Archwilio Cymru
Audit Wales

Funding councils

How the Welsh Government funds councils

July 2026

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Foreword

As well as the fees and taxes paid by their communities, councils receive funding from the Welsh Government. How that funding is calculated and distributed is critical to the planning and delivery by councils of the services they provide.

To make the most of that funding, value for money needs to be at the heart of decision making locally and nationally.

My report finds that the way the Welsh Government funds councils does not always help them to achieve value for money – particularly over the longer term.

In particular, the Welsh Government does not give councils enough clarity over funding in the future to help them to plan. When combined with how late councils may be allocated some funding – especially restricted grants – this increases the risk of councils taking decisions focused on the short-term only.

I would like to see councils and the Welsh Government planning more actively for different funding scenarios so as to be more agile and responsive when funding decisions are announced.

The way that most funding is allocated has not been fully and independently reviewed for over 20 years, despite significant changes in our communities, their needs, and demands. The Welsh Government needs to satisfy itself, and councils, that its current approach remains fit for purpose and enables the delivery of value for money.

It also needs to consider whether its use of grants is proportionate and justified. Restricted grants are a valuable tool for delivering national priorities. However, their number, design, and timing can create inefficiencies and place additional administrative burdens on councils.

All this matters because it affects how well councils can plan for the future, invest in prevention, and deliver sustainable services. It also affects the Welsh Government's ability to achieve the best possible outcomes from public spending.

Many of the findings in this report reflect recurring themes I have seen throughout my time as Auditor General.[1] Addressing those is essential if the Welsh Government and local authorities are to navigate today's extreme financial and demand challenges and deliver sustainable public services to the people of Wales.

Adrian Crompton
Auditor General for Wales

1 I expanded on these themes, the challenges, and my reflections on my time as Auditor General in my letter to the Senedd in February 2026.

Audit snapshot

What we looked at

1 We looked at how the Welsh Government funds the 22 principal councils in Wales. This includes the annual local government settlement and restricted grants. The settlement sets out the amount of funding councils will each receive from the Welsh Government without restrictions in its use. We examined how and when the settlement and grant funding is allocated and the accuracy and timeliness of the data used to inform the settlement.

2 We also looked at how well the Welsh Government supports councils with their financial planning, including if they were to experience significant financial difficulty, and how it estimates the costs of new responsibilities placed on councils.

3 We used our findings to make recommendations to improve the value for money (VFM) generated from funding awarded to councils.[2]

4 This report is the latest in a series of reports on council finances. In 2024, we reported on the financial sustainability of each council and in a national summary. Earlier in 2026, we also reported on capital planning by councils.

Why this is important

5 Councils currently face significant financial challenges. Against this backdrop, they must deliver the services their communities rely on and plan for their future needs. Balancing short and long term demands for services is difficult for councils to do. This increases the importance of financial planning to help them to meet demand and deliver value for public money.

6 The funding councils get from the Welsh Government is the main way that they pay for their services. How the Welsh Government makes this available to councils can have a significant impact on councils' ability to deliver VFM.

2 We set out what we mean by VFM in this context in **Exhibit 1**.

What we have found

7 The way that the Welsh Government allocates funding to councils does not always help them to get value for money from it, particularly over the longer-term.

8 In concluding this, we found that:

- the Welsh Government has not fully reviewed how it allocates its funding to make sure it is effective and based on timely information;
- the Welsh Government's approach to estimating the costs of implementing new laws does not help councils to plan their budgets; and
- the Welsh Government has not set out how it can help councils with their financial planning if they faced a section 114 report.

What we recommend

9 In this report we make five recommendations to the Welsh Government to improve the way in which it allocates funding to councils. They are about:

- improving how it allocates funding to councils;
- giving more notice of future funding levels;
- being clearer on the costs of new responsibilities placed on councils; and
- being clearer on the financial support available to councils if they faced a section 114 report.

Key facts and figures

We explain the terms used here in **Appendix 3**.

£8.3 billion – The total value of the Standard Spending Assessment in 2025-26.

£6.1 billion – The amount of funding received by councils in 2025-26 from the Welsh Government as part of the local government settlement (the settlement does not include funding provided through restricted grants).

51 – The number of Indicator Based Assessments (IBAs) used in the Standard Spending Assessment to calculate the costs of delivering council services in Wales.

72% – The share of the IBAs allocated on the basis of data indicators in the 2025-26 settlement calculated using data from 2023 or later. This equates to £5.7 billion.

17% – The share of the IBAs allocated on the basis of data indicators in the 2025-26 settlement calculated using data from 1991 or 2001. This equates to £1.4 billion.

2002 – The year the methodology of the Standard Spending Assessment was last fully and independently reviewed.

£2.7 billion – The total amount of revenue and capital restricted grant funding received by councils in 2024-25.

20% – The share of total restricted grant funding given by the Welsh Government to councils in the final month of the financial year (March 2025) of the total restricted grant funding allocated to councils in 2024-25.

Our findings

The local government settlement

The Welsh Government has a major influence over council budgets because it gives them most of their funding

10 In 2024-25, the Welsh Government funded around 69% of councils' gross revenue spending. It did this through sharing general and restricted grants, as well as redistributed business rates.[3]

11 The Welsh Government sets out how it will share its funding between councils each year in the local government funding settlement (the settlement). Funding from the Welsh Government makes up most of the money that councils receive, so it has a key influence on councils' financial planning. It is also key to getting the best value for public money (**Exhibit 1**).

3 We set out more details on the sources of council income and their meanings in **Appendix 2**. We use the term 'restricted grant' throughout this report to show that councils are limited in how they may use the money in terms set by the provider of the grant. These are also known as 'hypothecated' or 'specific' grants.

Exhibit 1: what we mean by value for money (VFM)

What do we mean by VFM?

Value for money (VFM) is about whether money is being used to deliver intended outcomes at the best price. It is commonly associated with the 'three Es' – economy, efficiency and effectiveness. We have summarised these as:

- economy – Getting the right deal by securing the necessary inputs, to help achieve intended outcomes, at the lowest possible cost;
- efficiency – Doing things right by making the most of the inputs to generate outputs designed to achieve intended outcomes; and
- effectiveness – Getting the right results by achieving the intended outcomes for the short and longer term.

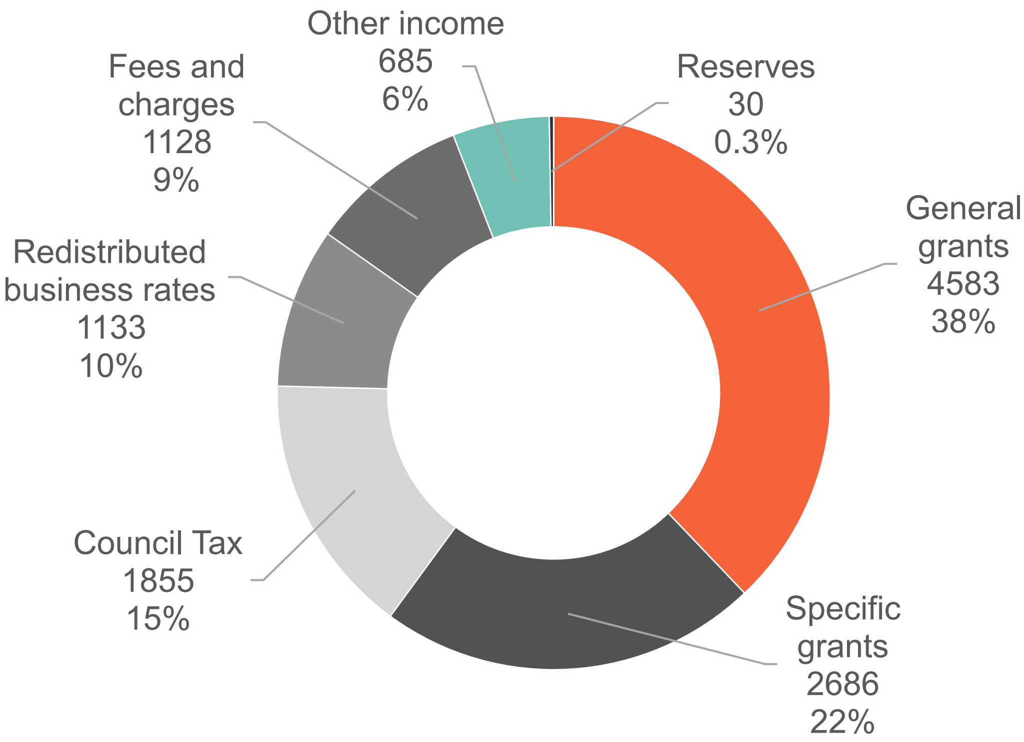
VFM is therefore not just about costs, but about the quality and effectiveness of the service delivered for the money spent. In funding councils, this means providing funding in the right way and at the right time to achieve both national and local priorities.

Source: Audit Wales

12 Most of the funding allocated by the Welsh Government to councils is through the settlement. In 2024-25, councils received £5.7 billion through the settlement.[4] The Welsh Government allocates this funding without restrictions so that councils can decide how it is used to meet their legal duties and local priorities. **Exhibit 2** sets out the different types of funding for councils. The Welsh Government also provides most restricted grants to councils. Other types of income, like Council Tax, the use of reserves or fees and charges, are controlled mostly by councils.

