as the largest local government service in terms of sheer financial spending power.

39. Across councils, social services continue to face acute and escalating financial challenges, driven by a combination of rising demand, an increasing complexity of need, workforce instability and funding issues due to increasing costs for commissioned services, such as the National Insurance increase which was not fully funded by central Government. Councils are reporting significant in-year pressures across both children's and adult services, with many councils highlighting substantial overspends despite these service areas receiving a level of protection, with a number of councils reporting that social services have received budget uplifts by their council due to demand for services and increased costs. There are also additional risks such as those around the procurement and implementation of the replacement system for the Wales Community Care Information System which may result in further additional costs needing to be met.

40. In children's services, the cost of out-of-county placements continues to be a major financial burden. For example, one council projects an overspend of £2.3 million in 2025/26, which follows a £2.1 million overspend the previous year, despite efforts to contain costs and keep children in county. For another council despite the children's services budget being increased by £2 million for 2025-26 (a 21.7% increase) the service is forecast to overspend by £1.5 million, driven in the main by rising costs of placements. Across councils the average cost of residential placements has surged due to the increasing complexity of need being seen and the challenge of finding appropriate placements.

41. This has been further exacerbated by the Welsh Government's Eliminate Profit agenda with a number of councils reporting that this has led to the withdrawal of some private providers from the market. Councils continue to develop new in-house provision, but this has led to increased costs, with one council noting that parallel running costs during this shift are creating substantial financial pressures. Emergency placements and the lack of foster carers are also specifically identified as driving up costs. Some children require intensive staffing ratios that can result in costs up to £1 million per child annually. The lack of full funding from the Home Office covering the costs of looking after unaccompanied asylum seeker children as part of the National Transfer Scheme, including leaving care costs, also adds to this financial burden.

42. Adult services are similarly strained. One council identifies that across adult services they have seen a 15% increase in demand across all client groups. Domiciliary care, learning disabilities and mental health services are consistently cited as areas experiencing increasing demand and overspend, with one council reporting a £2.7 million pressure in domiciliary care alone.

43. Mental health services received specific mention particularly in regard to councils' responsibilities under Section 117 aftercare and stepdown from hospital placements. In addition, the mental health legislation which impacts on ordinary

residence, which means individuals detained within an area then become the responsibility of that council area, increasing demand and complexity for supported living.

44. Councils consistently highlighted the financial impact of decisions made by health, with the impact meaning that councils are often absorbing health-related costs. Difficulties in securing Continuing Healthcare (CHC) and Funded Nursing Care (FNC) contributions are reflected in many responses. For instance, one council identified a £600k annual shortfall in FNC funding, covering 300 placements, which is being met from core budgets. Another council highlights that linked to underfunded CHC and FNC costs, providers are seeking cross subsidisation from social care. The council report an in-year pressure of circa £650k relating to Top Up Charges applied by Residential and Nursing Care Home providers, with over 100 top up arrangements agreed since January 2025. This is an issue that needs resolving as part of successfully and effectively integrating a health and social care system.

45. Councils also report delays and lack of rehabilitation packages meaning that costs are shifted from NHS to local authorities. One council reported they are facing a financial pressure of around £850k relating to former health funded services transferring to social care. This includes a recent decision to withdraw funding of local EMI community provision and reassesment of Health Funded specialist residential care services (Mental Health & Learning Disability).

46. Workforce challenges also persist. The Real Living Wage (RLW), without sufficient funding being made available in the settlement, and pay differentials are creating additional pressures, particularly where overseas support worker rates exceed RLW, disrupting pay hierarchies. Councils also report high levels of sickness and burnout among staff, further straining budgets and service delivery. For some recruitment and retention issues have led to the reliance on agency staff, with one council reporting over £1 million in overspend due to agency use.

47. Capital investment needs are also emerging as a future risk. Councils report rising construction costs and limited contractor availability, which are affecting the delivery of social care infrastructure. One authority estimates a need for three new residential care homes over the next 5-10 years, each likely to cost around £15-20 million in capital, with no current funding in place

48. Looking ahead, councils anticipate that these pressures will intensify. The demographic shift toward an older population is expected to keep putting pressure on health and social care services, with a growing need for specialist dementia care and other age-related services, with projections indicating that one in four people in Wales will be over 65 by 2038. The financial outlook is further complicated by policy uncertainty and legislative pressures.

