

# Welsh Government Draft Budget 2025-26

February 2025

## 1. Introduction

1. This report sets out the Local Government and Housing Committee's views on the Welsh Government's draft budget 2025-26 in relation to the policy areas within our remit.
2. Along with the Finance Committee's report, and those of other Senedd Committees, this report is intended to inform the Senedd's debate on the draft budget, which is scheduled for 4 February 2025.
3. We would welcome a response to our report and recommendations.

### **The Welsh Government's draft budget 2025-26**

4. On 10 December 2024, the Welsh Government published its draft budget proposals for 2025-26.
5. The provisional local government settlement was published on 11 December 2024.
6. We scrutinised the draft budget proposals in relation to the budgets within the Housing and Local Government Main Expenditure Group ("MEG").

### **The Committee's approach to scrutiny**

7. On 8 January 2025, we heard oral evidence from representatives of the Welsh Local Government Association ("WLGA").



**8.** On 15 January 2025, we held two evidence sessions with the Cabinet Secretary for Housing and Local Government (“the Cabinet Secretary”): one on the housing, regeneration and land allocations in the draft budget, and the other on the local government allocations and provisional local government settlement.

**9.** Lee Waters MS recused himself from the scrutiny session with the Cabinet Secretary on matters relating to housing and from consideration of the housing section of this report, given his work with the Welsh Government’s Affordable Homes Task Force.

**10.** Carolyn Thomas MS attended the meetings on 15 and 30 January as a substitute for Lesley Griffiths MS.

## **2. Local Government**

### **The provisional local government settlement**

#### **Aggregate External Finance (AEF)**

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**11.** The Welsh Government published its provisional local government settlement for 2025-26 on 11 December 2024. After adjusting for transfers, overall provisional core funding (Aggregate External Finance (AEF)) for local government in 2025-26 is £6.131 billion. This represents an increase of 4.3 per cent, or £253.5 million, on a like-for-like basis against the current financial year.

**12.** The adjusted AEF takes account of in-year funding and transfers, such as additional funding towards workforce pay deals and pensions (£135.1 million), or specific schemes such as funding to prevent homelessness (£20 million). This provides the baseline for comparison with the 2025-26 provisional settlement.

13. The below table illustrates the changes to the local government settlement from the 2024-25 final settlement:

	2024-25 (£s) (final settlement)	2024-25 (£s) (adjusted for transfers)	2025-26 (£s) (provisional settlement)
<b>RSG Budget</b>	4,581,365,359	4,738,224,798	4,994,976,273
<b>Floor funding</b>	1,297,705	1,297,705	0
<b>NDR share</b>	1,137,861,000	1,137,861,000	1,135,863,000
<b>Total AEF</b>	<b>5,720,524,064</b>	<b>5,877,383,503</b>	<b>6,130,839,273</b>
<b>% change in relation to 2024-25 settlement (as adjusted for transfers)</b>			<b>4.3%</b>

14. The percentage increase of 4.3 per cent is higher than the 3.1 per cent increase between the 2023-24 to 2024-25 local government settlement (adjusted for transfers), but is significantly lower than increases in previous years. For example, the 2023-24 final local government settlement provided an overall increase of 7.9 per cent on a like for like basis with the previous year (£403 million), while the increase was higher still in 2022-23 at 9.4 per cent (£438 million) (based on adjusted figures).

15. The Cabinet Secretary for Housing and Local Government notes in her evidence paper on the 2025-26 draft budget that the “increased level of funding will support Local Authorities in meeting pay, inflation and service pressures”.<sup>1</sup>

16. The WLGA’s evidence paper to the Senedd’s Finance Committee nevertheless highlights budgetary pressures of an estimated £559 million in 2025-26, more than double the additional funding provided in the settlement from the Welsh Government. This would require a spending increase of just over 7 per cent in net revenue according to the WLGA.<sup>2</sup>

17. Councillor Mary Ann Brocklesby, Leader of Monmouthshire County Council, said that although they “are still in very challenging times” she “personally heaved a huge sigh of relief when the settlement came” as she was expecting a 0 per cent increase in the budget.<sup>3</sup> Councillor Gary Pritchard, Leader of Anglesey

<sup>1</sup> Local Government and Housing Committee, 15 January 2025, [paper.1](#)

<sup>2</sup> Local Government and Housing Committee, 8 January 2025, [paper.1](#)

<sup>3</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 8

County Council, agreed that the situation is much better than anticipated, but also noted that the challenges continue and are increasing.<sup>4</sup>

**18.** Councillor Mark Pritchard, Leader of Wrexham County Borough Council, while also welcoming the increased funding, told us that “it isn’t enough money, because the demands are outstripping the services”.<sup>5</sup> He went on to say that he expected Wrexham Council would have to make cuts to services, redundancies and increase council tax in light of the draft budget.<sup>6</sup>

**19.** The Cabinet Secretary accepted that local authorities “are still having to make some very difficult decisions because of the pressures...particularly around social care and education.”<sup>7</sup> However, she noted that it will “take time to recover” after “14 years of constrained public finance”.<sup>8</sup>

### Spending pressures and resilience

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**20.** The WLGA’s evidence paper states that local government faced £720 million in spending pressures for 2024-25 alone.<sup>9</sup> Social care (both adult and children’s services) accounts for a significant proportion of these pressures, with the WLGA stating that next year, social care will account for 40 per cent of all funding pressures (£224m), while schools account for 22 per cent (£122m). All other services account for the remaining pressures.

**21.** Despite an uplift of £180 million in the budget in 2024-25, and income of £110 million from additional council tax income, it left an “estimated budget gap of around £400m” according to the WLGA. As a result, it “meant difficult decisions for non-statutory services and increasingly, schools.”<sup>10</sup>

**22.** The WLGA provided estimates for spending pressures over the coming years based on medium-term financial plans. For 2025-26, the WLGA notes that the pressure is “double what we would ordinarily expect to see”. It sets out the pressures as follows:<sup>11</sup>

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<sup>4</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 10

<sup>5</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 14

<sup>6</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 17

<sup>7</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraph 189

<sup>8</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraph 190

<sup>9</sup> Local Government and Housing Committee, 8 January 2025, [paper.1](#)

<sup>10</sup> Local Government and Housing Committee, 8 January 2025, [paper.1](#)

<sup>11</sup> Local Government and Housing Committee, 8 January 2025, [paper.1](#)

- **2025-26:** £559 million
- **2026-27:** £454 million
- **2027-28:** £464 million
- Total pressures over three years: **£1.478 billion**

**23.** In order to stand still in 2025-26, the WLGA states that local government would require a spending increase of “just over 7 per cent in net revenue expenditure”.<sup>12</sup>

**24.** Without additional funding, local authorities would require a “mix of council tax increases, cuts to services and efficiencies” to maintain services. The WLGA notes that the pressure is “equivalent to a 26 per cent increase in council tax, or the loss of just under 14,000 posts”.<sup>13</sup>

**25.** Councillor Gary Pritchard told us:

*“The amount that we raise in council tax, in a very difficult period for the residents of the island, is getting bigger and bigger, we're charging more and more, and, to put it very plainly, the message I would pass on is that, unfortunately, we on the ground are going to be challenged on why is council tax rising while services are being cut, while public toilets are closing, while there are potholes in the road, and while the Government in Cardiff and in Westminster are saying that Wales and local authorities have had more money than ever before.”<sup>14</sup>*

**26.** He said that there is nothing left to cut after 14 years of austerity; the belt has been tightened as much as possible so the only option is to close services.<sup>15</sup>

**27.** To help ease some of the pressure on some statutory services, Councillor Mark Pritchard called on the Welsh Government to consider introducing ‘statutory overrides’. He said that this would:

*“give parity with the English authorities to take children's services, care and specialist education provision out of the*

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<sup>12</sup> Local Government and Housing Committee, 8 January 2025, [paper.1](#)

<sup>13</sup> Local Government and Housing Committee, 8 January 2025, [paper.1](#)

<sup>14</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 84

<sup>15</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 111

*revenue and into the balance sheet. This would provide and give us much-needed short-term breathing space. They do it in England. There are pots of money there. It works well. It's good practice.”<sup>16</sup>*

**28.** The alternative, according to Councillor Mark Pritchard, is that non-statutory services will have to “fall by the wayside” as a result of current pressures.<sup>17</sup>

**29.** The Cabinet Secretary acknowledged the spending pressures on local authorities, and put on record her “thanks” for the “discussions that we’ve had” through the budgetary process, and that “it’s really important that that conversation happens”.<sup>18</sup> She went on to note:

*“When we look back, we’ve had increases over the last few years of an average of 9.4 per cent in 2022-23, 7.9 per cent of 2023-24, and 3.3 per cent last year, and obviously in normal circumstances they would be seen as really good settlements, but we’ve seen significant pressures over the last few years, following on challenges through Brexit, inflationary pressures, COVID—we know there are a lot of pressures that have been faced over the last few years.”<sup>19</sup>*

### Multi-year settlements

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**30.** Local government has long called for multi-year settlements to provide local authorities with certainty and the ability to plan over the medium-term.

**31.** Councillor Mary Ann Brocklesby said that multi-year settlements are “desperately needed” to allow local authorities to be more flexible about how resources are allocated. She called for such an arrangement “to be built into how settlements are made for local government and there be an acceptance that multi-year settlements are the way forward”.<sup>20</sup>

**32.** According to Councillor Brocklesby, the request on local government to have medium and long-term planning needs to go hand in hand with national Government medium and long-term planning. She explained:

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<sup>16</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 41

<sup>17</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 106

<sup>18</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraph 267

<sup>19</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraph 268

<sup>20</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 46

*“while we have a commitment from the UK Government to multi-year funding, starting the year after next, we have no indication yet, either from the Welsh Government or the UK Government, of what their spending plans might be and what their medium-term or long-term forecasting is... We have to have a sense, as a public sector, what our medium and long-term financial plans are and how they are interrelated, otherwise we're just looking at a cliff edge every year as we reset the budget.”<sup>21</sup>*

**33.** The Cabinet Secretary said that the UK Government’s move to multi-year settlements is “positive”, adding that as a result the Welsh Government will be able to provide local government with longer term certainty.<sup>22</sup> A Welsh Government official went on to say that:

*“we are equally as frustrated as local government that we have not had any degree of financial forward-look that we can work with... We have tried working with the WLGA to sort of look at some scenarios, but, actually, the risk to us, the risk to local government, is to set out or agree on a set of assumptions on which to plan, because you need assumptions on which to plan. And if you’re recruiting staff or retaining staff, or you’re making investments where you’re putting money into reserves, and those assumptions turn out not to be right, decisions by the UK Treasury—and we’ve seen some quite significantly different decisions by the UK Treasury over the last few years—will change our financial envelope, and change that very quickly.”<sup>23</sup>*