4 This is the total of the Revenue Support Grant (RSG) and national Non-Domestic Rates (NDR), commonly known as business rates. Additional detail is set out in **Appendix 2**.

Exhibit 2: the funding of Welsh council gross revenue spending by type (in million pounds), 2024-25



Source: Audit Wales analysis of the Welsh Government, Local Government Outturn Data, 2024-25

Notes: Due to how the Welsh Government collects this data, gross revenue spending includes precepts and levies collected by councils through Council Tax on behalf of other bodies. It also includes other adjustments, such as the costs of borrowing.

Both pounds and percentages are rounded to the nearest whole number.

General grants include the Revenue Support Grant.

Restricted grants include any grants from the UK and Welsh Governments, the Welsh Government's sponsored bodies, European grants, grants from the National Lottery, and grants from developers. The Welsh Government gives the largest proportion of restricted grants, but data is not available to show the split between sources.

How the Welsh Government calculates the settlement is not always transparent

Calculating the costs of services

13 The Welsh Government aims to share funding with councils through the settlement based on how much it costs to deliver council services. It does this through the Standard Spending Assessment (SSA). The SSA is commonly referred to as ‘the formula’ but includes smaller formulas that are combined to calculate the total amount of funding per council. These are known as Indicator Based Assessments (IBAs). The Welsh Government uses a range of data and adjusts costs based on three factors – relative population, deprivation, and rurality – to calculate the cost of services.[5] We set out greater detail on how it does this in **Appendix 2**.

14 The Welsh Government sets out the data that it has used to share funding with councils each year. This also includes the indicators used to inform the settlement, the sources, and how much each indicator influences funding allocations. For example, in the 2025-26 settlement the Welsh Government allocated £7.7 million for food safety based on the number of food premises in each council area.[6]

15 A small minority of councils do not believe the information shared by the Welsh Government is always easy to understand. For example, councils described it being difficult to see why the formula results differed between neighbouring councils or how the Welsh Government had made some adjustments. The information shared by the Welsh Government, whilst comprehensive, is not presented within a single document. It also uses technical language that is not easy for a lay reader to understand. This is a barrier to helping both councils and other stakeholders to understand how and why the Welsh Government has allocated funding. We recognise that the SSA process is complex and is difficult to clearly communicate to all audiences.

5 By relative population we mean the amount of people or premises in an area that is an indicator of the need for a public service. For example, the number of school-age people for education.

6 In total, the Welsh Government provided £16.8 million for food safety, with the remaining £9.1 million shared based on the population of each council.

Deciding what is in the formula

16 The reasons for the Welsh Government's approach to calculating funding allocations are not clear. For example, it has decided which IBAs to include, the indicators used, and their weighting within the IBAs. It does not set out why it includes or does not include different indicators in the formula overall. This can cause perceptions of unfairness from some councils and damage their confidence in the settlement process.

17 Councils have different views on which IBAs and indicators should be included and the weighting they are given. These perceptions exist despite the Welsh Government and the WLGA giving presentations and other information to councils on the formula. This suggests that there may be a need for more information to explain how the process remains up to date and appropriate. It may also suggest that some councils could do more to access existing information and improve their understanding of the formula.

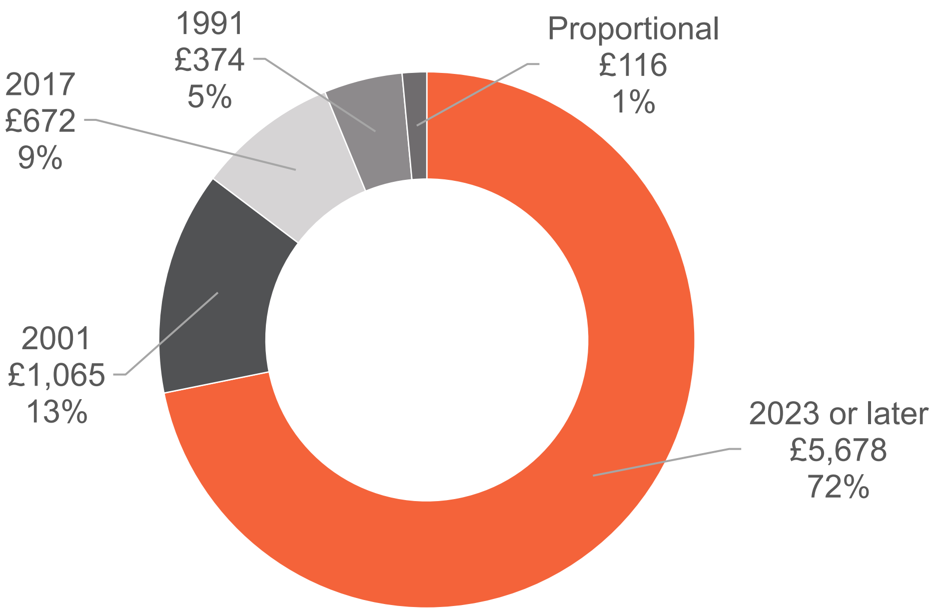
18 It is for the Welsh Government to decide how many IBAs and indicators it uses to allocate funding. For context, the 2026-27 SSA in Wales includes 51 IBAs whilst the Scottish equivalent includes 141 and Northern Ireland's two. However, explaining why it has decided on its approach would help support the public's and councils' understanding and confidence in the process.

Although most data used by the Welsh Government in the formula is up to date, a significant minority is old and so likely inaccurate

19 The Welsh Government regularly updates most of the data used in allocating the settlement. However, it uses a significant proportion of much older data also. **Exhibit 3** shows that the indicators used in IBAs in the 2025-26 SSA were produced between 1991 and 2025. 72% of this data is from 2023 or later. The remainder, which informed how it allocated over £2 billion in 2025-26, is at least 9 years old. These include:

- 1991 census data for how spread-out communities are and the size of settlements;
- 2001 census data for numbers of pensioners and children living in lone adult households; and
- 2017 data about dependent children in out of work families.

Exhibit 3: share of the IBAs in the 2025-26 settlement allocated by indicator age (in million pounds)



Source: Audit Wales analysis of data from the Welsh Government

Notes:

The Welsh Government distributes funding for the administration of education, social care, and other services in proportion to the allocation councils receive from the IBAs of those service areas.

The Welsh Government also allocates other funding as part of the settlement that is not based on indicators. For example, where grants are transferred into the Settlement on their existing distribution, including for example in relation to teachers' pay and pensions.

It can also allocate funding based on actual expenditure in some cases. This includes, for example, the costs of council borrowing.

20 This means that the Welsh Government allocates large amounts of funding using data that are out of date and may no longer reflect the needs of communities from council services. We recognise that some of the data used is old because more recent data is not available.

21 The Welsh Government has previously consulted councils on updating the older data. For example, it asked the Distribution Sub-Group (DSG) about updating indicators based on historic census data in 2011. After consultation, the Welsh Government did not update this data.

22 The Welsh Government allocates some funding based on levels of deprivation. In 2025-26, 29% of the settlement was calculated based on indicators related to deprivation. Some of the data underpinning that assessment is out of date. For example, the settlement allocates some funding based on a deprivation grant that the Welsh Government no longer offers. It uses the Wales Index of Multiple Deprivation (WIMD) data from 2000. This aims to share funding to councils based on levels of deprivation. In 2025-26, this totalled £22 million. Whilst not directly comparable, WIMD data from 2025 shows that some of the most deprived areas have relatively improved in the past 25 years. For example, the fourth most deprived area in 2000 now ranks as the 87th highest.[7] This means funding focused on tackling deprivation may no longer focus on the most deprived areas.

The Welsh Government has not reviewed the method for allocating its funding to ensure it is effective or based on up to date information

Reviews of the settlement formula

23 The Welsh Government has not independently reviewed the settlement formulas as a whole in over 20 years. The SSA was last independently reviewed before the 2001-02 settlement. Since then, councils have received significant new responsibilities, and there have been many wider societal changes in Wales.

24 Through the Distribution Sub Group (DSG), the Welsh Government has reviewed some parts of the formula. Where this has been done, it has been to update the data rather than to assess how appropriate it is. The reviews since 2002 have been led by the Welsh Government with council views included. This has been through the DSG and Finance Sub Group (FSG).[8]

7 WIMD data in 2000 and 2025 split areas differently for their analysis. WIMD 2025 used smaller areas, whereas WIMD 2000 used electoral wards. This means, for example, that the WIMD 2025 split the Gurnos ward into three areas, ranked 87th, 89th, and 161st.

8 We explain who sits on these groups in **Appendix 3**.

Updating the IBAs

25 The Welsh Government is updating some of the IBAs used in the SSA. However, this is limited to updating the IBAs only and does not include whether the SSA process is measuring the ‘right’ costs or considering the ‘right’ factors to assess costs of services. It is focused on ensuring that correct data and weightings are used. This work is limited currently to IBAs in education and social services.