49. Councils are being asked to deliver more—such as implementing the Eliminate Profit agenda, expanding early help services and supporting unaccompanied asylum-seeking children—without the required levels of funding to deliver. One authority warned that without full funding for new responsibilities, local government risks being unable to deliver core services, let alone new initiatives. Others expressed concern about reputational risk, compliance with statutory duties, the ability to meet the goals of the Well-being of Future Generations Act,

and most importantly, the impact on citizens and those in receipt or need of social services who are waiting longer for services or seeing levels of support reduced.

50. Councils are also concerned about the sustainability of grant funding, such as the Regional Integration Fund (RIF) and Eliminate Profit grants, many of which are due to end or reduce in the coming years. One council noted that the loss of £4 million annually from RIF would severely impact service provision. Another highlights that social services in one council are reliant on around £50 million of various grants to operate, the majority of these are confirmed only until 31 March 2026. The grants provide early help and prevention activity which seeks to intervene early for better outcomes for people, promotes independence and resilience and keeps them out of expensive statutory or crisis services - if these grants disappear or are reduced, the cost pressure on statutory services will significantly increase over the coming years.

51. Councils continue to highlight the need to examine the level at which the maximum weekly charge for non-residential services is set, as a means of better reflecting the rising cost of care, which would enable councils to be able to recover some costs, warning that without sustainable funding support core services will be at risk and that this will be to the further detriment of vital discretionary services. While some funding was announced in 2024-25, including for future years following a consultation exercise on the potential to increase the charge, this did not reflect the additional income that would have been received had the maximum weekly charge been increased by some of the proposed uplifts in the consultation paper, nor does it reflect the inflationary pressures and increased costs experienced since.

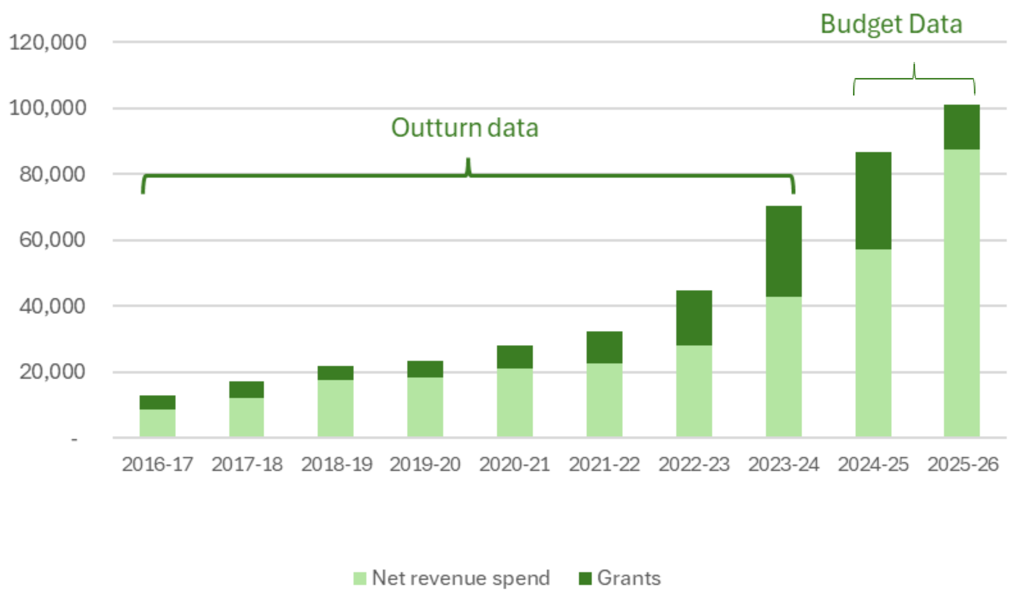
52. The pressures facing social services are not just immediate budgetary challenges—they are indicators of a system under significant strain. The financial outlook is increasingly precarious, shaped by rising demand, escalating costs, workforce fragility, and uncertain funding streams. Councils are doing all they can to manage demand, stabilise the workforce, and innovate in service delivery, also supporting a more effective NHS, but without a sustainable funding model, stronger health partnerships, and long-term investment in workforce and infrastructure, the system risks becoming even more fragile.