## **Prevention, collaboration and transformation**

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**34.** We heard that local government needs a longer term view of how to deliver services. As part of this, Councillor Mary Ann Brocklesby said that local authorities need to think about data use, collaboration and prevention.<sup>24</sup> She went on to say that “we cannot make a distinction between what we need to do statutorily and what we need to do to support our ability to fulfil those statutory duties”.<sup>25</sup>

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<sup>21</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 127

<sup>22</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraph 236

<sup>23</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraph 335

<sup>24</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 65

<sup>25</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 66

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**35.** Councillor Jane Gebbie, Deputy Leader of Bridgend County Borough Council, agreed that local authorities need to consider “early intervention and prevention strategies” around education and social care otherwise those services “are not going to be there for future use”.<sup>26</sup>

**36.** Councillor Gary Pritchard also noted that preventative work is considered work that is non-statutory, adding that when there is pressure on budgets, preventative work is often cut.<sup>27</sup> He called for funding for preventative work, noting that without sufficient budgets local authorities cannot undertake preventative work.<sup>28</sup>

**37.** The importance of using data to improve service delivery was also raised by the WLGA. However Councillor Mary Ann Brocklesby said with regards to data management and analysis, “no council currently has the capability to do all this alone; we have to collaborate”.<sup>29</sup>

**38.** Councillor Jane Gebbie noted that digital platforms and the strategy around them are normally held by regional partnership boards.<sup>30</sup>

**39.** The Cabinet Secretary told us that there is over £3 million in the draft budget for the WLGA to support “sector-led improvement in digital services to support councils to improve”. She also said that they are “working with local government to strengthen the contribution that joint working and regional working can make”.<sup>31</sup>

**40.** With regards to preventative work, we heard that there is work going on across Welsh Government departments, in collaboration with local government, to assess demand pressures and think about policies to meet and manage those demands.<sup>32</sup>

**41.** The Cabinet Secretary told us that unhypothecated funding gives flexibility to local authorities to respond to the needs of their population. She said:

*“there will be different pressures, perhaps, or similar pressures but to different extents in different areas, and I think that that*

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<sup>26</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 80

<sup>27</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 83

<sup>28</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 83

<sup>29</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 71

<sup>30</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 78

<sup>31</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraph 190

<sup>32</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraph 339



*is something that local authorities have made clear to us, around how they're able to design services.”<sup>33</sup>*

**42.** A Welsh Government official went on to say that the discussion about “hypothecating or not” is a constant discussion between Welsh Government and local government:

*“we have a piece of work about reducing the administrative burden, which is focused on finding the right balance between ministerial grants and local government flexibility...we are in a position at the moment where local government...is making a very powerful case for increasing the amount of unhypothecated money that we give out to local government. Their argument is that they can actually plan better for that money, they can combine that money, and they can use it more flexibly over a number of things, and I would argue including prevention, which is an integral part of service delivery, rather than a separate identifiable thing.”<sup>34</sup>*

## **Our view**

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**43.** Despite an increase in the provisional local government settlement for 2025-26, local authorities are still in very challenging times and continue to face substantial budgetary pressures which will most likely lead to council tax increases and cuts to services.

**44.** We heard that local government is lacking any certainty around budgets and is clearly struggling. Multi-year settlements would be of assistance if we want to see local authorities planning for the medium and long-term, but they also need more strategic direction from the Welsh Government. There should be greater integrated medium and long-term financial plans across the public sector, to avoid “a cliff edge every year” when it comes to budget setting.

**45.** We heard that when there is pressure on budgets, preventative work is often cut, to prioritise funding for short term needs and/or statutory services. However, such pressures should actually be used as a driver for transformational change. Investing in preventative and transformational work, particularly in high-

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<sup>33</sup> Local Government and Housing Committee, 15 January 2025, [R.O.P.](#) paragraph 343

<sup>34</sup> Local Government and Housing Committee, 15 January 2025, [R.O.P.](#) paragraph 347

cost and high-demand services such as social care, can deliver efficiencies and help local government in the long-term.

**46.** We were encouraged to hear that the Welsh Government has allocated £3 million to support improvements in digital services within the sector, which will help with some of the transformational work needed. While we acknowledge that local government has regularly called for more of its funding to be included within the unhypothecated revenue support grant, there is also a strong case for specific, earmarked funding where the Welsh Government has assessed that such funding will help drive change, particularly in high-demand areas such as social care. However, local authorities also have a responsibility to work within existing resources to seek to transform services and collaborate in order to unlock efficiencies. There are good examples across Wales of preventative and transformative work, but it is unclear at present how effective local authorities are in sharing that good practice, and we believe more could be done to drive efficiencies and improvement in service delivery.

**47.** The Welsh Government also has a role to play in encouraging progress on preventive services and transformation, whilst also facilitating collaboration between partners in the sector. We are concerned that such strategic direction and oversight is currently missing. For example, Corporate Joint Committees (CJCs) could be a route to facilitate wider collaboration and sharing of good practice and resources. However, we have concerns that CJCs are not delivering on their intended purpose, and that local authorities may not be engaging with them as they should. We would urge the Cabinet Secretary to assess how CJCs are performing and whether they are delivering on their current functions and responsibilities. There should be a framework for checks and balances to ensure that CJCs are fulfilling their duties and achieving their potential. Local government could also benefit from more direction from the Welsh Government on how to best utilise CJCs.

**Recommendation 1.** The Welsh Government should set out its strategic priorities for local government and how the provisional local government settlement reflects these priorities.

**Recommendation 2.** The Welsh Government should consider earmarking resources for preventative, collaborative and transformative work to help meet current funding pressures, particularly in responding to pressures on social care.

**Recommendation 3.** The Welsh Government should assess whether Corporate Joint Committees are fulfilling their statutory duties and provide local authorities

with strategic direction to improve regional collaboration and sharing of good practice.

## Funding formula

### Revenue Support Grant

**48.** The revenue support grant (RSG) is the Welsh Government’s un-hypothecated grant, distributed to local authorities via a needs-based formula. The grant supports local authority services in general (as opposed to specific grants for specific purposes). The total grant funding support available to local authorities in 2025-26 is £4.995 billion.

**49.** There is currently no *floor funding* allocated within the RSG, which has been provided in the past at Ministerial discretion. This is used normally to ensure no authority falls below a certain threshold, to be determined by the Cabinet Secretary. Top-up funding is not distributed via the funding formula, but is provided directly to targeted authorities, however, the additional funding is un-hypothecated.

### Floor funding

**50.** The decision on whether to provide additional floor funding is one taken by the Welsh Ministers, based on the final outcome of the local government settlement. In the past, particularly when Welsh Government budgets have been squeezed, floor funding was provided to those authorities that fell below a certain threshold.

**51.** The Cabinet Secretary notes in her letter to local authorities that “the government is open to considering providing additional floor funding at final budget”. During our oral evidence session, she explained that this because of the range of increases this year in the funding formula and the allocation.<sup>35</sup>

### Specific Revenue Grants

**52.** The Welsh Government has allocated £1.086 billion in indicative specific revenue grant funding in the 2025-26 settlement. This is significantly lower than that provided in previous years. For example, the final local government settlement 2024-25 allocated £1.438 billion in specific grants. However, some grants have been transferred into the RSG, while others are still to be confirmed.

<sup>35</sup> Local Government and Housing Committee, 15 January 2025, ROP, paragraph 297

A comparative figure for 2024-25 of £1.123 billion is provided, which excludes transfers and grants TBC for a like-for-like comparison.

**53.** Local government has long called for fewer specific grants, with funding allocated directly via the RSG.

**54.** Councillor Jane Gebbie raised some issues relating to specific revenue grant funding and the pace at which the grant details reach local authorities which can cause “particular difficulties”. She said:

*“If we're going to have a grant, that's fine, but we need acknowledgement and we need to understand what that grant means, what it entails, and we need that real clarity around those grants much quicker”.*<sup>36</sup>

### Local authority distribution

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**55.** Local government in Wales will receive an average increase of 4.3 per cent as part of this provisional settlement, or just over £6.1 billion in core funding. This is distributed to the 22 local authorities via the local government funding formula and is based on the standard spending assessments (SSAs). The SSAs are a notional calculation of what each council needs to spend to provide a standard level of service.

**56.** The Welsh Government has updated the published tables since it announced the Provisional Local Government Settlement on 11 December 2024, revising the figures for the 2024-25 adjusted allocations. The revised table shows that the percentage change in the AEF for local authorities for 2025-26 on a like-for-like comparison with 2024-25 now has a range between 2.6 per cent for Monmouthshire (previously stated at 2.8 per cent) to 5.6 per cent for Newport (unchanged).

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<sup>36</sup> Local Government and Housing Committee, 8 January 2025, RoP, paragraph 50

**Updated Table 1a** – The 2024-25 Final AEF, adjusted for transfers column in Table 1a was corrected on 9 January 2025. This does not affect the amount each local authority has been allocated in the provisional local government settlement for 2025-26. However, the percentage change between years does change, therefore the ranking for each authority has changed.

**Table 1a: Change in Aggregate External Finance (AEF), adjusted for transfers, by Unitary Authority (£000)**

Unitary Authority	2024-25 Final Aggregate External Finance	2025-26 Provisional Aggregate External Finance	Percentage difference	Rank
Newport	311,915	329,311	5.6%	1
Cardiff	640,911	674,571	5.3%	2
Merthyr Tydfil	126,901	133,148	4.9%	3
Swansea	446,796	468,469	4.9%	4
Rhondda Cynon Taf	497,404	521,279	4.8%	5
Blaenau Gwent	147,468	154,532	4.8%	6
Torfaen	183,439	192,215	4.8%	7
Denbighshire	205,729	215,222	4.6%	8
Caerphilly	357,689	373,980	4.6%	9
Neath Port Talbot	293,059	306,217	4.5%	10
Wrexham	239,206	249,511	4.3%	11
Carmarthenshire	360,749	375,747	4.2%	12
Bridgend	266,326	276,640	3.9%	13
Conwy	210,992	218,586	3.6%	14
Ceredigion	138,945	143,938	3.6%	15
Isle of Anglesey	130,907	135,605	3.6%	16
Pembrokeshire	224,985	232,966	3.5%	17
Flintshire	265,881	274,779	3.3%	18
The Vale of Glamorgan	216,231	223,420	3.3%	19
Powys	242,255	250,184	3.3%	20
Gwynedd	239,296	246,818	3.1%	21
Monmouthshire	130,297	133,704	2.6%	22
<b>Total unitary authorities</b>	<b>5,877,384</b>	<b>6,130,839</b>	<b>4.3%</b>	

**Original Table 1a**

**Table 1a: Change in Aggregate External Finance (AEF), adjusted for transfers, by Unitary Authority (£000)**

Unitary Authority	2024-25 Final Aggregate External Finance	2025-26 Provisional Aggregate External Finance	Percentage difference	Rank
Newport	311,772	329,311	5.6%	1
Cardiff	640,615	674,571	5.3%	2
Merthyr Tydfil	126,720	133,148	5.1%	3
Blaenau Gwent	147,440	154,532	4.8%	4
Swansea	447,243	468,469	4.7%	5
Torfaen	183,576	192,215	4.7%	6
Denbighshire	205,561	215,222	4.7%	7
Rhondda Cynon Taf	497,940	521,279	4.7%	8
Caerphilly	357,880	373,980	4.5%	9
Neath Port Talbot	293,239	306,217	4.4%	10
Wrexham	239,036	249,511	4.4%	11
Carmarthenshire	361,072	375,747	4.1%	12
Bridgend	266,124	276,640	4.0%	13
Conwy	210,750	218,586	3.7%	14
Pembrokeshire	224,858	232,966	3.6%	15
Isle of Anglesey	130,889	135,605	3.6%	16
Ceredigion	138,958	143,938	3.6%	17
The Vale of Glamorgan	216,058	223,420	3.4%	18
Flintshire	266,074	274,779	3.3%	19
Gwynedd	239,101	246,818	3.2%	20
Powys	242,414	250,184	3.2%	21
Monmouthshire	130,062	133,704	2.8%	22
<b>Total unitary authorities</b>	<b>5,877,384</b>	<b>6,130,839</b>	<b>4.3%</b>	

**57.** It was clear from our evidence session with the WLGA that there is an appetite to look at the local government funding formula, including how the settlement is calculated and the data that is used.