26 The Welsh Government does not consider it needs to fully review the formula. This is because it does not believe there is a consensus amongst councils on the need to do so. It has formed this view following a decision of the Funding Sub-Group following advice from the DSG. Through our interviews we heard different views from councils on the need to review the formula. Of those who expressed a view (16), the majority (11) felt some form of review was needed. It is, however, for the Welsh Government to decide whether to review the formula, or not.

The Welsh Government gives opportunities for councils to raise concerns over the data used in the settlement

27 Every year the Welsh Government gives councils an opportunity to confirm the accuracy of the data that councils produce that is used in the formula. It publishes this process on its website. Councils confirm the accuracy and send a return to the Welsh Government. Councils are broadly content with this process. But councils do not verify all of the data used in the formula, such as census data, as most data used meets the definition of national statistics and have their own verification processes.

Councils have less time to plan their spending as the Welsh Government announces the settlement later since the pandemic

28 The Welsh Government’s announcement of the settlement has been later since the Covid-19 pandemic. Prior to this it usually published the draft settlement in October and then the final version in December. Since 2020-21, this has moved to usually being December and February, respectively. We reported that councils raised the timing of the announcement as being a barrier to their financial planning in our financial sustainability report. Welsh Government officials also provide regular updates on the timing of the settlement to help inform councils’ financial plans.

29 A later final settlement gives councils a short time to set their budgets. Councils must set their Council Tax levels by 11 March each year for the following year.[9] As the law sets out how the tax should be set, this effectively means that councils must set a balanced revenue budget by then. They cannot do this without knowing how much funding they will receive.

30 The timing of the settlement is linked to when the UK Government makes its financial announcements. This is because the Welsh Government waits for its overall budget to be confirmed. The UK Government has changed the timing of its announcements in recent years. This means that the time between councils knowing what their funding will be for the year ahead and then having to set their budgets has reduced. This increases the risk of short-term decision-making and reduces opportunity for scrutiny of proposed budgets.

31 The timing of the settlement creates some challenges for councils. The reduced time between the settlement being announced and the deadline for setting Council Tax places extra pressure on officers.[10]

32 The timing of the settlement can also reduce the time available for councils to ask the public for their views on their final budget proposals. This has led some councils to reduce the amount of consultation they undertake. This increases the risk of councils taking decisions without reflecting the views of their communities.

33 The reduced time for councils to set their revenue budgets following the settlement can have impacts on how they plan their capital spending. Our capital planning report sets this out (**Exhibit 4**).

9 Local Government Finance Act 1992

10 Audit Wales is currently reporting on the recruitment and retention challenges faced by councils. Local reports can be found on our website.

Exhibit 4: findings from Audit Wales' study on capital planning by councils

Settlement findings

Our work on capital planning by councils found that the settlement gives a relatively small amount of capital funding to councils. However, the focus of councils between the Welsh Government sharing the settlement and councils needing to set a balanced revenue budget can lead to a greater focus on the revenue budget. This reduces the amount of scrutiny on capital plans that may mean that councils do not fully consider whether their plans will achieve VFM.

Source: Audit Wales

Councils can take action to mitigate the impacts of the settlement timing

34 Some councils seek the views of their communities on potential budget proposals earlier in the financial year. This can help make sure that councils are well placed to take informed decisions when funding levels are subsequently confirmed. Councils can also use the draft settlement to help them to consult the public on more detailed budget proposals. Usually, the amount of money councils will receive does not significantly change between the draft and final settlements. Between 2020-21 and 2026-27, the average change between draft and final settlement was 0.4%. This means that the draft settlement has historically been a reliable basis to plan and consult from. However, we recognise there is always potential for the final settlement to change significantly.

As councils do not know their longer-term funding, it makes it more difficult for them to secure VFM

The need to think about the future

35 Making assumptions about costs and income to develop forecasts is a core part of financial management. The Institute of Chartered Accountants of England and Wales (ICAEW) describes forecasting as an essential skill for all finance professionals. It has set out the importance of looking ahead and at different scenarios to inform decision making. It is a key aspect of planning the running of any organisation.

36 Guidance from HM Treasury and CIPFA reinforces the importance of forecasting. Similarly, the National Audit Office (NAO) has highlighted forecasting as 'an essential component for good financial management and informed decision-making'. The NAO has published good practice guides to help with this.

37 Councils use forecasts and compare assumptions with each other to estimate the likely amount of funding they will have available for future years. They can use these assumptions to plan for different funding scenarios and plan their budgets where they lack information. This can mitigate some of the impacts of later funding notifications, particularly where funding is higher or lower than anticipated.

38 However, the Welsh Government does not generally use assumptions to communicate future funding levels to councils. As a result, the Welsh Government rarely gives councils estimates of the levels of funding it will share in the future. It last gave councils notice of multiple years of total funding available in 2023-24.

39 The Welsh Government does not give an indication of funding levels for councils over several years because it does not always know how much funding it will get from the UK Government.[11] The House of Commons Library has noted that the UK Government holds its spending reviews on 'an increasingly unpredictable schedule'. The UK Government also varies the number of years of funding it sets out for Wales.[12] However, the Welsh Government could still rely on assumptions to estimate the future funding it will receive, and therefore how much it might give to councils.

11 The 2021 and 2025 UK Government Spending Reviews both set out funding over multiple years. This effectively covered the financial years 2021-22 to 2029-30. However, between the publication of the reviews, the leadership of the UK Government changed three times. In addition to the Covid-19 pandemic, this reduced the usefulness of the 2021 review to inform financial planning.

12 House of Commons Library, Spending Review 2025: Background briefing, June 2025

40 Recently, the Welsh Government has chosen not to set out the funding it intends to share with councils in future years due to the 2026 Senedd election. The June 2025 UK spending review set out the UK Government's revenue and capital spending plans for the current and next three or four financial years respectively. This in turn could have helped the Welsh Government to set out funding to councils over that period. However, it decided to set out funding for one year only due to the Senedd election taking place two months into 2026-27.

41 We recognise it would be difficult for an outgoing government and Senedd to set out with any certainty the future spending plans of their successors. But it does mean that councils were less able to plan for future funding levels at least until a new Senedd and the new Welsh Government are in place.

The impact of making assumptions

42 Council officers sometimes assume councils will receive less funding than they actually receive. This can be because of the need to be prudent, but it can also be because the settlement gives more funding than they anticipated. As a result, councils can sometimes delay taking difficult decisions until the Welsh Government confirms funding levels, in the belief that they will receive more funding than officers have predicted. This also applies where the Welsh Government does not confirm restricted grant funding in time to inform budget setting (**paragraph 49**).

Predicting assumptions

43 The proportion of total council funding allocated to each council has been generally consistent over the past decade.[13] Whilst increases in funding levels are difficult to predict, precisely, they have been generally foreseeable within broad parameters.

The sustainable development principle

44 Taking a longer-term view to financial planning is key to helping the Welsh Government and councils show that they are applying the sustainable development principle. Both are required to do so by the Well-being of Future Generations (Wales) Act 2015. Our national summary report emphasised the need for public bodies to take a longer-term view and recommended that the Welsh Government work with bodies to minimise funding uncertainties to help financial planning (**Exhibit 5**).

13 See **Exhibit 17** in **Appendix 2**.

Exhibit 5: findings from Audit Wales' lessons from our work under the Well-being of Future Generations Act

Financial planning findings

'Public bodies need to take a longer-term view of how they achieve financial sustainability, as well as getting a better grip on the resources required to deliver various plans and activities.

By 2025, we should be seeing public bodies using the Act to help them plan their finances and achieve financial sustainability over the medium and longer term. We should also be seeing a clear understanding of the funding required to deliver on the plans and activities that are critical to them meeting their well-being objectives.'

'These issues [set out in the report] can result in funding not being used in a planned way to secure value for money and better outcomes for the long term, aligned to bodies' objectives. It is also reasonable to assume these factors can make it more difficult for public bodies to invest in prevention, which is likely to require a sustained funding commitment. For example, through our work on tackling poverty across councils, we heard that the annual cycle of bidding does not support them to tackle the more difficult and longer standing problems.'

Source: Audit Wales

Restricted grants

45 Restricted grants are awarded by funders for a set purpose. For example, to deliver a service, purchase an asset, or increase the pay of staff. Councils receive restricted grants from the UK and Welsh Governments, as well as other organisations like the National Lottery or previously the European Union.

46 Restricted grants are a key part of how councils are funded. As **Exhibit 2** shows, restricted grants funded 22% of council spending in 2024-25. This totalled £2.7 billion. They are a key influence on council budgets.

The Welsh Government makes it hard for councils to plan to achieve VFM by giving restricted grants late in the financial year

The timing of grants in the settlement

47 The Welsh Government gives limited detail on restricted grants in the settlement. In some years, the Welsh Government lists the values of some grants as ‘to be confirmed’. Since 2016, on average it has not confirmed nine grants (14% of total number of grants) in each settlement. This varies by year. In 2026-27, it was 16 grants (20%).

