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To:
Leaders of County and County Borough Councils in Wales

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

22 December 2020

Dear Colleagues

Today I am announcing details of the Provisional Local Government Revenue and Capital Settlements for 2021-22 (the Settlement) for county and county borough councils in Wales through a Cabinet Written Statement. This is attached for your information.

As set out in yesterday's draft budget the Welsh Government's funding priorities continue to be health and local government services. My announcement outlines my intention to set local government core revenue funding for 2021-22 at £4.651 billion. This means, after adjusting for transfers, overall core funding for local government in 2021-22 will increase by 3.8 per cent on a like-for-like basis compared to the current year. While I know local government has been facing significant pressures, particularly arising from the COVID-19 pandemic, I hope that this increase, building as it does on a significantly improved settlement in 2020-21, enables you to continue to support and deliver critical and valued local services. In setting the overall Settlement at this level the Government has responded to the negative impact of the pandemic on Non Domestic Rate (NDR) collection. The baseline Settlement increase of £176m reflects a larger increase in the Revenue Support Grant (RSG) to compensate for the fall in NDR. It also accounts for the impact of freezing the NDR multiplier. After adjusting for transfers into the Settlement, this equates to an increase of £172 million in Settlement funding, compared with 2020-21.

The Minister for Finance and Trefnydd was clear in the draft budget that one of the hard choices we have faced in setting our spending plans for next year is our approach to public sector pay. The reality is that we did not receive any additional funding through the Barnett formula to provide for public sector wide pay awards next year given the UK Government's decision to pause public sector pay rises, with the exception of the NHS and those on the lowest wages. The implications of pay awards in 2021-22 will therefore need to be accommodated within your budget planning in the light of this Settlement. Our decisions in the budget, target as much support as we can to health and local government to support pressure in frontline services focusing on schools and social services.

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

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

Whilst we did not receive any additional funding from the UK Government for public sector pay, in determining the distribution of funding across authorities for the Settlement, we have recognised the decisions made on the 2020/21 teachers' pay deal and the commitment made by local government to fund this deal by directing funding into the schools part of the formula. We are also continuing to provide funding for our proposals for new eligibility criteria for free school meals, given the continued rollout of Universal Credit by the UK Government.

Through this Settlement, we are continuing to provide £4.8 million for authorities to deliver additional discretionary rates relief for local businesses and other ratepayers to respond to specific local issues.

In line with the Government's focus on countering the effects of poverty, we remain committed to protecting vulnerable and low-income households from any reduction in support under the Council Tax Reduction Schemes, despite the shortfall in the funding transferred by the UK Government following its abolition of Council Tax Benefit. We will continue to maintain full entitlements under our Council Tax Reduction Scheme (CTRS) for 2021-22 and are again providing £244 million for CTRS in the Settlement in recognition of this.

Alongside the Settlement we are continuing to provide funding to support local government to waive fees for child burials. This shared commitment ensures a fair and consistent approach across Wales.

I am not minded to provide for a funding floor for this year given the increased settlement for 2020-21 and the proposed allocations I am announcing today for 2021-22. I have accordingly allocated all the funding available up front.

A wide range of services of course have been significantly impacted by the pandemic. As the Finance Minister's statement on the budget made clear, we recognise the need to continue to provide funding to support your, and others response to the pandemic. This will be considered separately and does not form part of this Settlement.

General capital funding for 2021-22 will continue to be set at £198 million. Included within this amount is £20 million for the continuation of the public highways refurbishment grant, including support for active travel; £54 million of historic baselined general capital grant; and the continuation of an additional £35 million of general capital grant, which was announced as part of the 2019-20 and 2020-21 budgets. This additional £35 million will enable you to start to respond to our joint priority of decarbonisation including for housing and economic recovery following Covid-19.

We have discussed, before, our shared recognition of the need to invest in the supply of housing. Investing in social housing should minimise the pressures on local authority budgets and on homelessness services. Investment in housing can also support the Welsh economy and local economies. I hope that this Settlement, capital and revenue, can support you in increasing the scale and pace of housebuilding across Wales.

The draft *Local Government Finance Report* and additional tables containing details of the Settlement by individual authority are also being published on the Welsh Government website. These tables include the individual authority allocations of Aggregate External Finance (AEF), comprising RSG and redistributed NDR. As we have discussed through the Finance Sub Group, we are also providing information on revenue and capital grants which are planned for 2021-22. This information will be further updated for the final settlement.

The delay in the publication of the Settlement has enabled us to draw on the latest tax-base figures for 2021-22, meaning that there should be no change between provisional and final settlements as a result of updates to the tax base.

This Settlement provides you with a stable platform for planning your budgets for the forthcoming financial year. I fully appreciate the pressures local government is facing and am committed to protecting local government, particularly at this difficult and challenging time. This is as good a Settlement as I can offer and one that should help to alleviate some of the pressures that you had been anticipating. While I can't guarantee that there will be no changes between the provisional and final settlements, due to the financial uncertainty that we currently face, I can assure you that I do not intend making any significant changes to the methodology or the data underpinning the distribution of this Settlement.

My announcement today launches a 7-week period of formal consultation on the Settlement for 2021-22. I would be grateful if you could ensure your response arrives no later than **Tuesday, 9 February 2021**. All responses to this consultation should be sent to:

Simon Edwards: LGFPSettlement@gov.wales.

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

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

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

Local authorities are reminded of the requirement to comply with the general equality duties set out in the Equality Act 2010, and also the specific equality duties where applicable. The equality impacts of budgetary options should be assessed and inform any final decisions.

Authorities also need to take account of their duties under the Well-being of Future Generations (Wales) Act 2015 and the Welsh language standards in preparing plans for 2021-22.

This Settlement provides you with the information you need to plan your budgets for 2021-22 and to consider how best you engage with your local communities in formulating your proposals and making budget decisions.

Yours sincerely

A handwritten signature in blue ink that reads "Julie James". The signature is written in a cursive, flowing style.

Julie James AS/MS
Y Gweinidog Tai a Llywodraeth Leol
Minister for Housing and Local Government