Priority Area 3 - Housing and Homelessness

53. Councils have seen the beginnings of a very welcome reduction of the numbers of people in emergency temporary accommodation, particularly households with dependent children over the last 12 months although overall this remains high. There also continues to be high numbers of people, often single person households, seeking support and assistance from councils due to homelessness or the threat of homelessness. Wales has continued with the approach of "no-one left out" in relation to homelessness, effectively permanently extending the arrangements put in place during the public health emergency in relation to the provision of temporary accommodation. This approach is supported by councils, however, the numbers of households approaching authorities for assistance has continued to far exceed the position prior to the pandemic. This sustained increase in homelessness presentations to councils means that core homelessness services are often dealing only with crisis and unable to work to prevent homelessness. This position was recognised in the Audit Wales report Temporary Accommodation, long-term crisis? | Audit Wales published in July 2025.

54. The demand is reflected in the costs. The data in figure 3 below is drawn from council finance returns to Welsh Government over a 10-year period, with the last 2 years' returns from the budget (RA) forms as no outturn is yet available. Net current spend has increased from £12.8m in 2016-17 to £100.8m in 2025-26.

Figure 3: Councils' Net Current Spend on Homelessness and Temporary Accommodation, £000s



Source: WG RO/RA Returns

55. Welsh Government housing and homelessness grants are making a contribution to these costs and funding from other sources is being used. In the current financial year some of the grants were incorporated into the settlement in a welcome move. However, the increase in demand for these services is relentless and spend has grown eight-fold over a 10-year period. This is

significantly higher than the increases in the general settlement and council tax, which implies that other services have been cut to fund them.

56. The continued early release of prisoners due to overcrowding in prisons, inevitably involves significant numbers of people with no accommodation available at the point of release. This is creating further pressures on housing options teams and increasing demand for temporary accommodation in many areas. The complexity of needs that often accompany prisoners, as well as others who are homeless (and rough sleepers) can make it more difficult to find appropriate temporary accommodation, which can also be more costly, and with councils also taking into account safeguarding duties in relation to the needs of others and in particular, families with children.

57. Additional housing pressures and increased demand and costs for temporary accommodation are also seen in many areas as a result of various migration and humanitarian protection schemes, including competition for private rented sector properties across Wales as a result of asylum dispersal being widened to all council areas, and efforts aimed at reducing the use of hotels. The UK Government's recently announced decision to speed up reviews and reduce the backlog of asylum decision appeals will also inevitably lead to increased numbers of people leaving accommodation provided by the Home Office and seeking assistance from councils in finding a home, often requiring the provision of temporary accommodation before a permanent home if found. There is no additional funding from the Home Office for the increased pressures on councils for this work and the costs of temporary accommodations are quite literally, rising exponentially.

58. The recently published Homelessness and Social Housing Allocations (Wales) Bill, which is currently undergoing scrutiny in the Senedd will also add further financial pressures on councils, when implemented, and it is important that a further robust and thorough assessment of the financial implications of all legislative proposals is undertaken, in partnership in line with the Partnership Agreement, so that appropriate levels of funding are provided by Welsh Government to support the successful implementation of any legislative changes. Councils have concerns that the Regulatory Impact Assessment accompanying the Bill does not adequately reflect the additional pressures councils will face.

59. The latest data reflects that, despite seeing a welcome slight reduction over the last 12 months, there are currently still nearly 11,000 people in temporary accommodation. This comes at a significant cost to council budgets and the level of funding provided by the Welsh Government, or recoverable from DWP, is not keeping pace with such increased demand. The feedback from the survey undertaken reflects overspend on homelessness budgets and this is an increasing financial pressure on councils. The Housing Support Grant budget is critical in supporting homeless people and those at risk of homelessness, including funding for third sector bodies, and the WLGA stresses the need to at least maintain the current level of funding if additional funding is not available.

60. Building more homes is essential to ensure that we have enough houses for everyone who needs them, including those households who become homeless or are inadequately housed. Those councils with housing stock are implementing

ambitious new-build programmes and seeking to acquire existing homes (often former Right to Buy properties) to increase the numbers of homes available for social rent. Increased land, labour and material costs mean that the much-needed building of new council homes has become more expensive - this threatens the viability of many house building schemes without increased capital subsidy from Welsh Government.