48 The Welsh Government can take several months after the settlement to confirm what each council will receive from restricted grants. The Welsh Government does not have a deadline for restricted grant allocations to be allocated to councils. It announces individual grants at separate times, both before and during the financial year they relate to. This can be due to a range of reasons but is mainly due to delays in setting the budget in different ministerial portfolios in the Welsh Government. This is because the size of budgets in different portfolios determine the size of the restricted grants they offer. Without being clear on the total value for a grant it is hard for councils to estimate their share.

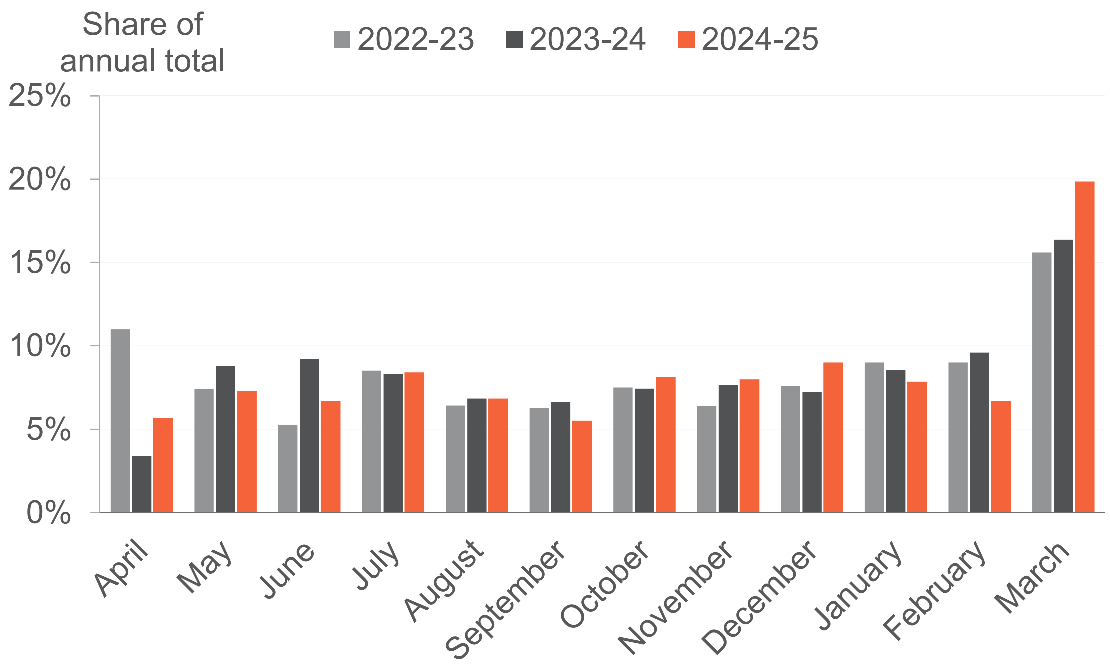
49 One example raised by councils was the Sustainable Waste Management Grant. The Welsh Government has offered the grant for many years to help councils provide recycling services for residents. In 2025–26, the Welsh Government did not confirm how much councils would get from the grant until nine months into the financial year. This was due to clarifying additional funding as a result of the Extended Producer Responsibility (EPR) for packaging. Councils therefore continued collecting recycling at their own financial risk without knowing if they would receive the funding. The total value of this grant in 2025-26 was £16.4 million.

Lateness of in-year grants

50 The Welsh Government also gives councils grants that it does not include in the list published alongside the settlement. This can be due to the UK Government providing extra funding during the financial year because of its funding announcements. It can also be due to underspending in other parts of the Welsh Government or by partners, or Welsh Government Ministers setting new priorities.

51 This leads to the Welsh Government sharing large amounts of extra funding in the final month of the financial year. In 2024-25, it allocated £1.5 billion in March 2025 – 20% of its annual total (**Exhibit 6**). This is also the case for grants that it provides to other sectors. This may also reflect funding being given where councils have fulfilled grant requirements before the end of the financial year.

Exhibit 6: share of the annual total of grant funding given by the Welsh Government to Welsh councils, 2022-23 to 2024-25



Source: Audit Wales analysis of the Welsh Government's internal data

52 The timing of some extra grants gives councils very little time to use them. Councils shared examples where they had been given between seven and 25 days to spend the grant. This is a theme we also highlighted in our capital planning study (**Exhibit 7**). This significantly increases the risk of short-term decisions that deliver poor value for money.

Exhibit 7: findings from Audit Wales' study on capital planning by councils

Impact of restricted grants being allocated late

'By awarding funding late in the financial year, the Welsh Government risks not increasing the overall amount of capital spending in the same year. Grant conditions typically require a council to spend funds before the end of the financial year. This means that there is significant pressure to plan and spend those funds or risk losing the funding. This can encourage councils to use grant funding on projects that they had been due to fund in another way. For example, through local borrowing or revenue contributions. Equally, councils may decide to borrow or use revenue budget contributions in a future year instead.'

Source: Audit Wales

The reason for in-year grants

53 The rules for how the Welsh Government is funded encourage it to act in this way. Where the Welsh Government does not use its funding in-year, it must return most of it to the UK Government. The Welsh Government may only keep a limited amount in reserves, so a large underspend would result in funding being lost to Wales.[14] This means that funding intended for Wales may not benefit Wales directly, both in the current year and the future. This effectively encourages the Welsh Government to make sure it uses as much of its funding as possible.

14 The Welsh Government may add to or use a limited amount from the Wales Reserve, as set by the UK Government. For extra information see Audit Wales, Guide to Welsh Public Finances, July 2018. In addition, the Welsh Government also has some limited powers to borrow money to support its budget.

The impacts of in-year grant timing

54 Grant restrictions typically become more flexible as the year progresses. This can promote an opportunistic response to make sure councils maximise their income from grants (**Exhibit 11**).

55 Some councils plan for extra in-year grants and spending money before the grants are announced. As the Welsh Government regularly gives similar in-year restricted grants, councils can assume they will be offered each year. For example, winter pressures funding for social care. This can benefit councils that have a stronger financial position and can assume the risks of the Welsh Government not providing an assumed grant.

Lack of certainty around restricted grants impacts councils' relationships with their staff and partners

Impacts on people

56 Uncertainty caused by delays in the Welsh Government announcing grants have a significant impact on council officers. We heard many examples of councils funding jobs with grants. This places people at risk of redundancy if grant support ends. As this can happen every year, councils believe this adds to the significant recruitment and retention issues they face.[15] It also affects morale and well-being. This has the potential to lead to extra costs to replace people, as well as reduced effectiveness.

57 Councils raised similar concerns due to the uncertainty with restricted grant funding from the UK Government. The UK Government announced in June 2025 that it would end the Shared Prosperity Fund (SPF) and introduce new funding schemes that included the Pride in Place Programme and the Local Growth Fund (LGF) in 2026-27. During our fieldwork, the Welsh Government was consulting on its proposed approach to sharing LGF funding but had not set out detail of the LGF or the funding each council could receive. This may mean councils have to make officers redundant but lacked enough detail to know this.

15 We are currently publishing local reports that look at how councils are responding to recruitment and retention challenges that they face. These can be found on our website.

Impacts on partners

58 Councils deliver many services in partnership with charities, community groups, and other third sector bodies. Not being clear on whether funding will continue can also reduce the appetite for future partnership working, and have a detrimental impact on third sector organisations.

Annual grant allocations make it harder for councils to plan over the medium-term

59 The Welsh Government sets the value of most restricted grants each year. Councils do not know how much funding they will get in future years. This makes it harder for councils to plan their finances over the medium-term (**paragraphs 35 to 44**).

60 The Welsh Government offers some restricted grants over multiple financial years. This includes the funding for some capital projects, such as flood defences. Where funding is given over multiple years, the Welsh Government often requires councils to submit multi-year plans. This shows that it is possible for the Welsh Government to set out grant funding over multiple years for some grants.

How the Welsh Government designs restricted grants causes inefficiencies for councils

61 The Welsh Government helps grant managers to design restricted grants through the Grant Centre of Excellence (GCE). The GCE gives advice and guidance to the officials that develop and are responsible for each grant. These officials are known as grant managers.

62 Grant managers must show that the Welsh Government has the power in law to give the proposed grant. They also must show the proposal meets the Welsh Government's minimum standards. Whilst the GCE provides advice, there is no mandatory or consistent quality assurance of grant design.

63 Approval for restricted grants is given by the minister responsible for the grant's policy area. For example, the Cabinet Minister for Education would approve any new grant proposal for schools. Ministers are provided high-level advice that summarises the purpose, allocation, and legal basis for each proposal.

Guidance for proposed grants

64 The GCE guidance is designed to be at a very high-level and allow grant managers significant flexibility. Guidance suggests key issues for grant managers to think about when developing new grants and that they must meet the Welsh Government's minimum standards. This includes each proposed grant's legal basis, objectives, and risks. It does not tell managers how they should show they have thought about each issue. While this allows grants to be tailored, it also means that the depth and quality of grant design vary.

