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To:
Leaders of County and County Borough Councils in Wales

Copied to:
Chief Executives and Directors of Finance, County and County Borough Councils in Wales
Chief Executive and Director of Finance, Welsh Local Government Association

11 December 2024

Dear Colleagues,

Today I am announcing details of the Provisional Local Government Revenue and Capital Settlement for 2025-26 ("the Settlement") for county and county borough councils ("Authorities") in Wales through a Cabinet Written Statement. This is attached for your information.

In 2025-26, Authorities will receive £6.1bn from the Welsh Government Revenue Support Grant ("RSG") and non-domestic rates ("NDR") to spend on delivering key services. This means the core revenue funding for local government in 2025-26 will increase by 4.3% on a like-for-like basis compared to the current year. Given the range of increases the government is open to considering providing additional floor funding at final budget.

While this is a significantly better settlement than was envisaged at the beginning of this year, I recognise that there will again be difficult local decisions to be made. For 2025-2026 the un-hypothecated revenue settlement increases by £253m. In determining this increase, we have wished to respond to the pressures you identified in our discussions which focused on pay and pressures in front-line services. In particular, I am conscious of the powerful points local authority partners and schools have made around pressures in ALN and wider education provision. Our decisions on funding also recognise our critically important policy and delivery agenda in social care including steps towards the removal of profit from children's care, continuing the real living wage, improving access to social care and maintaining the care cap at £100 per week alongside supporting the 'whole system' approach to care closer to home.

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

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

2025-26 is the first year that rates retention will be paid out as part of the Settlement. An amount of £268k, representing accumulated rates attributed to the Swansea Bay City Deal since 2018-19, has been deducted before setting the Aggregate External Finance (“AEF”) figure. This total is being paid to the relevant Authorities of that City Deal (Swansea Council, Carmarthenshire County Council and Neath Port Talbot County Borough Council). The equivalent figure has been paid into the NDR pool and distributed through the settlement in prior years. Rates retention will be a feature of future settlements, and will likely increase in value as other rates retention arrangements take effect.

In addition to the core Settlement, I am publishing indicative information on specific revenue and capital grants planned for 2025-26, which amount to over £1.1bn for revenue and over £1.04bn for capital at this provisional stage.

The work to reduce the administrative burden on Authorities, committed to as part of the Programme of Government has continued. Another three grants from housing, which were funding core activity have been transferred into the settlement. Work has been completed or is underway in other grant areas to streamline the amount of monitoring of grants, to ensure Welsh Government is only collecting the information which it, with Authorities, need to understand the impact and outcomes of grant programmes. This has included reducing the frequency of monitoring returns, simplifying grant application forms and having stepped criteria for business cases dependent on the size and risk of programmes or projects.

We will continue to work with you to understand the impact of the early changes to grants for the 2024-25 financial year, for example the consolidation of education grants to inform the next phase of this work.

The change to the SCAPE rate was funded in 2024-25 through a specific grant for pre-16 teachers (£61m) and the fire service (£3m). This has been baselined in the settlement in 2025-26, as I expect the increased costs for the fire service to be included in their levy to you.

In November, the Cabinet Secretary for Education announced additional funding to support Authorities and schools with the budgetary impacts of the difference between the planned pay uplift and the increased pay award for the seven months falling into 2024-25. This funding of £18m has been baselined in the 2025-26 Settlement and an additional £13m allocated for the full year costs. I have again taken the decision to provide all the available funding up front and not hold back funding for in-year recognition of the 2025-26 teachers’ pay deal. Authorities’ budget planning must therefore accommodate these costs.

Last week we announced additional funding in support of pay pressures in Authorities, following higher than planned NJC pay awards, of £52m. This has been baselined in the Settlement alongside £900k for fire services pay pressures, which will flow through the levy. Authorities’ budget planning must, as usual, accommodate any future rises.

The UK Government budget made changes to the rates and thresholds for employers' National Insurance Contributions ("NICs") from 1 April 2025 in the Autumn Statement. HM Treasury has confirmed it will provide additional funding in the first half of 2025-2026 to the Welsh Government to reflect the impact of the increased employers' NICs for public sector staff, following the ONS definition of a public sector employee, across the relevant bodies in Wales. Estimates from local government are that this is around £109m for Authorities in the coming year. In setting out the provisional local government settlement, I can confirm that this is not included in the current provisional Settlement. The Welsh Government will use the funding it receives from HM Treasury to help local government and other public sector partners in meeting increases in employers' NICs costs. I recognise you will also be considering the impacts for your budget of NICs costs from third sector and other service providers, but this assurance should enable you to make reasonable assumptions in planning your budgets in respect of your own workforce. My officials will continue to work with SWT on the detail and timing of this funding.

April 2025 will see the first year of payments to Authorities under the Extended Producer Responsibility ("EPR") scheme for packaging which we have jointly developed on a four nations basis. The Welsh Government's intention is that the funding from the EPR scheme for packaging to cover the costs of managing packaging waste should be additional to the funding Authorities have previously received via the Local Government Settlement. This will unlock additional investment to improve recycling against the 70% minimum statutory target and support wider action as a key part of the action to decarbonise and grow the green economy. The scheme administrator has recently written out with the indicative fee income per authority for 2025-26.