61. All councils are also working with Registered Social Landlord (RSL) partners to build new low carbon social rented homes. It is therefore important to ensure that capital funding is available to support the building of social housing at the pace and scale needed to reduce reliance on temporary accommodation and ensure the housing needs of citizens in housing need can be met.

62. However, the September 2024 Audit Wales report on Affordable Housing concluded that if the Welsh Government is to meet the 20,000 social homes target by March 2026 it will need to spend significantly more than planned, this will largely be through increased capital subsidy to councils and RSLs to support the delivery of additional homes.

63. Councils support the achievement of Welsh Government's key housing objectives, set out in the Programme for Government, however adequate funding is required to enable successful delivery. In addition to the above issues, other financial pressures in housing come from reform of the building safety regime, meeting the revised Wales Housing Quality Standard, workforce pressures and meeting any workforce gaps (for example the Audit Wales report on Building Control) and the ambitions in relation to decarbonisation of more homes.

64. Social landlords, including those councils with housing stock, require long-term certainty over rental income in order to effectively plan for the maintenance and improvement of existing properties, and the development of much-needed new homes. Councils have expressed concerns that the proposed new rent and service charge standard for Wales, which has recently been consulted on by Welsh Government will not allow councils to generate sufficient income to meet the ambitions for investment in existing stock, and the development of much-needed new homes for social rent. It is vital that, when finalised, the social rent standard is affordable to tenants and provides certainty over future levels of sufficient income for landlords to deliver on services and new homes that fully meet the needs of existing and future tenants.

65. To reduce the numbers of people becoming homeless and requiring temporary accommodation, councils need to be fully resourced to support households and intervene in ways which prevent homelessness in the first place. To provide homes for the many thousands of people on housing waiting lists across Wales, and to provide opportunities for those in expensive and unsatisfactory emergency temporary accommodation to 'move-on' to permanent housing that is suitable and affordable there needs to be significant and sustained increases in the development programmes delivering new homes for councils and RSLs. This will require considerable increases in the level of capital subsidy from Welsh Government, as identified in the Audit Wales report on Affordable Housing.

Good Practice example: - Eagleswell Road, Llantwit Major Development, Vale of Glamorgan Council - New development at Eagleswell Road, Llantwit Major

Priority Area 4 - Regional and Local Economic Development

66. Sustainable economic growth at all spatial levels has been identified as a key way to help ease demands on public services and generate the tax revenues needed to provide these services with the additional funding they require.

67. Creating conditions for 'good growth' therefore has to be a top priority. Place-based economic development is a key concept in this respect, recognising that improvement in an area should take account of its unique challenges and opportunities. A 'one size fits all' approach to policy is much less likely to succeed.

68. Councils play a critical role in place-based development. They bring many different services together to support local and regional economic development. As well as their own economic development and regeneration staff, councils establish and regulate the conditions and environment for growth in many different ways. They have responsibilities for transport, planning, flood defences, trading standards and environmental health. Their role as the local education authority, with links to local further and higher education establishments, is also vital in bringing forward tomorrow's labour force.

69. As waste collection transforms into recycling collection and promotion of the Circular Economy, this is creating new economic development opportunities. The Packaging Extended Producer Responsibility funding of almost £90m across Wales (along with capital funding available from Welsh Government) has provided welcome additional resource to help develop this area of work.

70. Many place-based services, though, have experienced significant cuts in funding, with spending on 'people-based' services accounting for an increasing proportion of each council's settlement. From 2009/10 to 2022/23 council spending on services other than education and social services reduced by over a quarter (adjusted for inflation). Highways and transport saw a 32% decrease, whilst Planning experienced a reduction of 39%. Economic development experienced a boost from the Shared Prosperity Fund from 2022/3 but there is uncertainty over that funding beyond March 2026. That could result in the end of support for over 2,000 jobs across Wales and a significant reduction in the capacity of councils to support place-based economic development and regeneration.

71. Total budgeted revenue expenditure on environmental services, highways and transport, planning and community and economic development collectively amounts to £1.016bn in 2025/26, which is just 8.8% of total spending by councils.