65 The GCE expects that grant managers involve the relevant sector when designing grants. Some significant proposals, such as the Local Growth Fund, receive formal public consultation whilst other grants are discussed with council officer networks. Managers are required to set out if recipients have been involved when creating proposals. However, there is no process to assess whether the right people have been involved. Managers do not have to show how the involvement of the sector has helped inform how they have developed their proposal.

Quality assurance of proposed grants

66 The Welsh Government's process for creating new restricted grants does not include consistent quality assurance. A Grant Assurance Panel (GAP) reviews proposed grants and suggests improvements. However, the GAP's role is advisory, and grant managers are not required to act on its recommendations as long as minimum standards are met. Once proposals pass through the GAP, there is no further central quality assurance before grants are launched. This means that there is variation in grant conditions and design across different grants and service areas.

67 The GAP has recently started following up its recommendations to find out if they have been acted on, but this does not always happen before grants are made to councils. Whilst this means the GAP knows why a recommendation has or has not been implemented, it means it does not know if weaknesses have been addressed before grants are given to councils.

68 As a result, the Welsh Government can only assure itself that its grants meet minimum standards. It therefore cannot assure itself that they help it to deliver VFM. Ensuring that grants are of a good quality would help the Welsh Government to support recipients to achieve VFM.[16] It would also help to make grants more consistent which could make them more efficient for recipients to administer.

69 The GAP looks at key areas of proposed restricted grants. Focusing on the reasons to create a new grant, the alternatives, and the risks helps inform decision makers about their potential to achieve VFM. Grant managers must set out how proposals have considered key areas, such as:

- the intended outcomes of the grant;
- alternatives to the grant that have been considered;
- potential overlaps with other grants;
- how the grant will be applied for; and
- the risks of fraud in the grant.

70 However, proposals made to the GAP vary in detail and coverage. The proposal documents describe proposals rather than justifying the need for and approach a proposed grant should take. So, they do not always give officials the information to assess if proposals may deliver VFM.

71 For example, our review found that proposals do not:

- clearly set out the reasons for a grant to be offered;
- fully consider alternatives, such as adding funding to the settlement instead of providing a grant (where a grant is intended to run over multiple financial years);
- explain how proposals would achieve VFM;
- explain how proposals would contribute to national well-being goals; and
- consistently set out any risks of fraud and how they would be managed.

16 What good looks like may vary in different contexts depending on the size and risks of different grants to different stakeholders. This is for the Welsh Government to decide based on its own risk appetite and what it believes grants should consistently show in design as best practice.

72 The GAP also does not know whether grant managers act on its suggestions. Despite being in the GAP terms of reference, the GAP does not collect this information. This means that the Welsh Government may not know whether grant managers addressed the issues. It also means that it cannot know whether the GAP is effective in improving the quality of grants.

Consistency of grant design

73 The requirements placed on councils to administer restricted grants varies significantly between grants. As **Exhibit 8** shows, councils follow several processes as they administer grants. The GCE guidance does not set out the factors that grant managers should consider when designing these processes, such as the value of the grant or the level of risk to the Welsh Government. This means that councils often have to follow different approaches to applying for and the monitoring of grants.

Exhibit 8: stages of processing restricted grants by councils

How councils process restricted grants

Restricted grants can have different processes, but the process for councils is similar, at a high-level. This usually includes:

- Early discussions with the Welsh Government's officials through professional networks to raise awareness of a potential new restricted grant.
- A grant application form may be received that councils need to prepare and complete. For some grants, this step may not be required.
- Councils receive a grant offer letter that sets out the restrictions and terms of the grant. Two officers (usually senior managers) must then sign the letter and send it back to the Welsh Government.
- Councils complete a process to receive the payment from the Welsh Government. This varies from grant to grant, but may be monthly, quarterly, or at other intervals.
- Councils monitor the spending of the grant. Monitoring requirements can vary between grants.
- For most grants the council's chief financial officer signs a certificate at the end of the financial year to confirm the grant has been spent and spent in line with its restrictions.
- Councils must record the grant correctly in their financial systems to produce their annual accounts. Audit Wales then audits these accounts.

Source: Audit Wales

74 It also means that processes are not necessarily proportionate to the size or risks of a grant without a clear reason (**Exhibit 9**).

Exhibit 9: findings from Audit Wales' study on capital planning by councils

Variation in the approach used in capital grants

'The UK Government has set a business case approach that the Welsh Government must follow. This is known as the Green Book. The Green Book sets out how projects should be evaluated, setting out costs, benefits, and trade-offs for delivering objectives. It adopts the 'Five Case' model for business cases. Welsh Government officials explained that this is the model that all grants should follow in their applications, except in certain circumstances, such as flood repairs. Despite this, councils told us that processes vary for different grants, and sometimes the scale of requirements vary significantly and are not necessarily proportionate to the funding available.'

Source: Audit Wales

75 In particular, the monitoring of grants by the Welsh Government varies significantly. For example, some high-value grants need little or no monitoring, while other low-value grants require frequent reporting to the Welsh Government. We also saw different monitoring requirements within the same grant with no clear explanation for this.

76 Whilst the GAP looks at how a proposal will be monitored, it does not review whether the proposal is proportional or suitable in the context of other grants the Welsh Government provides, or the size of, and risks associated with the grant.

77 Councils recognise that the Welsh Government has reduced some aspects of its grant monitoring. This includes reducing the external auditing of grants. We recognise that there is a need to balance ensuring public money is used correctly and making sure that monitoring is proportionate.

78 Councils received 49% of total restricted grants in 2024-25 from the Welsh Government. Therefore, it is particularly important that the Welsh Government ensures that its grant funding processes are efficient and proportionate for councils. In contrast, the NHS (the largest recipient of total grant funding) received only 4% of total restricted grants. This indicates that in comparison with the NHS, councils are more constrained in how they use their funding because of the restrictions placed on grant funding.

Attempts to standardise grants

79 The Welsh Government has taken some steps to promote more consistency in its restricted grants. It has a template grant offer letter that must be used unless an exemption is granted by the GCE or Welsh Government legal officials. This includes standard terms and conditions. The template also includes optional elements that managers can choose to include depending on the design of the grant.

80 Whilst most grants use the template, grant managers can, and do, vary its wording for individual grants. The Welsh Government allows this because it recognises that due to the range of grants and recipients there is a need for some flexibility. As the GCE does not review all grant offer letters before they are issued, the template letter can vary significantly between different grants. As the Welsh Government issues over 9,000 grant letters each year, we recognise that it may not be practical to review all of them each year. However, in practice, we heard that this means that councils must still review offer letters in detail to spot any changes. As a result, the template does not always help recipients process grants efficiently.

It is difficult to see how the costs of administering some grants are value for money

The cost of administering restricted grants

81 The Welsh Government gives over 150 restricted grants to councils each year. This includes around 100 revenue and 50 capital grants in total. In 2025-26 it included 83 grants that are published at the same time as the settlement. The individual grant amounts in the settlement ranged from £13,000 to £222 million. This does not include those the Welsh Government had not confirmed in the settlement. The remainder were issued later in the financial year as more funding became available.

82 As a result, councils spend significant amounts of time and money processing restricted grants – particularly where some requirements are complex. One senior council finance officer estimated they approve over 1,000 restricted grant documents each year. This can include, for example, submitting claim forms even when a council is not claiming any money (known as a nil claim).

83 The Welsh Government committed to council leaders that it would measure the costs of administering restricted grants but has not done this.[17] As a result, it is difficult to know the costs of administering grants. However, given the number of grants and the steps needed to administer them, they clearly require a significant amount of officer time in councils, and officials' time in the Welsh Government. This makes it important for the Welsh Government to ensure that its use of grants is effective in delivering policy outcomes economically and efficiently.

84 The Welsh Government has taken steps to reduce the administration of some grants for councils. For example, it has merged several smaller grants into single larger grants, such as the Local Authority Education Grant. These grants have multiple parts within them that cover different topics with their own requirements but are administered as a single grant. This has helped to reduce some administration such as reducing the volume of grant letters, and helped councils to manage their cash flow.

85 We heard examples from councils about restricted grants that were relatively costly to administer, such as:

- a grant offered to councils by the UK Government that required time-consuming registration of senior officers to a secure messaging facility to receive £4,000;
- extra money for an existing grant given to a council in-year by the Welsh Government of just £178; and
- a grant offered to councils over both a financial and academic year by a Welsh Government sponsored body. This requires additional work for councils to calculate which financial year it should include the grant and spending in.

86 Some of the grants issued by the Welsh Government can be for very small sums, potentially outweighed by the cost of administration. Grants are also inconsistent in whether councils can deduct the costs of administering them from the grant funding. Overall, it is difficult to see how this can represent good value for public money.

17 It made this commitment during a FSG meeting in March 2025.

87 Audit Wales audits the Welsh Government's annual accounts – including looking at large numbers of grants each year. In doing this, we have found some common administrative issues.[18] These include documents not being signed, differences in amounts between documents and payments, and some letters not being sent out to grant recipients. Though there are early signs of improvement in response to our recommendations, these types of issues indicate that administering its many grants can be challenging for the Welsh Government. Having fewer restricted grants may help to reduce the opportunities for errors, whilst also reducing the Welsh Government's costs to administer them.