**58.** According to Councillor Gary Pritchard, the current formula punishes rural authorities and authorities that have an older population.<sup>37</sup> Councillor Mark Pritchard agreed that “it’s not fit for purpose now—on population and areas of deprivation et cetera.”<sup>38</sup>

**59.** The Cabinet Secretary explained that the funding formula continues to be kept under review, on an annual basis, by the distribution sub-group (DSG).<sup>39</sup> She went on to say that the DSG is working with the finance sub-group to review the deprivation levels and sparsity element to check the weighting used in each

<sup>37</sup> Local Government and Housing Committee, 8 January 2025, R.o.P. paragraph 39

<sup>38</sup> Local Government and Housing Committee, 8 January 2025, R.o.P. paragraph 60

<sup>39</sup> Local Government and Housing Committee, 15 January 2025, R.o.P. paragraph 298

formula. Explaining that she is trying to “accelerate progress” on this work, she said:

*“The trouble is, we have to do that for each block of the formula separately, and it is not straightforward or quick, not least because you then have to break it down to quite small geographical units in order to be able to assess the sparsity element.... So, the finance sub-group agreed that it would be preferable to apply all the changes in one go, and that means we have to do all the work before we can see the whole impact.”<sup>40</sup>*

## **Non-Domestic Rates (NDR)**

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**60.** Non-domestic rates (“NDR”) (known more commonly as business rates) form a significant chunk of the core revenue funding (AEF) that the Welsh Government allocates to local government. This, along with the RSG, is distributed to the 22 local authorities via the funding formula.

**61.** For 2025-26, £1.136 billion in redistributed NDR was available. This is broadly consistent with the NDR level for 2024-25, although the amount can fluctuate from year to year.

**62.** This settlement also introduces the concept of retained rates. The constituent authorities of the Swansea Bay City Deal will receive a share of £268,000 in rates retention which will be paid out as part of the settlement. The Cabinet Secretary’s letter to local authorities explains that the amount of £268,000 represents “accumulated rates attributed to the Swansea Bay City Deal since 2018-19”. The letter states that the equivalent figure has been “paid into the NDR pool and distributed through the settlement in prior years”, but that rates retention will be a “feature of future settlements, and will likely increase in value as other rates retention arrangements take effect”.

**63.** This shift in NDR policy in Wales moves away from a long-standing convention of ‘pooling’ non-domestic rates for the benefit of all.

**64.** A Welsh Government official told us that for the foreseeable future the cash amounts that will be retained by such deals “are likely to be very small in comparison to the overall budget”. He went on to say:

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<sup>40</sup> Local Government and Housing Committee, 15 January 2025, [R.o.P.](#) paragraphs 299-300

*“as a consequence, the impact on those authorities that aren't able to generate their own non-domestic rates, which therefore benefit from the pooling arrangement, is likely to be marginal, if they notice it at all.”<sup>41</sup>*

## Our view

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**65.** We note that the Cabinet Secretary is open to considering providing additional floor funding in the final budget. Given that it is still a very challenging time for local government, with rising demand and costs, we urge the Welsh Government to provide a funding floor to protect those local authorities that are expecting a settlement that is far below the average of 4.3 per cent.

**Recommendation 4.** The Welsh Government should provide additional floor funding in the final budget. The amount and recipients of any floor funding should be informed as soon as possible so that they can plan budgets accordingly.

**66.** We do consider however that the need to provide additional floor funding fundamentally undermines the local government funding formula. We therefore believe that it is time for a full review of the formula to ensure that it distributes funding fairly to all local authorities. There is a clear desire within the local government sector to undertake such a review, given concerns that it does not currently reflect the demographic and service challenges across Wales. We were concerned to hear WLGA representatives state that the funding formula punishes rural areas and those with an older and ageing population. We would therefore like to see the work currently being undertaken by the distribution and finance sub groups on deprivation levels and the sparsity element of the funding formula extended to include the older population as an indicator for need.

**Conclusion 1.** We would like to see a full review of the local government funding formula and that local authorities with an older and ageing population are adequately reflected in the formula.

**67.** We are concerned about the concept of retained rates and the move away from pooling non-domestic rates for the benefit of all.

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<sup>41</sup> Local Government and Housing Committee, 15 January 2025, [R.O.P.](#) paragraph 369



**68.** We appreciate that this a development that the Cabinet Secretary will monitor moving forward, and despite the small sums currently being retained, this is a development that will require close scrutiny over the coming years.

**69.** The policy for retained rates emanates from a previous UK Government approach to economic planning that may not be the best fit for Wales. It could also negatively affect the revenues of poorer councils with less buoyant property markets, adding to the polarisation between the poorest areas in Wales and those where there is more prosperity. We are also concerned that it is not a coherent policy development, and not underpinned by a regional policy framework or vision.

**Recommendation 5.** The Welsh Government should closely monitor and assess the economic and financial implications of retained rates, and consider whether the policy appropriately aligns with the longstanding principle of pooling NDR to reduce inequality across Wales.

## Capital funding and borrowing

**70.** Indicative Capital allocations in the provisional settlement shows there is over £1 billion in capital available to local authorities, with £200 million of this made up of general unhyponthecated capital funding, for which local authorities can determine how best to use the funding, such as potentially match funding other specific capital grant schemes or to undertake other capital works.

**71.** General capital funding had remained static at £180 million for the last two years, but an additional £20 million has been allocated for 2025-26, which the Cabinet Secretary notes is to “support the inflationary increases in costs and give more flexibility to Authorities in financing smaller capital projects”.

**72.** In addition to the £200 million in general capital funding, the Welsh Government has allocated an additional £30 million in capital funding to support local authorities decarbonise their estate. This additional funding has increased by £10 million since the 2024-25 budget.

**73.** The primary source of borrowing to undertake capital projects outside of Welsh Government capital funding is via the Public Works Loan Board, although local authorities can borrow from other financial institutions too.

**74.** The WLGA note in their evidence paper that current “PWLB interest rates are having an impact on schemes funded by Prudential Borrowing, both in terms of the business cases for borrowing and payback periods”. This includes

schemes such as invest to save, which will have an impact on local authorities' revenue budgets, which is unfortunate when the WLGA notes that this "comes at a time when significant additional resources will be needed for investing in key areas".<sup>42</sup>

**75.** The Cabinet Secretary for Finance and Welsh Language stated in Plenary that he had "decided to provide revenue support that will enable local authorities to self-finance £60 million of further capital funding to be spent in a new programme of local highway maintenance".<sup>43</sup>

**76.** On this point, Councillor Jane Gebbie raised some concerns about local authorities' ability to finance this additional borrowing:

*"Our highways have suffered over the years. It's okay us being able to borrow, a more extensive funding package...but we haven't got the revenue to support that funding to apply for it in the first place. So, I do think it's something that we really would encourage Welsh Government to give some serious consideration to."*<sup>44</sup>

**77.** Councillor Gebbie also added that "costs have doubled just to do any road maintenance", placing further pressures on authorities' available finances.<sup>45</sup>

**78.** Councillor Mark Pritchard agreed that "it's not enough" and that he would be grateful for more revenue funding to enable more borrowing.<sup>46</sup>

## Reserves

**79.** In the December 2024 Audit Wales report on Financial sustainability of local government, it was noted that reserves are "not always used in a strategic manner", with some councils using them as "bridging strategies" to balance budgets "rather than supporting longer-term transformation".

**80.** Ultimately, the Auditor General for Wales states that using reserves solely as a mechanism to fund in-year pressures without using them to support longer-term financial sustainability is "unlikely to deliver value for money over the longer-term".

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<sup>42</sup> Local Government and Housing Committee, 8 January 2025, [paper.1](#)

<sup>43</sup> Plenary, 10 December 2024, paragraph 174

<sup>44</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 51

<sup>45</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 57

<sup>46</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 60

**81.** The report sets out the change in usable reserves (reserves that can be used as a council wants and has not been set aside for a specific purpose) between 2022-23 and 2023-24. The majority of councils (where data is available) had used usable reserves, to varying degrees, during that financial year.

**82.** Based on draft accounts for 2023-24 the Auditor General had seen at the time of publication, two councils have usable reserves “amounting to around 10% of the net cost of services”. A further five councils have “below 20% of the net cost of services in usable reserves”.

**83.** According to Councillor Gary Pritchard, it is easy to say ‘Use reserves’ but local authorities also need to be careful not to use too much reserve funding and ensure that they maintain reserves. He said: “Once it’s gone, it’s gone, and that leaves a bigger hole behind for the year to come”.<sup>47</sup>

**84.** Councillor Mark Pritchard agreed, noting that “reserves are there for a reason” for example to deal with inclement weather and floods.<sup>48</sup> He said “we can spend them, but how do you replenish them, because we haven’t got the money?”<sup>49</sup>. According to Councillor Mark Pritchard, if the Welsh Government does not want local authorities to have reserves, they could limit how much councils should hold in reserves. However he noted that in such a situation local authorities would then have to ask the Welsh Government for more money.<sup>50</sup>

**85.** The Cabinet Secretary told us that it is “good practice for local authorities to regularly review earmarked reserves, to release any or repurpose any that are no longer required.”<sup>51</sup>

## Our view

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**86.** We note that Audit Wales say that local authorities should be using reserves in a more strategic way, but we also recognise the challenges of using reserves to fill gaps in their revenue budgets. Councils hold reserves for a reason, and once reserves are gone, it may be difficult to replenish them in this challenging economic climate. However we would encourage local authorities to assess their earmarked reserves to ensure that they are being utilised as efficiently and effectively as possible. For example, earmarked reserves which have not been drawn on for a number of years, and where there are no plans for them to be

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<sup>47</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 124

<sup>48</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 129

<sup>49</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 130

<sup>50</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 129

<sup>51</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraph 297

drawn down either, could be in the general reserve and used to ease other pressures. We therefore agree with the Cabinet Secretary that it is good practice for local authorities to regularly review earmarked reserves and consider whether they could be used more strategically.

