



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

20 February 2025

Dear Colleagues,

Today I am publishing details of the final 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. The final *Local Government Finance Report* and additional tables containing details of the final Settlement by individual authority are also being published on the [Welsh Government website](#)

In 2025-26, Authorities will receive £6.14bn 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 an average 4.5% on a like-for-like basis compared to the current year.

As we have developed the 2025-26 Final Budget, we have prioritised protecting core frontline public services as far as possible; supporting the hardest hit households and prioritising jobs, where we can. Local authorities are key to this.

I am pleased the budget agreement between the Welsh Government and Jane Dodds MS, leader of the Welsh Liberal Democrats, includes an additional £8.24m to secure a funding floor in the settlement at 3.8%. This further supports nine authorities across Wales. Every authority will see a larger increase than in 2024-2025.

As part of the agreement with Jane Dodds MS we have also been able to provide additional grant funding for new Pathways of Care Transformation in Social Services of £30m, Children and Communities of £30m and All Wales Play Opportunities of £5m which will support delivery of these specific local authority services.

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 £1.3bn for revenue and over £1.0bn for capital.

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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.
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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.

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 the 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.

The Programme for Government commitment to reduce the administrative burden on local government continues to deliver the consolidation or de-hypothecation of grants across a wide range of areas. We have transferred £15m of revenue grants into the settlement in 2025-26. It is important that we work with local government to understand the impacts of these changes as they are embedded. This is a cornerstone of developing a strategic relationship with local government based on trust and focusing on the outcomes that can be delivered in partnership.

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.

In December, 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. The UK Government has confirmed it will provide funding to public sector employers to cover the increased costs of employer National Insurance contributions. It will use the official ONS definition of a public sector employer. The UK Government has also confirmed the Welsh Government will be provided with its share of this funding to support the costs to the devolved public sector. We expect to receive the additional funding in late spring and are working with HM Treasury to clarify the details and the level of support that will be provided.

The Cabinet Secretary for Finance and Welsh Language has confirmed the funding for Wales to help with public sector employer contributions will be passed on. I can confirm there is no funding within the final local government settlement to meet the increase in NICs costs. My officials have already met with the Distribution Sub Group to start discussing the detail of distribution methods for this funding and recommendations will be discussed at the next Finance Sub Group.

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 four nations provided the indicative fee income per authority for 2025-26 in November 2024.

I want to pay tribute to the incredible amount of hard work and resilience shown across the sector by both officers and elected members over many years to respond to the ongoing challenges councils have been facing. We know that 14 years of cuts cannot be turned around in just one budget and it will take time for the public finances to recover. I am proud the Welsh Government has prioritised local government and other public services in its budget decisions.

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 in the draft settlement I was 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. As a result of the budget agreement between the Welsh Government and Jane Dodd MS, leader of the Welsh Liberal Democrats, the Final Budget includes an additional £5m for the Low Carbon Heat Grant to increase the support available to local authorities to install low carbon heating systems in their leisure centres making them greener, warmer and more sustainable. This takes this funding to £35m. 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.

There have been some small changes between the draft and final settlements which have slightly affected the distribution of funding. There is a £145k increase to national park levies, a very small change in the tax setting base and an update to the general capital fund model data to 2025-26 which feeds into the main settlement formula.

I know that you are aware of the need to comply with the general equality duties set out in the Equality Act 2010, and the specific equality duties where applicable. The equality impacts of budgetary options should be assessed and inform any final decisions. Authorities also need to have taken 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.

The Government will now proceed to lay the Local Government Finance Report (No. 1) for 2025-26 for debate in the Senedd on 4 March 2025.

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