72. Additionally, National Park Authorities continue to be impacted by cost pressures being significantly higher than increases in core funding and all three are carrying budget deficits of around £1m, which is around 15% to 20% of turnover. This is a consequence of flat line budget settlements over a number of years, when inflation was high. Unlike other Local Authorities organisations, National Park Authorities do not have the option of setting a higher levy, as the NPA levy is based on Welsh Government funding. Neither do National Park Authorities have the opportunity of setting other levies, such as the Visitor Levy. Therefore, significant focus for all three is on generating income from other sources to make up this shortfall, however, the capacity and opportunity to do this varies across

the three Authorities and it is unlikely that it will be possible to make up the shortfall through generating additional income alone.

73. Over the medium to long term all three National Park Authorities are faced with making significant reductions in their services, which will have a negative impact on the use and enjoyment of National Parks. However, in some cases consideration will need to be given as to whether some services are able to continue over the short term. To meet this challenge National Park Authorities work with a range of partners, especially Local Authorities, and in areas such as Nature recovery, climate change and use of parks for social prescribing outcomes we could do more, however, the lack of funding limits capacity to do that.

74. Place-based development can be particularly important in addressing social and economic disparities in underperforming areas. Expenditure in these service areas can therefore play an important preventative role. It can ease pressure on other council services (whilst supporting delivery of those services at the same time). Attracting investment to address locally identified priorities and opportunities is central to this approach. It can involve investment in housing, regeneration, infrastructure, clean energy, finance for SMEs, health and in natural capital/ecosystems services.

75. The Shared Prosperity Fund introduced by the former UK Government facilitated this approach. The flexibility of the scheme allowed councils to rebuild their economic development capacity that had steadily diminished over the previous decade. The ability to align the Fund with locally identified needs and opportunities has resulted in many examples of successful interventions by councils throughout Wales.

76. Some examples of place-based interventions made using SPF can be viewed here (similar examples could be found on any council website):

Ambition North Wales | Shared Prosperity Fund Projects
Cardiff Capital Region - Shared Prosperity Fund and for Cardiff itself (SPF projects supported in Cardiff and Caerphilly Caerphilly SPF projects
Growing Mid Wales - Shared Prosperity Fund boosts innovation and social enterprise
Swansea Bay City Region - Multi-million pound funding boost benefiting communities and businesses and Neath Port Talbot SPF support

77. Another example of how place-based co-ordination can deliver successfully is Denbighshire County Council’s work to improve Corwen town centre (see box below). In this case it used the former UK Government’s **Levelling-up Fund**. This improvement work received an award from Ystadau Cymru.

Corwen Town centre improvements
Name of Organisation: *Denbighshire County Council*
Partner Organisations: *Llangollen Railway Trust/ Cadwyn Clwyd/Corwen Town Council*
Brief Description: *This package project includes 4 sub-projects which have been delivered in and around Corwen High Street with the aim of improving visitor connectivity networks, town centre assets and public realm between the new heritage railway and the High Street creating a new and improved visitor entry point to the World Heritage site.*
Panel's Recommendation and Comments:
A multi-faceted project that provided a strong example of collaboration. Highlighted an integrated approach to improving the experience for residents and visitor and referenced key policies such as Place Making. The panel felt that this was broader than traditional regeneration projects as it combined accessibility, community connectivity, economic sustainability and comprehensive support for local heritage. Panel thought it was a good example of town centre improvement even in times of austerity and could inspire others to follow. It was also replicable and was the only applicant to describe barriers and how these were overcome with partnership problem solving.

78. There is potential to build on the foundations SPF has provided and also to seek other sources of funding, including investment funding. For example, the Wales Pension Partnership has taken an increasing interest in the concept of place-based impact investment (see £25 billion powered Wales Pension Partnership pool to deliver growth and jobs for Wales - GOV.UK).

79. The UK Government has announced that Wales will receive £211m for the next three years, after the SPF ends next March. That represents 23% of the UK total allocation. However, the detail of how this funding will be used and who will oversee it is still to be clarified. Welsh Government believes that control will be returned to it from the UK Government, although it is understood UK Government (via the Wales Office) intends to retain a significant role. The amount of funding is the same as for the current financial year but that was 40% lower than 2024/25 which, in turn, was less than Wales received under former EU funding. That underlines the importance of looking at alternative funding sources, as well as ensuring integration with Welsh Government's own funding, such as the Transforming Towns programme.