**Conclusion 2.** The Welsh Government should work with local authorities to encourage and continue discussions about regularly reviewing and maximising reserves.

## Local Government workforce

### National Insurance Contributions

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**87.** As set out in the [Cabinet Secretary's letter to local authorities](#), at Autumn Budget 2024 the UK Government made changes to the rates and threshold for employers' National Insurance Contributions (NICs) from 1 April 2025. The letter notes:

*"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... 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."*

**88.** The Cabinet Secretary goes on to say that she recognises local authorities will be "considering the impacts for your budget of NICs costs from third sector and other service providers", but that this "assurance should enable you to make reasonable assumptions in planning your budgets in respect of your own workforce".

**89.** Councillor Jane Gebbie said that local government is grateful that public service national insurance costs will be covered but noted that the sector is "very reliant on commissioned provision" which is not included in the additional funding from HM Treasury.<sup>52</sup> Councillor Gebbie went on to say that the WLGA has estimated the additional cost for commissioned social care as £44 million for

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<sup>52</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 22

local authorities, noting “that’s just one indicator that we believe the £109 million will not cover directly.”<sup>53</sup>

**90.** There was also uncertainty among WLGA representatives around how much of the internal spend on NICs will be covered by the additional funding, whether it will cover statutory services only, and when local authorities will know the amount. Councillor Gary Pritchard said:

*“We’re hearing that it’ll be June before we have any idea how much money will be coming back to us. But of course, we will need to have set our budgets much earlier than that, so there is an element of risk, and we have to accept either that we use reserves, or that we have to increase our council tax to cover what we don’t know about. So, it does add uncertainty to discussions about setting the budget, there’s no doubt about that. The risk is significant”.*<sup>54</sup>

**91.** Councillor Jane Gebbie called for “a letter of comfort” around national insurance given that all local authorities are “working at risk.” She explained that they are currently setting budgets but “don’t know what we’re expecting” but if they could “understand what minimum each council might expect, that will go some way for planning purposes”.<sup>55</sup>

**92.** The Cabinet Secretary told us that the Welsh Government expects to receive the additional funding in “late spring”, but noted that they “have not yet had confirmation of how much additional funding Wales will receive”. She assured us that the Welsh Government is “continuing to work with the UK Government, Treasury and Treasury officials to clarify the details of that level of support.”<sup>56</sup>

**93.** A Welsh Government official clarified that the figure of £109 million is an estimate of the cost of the NICs changes and that discussions about the actual sum are “still ongoing”<sup>57</sup>. She said:

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<sup>53</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 34

<sup>54</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 30

<sup>55</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraph 51

<sup>56</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraph 235

<sup>57</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraph 246

*“it’s not money we’re providing, it’s the estimate of the cost. We need to be clear about that, because that sets the ability of us and local authorities to plan, when you understand the scale.”<sup>58</sup>*

**94.** In terms of covering National Insurance costs associated with outsourced services and services provided by third sector organisations that £109 million relates to people who are employed directly by local authorities, the Cabinet Secretary said:

*“The UK Government has said it will use the ONS definition of public sector, and we certainly recognise organisations and businesses commissioned by public sector to provide services, and third sector organisations, are understandably concerned about the impact of the changes to employer national insurance contributions...We’ve committed to a three-year funding agreement for the third sector, but I very much understand the concerns of the third sector.”<sup>59</sup>*

### Redundancies and vacancies

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**95.** We heard that local government has lost 40 per cent of its staff since 2010, and that the sector does not have the “resilience that we once had”. Whilst welcoming the 4.3 per cent increase across Wales, Councillor Jane Gebbie noted that the national joint council pay agreement was 5.77 per cent, which “indicates that we won’t have the resources to pay our staff appropriately”.<sup>60</sup>

**96.** Councillor Gebbie told us that they are “struggling to deliver services” and that she is concerned about “sickness levels and the amount of stress” on the workforce “because there is no slack in the system”.<sup>61</sup> She went on to say that Bridgend County Borough Council does not have any redundancies because they can not fill some of the vacancies on the terms and conditions offered, which in turn has an impact on staff.<sup>62</sup>

**97.** Similarly, Councillor Gary Pritchard and Councillor Mary Ann Brocklesby said that they are not looking at redundancies. Councillor Brocklesby said:

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<sup>58</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraph 231

<sup>59</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraph 259

<sup>60</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 21

<sup>61</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 94

<sup>62</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 94

*“we are, like others, not filling vacancies, partly because of the vacancy freeze, but also, partly, because it’s very difficult in some areas...to get people on the wages that are offered.”<sup>63</sup>*

**98.** She went on to say that:

*“some of our staff are doing double the role, triple the role, are moving around the county as we keep some services open on one day in one area, and some services open on another day in another area....But we cannot carry on like this.”<sup>64</sup>*

**99.** The Cabinet Secretary acknowledged that “staff costs are a high proportion of the total costs for local authorities” and that “many authorities are managing vacancies as a way of managing budgets”.<sup>65</sup>

## **Our view**

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**100.** We are very concerned about the impact of changes to national insurance contributions on local authorities’ revenue in the short term, especially as it is not certain exactly how much or when any additional funding will be provided.

**101.** We are also concerned about the potential impact on third sector and other providers that support local authorities to deliver services. A number of councils outsource their services and/or rely on third sector organisations to provide key support services in areas such as social care, education and housing. Local authorities are therefore very concerned about their ability to deliver some front-line services if the funding that is likely to be provided by UK Treasury will only cover directly employed council staff. We heard that some local authorities may not be able to deliver key services without outsourced and third sector staff which is particularly worrying.

**102.** We acknowledge the assurance from the Cabinet Secretary that the Welsh Government is continuing to work with the UK Government, Treasury and Treasury officials to clarify the details of that level of support. However, local authorities are in urgent need of clarity to be able to plan and set budgets by March. They need to know when the additional funding will be provided and how much they will be given.

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<sup>63</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraph 100

<sup>64</sup> Local Government and Housing Committee, 8 January 2025, [RoP](#), paragraphs 101-102

<sup>65</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraph 319

**103.** We are also concerned about the impact of the changes to NICs in the long-term for the local government sector, in that they could easily exacerbate the workforce issues and may lead to more redundancies. We heard that local authorities are already under resourced, with high levels of sickness and stress and staff doing double or triple roles.

**Recommendation 6.** The Welsh Government should urgently provide a position statement on the additional funding to reflect the impact of increased employers' NICs for public sector staff, to support the local government budget setting process. This should include a minimum assumption of funding each council could expect and clarification on when an announcement about the amount of funding will be made.

**Recommendation 7.** The Welsh Government should make further representations to the UK Government about the impact of increasing employers' NICs on third sector organisations in Wales, and update the Senedd on these discussions before the Final Budget debate.

## 3. Housing and regeneration

### Overall funding for Housing and Regeneration

**104.** The total in the 2025-26 draft budget for housing and regeneration is £1.266 billion, representing 4.9 per cent of the Welsh Government's total draft budget expenditure. This is £166.7 million (15.2 per cent) more in cash terms than the baseline budget figure. The 2025-26 Draft Budget compares financial allocations against a revised baseline for 2024-25. This is a different approach to previous years as the baseline for comparison has been adjusted to account for larger-than budgeted for pay deals in 2024-25 and increased pension costs for public sector employers, for which funding consequential have now been received from the UK Government.

**105.** In terms of revenue the draft budget is £234.1 million, which is £2.8 million (1.2 per cent) more than the baseline budget. In terms of capital the draft budget is £1.03 billion, which is £163.8 million (18.9 per cent) more than the baseline budget.

**106.** The Cabinet Secretary's written evidence said this draft budget prioritises the supply of new social homes and support for home ownership, as well as investment in improving existing stock. The paper said the draft allocations:



*“have been targeted towards interventions that are affordable and offer value for money whilst also seeking to protect front line services that protect the most vulnerable in our society.”<sup>66</sup>*

**107.** The Cabinet Secretary described the budget as “really positive” and told us there is a focus on housing supply and prevention, adding that:

*“investment in prevention and support through the housing support grant will have a positive impact on vulnerable individuals and households.”<sup>67</sup>*

**108.** The Cabinet Secretary acknowledged that she would always “like to see a higher proportion of budgets allocated to housing and regeneration” but said there was the need to balance different priorities. She accepted that “one budget isn’t going to solve all the pressures that housing faces”.<sup>68</sup>

**109.** A Welsh Government official added that there is an interrelationship between different budgets, such as the Housing Support Grant (HSG) saving money to other services outside housing. She said that “that interrelationship is really important and I’m sure would have been a key factor in the Finance Minister’s thinking.”<sup>69</sup>

## Our view

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**110.** We welcome the Cabinet Secretary’s priority of focusing on preventative spend - investing in good quality housing in turn reduces pressure on health and other support services and produces better outcomes. However, we note that the total budget allocation for housing and regeneration is 4.9 per cent of the overall draft budget. As we have stated in previous reports, services funded by the Housing Support Grant are not only critical to the prevention and alleviation of homelessness, but also reduce pressures elsewhere. The research conducted by Cardiff Metropolitan University which demonstrates that every £1 invested in HSG services delivers £1.40 net savings to public services in Wales is widely known and accepted, which is why we have consistently identified the fund as a priority for additional resources.

**111.** Given the importance of housing on people’s wellbeing and the need to address the housing needs of Wales’s future generations, it is crucial that the

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<sup>66</sup> Local Government and Housing Committee, 15 January 2025, paper 1

<sup>67</sup> Local Government and Housing Committee, 15 January 2025, [R.O.P.](#) paragraph 8

<sup>68</sup> Local Government and Housing Committee, 15 January 2025, [R.O.P.](#) paragraph 11

<sup>69</sup> Local Government and Housing Committee, 15 January 2025, [R.O.P.](#) paragraph 15

Cabinet Secretary has a comprehensive picture of the evidence base on the preventative impact of housing expenditure, when she is having budget discussions at Cabinet level.

**112.** We are mindful that the research by Cardiff Metropolitan University was undertaken in 2020 and is therefore beginning to date. We believe that further analysis is now needed to ensure that the Welsh Government has up to date information to assist in determining its spending priorities and can direct resources accordingly to fully realise the benefits of preventative spend.