As announced on 10 December, the Cabinet Secretary for Finance and Welsh Language is providing a package of NDR support that will continue to benefit every ratepayer in Wales. This will cap the increase to the NDR multiplier for 2025-26 to 1%, at a recurring annual cost to the Welsh budget of £7m. As a result of this cap, the RSG element of the Settlement has increased by an equivalent of £7m. Alongside the Settlement, the Welsh Government will also be investing an additional £78m to provide a sixth successive year of support for retail, leisure and hospitality businesses with their NDR bills. This continued support recognises the economic pressures faced by these businesses in recent years and builds on £1bn of support allocated through our specific relief schemes since 2020-21.

I fully acknowledge the challenges Authorities have been facing. Responding to those challenges has meant an incredible amount of hard work and resilience across the sector by both officers and elected members over many years.

Following the UK Government Autumn Statement, our overall Settlement for 2025-26 is more than £1bn higher than it would have been under the previous UK Government. However, as we all recognise, 14 years of constrained funding cannot be turned around in just one budget and it will take time for the public finances to recover.

The Welsh Government has worked hard over the last 14 years to prioritise public services. In setting our Draft Budget for 2025-26 we have continued to follow this strategy. We know that the Welsh Budget is still not sufficient to meet all of the pressures that we and our delivery partners are facing. The overall financial climate we are all operating in remains challenging. But for the first time, in a long time, the draft Budget announced yesterday provides us with optimism about the future.

I do not consider that it is appropriate for the Welsh Government to set an arbitrary level of council tax increase irrespective of local circumstances or choices. Your Authorities will

need to take account of the full range of funding sources available, as well as the pressures you face. I encourage you to continue to carefully balance the impact of increases on household finances with the loss of support and services. I know that across Wales you as Leaders, elected members and officers alike will strive to find ways to make the best use of resources to make the most difference for your communities.

In line with our joint focus on supporting households, we will continue to maintain full entitlements under our Council Tax Reduction Scheme (“CTRS”) for 2025-26 and are again providing £244m for CTRS in the Settlement in recognition of this.

The Welsh Government received an increased capital settlement for 2025-26 and I’m pleased to be able to increase general capital funding by £20m to £200m to support the inflationary increases in costs and give more flexibility to Authorities in financing smaller capital projects and refurbishment or schemes such as Disabled Facility Grants. I am also able to increase the funding to enable Authorities to respond to our joint priority of decarbonisation through the low carbon heat grant to £30m. We have had some excellent examples where this funding can be used in stand-alone projects or as part of wider capital programmes to reduce the carbon footprint of the local authority estate.

The Welsh Government is expecting multi year settlements for resource and capital at the conclusion of the UK Spending Review during the first half of 2025 which will provide much needed certainty for us and our partners. I hope to be able to provide a more than one-year indicative local government settlement budget at the next provision budget.

The draft *Local Government Finance Report* and additional tables containing details of the Settlement by individual Authority are also being published on the Welsh Government website. These tables include the individual authority allocations of Aggregate External Finance (“AEF”), comprising RSG and redistributed NDR. We are also providing information on revenue and capital grants which are planned for 2025-26. This information will be further updated for the final settlement.

The publication of the Settlement in mid-December has enabled us to draw on the latest tax-base figures for 2025-26, meaning that there should be no change between the provisional and final settlements as a result of updates to the tax base. While I cannot guarantee that there will be no other changes between the provisional and final settlements, I do not intend making any significant changes to the methodology or the data underpinning the distribution of this Settlement.

My announcement today launches a 6-week period of formal consultation on the Settlement for 2024-25. I would be grateful if you could ensure your response arrives no later than **Friday, 24 January 2025**. All responses to this consultation should be sent to:

Freya Gregory: LGFPSettlement@gov.wales

Comments are invited about the effects (whether positive or adverse) the proposed Settlement would have on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language. In addition, we invite comments on whether the proposed Settlement could be formulated or revised to have positive effects, or decrease adverse effects, on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language.

The Welsh Government intends to publish a summary of the responses. Normally, the name and address (or part of the address) of each respondent are published along with the response. If you do not wish to be identified as the author of your response, please ensure you state this explicitly in your response.

Copies of responses may be placed in the Welsh Government's library. If you wish your comments to remain confidential, please make this clear in your reply. This will be considered in light of our obligations under the Freedom of Information Act 2000. The Welsh Government will consider all responses received by the due date before the final determination is made and published.

As is usual, your Authorities are reminded of the requirement to comply with the general equality duties set out in the Equality Act 2010, and also the specific equality duties where applicable. The equality impacts of budgetary options should be assessed and inform any final decisions. In addition, we would also expect you to consider the impacts of budgetary options on children and young people.

Authorities also need to take account of their duties under the Well-being of Future Generations (Wales) Act 2015 and the Welsh Language Standards in preparing plans for 2025-26.

Yours sincerely,

A handwritten signature in black ink that reads "Jayne Bryant". The signature is written in a cursive, flowing style.

Jayne Bryant AS/MS
Ysgrifennydd y Cabinet dros Lywodraeth Leol a Thai
Cabinet Secretary for Housing and Local Government