80. WLGA's Economy Spokespeople have called for a further transition year to enable SPF funded projects that are delivering good results to continue. That may still be a possibility but much depends on the outcome of negotiations between the UK and Welsh Governments. WLGA Executive Board has called for these discussions to be tripartite. Given the vital role of local councils in place-based development, the absence of involvement of councils to date is questionable. Both governments have committed to involve local government as soon as they can.

81. Both Governments appear keen to see Corporate Joint Committees (CJCs) play a greater role in economic development efforts. Discussions are taking place with CJCs over various UK Government funding programmes linked to its Infrastructure Plan and Growth Missions. In that sense, the CJCs are the closest equivalent to the Corporate Strategic Authorities negotiating integrated settlements with UK Government. Welsh Government is keen to see the CJCs have a strategic role in how the £211m of SPF-successor funding is used and is also planning to devolve transport grants to the regions.

82. It is vital that the lessons learned under SPF, including many positive outcomes, are considered in determining future approaches to local and regional economic development. If councils lose access to funds they have been receiving, this could seriously undermine their capacity to promote economic development and regeneration at a local level and support it at a regional level.

83. Local contacts and knowledge are crucial to successful economic development, as well as councils' ability to co-ordinate support across their full range of services. This underlines the importance of lobbying for councils to continue to have a central role in any successor programme(s) and funding arrangements.

Priority Area 5 - Capital and Investment

84. In a letter to the Treasury before the spending review we highlighted the impact that capital investment has on local economies and place-based investment can also play a key role as we have highlighted in previous section. The importance of sustained public sector investment to long-term economic growth has recently been underlined by the Office for Budget Responsibility[4] . Across councils' capital programmes we are seeing an increase in the costs approved at feasibility stage, to the design and development stage of capital projects, due to the current inflation rates and volatility of the construction market. The survey responses show that with little or no additional funding available, there has been a lot of reprioritising between schemes and scaling back where possible.

85. Although inflation has returned to more normal levels, costs have remained at the inflated levels whereas core capital funding has not kept up with inflation, resulting in core capital budgets remaining static. Increases in costs are being experienced across the whole programme resulting in some schemes being unaffordable and/or not providing value for money. General Capital Funding does not keep up with general construction inflation[5].

86. There is no shortage of projects across councils that are looking for additional funding. In schools the Sustainable Communities for Learning project had led to major investment in new builds and refurbishments. In ALN provision there is a need for specialist units and resource bases, and all new builds require additional investment to make them energy efficient and net zero compliant. In social care, residential facilities require expansion and modernisation and Supported Living requires investment as well. Other service areas that require additional funding vary from fleet upgrades and resurfacing in Transport and Highways[6], to temporary accommodation upgrades for Housing and Homelessness Support.

87. It is not just in local authorities that capital pressures are felt, with one fire authority noting their transformation program has estimated revenue costs of over £3m in 2026/27 and estimated capital costs of £7.7m which will cause major pressures on their finances. These costs do not include an immediate need to digitialise many of the service's processes and investigate the possibility of AI usage.

88. However, there is a sense of capital being rationed. Where possible, programmes are being reprofiled, however this does not resolve the budget pressure, it may just spread it over a longer period which in itself can then increase the costs even more. Many authorities are finding that contractors have become more adversarial in terms of contracts and cost increases as they are working to very tight prices from subcontractors and suppliers. This can impact

[4] Discussion paper No.5: Public investment and potential output (obr.uk)
[5] ONS Construction Output Price Indices (OPIs) from April 2019 to June 2024, UK. Summary. All construction (new work and repair and maintenance) index
[6] The Local Government Borrowing Initiative agreed with local government to enable highways resurfacing works over 2025/6 and 2026/7 has been warmly welcomed by councils. The provision of recurring revenue support by Welsh Government is enabling around £120m of investment to be undertaken over this year and next. However, it is important to find ways to sustain those levels of investment or else the highway condition will start to deteriorate again over time.

the final prices for schemes. The urgent is crowding out the important with burgeoning maintenance backlogs in estates and highways being prioritised over strategic projects because of capital rationing.

89. Due to pressures on the revenue budgets, costs are continually being reviewed and challenged in terms of what can be capitalised, however with no additional capital funding it results in less capital budget to actually spend on scheme delivery. Similarly, any annual revenue funding that was being used to support the capital programme has been removed.