**113.** We understand the competing pressures and demands on the draft budget, but we would like to see an increase in the housing allocation in future years as a demonstration of the Welsh Government's commitment to realising the preventative benefits of housing expenditure for health and other services, as well as meeting the housing needs of future generations.

**Recommendation 8.** The Welsh Government should commission an updated analysis of the cost benefits of investing in housing and regeneration on wider public spending. The updated analysis should be used by the Welsh Government to identify spending priorities and to inform Cabinet discussions on allocating resources to housing and regeneration.

**114.** The Cabinet Secretary's written evidence stated that Financial Transactions Capital (FTC) will fund several aspects of the draft budget, including Help to Buy-Wales (£57 million), RSL Development Loans (£26.250 million) and Green Homes retrofit loans (£3 million). We note the [Finance Committee report](#) from November 2024 which identified that FTC had been used to achieve positive impacts in housing, with the [Tai Ffres](#) youth housing project and the not-for-profit developer [Tirion Homes](#) cited as two examples where housing provision had benefitted from FTC funding.

**Conclusion 3.** We believe there is scope for the Welsh Government to make greater use of Financial Transactions Capital (FTC) funding for meeting housing need. We would also like to see a full breakdown of how FTC has been used to fund housing projects in the last five years.

## Homelessness and housing support

### Homelessness

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**115.** The Welsh Government launched its new [homelessness strategy](#) in October 2019. It pledged to make homelessness rare, brief and unrepeatable. In November

2021, the Welsh Government published [Ending homelessness in Wales: a high level action plan 2021 to 2026](#) which took forward the [Homelessness Action Group's](#) recommendations. The Welsh Government's strategy focuses on transitioning Wales's homelessness system towards rapid rehousing.

**116.** On 10 October 2023 the Welsh Government published a [White Paper](#) setting out proposed legislative reforms with the aim of ending homelessness. The reforms were based on [recommendations](#) from an Expert Review Panel. The White Paper proposals are currently being costed by Alma Economics. The draft [Regulatory Impact Assessment](#) (RIA) states that “we expect that implementation of the reforms will require significant investment” and that future versions of the RIA will provide more detail. A Bill is expected to be introduced to the Senedd during 2025.

**117.** The [latest statistics](#) show that at 30 September 2024 there were 11,363 people in temporary accommodation, a 1 per cent increase from 30 September 2023. 2,874 of these were dependent children aged under 16, a decrease of 16 per cent from 30 September 2023.

**118.** The 2025-26 draft budget allocation for homelessness support and prevention is £219.9 million, which is £320,000 less than the baseline figure. This is because £21.32 million has been transferred from this budget line into Revenue Support Grant, to support provision of temporary accommodation and discretionary support to prevent or relieve homelessness, while £21 million has been added to the budget line to increase Housing Support Grant.

**119.** The Cabinet Secretary told us that the Welsh Government's investments “are making a real difference” and that while “there are still too many people in temporary accommodation”, the figures do not “really show the movement within the system, and that people are being moved on to permanent homes”. While it is “too early to draw any firm conclusions in terms of trends in the number of people in temporary accommodation”, the Cabinet Secretary told us there are “positive signs” such as the decrease in number of dependent children in temporary accommodation.<sup>70</sup>

**120.** The WLGA's evidence paper states that local authorities' net revenue spending on homelessness and temporary accommodation has increased from £10.8 million in 2014-15 to £86.8 million in 2024-25. The paper says that local authorities are overspending on homelessness budgets, outstripping the

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<sup>70</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraph 17

funding provided by the Welsh Government or recoverable from the Department for Work and Pensions.<sup>71</sup>

**121.** The Cabinet Secretary told us she is “absolutely aware of the pressures on local authorities” but referred to the £21.32 transferred to the RSG to fund temporary accommodation:

*“But it is important to recognise the funding we've provided through the grant for temporary accommodation is in addition to funding already in the revenue support grant for local authorities to meet their statutory responsibilities.*

*Within the draft budget, we've transferred £21.32 million from the homelessness support and prevention budget expenditure line to the revenue support grant. That's to make sure of local authority funding of temporary accommodation and reflects funding that supports delivery of statutory duties within the RSG.”<sup>72</sup>*

**122.** The Cabinet Secretary told us that she would like the UK Government to increase the amounts that local authorities can claim back from the Department for Work and Pensions to offset the rental costs of temporary accommodation, which are currently set at 2011 levels of Local Housing Allowance (LHA), as this would help local authorities:

*“to assist with the cost of temporary accommodation, we would like to see the UK Government break the current benefit rates for temporary accommodation. They're currently set at the January 2011 levels of local housing allowance. That is very much out of date, and I will certainly continue to call for the UK Government to uprate all LHA rates on an annual basis.”<sup>73</sup>*

**123.** The Cabinet Secretary explained that discussions with the UK Government are happening “on an official-to-official basis” and that she raises the issue and will continue to do so “when opportunities arise” as it “would really make a difference”.<sup>74</sup>

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<sup>71</sup> Local Government and Housing Committee, 8 January 2025, [paper.1](#)

<sup>72</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraphs 20-21

<sup>73</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraph 21

<sup>74</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraph 24

**124.** A Welsh Government official added that it is “a regular feature of correspondence between Ministers” and that the Cabinet Secretary had committed to write jointly with the Cabinet Secretary for Social Justice, Trefnydd and Chief Whip and WLGA.<sup>75</sup>

**125.** The WLGA’s evidence noted that UK Government policies are leading to additional pressure on temporary accommodation. These policies include the early release of prisoners due to overcrowding, asylum dispersal being widened to all local authority areas, and the increased pace of asylum claims being processed. It says there is no additional funding from the Home Office or Ministry of Justice to cover these costs.<sup>76</sup>

**126.** The Cabinet Secretary told us that the Home Office had confirmed there will be additional funding to “assist local authorities deemed to be most impacted by increased asylum decisions” over the next six months, adding that “amounts are yet to be confirmed”. The Cabinet Secretary went on to say that:

*“one of the biggest things that, actually, the UK Government could do to help in this area would be around the LHA rate.”<sup>77</sup>*

## Housing Support

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**127.** Housing Support Grant (“HSG”) is the Welsh Government’s principal funding stream for preventing homelessness and supporting independent living. Research conducted by Cardiff Metropolitan University found that every £1 invested in HSG services delivers £1.40 net savings to public services in Wales.

**128.** We recommended in our scrutiny of the 2024-25 draft budget, that an uplift to the HSG must be prioritised. HSG was subsequently uplifted by £13 million in the 2024-25 final budget.

**129.** The HSG has been uplifted by £21 million in the 2025-26 draft budget, to £203 million. The Minister’s paper says this will support the housing support sector to pay staff the Real Living Wage, and build capacity in the system to respond to increased demand.<sup>78</sup>

**130.** Cymorth Cymru said that providers had “warmly welcomed” the uplift for 2024-25, which had enabled some to avoid redundancies. However, they added

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<sup>75</sup> Local Government and Housing Committee, 15 January 2025, RoP, paragraph 25

<sup>76</sup> Local Government and Housing Committee, 8 January 2025, paper.1

<sup>77</sup> Local Government and Housing Committee, 15 January 2025, RoP, paragraphs 37-38

<sup>78</sup> Local Government and Housing Committee, 15 January 2025, paper 1

that because the uplift was not announced until the final budget in February 2024, this came too late for some agencies to reverse planned cuts, and some local authorities took up to six months to pass the uplift on. Cymorth also referred to a member survey which found that despite the extra £13 million, 81 per cent of services are currently running at a deficit. They said:

*“Most organisations cannot afford to subsidise services in the future and will need to hand back contracts if the funding deficit is not resolved.”<sup>79</sup>*

**131.** The Cabinet Secretary acknowledged the importance of the HSG, describing it as “absolutely crucial”:

*“I’m really pleased that we’ve been able to find some extra money this year to put into that, which is a £21 million housing support grant uplift. [ ] It is our key homelessness prevention grant, and it does support a range of people to live independently, to sustain tenancies, and that is really crucial.”<sup>80</sup>*

**132.** The Cabinet Secretary was clear that the “investment is intended to support commissioners to pay the sector the real living wage”, which she said “is absolutely crucial if we’re to have a workforce that is resilient”.<sup>81</sup> The Cabinet Secretary was unable to say whether the £21 million is enough to ensure that everyone working in the sector can be paid the real living wage, but that it was again a “balance” of what she is able to do within the portfolio.<sup>82</sup>

**133.** Cymorth’s written evidence, and a number of others, focused on the anticipated impact on the third sector of the increase to National Insurance contributions (NICs) announced in the Autumn UK Budget. In November 2024 the Chancellor Rachel Reeves ruled out exempting third sector providers from the NI increase. Community Housing Cymru said the increase “has the potential to push support providers over the edge”,<sup>83</sup> while the Wallich said it had forecast an additional cost of £440,000 a year.<sup>84</sup>

**134.** The Welsh Government’s Draft Budget Narrative states that the UK Government has confirmed that it would provide additional funding to devolved

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<sup>79</sup> Finance Committee, WGDB25-26(6)70: Cymorth Cymru

<sup>80</sup> Local Government and Housing Committee, 15 January 2025, RoP, paragraph 41

<sup>81</sup> Local Government and Housing Committee, 15 January 2025, RoP, paragraph 42

<sup>82</sup> Local Government and Housing Committee, 15 January 2025, RoP, paragraph 44

<sup>83</sup> Finance Committee, WGDB25-26(6)60: Community Housing Cymru

<sup>84</sup> Finance Committee, WGDB25-26(6)52: The Wallich

governments to “help mitigate” the cost of the NI increase to devolved public services. The Welsh Government said it is “continuing to work collaboratively with HM Treasury”, but the level of support has not yet been clarified and does not form part of this draft Budget. In a letter to the Finance Committee of 20 December 2024, the Cabinet Secretary for Finance and Welsh Language stated that:

*“HM Treasury has acknowledged the change to employer NICs will increase costs for public sector employers and it will “provide funding to the public sector to support them with the additional cost associated with these changes”. We are working with HM Treasury to clarify the details and the level of support that will be provided.”<sup>85</sup>*

**135.** The additional funding from the UK Government will follow the ONS definition of public service employees and therefore will not cover NI rises for third sector organisations contracted to deliver services on behalf of the public sector. Giving evidence to the Finance Committee on 12 December 2024, the Cabinet Secretary for Finance and Welsh Language said that while the Welsh Government’s draft budget includes additional money for the third sector, this is not intended to pay NICs, “but third sector organisations faced with those decisions will need to construct their budgets accordingly.”<sup>86</sup>

**136.** The Cabinet Secretary acknowledged the sector’s concerns but told us:

*“None of the £21 million is for the increased national insurance contribution. We’ve been explicit about that. This is something that’s not devolved.”*

**137.** She added that the Cabinet Secretary for Finance and Welsh Language has written to the Chief Secretary to the Treasury, setting out concerns regarding both the anticipated allocation of funding and the additional cost for employers of contracted services that deliver on behalf of the public sector, including housing services.<sup>87</sup> Additionally, a Welsh Government official told us of “work with the wider third sector partners to assess the impact”.<sup>88</sup>

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<sup>85</sup> Finance Committee, 8 January 2025, [FIN\(6\)-01-25-PTN.6](#)

<sup>86</sup> Finance Committee, 12 December 2024, [RoP](#), paragraph 77

<sup>87</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraph 51

<sup>88</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraph 56



**138.** The Cabinet Secretary for Finance and Welsh Language told the Finance Committee on 23 January 2025:

*“What I’m not going to be in a position to do is to provide money to organisations in Wales for which the Welsh Government is not being provided with funds. Any money we get to cover the costs of public sector employers we will pass directly to those services. We’re simply a pass-through for those purposes. But I can’t magic money out of the Welsh Government budget to cover costs that are not being covered elsewhere.”<sup>89</sup>*

## Our view

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**139.** In our report on the draft budget for this financial year, we noted our deep concern that the HSG had been maintained at the same level since the previous year and called on the Welsh Government to explore all options to provide additional funding. We were pleased that additional funding for the HSG was made available in the final budget, however we are aware that the late notice of this meant that some agencies were unable to reverse planned cuts. This year, we welcome the uplift of £21 million in the HSG to £203 million and the early notice this gives to providers. We welcome the Cabinet Secretary’s intention that the additional funding will support the housing support sector to pay staff the Real Living Wage, which we have previously highlighted as a concern.