Coordination of restricted grants

88 The Welsh Government does not coordinate the restricted grants it offers to councils. The Welsh Government is formed of directorates that reflect the different ministerial portfolios.[19] Different directorates of the Welsh Government offer grants to councils independently of each other. This means that they can offer funding at similar times and on similar topics, but with different requirements and approaches. This can reduce the economy and efficiency of grants administration. We reported similar themes in our capital planning report (**Exhibit 10**).

18 These findings are based on our audit of grants to all recipients, not just councils. In 2024-25, we tested 47 grant payments across a variety of schemes to a broad range of recipients.

19 Prior to the 2026 Senedd election, the Welsh Government had nine Cabinet Secretaries and five Ministers. It now is formed by ten Cabinet Ministers and five Deputy Ministers.

Exhibit 10: findings from Audit Wales' study on capital planning by councils

Coordination of funding

'The Welsh Government awards restricted grants from across different ministerial portfolios. It does not co-ordinate its development or awarding of grants to councils centrally. Each grant is awarded by the sponsoring part of the Welsh Government. This can mean different application, business case, and monitoring requirements. This is to enable schemes to be flexibly designed to meet the relevant policy aims.

This sometimes also means grants can be combined to deliver a project with multiple policy aims. Capital projects often have budgets that exceed the size of individual grants, and so councils need to combine grants to deliver them. However, this can make it difficult and complicated for councils to make use of grants. Particularly for projects that might require several grants to deliver, that may have different timescales and application processes.'

Source: Audit Wales

It is not clear why some longstanding grants still exist

Grants policy

89 The Welsh Government has committed to reducing the number of restricted grants it offers to councils. This aims to 'reduce the administrative burden' on councils and reviewing grants with a view to moving them into the settlement or combining them. It committed to developing a protocol with councils focused on restricted grants. Whilst not finalised, the draft version commits to fewer restricted grants to give flexibility for local decisions. It makes clear restricted grants are used by the Welsh Government to launch new policies or priorities.

90 We heard a widespread view that there are too many restricted grants. This view was shared by both some Welsh Government officials and council officers. Council officers explained that the need for several restricted grants is not always clear as some fund front line service delivery rather than new policies or responsibilities. Examples of this include in services such as education and waste management. Because restricted grants are likely to incur additional costs in administration, it is important that the Welsh Government is clear on the rationale for their use.

Long running grants

91 The Welsh Government has offered many of the same restricted grants to councils for over a decade. The 2026-27 settlement has six grants that had been included in at least the last ten settlements. We identified 35 grants that have been offered in at least five of the past 11 settlements. This does not include some longstanding large grants, such as the Children and Communities Grant, which have combined smaller grants into larger single grants. This further suggests that the Welsh Government is not limiting its restricted grants to new initiatives or priorities.

92 The barriers to moving funding from grants and into the settlement are known to the Welsh Government and councils. There are two barriers, in particular. The first is a desire from the Welsh Government to direct councils in how to spend its funding. This varies between Welsh Government departments, as well as reflecting broader Welsh Government priorities.

93 The second barrier is resistance to change in some council service areas that receive grant funding. Welsh Government officials described that long running grants can be difficult to end because some council officers prefer them to remain outside of the settlement. This is because of concerns that councils would not spend the resulting increase in the settlement in the same service areas. However, it is unclear how this is consistent with the Welsh Government's commitment to local decision-making by elected councillors, and its commitment to reducing the number of restricted grants and councils' support for this.

94 As there is a cost to administering grant funding, both for the Welsh Government and for councils it is important that the Welsh Government is clear on its purpose for using grants as a way of sharing funding. This can help it to ensure that the benefits of sharing funding through grants outweigh its costs.

The Welsh Government does not routinely think about the VFM it achieves from the grant funding it gives

Assessing VFM

95 The Welsh Government sets out that it has a responsibility to achieve VFM from the grant funding it gives. Its expectations for grant recipients explain this as the reason for ensuring that recipients use grants in line with its objectives and standards. Officials explained that, in practice, this means that it is for grant recipients to make sure that they deliver VFM by meeting the objectives set for each grant. This means that setting appropriate, robust objectives for grants is the Welsh Government's key approach to securing VFM for its spending. Evaluating if objectives are met is essential to assessing whether the Welsh Government is achieving VFM.

96 To do this, the Welsh Government sets out the monitoring arrangements for each restricted grant. This can include the recording of aims and targets set for the grant recipient, which often record outputs of grant spending. However, few restricted grants require councils to show the outcomes they have achieved. Where it asks councils to evaluate the impact of funding, this focuses on what has been spent rather than the outcomes that have been achieved. This means that the Welsh Government is not consistently gathering information to know whether grants have met their objectives.

97 Monitoring outcomes and collecting data can be burdensome for grant recipients but is critical to knowing whether a grant is effective. Officials for one grant explained that they had not evaluated the impact of their grant to avoid asking information from schools to avoid adding to workloads. Whilst this reduces administration, not collecting data to evaluate the outcomes achieved risks potentially wasting public money.

98 As a result, the Welsh Government does not regularly evaluate its restricted grants. We sampled seven restricted grants from the 2024-25 settlement and received some evidence of an evaluation for three grants. All three took different approaches. Whilst we recognise that approaches may need to vary by the nature, size, or risks of a grant, any evaluation process should clearly help the Welsh Government to know if it has achieved VFM. The evaluations reviewed also focused on recording the results of grant funding rather than their outcomes. This included recording what had been funded and the views of recipients on the grants continuing. Whilst this may result in useful information, it does not enable the Welsh Government to clearly and consistently evaluate what it achieves from its grant funding.

The Welsh Government does not always show how restricted grants will deliver its policy agenda

Purpose of funding

99 Through providing restricted grants to councils, the Welsh Government can help to implement its policy agenda and deliver its well-being objectives. The Welsh Government, therefore, often links restricted grant funding to its priorities. The links, however, are not always clear in how it communicates its grant requirements to councils. It is for the Welsh Government to set its own policy in determining how it allocates restricted grant funding. The Senedd is then responsible for approving the overall Welsh Government budget and holding the Welsh Government to account.

100 This can create tension between councils and the Welsh Government. Councils sometimes apply for restricted grant funding to deliver projects that do not reflect their local priorities. Even where they believe the spending would achieve little local benefit (**Exhibit 11**).

Exhibit 11: findings from Audit Wales' study on capital planning by councils

Local and national priority findings

'How capital grant funding is distributed is largely a matter of policy to be decided by the Welsh Government. However, the current system can incentivise an opportunistic rather than a strategic approach to bidding for grants. This risks councils using capital funding in ways that are not tailored to their local areas and therefore less likely to meet locally identified needs.

We have included these findings to highlight their risks to councils and the Welsh Government in being able to secure VFM. We do not criticise either councils for accessing available funding to make improvements to their local area or the Welsh Government for using grants to help deliver its policy agenda. However, this does highlight the importance of making sure that the potential implications for VFM of grant funding processes are considered.'

Source: Audit Wales

The sustainable development principle

101 The Welsh Government does not show councils how most of its restricted grants link to the national well-being goals or its own well-being objectives. For example, it does not reference them in most grant letters shared with councils when receiving grants. It also means that it is not clear how the sustainable development principle has informed the Welsh Government's decision to provide a grant. We have previously highlighted the importance of aligning funding to well-being objectives to help bodies deliver VFM.[20]

20 Audit Wales, No time to lose, April 2025

Funding new responsibilities for councils

102 Councils are frequently given new responsibilities. This is usually due to the Senedd passing new laws but can also be from national policy changes by the Welsh Government. This can lead to additional costs for councils. It means that it is important for the Welsh Government to accurately estimate the costs to councils to help inform councils' financial plans.

The Welsh Government's approach to estimating the costs of new laws does not help councils to plan their finances

Regulatory Impact Assessments

103 The Welsh Government must publish estimates of the costs and benefits of its draft laws to support the Senedd in its scrutiny. It does this through a Regulatory Impact Assessment (RIA). RIAs are an estimate of the impact of laws to the overall economy. The Welsh Government does not intend for RIAs to set out the cash costs for stakeholders from a new law. RIAs are intended to inform the Senedd of the overall impact of a proposed law on the whole economy. So, the focus of RIAs is wider than just the cost to the public sector.

How RIAs inform financial planning

104 RIAs do not give councils clear information to help them to financially plan. Where RIAs set out costs and benefits in cash, such as in the affordability assessment, this is either for the public sector as a whole or councils as a sector, not for individual councils. It can therefore be difficult to understand what this means for individual councils. As councils are key partners of the Welsh Government in delivering its policies, helping councils to plan their finances may improve how well they can deliver new responsibilities.

105 As a result, councils are not routinely including the costs of new laws in their financial plans. For example, during our fieldwork, the Homelessness and Social Housing Allocation (Wales) Act was being scrutinised by the Senedd. Few councils felt they had enough information to help them to include the future costs of the law in their financial plans. They were also unclear about the funding the Welsh Government would offer to help to implement the law. Some councils had included some estimates for costs, but these were based on modelled demand rather than the RIA. This makes it more difficult for councils to plan their finances over the longer term.