90. PWLB interest rates have eased but are still having an impact on schemes funded by Prudential Borrowing, both in terms of the business cases for borrowing and payback periods (e.g. invest to save schemes) and the impact that the interest costs have on the revenue budget.

91. This comes at a time when significant additional resources will be needed for investing in four main areas:

- digital infrastructure to improve services and productivity, for example Connecting Care
- residential care investment to support the *Eliminate Agenda*
- housing investment for councils that are social landlords.
- estate decarbonisation[7] and EV infrastructure to support net zero

92. There are, therefore, major 'invest to save' opportunities aligned to the priority areas in this report. These could be accelerated if more capital were to be made available.

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[7] Some initial work by Local Partnerships (LP) suggests that over £1bn will be needed to cover the capital cost of treating council buildings across Wales if decarbonisation, insulation and renewables measures are installed. LP note that this is an under-estimate of total costs as:

(1) their capital cost figures are based on floor space details, which were provided for only 83% of the buildings reported
(2) they note that they have not included other project costs which will be incurred, which could add 30-40% to the total delivery cost (e.g. survey, design, contingencies). Further work is underway to enable a more accurate picture to be developed by each council.

Conclusion

93. In a statement to the Senedd on 1 July, the Rt Hon Mark Drakeford MS, Cabinet Secretary for Finance and the Welsh Language (CSFWL) set out his intentions for a one-year budget, to be published in October. Under current plans, this will increase departmental budgets by inflation and create a pool of unallocated funding that will be available for the next Welsh Government. This was discussed in our meeting with both Cabinet Secretaries on the 15 July when we met in the Finance Sub-Group.

94. This outcome would be extremely damaging for local services. A 2% rollover budget is a high-risk scenario for local government set against the backdrop of our own financial pressures and such an approach causes significant concern.

95. The default legislative position under section 127 of the Government of Wales Act would be even worse and would be quite catastrophic from the point of view of all public services in Wales, and you will know that councils – unlike other parts of the public sector – have a legal duty to set balanced budgets by 11 March 2026.

96. A rollover budget would mean that councils would have to prepare for a combination of unconscionably high council tax rises, cuts to services and/or job reductions to mitigate the risk of significant budget shortfalls - all of which could harm our local communities.

97. Now that we have the full results of survey from Treasurers there is a clear picture emerging of unrelenting inflation and demand that we currently estimate will be in the region of £560m in 2026-27. This is higher than expected and is driven largely by demand and higher costs in both education and social care. It confirms a pressure of around 6.8% of net revenue expenditure, requiring a settlement uplift of around 9% to completely fill the gap. Furthermore, there is an estimated in-year overspend/additional pressure of £184m that requires immediate difficult decisions in the current financial year.

98. It is possible to estimate the budget shortfall and its impact under a number of scenarios set out below. The Council Tax levels below reflect what would be required to fill budget shortfalls:

Settlement Increase	**Budget Shortall (£m)**	**Overall council tax increase (%)**	**Equivalent post reductions (000s)**
2.0% or £125m	£436m	22%	14k
3.0% or £187m	£373m	19%	12k
4.0% or £249m	£311m	15%	10k
5.0% or £312m	£249m	12%	8k
7.0% or £437m	£124m	6%	4k
9.0% or £560m	0	0	0

99. In summary service inflation for local government is 4.8% higher than accepted inflationary estimates, so a 2% uplift is extremely challenging. Councils will continue to make efficiencies across all service areas where these are possible, but the options for combinations of council tax increases, service cuts and job reductions will be difficult and will be felt by both our staff and communities. Settlements of 4% and above become more manageable but would still require councils to make difficult decisions.

100. We welcome that Welsh Government wants to protect local services and the partnership approach to forging a new and trusted relationship between the Welsh Government and local government. The close working relationship that we developed in recent years has served us all well but unfunded financial pressures are of significant concern to councils and our ability to continue to deliver for the people of Wales. We are committed to continuing our partnership approach to protect our shared priorities and protect services and our communities from the worst effects of the economic headwinds to come.