**140.** We are unsure as to whether the uplift provided will be sufficient to cover the cost of paying the Real Living Wage to all employees, but will consider this further as part of our forthcoming work on housing support for vulnerable people.

**141.** Despite welcoming the uplift, we remain concerned about the sector’s ability to continue to provide existing services. We note the troubling evidence from Cymorth that, despite the extra £13 million this year, 81 per cent of services are currently running at a deficit. Our main concern, and that of the sector, is the considerable financial pressure providers will face in covering the anticipated impact of the increase to National Insurance contributions. We note the Wallich has estimated an additional financial burden of £440,000 on their own services as a result, with other providers also estimating significant financial impacts.

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<sup>89</sup> Finance Committee, 23 January 2025, [RoP](#), paragraph 60



**142.** We note that the Cabinet Secretary was clear that the additional funding is not intended to be used to cover National Insurance contributions and that she was unable to indicate how the sector would be able to meet those costs. We are deeply concerned by this, particularly at the uncertainty currently faced by the sector. Given that such a high percentage of services are already running at a deficit, it is a very real possibility that providers will need to withdraw some of the essential work they do to support vulnerable people.

**143.** We appreciate that the Cabinet Secretary acknowledged the situation faced by the sector, but we feel strongly that the Welsh Government should do everything it can to support the sector at this challenging time. Despite the assurances from HM Treasury that public sector bodies will receive additional funding to support them with the increased contributions, we are unclear as to whether or how support will be passed to Third Sector providers delivering on behalf of public bodies.

**Conclusion 4.** We realise that the Cabinet Secretary for Finance has sought clarity from the UK Treasury and, as outlined in our recommendation 7, we urge him to make us and the Third Sector aware of the outcome of discussions as a matter of urgency. It is crucial that further information is needed before the Senedd considers the final budget for 2025-26.

**144.** The number of people living in temporary accommodation is another issue which has caused significant concern over recent years, and which we have highlighted in various reports. We welcome the gradual reduction in the number of dependant children living in temporary accommodation, but the number remains too high. It is clear that the demand on temporary accommodation continues to put pressure on local authorities. We note that in this draft budget £21.32 million has been transferred out of the homelessness prevention BEL into the Revenue Support Grant for temporary accommodation while £21 million has been added to the homelessness prevention BEL for the HSG uplift. In last year's scrutiny of the 2024-25 budget, we noted that the HSG BEL had been merged with the homelessness prevention BEL, and the Cabinet Secretary assured us that this was purely for administrative purposes.

**Conclusion 5.** We are not convinced that bringing the homelessness prevention BEL and the Housing Support Grant BEL into a single BEL has aided the transparency of this funding. It appears that, apart from the HSG uplift, the settlement for homelessness prevention is cash flat, which should not be acceptable at a time of rising homelessness and rough sleeping.

**145.** We acknowledge the concern raised by the WLGA that local authorities' resources are under further pressure from UK Government policies such as the early release of prisoners, wider asylum dispersal to all areas and the increased pace of asylum claims being processed. We share their concerns that these policies are increasing the demand on temporary accommodation but that no additional funding has been provided by the Home Office to cover these costs.

**146.** We note the Cabinet Secretary's evidence that the Home Office is expected to provide some additional funding to local authorities, but we are concerned at the lack of clarity currently provided. The Cabinet Secretary referred to local authorities who are deemed to be the most impacted, but gave no indication as to how the impact will be assessed. We believe the Welsh Government should press the UK Government to urgently provide details of how funding to support local authorities impacted by asylum will be assessed.

**Recommendation 9.** The Welsh Government should press the UK Government to urgently provide details of how funding to support local authorities impacted by asylum will be assessed and when authorities can expect to receive the additional funding.

**147.** We agree with the Cabinet Secretary that increasing the amounts that local authorities can claim back from the DWP to offset the rental costs of temporary accommodation will significantly help local authorities in their need to provide temporary accommodation and welcome the effort made by the Welsh Government so far.

**148.** It is unacceptable that the levels of reimbursement remain capped at the January 2011 levels of Local Housing Allowance and a substantial increase is needed. It is crucial that pressure continues to be put on the UK Government to increase reimbursement for temporary accommodation to current LHA rates. It would be helpful if the Cabinet Secretary could provide a note outlining how the Welsh Government has been trying to influence the UK Government to date and the future action it will be taking, including details of the joint letter referred to from the Cabinet Secretaries and the WLGA.

**Recommendation 10.** The Welsh Government must continue to put pressure on the UK Government to substantially increase the amount of Local Housing Allowance that local authorities can claim for temporary accommodation. We ask for a note outlining the actions taken by Welsh Government to date and its future steps.

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## Housing supply

### New affordable homes

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**149.** The Programme for Government includes a commitment to build 20,000 new low carbon social homes for rent. The latest [affordable housing provision statistics](#) were published on 11 December 2024, showing that 8,933 homes had been delivered towards the 20,000 target by March 2024.

**150.** Audit Wales's report on affordable housing, published in September 2024, concluded that progress towards the 20,000 target "has been slow and more expensive than initially expected". The report estimated that [between £580 and £740 million](#) could be needed on top of existing budget assumptions to deliver all homes in the pipeline to March 2026.

**151.** Our [report on social housing supply](#), published November 2024, recommended that the Welsh Government should increase the allocation for Social Housing Grant (SHG) at the earliest opportunity. We also recommended that the Welsh Government provide social landlords with greater multi-year funding certainty, including greater certainty over rent policy, the Transitional Accommodation Capital Programme (TACP), and how decarbonisation of existing stock will be funded. We also called for greater flexibility in standards for acquisitions, to allow more existing properties to be purchased and brought into the stock of permanent social homes, which was rejected by the Welsh Government.

**152.** SHG is the Welsh Government's main capital grant supporting the development of social and affordable housing by local authorities and housing associations. TACP was introduced in 2022-23 to support projects that bring housing forward quickly in a flexible way, including through acquisitions, remodelling, and modern methods of construction. Acquisitions may be for permanent or longer-term temporary 'meanwhile' accommodation. TACP does not have its own budget line but is combined with SHG.

**153.** The draft budget increases SHG by £81 million against the baseline figure. It also allocates £26.25 million Financial Transactions Capital to support RSL Development Loans. The Cabinet Secretary's paper explains that this recyclable loan funding aims to support housing associations to address "significant tender increases" due to rising costs of materials, inflation and interest, and contractors pricing in higher risk. Together these allocations amount to a 32.5 per cent increase in capital spending for affordable housing supply.

**154.** The additional capital and the FTC allocation brings the total for SHG/TACP to £437.25 million. The Cabinet Secretary’s paper says this will contribute towards the 20,000 target as well as fund social homes that will be started in 2025-26 and completed in the next Senedd term.

**155.** Community Housing Cymru’s evidence welcomed the SHG and TACP investment in the previous budget, and asked for continuing multi-year settlements for both funding streams to increase sector confidence to keep investing.<sup>90</sup> The WLGA called for extra SHG, and for the previous budget level to be a minimum floor for future years. The WLGA also called for a “healthy” multi-year settlement to “give social landlords, developers and supply chain partners in the construction industry confidence and certainty to plan, resource and deliver increasing numbers of affordable homes”.<sup>91</sup>

**156.** The Cabinet Secretary told us that the TACP is not a multi-year settlement, but that the programme is open for the next financial year. The Welsh Government official added that TACP is run on the basis of inviting bids and projects far beyond the money that’s in the budget in order to have a pipeline of deliverable projects.<sup>92</sup>

**157.** In terms of the funding for new affordable housing, the Cabinet Secretary told us that “housing supply has increased significantly over this term of the Senedd”, and that in allocating funding, she had to be mindful of aligning budgets “with the sector’s ability to spend that money”.<sup>93</sup> She referred to the pressures faced in delivering new homes which resulted in it costing “nearly twice as much in grant funding now to build a property than it did” at the start of the Senedd term.<sup>94</sup> We were told:

*“We do have a strong pipeline there, which I think is really important to deliver more homes this Government term and the next. But we are going to do everything we can within the budgets available, and I’m committed to leveraging as much resource as possible to deliver those much-needed homes across Wales.”<sup>95</sup>*

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<sup>90</sup> Finance Committee, WGDB25-26(6)60: Community Housing Cymru

<sup>91</sup> Local Government and Housing Committee, 8 January 2025, paper.1

<sup>92</sup> Local Government and Housing Committee, 15 January 2025, RoP, paragraph 97

<sup>93</sup> Local Government and Housing Committee, 15 January 2025, RoP, paragraph 12

<sup>94</sup> Local Government and Housing Committee, 15 January 2025, RoP, paragraph 65

<sup>95</sup> Local Government and Housing Committee, 15 January 2025, RoP, paragraph 75

**158.** The Cabinet Secretary went on to say:

*“The additional funding is going to be used across both social housing grant, SHG programme and the TACP programme to deliver as many homes as we possibly can towards our 20,000 social homes target. I’m obviously prioritising TACP with that additional funding, just to enable an early announcement to the sector for them to bring forward as many homes as possible to meet the housing need.”<sup>96</sup>*

### **Our view**

**159.** We have previously noted our concern at the Welsh Government’s ability to meet its target of 20,000 new affordable homes by the end of this Senedd term. Following the latest evidence from the Cabinet Secretary, our concerns remain. We appreciate that the number of new homes is staggered throughout the course of the Senedd term, but there is little over a year until the target deadline and it is concerning that the latest figures show that less than half of the promised new homes have been completed. With house building costs continuing to rise at significant levels, it is clear that what was already a challenging target is becoming more difficult and increasingly unlikely to be met.