Communication in RIAs

106 How the Welsh Government presents information in RIAs can also make it harder for councils to understand the impacts of proposed laws. We heard frustrations from councils that the Welsh Government appears to present new laws as being cost neutral when they actually result in additional costs. This can be due to councils misinterpreting the RIAs as suggesting that the costs of new laws are ‘free’ rather than their costs equalling their benefits over the period that the Welsh Government has assessed. This could mean, for example, a significant cost to implement a new law in the first few years being offset by significant savings over the rest of the typical estimation period of 10 years. This is a result of RIAs presenting an economic assessment of costs and benefits not the actual cash costs to deliver new responsibilities.

The Welsh Government does not always provide clear information on funding to help councils to implement new laws

RIAs informing restricted grant funding

107 The Welsh Government does not always base its funding to councils for new laws on RIA estimates. For example, as part of the 2026-27 budget, it set out that it had allocated £451 million in funding for applying 13 new laws but had estimated costs of £379 million for 2026-27. This means that RIAs are not always an accurate basis for councils to plan from.

Concerns of councils

108 Councils have concerns about funding to support them to implement new laws. Our financial sustainability report found that some councils do not feel that the Welsh Government allocates additional funding for all new responsibilities.[21] We heard specific issues about funding for two new responsibilities in particular – funding of the reform of additional learning needs provision, and the removal of profit from children’s social care. Both have been the focus of recent work by Audit Wales (**Exhibit 12**).[22]

21 We also reported this in our September 2020 report ‘Better law making: the implementation challenge’.

22 The Auditor General’s report on children’s social care will be published later in 2026.

Exhibit 12: findings from Audit Wales' study on ALN reform

Financial findings

Our work looking at ALN reform found that councils have faced significant challenges to fund services. It found issues with how costs are measured and managed, but also uncertainty in the restricted grant funding shared by the Welsh Government due to the transition period for reforms ending.

Similarly, Estyn has reported challenges in the restricted grants to support ALN reform having unclear terms, distribution, and being too late to help schools and councils to plan.

Source: Audit Wales

The Welsh Government does not consistently involve councils in estimating the costs of new laws

Requirement to involve stakeholders

109 The Welsh Government makes engaging stakeholders in the development of RIAs a key requirement. Its RIA handbook states, 'engagement is essential for the development of a robust RIA'. This should include those who must deliver the proposed law, such as councils. This can help to make sure laws are realistic and deliverable.

How councils have been involved

110 The Welsh Government has involved stakeholders in the RIA process. When drafting the Homelessness and Social Housing Allocation (Wales) Act, the Welsh Government formed a review panel, which included councils. The panel helped to develop its proposals and estimate the costs and benefits of the new law. It also surveyed councils on costs and demand data to help develop its proposals.

111 However, councils are concerned that the amount that they are involved changes significantly between different draft laws. Some officers believed that councils were not involved at all in some proposals. Some also believed that the Welsh Government misses some opportunities to 'sense check' its estimated costs and benefits of new laws. Welsh Government officials also recognised that councils have had a lack of confidence in the accuracy of estimates due to estimates being wrong previously.

112 The Welsh Government does not always involve councils as a whole in the RIA process. Officials typically develop new laws and their supporting funding with some council officers from the service areas most affected by the proposed laws. The corporate finance teams of councils are not always involved in these discussions. This may mean that they do not capture wider impacts of proposals on councils' financial planning.

113 The Welsh Government has aimed to improve how it involves councils in developing its RIAs. The Strategic Partnership Agreement, signed in June 2025 between the Welsh Government and the WLGA, commits to developing RIAs 'jointly as far as possible'. It also commits to involving relevant council officers early and working together to find the best data to inform RIAs.

The Welsh Government does not review the accuracy of its RIAs after laws are implemented

Reviewing the accuracy of estimates

114 The Welsh Government does not review its estimates after new laws are implemented. It means that the Welsh Government does not know whether it is effective at estimating the costs of new laws.

115 The Welsh Government has taken some steps to review whether the funding it provides is enough. It encourages its officials to review its RIA estimates in post-legislative reviews and has committed to do this in some recent laws. For example, the Homelessness and Social Housing Allocation (Wales) Act includes a duty on Welsh Ministers to report on the effect of its changes, which will include funding of its costs. Ministers must consult stakeholders, such as councils, as part of this review. This will help the Welsh Government to know if its estimates were accurate, as well as inform decisions on future funding to councils.

Learning lessons

116 The Welsh Government does not capture the lessons learnt from each RIA it produces. It does not, for example, capture new methods or issues overcome in estimating the costs or benefits of a proposal.

117 We have previously reported on how the Welsh Government plans and implements new laws. Our September 2020 report, set out that:

- the Welsh Government's RIAs underestimate the costs of implementing new laws;
- councils struggle with capacity and find it hard to implement new laws;
- guidance from the Welsh Government to help councils to implement laws is not always provided or sufficiently clear; and
- different laws and guidance are not sufficiently integrated to help councils to deliver their new responsibilities well.

Support for councils

118 The Welsh Government provides councils with most of their funding, and has a significant influence on the policy and regulatory environment they operate in. This means that it has a key role to play in supporting councils to be financially sustainable.

Constructive relationships between Welsh Government officials and council officers supports councils' financial planning

119 There are constructive relationships between councils' finance officers and Welsh Government officials. These relationships are maintained through contact with individual council officers and through groups such as the Society of Welsh Treasurers and the DSG. This helps to ensure constructive dialogue between councils and the Welsh Government on financial matters, as well as helping the Welsh Government to be aware at an early stage of any emerging financial risks.

120 These relationships proved particularly valuable during the Covid-19 pandemic. Councils are clear that they proactively seek support from Welsh Government officials and that this has helped to inform their financial planning.

121 The DSG works effectively to give councils' views on the technical processes used for funding. The DSG sets its own work programme and focuses on key areas it thinks it needs to address. For example, the Welsh Government responded to concerns raised through the DSG around the reliability of data to inform funding for free school meals. It has proposed to use this data over several years in response. This shows the benefit of the Welsh Government involving councils in discussions around funding to help make sure decisions are based on accurate information.

It is not clear what support would be available from the Welsh Government to prevent or respond to a section 114 report in a council

Section 114 process

122 Councils are generally clear on the process for making a section 114 report but are less clear on the action the Welsh Government would take following this. For example, the UK Government has sometimes made ministerial interventions in English councils when they have made a section 114 report (**Exhibit 13**).[23] The Welsh Government has not set out the options it would consider in different scenarios where a section 114 report was made in a council in Wales.

Exhibit 13: what is a section 114 report?

What is a section 114 report?

Section 114 of the Local Government Finance Act 1988 requires the chief financial officer to make a report to the full council if:

- the council has or is about to make unlawful spending;
- the council has or is about to take an action that would be unlawful;
- the council is about to make an accounting entry that would be unlawful; or
- the officer believes the council will spend more in the financial year than it has the ability to fund the spending.

No section 114 reports have been made in Wales.

Source: Audit Wales

23 Interventions by the UK Government have been made under the Best Value provisions of the Local Government Act 1999 that apply to English councils – this is separate to the section 114 process. These do not apply to councils in Wales.

123 Not being clear on what would happen after a section 114 report is made can have a negative impact on financial decision-making. For example, during our interviews we heard there is a misconception amongst some members and officers that issuing a section 114 report will lead to the Welsh Government providing more funding. This is despite the Welsh Government being clear that a report would not lead to additional funding being given.[24] This is important because it could potentially lead to difficult decisions being delayed or avoided and therefore reducing the longer-term financial sustainability of a council.

124 The Welsh Government has started to set out its expectations of councils and the support it would offer to them in the event of a section 114 report being issued. It has begun to draft a protocol with councils to set clear expectations, principles, and support for financial planning. Finalising this would help to clarify the steps councils must take to receive support from the Welsh Government, and what the support might be. Setting out in advance what support is or is not available from the Welsh Government could help councils to take decisions quickly in the event of significant financial difficulties.

Support available to councils

125 Councils are generally not clear on the potential support available from the Welsh Government in the event of them experiencing significant financial difficulties. Some councils highlighted the existing options available to ease financial pressures, such as the MRP 'holiday' and the ability to borrow to fund transformation projects.[25] But councils were unclear what further support to prevent or respond to a funding crisis would be available.

126 The law does not set out a role for the Welsh Government in relation to a section 114 report. It does not require the Welsh Government to provide support or guidance. This means the decision to make a report is a local process. This means that whilst the Welsh Government may choose to offer support and guidance, it is the responsibility of councils to manage their own finances.

24 For example, Senedd Cymru, Plenary, 16 October 2024

25 An MRP 'holiday' is the ability for councils to not pay the Minimum Revenue Provision (MRP) for a period of time. MRP is a charge for the costs of borrowing and is calculated by methods set by the Welsh Government.