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Appendix I

Unitary authorities, projected financial pressures, 2026-27 to 2028-29, £000s

	2026-27	2027-28	2028-29
A. Local Authority Related (excluding schools and social services)			
Pay inflation pressures	76,808	68,386	73,059
Non pay inflation pressure	37,774	34,446	34,480
Fees/Charges inflation (positive)	- 2,779	- 2,627	- 2,538
LA Inflation (Stand Still) pressures	111,803	100,204	105,001
Budget pressures			
Demand related pressures (ALN)	42,229	27,116	25,490
Demand related pressures (non-ALN, inc PRS)	18,079	14,928	16,458
Capital financing pressures	3,216	890	257
Reduction in specific grants	5,423	2,489	1,513
Local priorities	34,542	24,389	30,227
Other	7,900	100	100
LA budget pressures	111,388	69,912	74,044
Total LA-related	**223,191**	**170,116**	**179,045**
B. Schools			
Pay inflation pressures	84,074	80,649	85,746
Non pay inflation pressure	5,755	5,526	5,671
Fees/Charges inflation (positive)	691	324	335
Inflation (Stand Still) pressures	90,520	86,499	91,753
Budget pressures			
Demand related pressures (ALN)	28,663	18,942	19,957
Demand related pressures (non-ALN, inc PRS)	7,460	1,502	3,458
Capital financing pressures	1,233	- 389	35
Reduction in specific grants	838	75	75
Local priorities	228	175	758
Other	7,781	8,112	6,193
Total Schools Budget Pressures	46,203	28,417	30,476
Total Schools	**136,723**	**114,916**	**122,228**

Unitary authorities, projected financial pressures, 2026-27 to 2028-29, £000s (cont.)

	2026-27	2027-28	2028-29
C. Social Services			
Pay inflation pressures	23,119	22,902	25,737
Commissioning Cost Pressures - Adults'	65,343	59,405	64,586
Commissioning Cost Pressures - Children's	16,148	15,690	16,413
Non pay inflation pressure	22,173	24,339	29,676
Fees/Charges inflation (positive)	- 1,222	- 1,330	- 1,348
Inflation (Stand Still) pressures	125,561	121,006	135,063
Budget pressures			
Adults Services			
Domiciliary Care (incl supported living)	13,266	15,586	16,804
Residential Placements	7,185	7,998	6,379
Other	17,167	17,379	19,849
Childrens Services			
Domiciliary Care	75	75	75
Residential Placements	24,007	24,319	23,877
Foster Care	875	875	775
Other	7,813	4,243	4,107
b. Capital financing pressures	-	-	-
c. Reduction in specific grants	1,477	5,157	1,672
d. Local priorities	1,840	-	-
e. Other	1,250	4,306	2,450
Total SC Budget Pressures	74,955	79,938	75,987
Total Social Services	**200,516**	**200,944**	**211,051**
Total Pressures (A+B+C)	**560,430**	**485,976**	**512,324**

Appendix II

Unitary authorities, in-year (2025-26) projected financial pressures

	2025-26
A. Local Authority Related (excluding schools and social services)	
Pay inflation pressures	10,176
Non pay inflation pressure	5,388
Inflation (Stand Still) pressures	15,564
Financial pressures	
Demand related pressures	17,016
Capital financing pressures	1,700
Reduction in specific grants	160
Local priorities	2,563
Other	7,185
LA Budget Pressures	28,624
Total LA Related	44,188
B. Schools	
Pay inflation pressures	6,595
Non pay inflation pressure	1,004
Fees/Charges inflation (positive)	-
Schools Inflation (Stand Still) pressures	7,599
Financial pressures	
Demand related pressures	36,969
Capital financing pressures	-
Reduction in specific grants	-
Local priorities	-
Other	26,257
Total Schools Budget Pressures	63,226
Total Schools	70,825

Unitary authorities, in-year (2025-26) projected financial pressures, £000s (cont)

	2025-26
C. Social Services	
Pay inflation pressures	1,901
Commissioning Cost Pressures - Adults'	4,943
Commissioning Cost Pressures - Children's	3,293
Non pay inflation pressure	1,111
Inflation (Stand Still) pressures	11,248
Financial pressures	
Adults Services	
Domiciliary Care (incl supported living)	16,648
Residential Placements	7,036
Other	987
Childrens Services	
Domiciliary Care	550
Residential Placements	21,364
Foster Care	560
Other	8,171
Other Pressures	
Capital financing pressures	900
Reduction in specific grants	-
Local priorities	1,790
Other	-
Total Social Services Budget Pressures	58,006
Total SC Pressures	69,254
Total projected financial pressures (A+B+C)	184,267