**160.** The Welsh Government’s comments about a healthy pipeline of new homes in the system post 2026 is welcome and encouraging. As she indicated that TACP is the main priority for funding in 2025-26, we have some concerns that this may lead to a reduction in new starts during 2025-26, for new homes to be completed in the next Senedd term. The Welsh Government should take steps to ensure that starts of permanent social housing do not reduce as a result of the priority given to TACP, as this will reduce the delivery of social and affordable homes in the next Senedd term.

**Recommendation 11.** The Welsh Government should ensure that permanent social housing starts do not reduce in 2025-26 as a result of the priority given to TACP.

**161.** We were very concerned to hear that the cost of building a new home has almost doubled since 2021 which leads us to ask whether the Welsh Government

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<sup>96</sup> Local Government and Housing Committee, 15 January 2025, [R.O.P.](#) paragraph 94

is achieving the best value for its expenditure. The market value of new homes has not doubled in that timeframe, therefore we are staggered by this.

**Conclusion 6.** We would like more information from the Welsh Government as to how it ensures the best value for its expenditure on building new affordable housing and ask for a written response from the Cabinet Secretary to outline this.

**162.** Our report on social housing supply demonstrated that the 20,000 new homes is far from the number needed to fulfil demand and building new homes does not happen overnight. It is crucial that the Welsh Government explores other options to increase the amount of permanent social housing available. It is disappointing that our recommendation calling for greater flexibility in standards for acquisitions, to allow more existing properties to be purchased and brought into the stock of permanent social homes, was rejected by the Welsh Government. We recognise the importance of maintaining high standards in social housing, but we saw this as a potential means of increasing the number of permanent homes.

**Conclusion 7.** We are interested to know whether homes currently used as temporary accommodation would be suitable for permanent use. We would be grateful for a written response from the Cabinet Secretary setting out criteria used to determine the quality of temporary accommodation compared to permanent accommodation. We would also like to know the split between numbers of permanent and temporary homes funded by TACP.

## Private rented sector

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**163.** We examined Leasing Scheme Wales as part of our inquiry into the private rented sector. Leasing Scheme Wales supports local authorities to take out long-term leases on privately rented homes, making them available to discharge their homelessness duties. The scheme was launched in January 2022 and runs for five years, to January 2027.

**164.** An additional £2 million capital has been allocated to support the scheme, bringing the total draft budget allocation to £3.5 million. The Cabinet Secretary's paper says it is intended that this scheme will be delivered in all local authorities, with each set a target of 1 per cent of their PRS stock to be leased through the scheme by year five. According to the latest dwelling stock estimates, 1 per cent of the total number of PRS properties in Wales is 2,001. In October 2024, the Cabinet Secretary said that as of 16 September 2024, there were 280 properties leased through the scheme across Wales. She also confirmed that houses

provided through Leasing Scheme Wales contribute towards the 20,000 target for social homes to rent.<sup>97</sup>

**165.** The Cabinet Secretary’s paper does not outline the intended purpose of the additional £2 million, however an official told us that it is a reflection of how the Welsh Government sees “the whole scheme growing, and to ensure that there’s enough budget there to meet the grant needs and the support for landlords coming on board.” She added that there are around 360 homes now fully in the scheme, and a pipeline of around 160 which she described as “really promising”.<sup>98</sup>

### Our view

**166.** As noted in our report on the private rented sector, we support Leasing Scheme Wales, and want to see it succeed. We welcome the additional £2 million for the Scheme in this draft budget and the Welsh Government’s assurance that the money is a reflection of how the scheme is expected to grow. We welcome the update provided on the number of local authorities participating in the scheme and that there are now 19 involved, which is an increase of two since we reported. We believe that the Welsh Government should continue to encourage the remaining authorities to participate and welcome the Cabinet Secretary’s commitment to update us on discussions. The Welsh Government should also continue with efforts to raise awareness of the Scheme among letting and estate agents.

**Conclusion 8.** We welcome the additional £2 million for Leasing Scheme Wales. We believe that the Welsh Government should continue to encourage the remaining authorities to participate and welcome the Cabinet Secretary’s commitment to update us on discussions. The Welsh Government should also continue with efforts to raise awareness of the Scheme among letting and estate agents.

### Market housing

**167.** The draft budget includes a capital allocation of £82 million to support market housing and other schemes. This includes £25 million for the Empty Homes Grant, in line with last year. [Latest figures for 2025-26](#) show there are 22,558 empty homes in Wales chargeable for council tax. This figure has not significantly decreased in the last three years. The last time there was a

<sup>97</sup> Senedd Cymru, [WQ94627](#), 31 October 2024

<sup>98</sup> Local Government and Housing Committee, 15 January 2025, [RoP](#), paragraph 118



significant decrease in the number of empty homes was in 2022-23, when the total (22,140) was 14 per cent lower than the previous year (25,701).

**168.** . The Cabinet Secretary told us that the figure for 2024-25 is “down from 25,701 in 2021-22. So there's been a decrease there, again, of those properties over six months.”

**169.** In December 2024 the Cabinet Secretary said that 942 valid applications had been received for the Empty Homes Grant and 143 properties completed since it was established in 2020.<sup>99</sup>

**170.** We were told that the Welsh Government is currently reviewing the scheme to identify barriers to its uptake. The Cabinet Secretary said she was “really disappointed that not all local authorities are using the scheme”, adding:

*“We need to make sure that what we do have is actually doing what we want. So it's a bit of understanding why all local authorities aren't actually taking it up at the moment.”<sup>100</sup>*

**171.** The draft budget includes a further £57 million in Financial Transactions Capital to extend the Help to Buy-Wales scheme for a year. The Cabinet Secretary announced on 16 December that the scheme would continue until September 2026, and that in the meantime the Welsh Government would work with stakeholders to consider next steps in light of an evaluation published in July 2024.

**172.** Evidence from the Home Builders’ Federation called for Help to Buy-Wales to continue, citing its own research which found that the scheme had supported 4,400 jobs and generated £240 million in economic activity each year on average since it was introduced in 2014.<sup>101</sup>

**173.** The evaluation of the Wales scheme concluded that Help to Buy-Wales is popular with purchasers and has helped to support housebuilders, although “does not tackle the most pressing cases of public need”. The evaluation noted that it was “unusual” that Help to Buy-Wales is not restricted to first-time buyers, unlike in other schemes supporting home ownership across the UK. The Cabinet Secretary told us that over 10 years, Help to Buy—Wales has supported 11,090 first-time buyers to purchase a home, which is 77 per cent of purchases adding

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<sup>99</sup> Senedd Cymru, WQ95131, 5 December 2024

<sup>100</sup> Local Government and Housing Committee, 15 January 2025, RoP, paragraph 125

<sup>101</sup> Finance Committee, WGDB25-26(6).17: Home Builders Federation.



that the “proportion of the first-time buyers has increased in recent years; so, 84 per cent of purchases since April 2022 have been first-time buyers”.<sup>102</sup>

**174.** A Welsh Government official confirmed that the upper limit on properties included in the scheme is £300,000, noting that this “goes less far in some areas than in other areas”.<sup>103</sup>

### **Our view**

**175.** We note that this draft budget includes £25 million for the Empty Homes Grant, which has not been increased since the previous year. The Welsh Government’s [outturn report for 2023-24](#) shows a 48 per cent underspend in the BEL that includes the Empty Homes Grant. It is not clear how much of the Grant for 2023-24 was underspent. It is disappointing that, in 2024, the number of properties empty for six months or more had not decreased significantly in the previous three years, although we note that the Cabinet Secretary referred to a decrease since 2021-22. Regardless, the number of empty properties has stagnated recently and we are concerned by the slow progress made.

**176.** We note that in December 2024 the Cabinet Secretary said that 942 valid applications had been received for the Empty Homes Grant and 143 properties completed since it was established in 2020. These figures seem very low considering the overall number of empty properties across Wales. We acknowledge the Cabinet Secretary’s disappointment that not all local authorities are involved with the Grant and her commitment to reviewing its effectiveness.

**Conclusion 9.** Empty properties effect communities across Wales and are a wasted resource, it is important that all local authorities use every available tool to tackle this issue. We welcome the Cabinet Secretary’s review of the Empty Homes Grant and urge the Welsh Government to undertake this work at pace to ensure the Grant is as effective as possible.

**Recommendation 12.** The Welsh Government should provide details about how much Empty Homes Grant was spent in 2023-24 and a projected spend for 2024-25.

**177.** We understand that taking enforcement action can be complex and recognise from previous work undertaken on empty properties that local authority lawyers can sometimes be cautious about using the compulsory

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<sup>102</sup> Local Government and Housing Committee, 15 January 2025, [R.O.P.](#) paragraph 129

<sup>103</sup> Local Government and Housing Committee, 15 January 2025, [R.O.P.](#) paragraph 133

purchase powers available to them. Our report on the private rented sector referred to the recommendation made by our predecessor Committee in 2019 that the Welsh Government, Welsh Local Government Association and local authorities explore and identify the most effective way of establishing a regional or national source of legal expertise for housing teams to access. In response, the Cabinet Secretary stated that an industry expert is contracted until 31 March 2025 to offer training and advice to local authorities.

**Conclusion 10.** As progress on reducing the number of empty properties across Wales appears to have stagnated, the Welsh Government should outline whether the legal expertise currently available to local authorities on using appropriate enforcement powers will be extended beyond 31 March 2025, and if not, what alternative support will be provided.

**178.** We support the aims of the Help to Buy – Wales Scheme and recognise that it has helped many people to purchase their first home. However, we were surprised to hear that the maximum value of properties purchased through the Scheme is as high as £300,000. We appreciate that house prices vary across Wales, however we believe this figure seems high. We are concerned as to whether buyers who are able to afford a property towards the maximum threshold are really those most in need of financial assistance to purchase a home, particularly in light of the findings of the evaluation published in July 2024. We are also aware that the scheme in England was discontinued following an inquiry which raised uncertainty of its value. We note that the Welsh Government has committed to working with stakeholders to address the findings of the evaluation and we welcome this.

**Conclusion 11.** We are concerned that the threshold set for properties purchased through the Help to Buy – Wales Scheme is too high at £300,000, and that the scheme is open to existing homeowners. The Welsh Government's work with stakeholders should consider whether the threshold should be lower in order to help those most in need of financial assistance. The Welsh Government should also consider whether the scheme should be restricted to first time buyers and whether the scheme should continue at all.

## Building safety

**179.** The Programme for Government contains a commitment to reform the current system of building safety, including a second phase of the Welsh Building Safety Fund, so that people feel safe and secure in their homes.

**180.** Building safety has a revenue allocation of £4.5 million and a capital allocation of £127.67 million in 2025-26, which is unchanged from the baseline budget.

### Remediation works

**181.** Funding is provided through the Welsh Building Safety Remediation Programme to identify and address fire safety issues in medium and high-rise housing. As of December 2024, 44 per cent of buildings in the remediation programme have either been completed, have works underway or do not require fire safety works. The number of buildings in the programme has risen from 350 in June 2024 to 433 in December 2024.

**182.** In October 2024, the Cabinet Secretary told us that works are estimated to continue over the next five years and that she expects an increase in spend over that period. In response to concerns around the pace of the work, she told us that “nothing is being held up due to budget constraints”.<sup>104</sup> The budget paper states:

*“We continue to monitor progress and press for pace from all involved and will tailor our budget to match the programme of works.”*

**183.** We were told that there are 433 buildings in the remediation programme and that the expression of interest process remains open, so more are expected to enter the programme. The Cabinet Secretary said that the Welsh Government is in “a better stage to understand the spend each year that will be required”, adding that she would “like to see remediation progress as quickly as possible”. She re-asserted that “budget issues have had no negative impact on delivery, but there are lots of external factors” and that the Welsh Government is “committed to continuing to support remediation and to progress remediation at a pace that is unequivocal”.<sup>105</sup>

### The Building Safety (Wales) Bill

**184.** A Building Safety Bill for Wales is to be introduced during 2025. The Bill will establish a new regime in Wales focussing on the occupation phase and will cover the regulation of building safety risks in multi-occupied residential buildings.

<sup>104</sup> Local Government and Housing Committee, 10 October 2024, ROP, paragraph.63

<sup>105</sup> Local Government and Housing Committee, 15 January 2025, ROP, paragraphs 144-145

**185.** Audit Wales and the Public Accounts and Public Administration Committee have expressed concern over whether the building safety sector has the resources needed to deliver reforms to building safety and reduce implementation risks. The WLGA's evidence paper notes that the reform of the building safety regime, and the need to meet workforce gaps, are contributing to financial pressures in housing.<sup>106</sup>

**186.** In her paper, the Cabinet Secretary confirmed that the Welsh Government is working with stakeholders to understand the resource and workforce implications, and exploring what can be done nationally to support implementation. The paper notes that this work will continue into early 2025 and "will inform future budget planning".

**187.** We were told that independent economic analysis has been commissioned from Adroit Economics to develop an understanding of the costs and benefits of the intended reforms and that this will feed in to the regulatory impact assessment.<sup>107</sup>

### Our view

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**188.** As highlighted in our previous reports, the pace of undertaking remediation work on high-rise residential buildings has long been a cause of significant concern to people living in the affected buildings and also for leaseholders who are landlords. We appreciate the Cabinet Secretary's comments around wanting to see remediation work undertaken quickly, yet we continue to hear from stakeholders who remain frustrated at the pace of progress.

**189.** We note that the budget allocation for building safety has remained at the same level as the 2024-25 final budget and the Cabinet Secretary's assurance that budgets have not had a negative impact on the delivery of remediation works.

**190.** We also note that there was a 90 per cent underspend in the capital BEL for building safety in 2023-24, with £8.697 million spent out of a £90 million budget. There was also a 27 per cent underspend in the building safety revenue budget, with £1.09million unspent at the end of 2023-24.

**Conclusion 12.** We will continue to raise the pressing need for the pace of remediation work on high-rise residential buildings to increase. We ask the

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<sup>106</sup> Local Government and Housing Committee, 8 January 2025, paper.1

<sup>107</sup> Local Government and Housing Committee, 15 January 2025, RoP, paragraph 140

Cabinet Secretary to explain the reasons for the capital and revenue underspends in 2023-24 and what proportion of the capital and revenue budgets she expects to be spent in 2024-25. We also request an explanation as to whether the 2023-24 underspends were re-profiled, and if so, how.

**191.** We are expecting the Welsh Government to introduce its Bill relating to building safety later this year. We are mindful of the concerns raised by Audit Wales, the Public Accounts and Public Administration Committee and the WLGA, and acknowledge that the Welsh Government has commissioned independent economic analysis to feed in to the regulatory impact assessment for that Bill.

## Housing standards

### Decarbonisation and housing standards

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**192.** The Programme for Government commits to decarbonise more homes through retrofit, delivering quality jobs, training and innovation using local supply chains. Investment in the maintenance, improvement and decarbonisation of homes has largely been maintained at baseline levels, though an additional £3 million of Financial Transaction Capital has been allocated to continue the funding of retrofit loans through the Green Homes Wales scheme.

**193.** As part of Wales Housing Quality Standard (WHQS 2023), all social homes will be expected to meet EPC C standard by March 2030, and to achieve EPC A in the longer term. The remaining elements of the WHQS must be met by 2034.

**194.** In its response to the Finance Committee's consultation, CHC described the Welsh Government's plans to "green the social housing sector" as "ambitious, but as yet unfunded", noting that the cost of retrofitting a home to EPC A is "substantial". They added:

*"Detailed work by the Welsh Government ongoing to understand the current cost of decarbonisation. 2021 research showed that to achieve EPC A will cost at least £30k per property, however this research was conducted before the cost of living crisis and significant inflationary pressures and so the true cost is likely to be far higher. The £18m that Welsh Government provided for all 34 housing associations and 12 stock retaining local authorities during 2024-25, even if*

*replicated, will not be sufficient to support net zero requirements in housing.”<sup>108</sup>*

**195.** The Cabinet Secretary’s paper states that the capital funding will predominantly be used to support decarbonisation in the social housing sector through delivery of the Optimised Retrofit Programme (ORP). Phase 3 of the ORP is set to run for the period 2022- 2025. An official explained that £72 million will go into ORP and that “ORP is rolling forward into next year on a similar basis to this year”.<sup>109</sup>

**196.** For the private housing sector, an additional £3 million in capital allocations has been provided to fund the provision of retrofit loans for owner-occupiers through the Green Homes Wales scheme, which was launched in October 2024. The Climate Change, Environment, and Infrastructure Committee previously undertook a short enquiry on decarbonising the private housing sector in 2023, which found that the sector was being left behind on the decarbonisation journey. In October 2024, the Cabinet Secretary for Climate Change and Rural Affairs stated that a route map and an action plan for the decarbonisation of homes in Wales would be published shortly.<sup>110</sup>

**197.** We were told that £18 million has been allocated to support social landlords who are undertaking stock assessments in relation to the Welsh housing quality standard.<sup>111</sup>

## Our view

**198.** We are concerned that the budget allocated for the decarbonisation of social housing is insufficient. In our recent inquiry on social housing supply, we highlighted how the continued uncertainty over how decarbonisation will be funded is holding back the supply of social homes. The Welsh Government accepted in principle our call for greater funding certainty, but this budget does not deliver any further assurances that social landlords will be financially supported to achieve net zero.

**199.** We are concerned that, despite the Climate Change, Environment, and Infrastructure Committee highlighting issues with the decarbonisation journey in 2023, the Welsh Government is yet to publish a route map and an action plan

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<sup>108</sup> Finance Committee, WGDB25-26(6)60: Community Housing Cymru

<sup>109</sup> Local Government and Housing Committee, 15 January 2025, RoP, paragraph 151

<sup>110</sup> Plenary, 22 October 2024, RoP, paragraph 224

<sup>111</sup> Local Government and Housing Committee, 15 January 2025, RoP, paragraph 151

for Wales. The Welsh Government should provide an update on when this will be published.

**Conclusion 13.** We do not believe that the Welsh Government will be able to meet its own Net Zero objectives on decarbonisation of homes in Wales given that it is yet to publish a route map and an action plan. The Welsh Government should provide an update on when this will be published.

**200.** We note that £18 million has been allocated to support landlords undertake stock assessments in relation to WHQS. We feel that this seems generous and would be grateful for further details on how landlords qualify for the support and how they will be expected to use the money.

### Warm homes programme

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**201.** Capital funding for the Warm Homes Programme has increased by 7 per cent from the baseline budget, from £35 million to £37.5million. We were told that it is focused on specifically tackling fuel poverty, but “also with that net-zero and green thrust as well”.<sup>112</sup>

**202.** The Welsh Government launched the new Warm Homes Programme, on 1 April 2024. The Equality and Social Justice Committee is currently undertaking a follow-up inquiry into fuel poverty and the Warm Homes Programme. The Bevan Foundation told that Committee argued that “the amount of money invested in the Warm Homes Programme is not sufficient to address the scale of fuel poverty”.<sup>113</sup>

### Our view

**203.** We note the small increase of £2.5 million in capital funding for the Warm Homes Programme, however we are concerned that, in light of the evidence presented to the Equality and Social Justice Committee, this may be insufficient in tackling fuel poverty across Wales.

**Conclusion 14.** We have asked the Cabinet Secretary to provide written details on funding for the Warm Homes Programme, including money available from the fuel poverty funding.

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<sup>112</sup> Local Government and Housing Committee, 15 January 2025, RoP, paragraph 161

<sup>113</sup> Equality and Social Justice Committee, FP13 Bevan Foundation

## Adaptations and hazardous disrepair

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**204.** The Rapid Response Adaptation Programme (RRAP) supports adaptations across all tenures, through the Enable scheme, the Physical Adaptations Grant, and through Care & Repair agencies. It does not cover the Disabled Facilities Grant, which is funded from local authorities' own general capital resources.

**205.** RRAP receives a capital allocation of £25 million, an increase of £5.5 million and a revenue allocation of £5.5 million in 2025-26, an increase of £1.26 million compared with the baseline budget.

**206.** Funding has been increased for 2025-26 in recognition of increases in the number of adaptations needed, rising delivery costs, and a higher number of complex cases. Care & Repair Cymru have reported a 21 per cent increase in demand and a 65 per cent increase in per unit cost for its Rapid Response Adaptation services in 2023-24, compared with 2020-21.<sup>114</sup> The Cabinet Secretary also said in her paper that further investment “could potentially help broaden the remit of the RRAP”.

**207.** The Cabinet Secretary told us that the increases are “intended to help deliver more adaptations across Wales and fund an increase to adaptations that are particularly complex”.<sup>115</sup>

### Our view

**208.** We note that the Cabinet Secretary highlighted investment in the independent living programme as a key focus of the draft budget along with investment needed in adaptations of properties to support this. We welcome the Cabinet Secretary's commitment and the increase in funding for the Rapid Response Adaptation Programme, which we see as a positive step in supporting people to live in their own homes for longer.

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<sup>114</sup> Finance Committee, WGDB25-26(6) 30: Care and Repair Cymru

<sup>115</sup> Local Government and Housing Committee, 15 January 2025, RoP, paragraph 179