127 The UK Government has chosen to set out the support it provides to English councils. It has created the Exceptional Financial Support (EFS) scheme for councils with unsustainable financial pressures that mean they are unable to set a balanced budget.[26] Permission is given on the condition that councils receive an external review, typically by the Chartered Institute of Public Finance and Accountancy (CIPFA). Councils must show that they have taken all other steps possible before support is offered. This means that English councils are clear on possible next steps to help them with their financial plans. No equivalent exists in Wales.

26 The EFS scheme gives approved councils greater flexibility to balance their budgets using methods not otherwise allowed. This can include borrowing to fund revenue services or increasing Council Tax above the limit placed on councils in England.

Recommendations

128 Some of our recommendations cover similar themes to our report on capital planning by councils in January 2026.

Recommendations to the Welsh Government

R1 To make sure it achieves value for money from the funding it allocates to councils for essential services, the Welsh Government should improve the local government settlement process. In doing so, it should:

1.1 conclude whether the settlement formula is effective in meeting its policy objectives and national well-being goals (**paragraphs 23 to 26, and 44**);

1.2 identify and evaluate alternative distribution methods to the settlement formula to conclude whether it is the most effective method (**paragraphs 23 to 26, and 44**);

1.3 review the indicators used within the settlement formula to make sure that they remain relevant, demonstrate its policy aims, and are easy to update to help with accuracy in the future (**paragraphs 16 to 20**); and

1.4 involve councils and other relevant stakeholders to make sure a range of views are considered (**paragraph 23**).

R2 To improve the value for money of restricted grant funding processes, the Welsh Government should:

2.1 review the need for the existing number of restricted grants to ensure that grants administration is proportionate and provides value for money (**paragraphs 82 to 88**);

2.2 clearly set out criteria for when restricted grants should be transitioned into the local government settlement and establish a process to monitor this (**paragraphs 88 to 94**);

2.3 strengthen the co-ordination and management of restricted grants across different parts of the Welsh Government (**paragraphs 72 to 80, 88, and Exhibit 10**);

2.4 make sure its grant conditions and monitoring are proportional to the value and risks associated with individual grants (**paragraphs 65 to 81**);

2.5 make sure it always evaluates the value for money of restricted grants to ensure that the lessons learnt from the evaluation of grant schemes inform development of future grant schemes (**paragraphs 96 to 99**); and

2.6 make sure that it applies the sustainable development principle when developing restricted grant schemes and sets out how they will contribute to the national well-being goals (**paragraph 101**).

R3 To help councils plan their finances to secure value for money over the longer term the Welsh Government should:

3.1 set out indicative funding totals for the local government settlement and restricted grants over the medium term, and for at least three years (**paragraphs 25 to 44 and 47 to 60**);

3.2 use assumptions and scenario planning to inform its indication of future funding levels for councils (**paragraphs 35 to 44**); and

3.3 put in place an approach to reduce the proportion of funding distributed late in the financial year to councils to help them make more effective use of that funding (**paragraphs 51 to 59**).

R4 To give greater clarity to councils and other stakeholders on the costs of new responsibilities, the Welsh Government should improve how it estimates and communicates the costs of new responsibilities. This should include:

4.1 monitoring if the estimated costs of new laws are accurate following implementation and take action to help measure the actual costs if not. This process should also capture any lessons learned to inform the estimation of costs of new laws in the future (**paragraphs 114 to 117**);

4.2 reviewing the Regulatory Impact Assessment process to make sure it gives details of the actual predicted cash costs of delivering policies (**paragraphs 103 to 107**); and

4.3 clearly communicating the estimated costs and benefits of new responsibilities to councils and other stakeholders. This should involve councils and stakeholders in deciding how and what to communicate (**paragraphs 105 to 107 and 110**).

R5 To help it to act quickly when a council is in significant financial difficulty, the Welsh Government should clarify if and how it might support a council to address risks to its financial sustainability. This should include, but should not be limited to, a situation where a section 114 report has been issued. This should also include clarifying any steps it expects councils to take before asking for support (**paragraphs 122 to 127**).

Appendices

1 About our work

2 Context

3 Key terms in this report

1 About our work

Scope of the audit

We looked at how the Welsh Government gives funding to principal councils. This includes the local government settlement process, restricted and unrestricted grants. We also looked at how the Welsh Government distributes funding and how it supports councils to plan their finances.

We did not look at whether there is sufficient funding available to councils. We also did not look at whether individual councils receive sufficient funding. We did not form a view on whether different service areas receive sufficient funding or emphasis in funding by the Welsh Government.

We did not look specifically at how the Welsh Government funds other public bodies. Our work focused only on the principal councils and no other local government bodies, such as Fire and Rescue or National Park Authorities.

Audit questions and criteria

Questions

Our questions aimed to help us form a view of how the Welsh Government gives funding and support to councils. This was to enable us to make recommendations to help councils and the Welsh Government to improve the VFM they achieve. To do this, we focused on:

- whether the approach taken by the Welsh Government supports councils to plan their finances over the short, medium, and long-term;
- if the approach taken by the Welsh Government is clear and up to date; and
- whether the Welsh Government supports councils at risk of, or experiencing, significant funding challenges.

In our questions, we also looked to consider whether councils had thought about and applied the sustainable development principle in their capital planning.

Criteria

Our criteria were informed by our reporting on the financial sustainability of councils. This includes our national summary report, as well as local reports that can be found on our website. We also drew on our knowledge of the sector and the sustainable development principle. We develop our knowledge of councils and the Welsh Government by completing both performance and financial audits.

Methods

- document reviews – we reviewed grant documents shared with us by councils and the Welsh Government. This included a sample test of seven grants selected to give a range of size and split between revenue and capital spending. We also reviewed other proposed grants and examples shared with us by councils. We also reviewed national reports and guidance issued by national bodies.
- local interviews – we met with the chief financial officer (s151 officer) of each principal council in Wales.
- national interviews – we interviewed people from a number of national organisations. This included:
  - officials from the Welsh Government; and
  - officers of the Welsh Local Government Association (WLGA).
- data analysis – we analysed data published by the Welsh Government and published by StatsWales. This included revenue and capital spending data, which the Welsh Government collects from councils each year. We added to this with analysis of other financial information, such as the statement of accounts published by councils.
- cumulative audit knowledge and experience – we used our knowledge and experience of the sector acquired through our other work to help inform this work. This includes findings from our financial audits of the Welsh Government.

2 Context

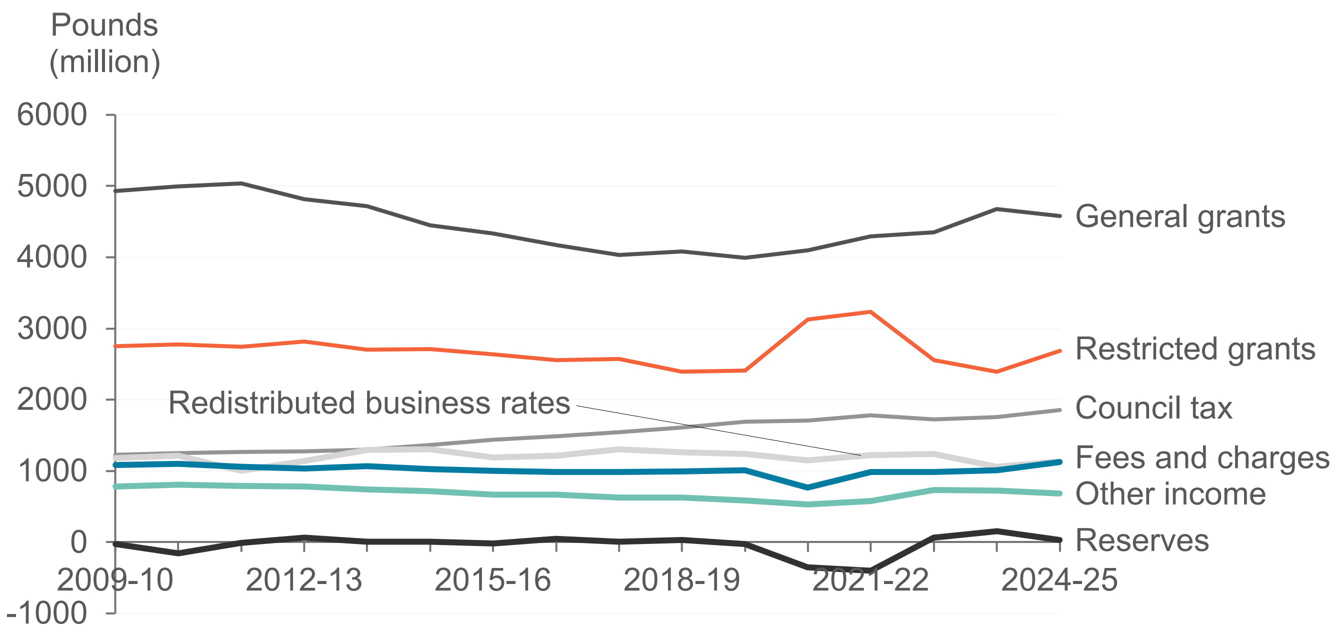
How are councils funded?

Principal councils are funded through six main sources. These are:

- Revenue Support Grant (RSG) – the main unrestricted grant allocated by the Welsh Government each year as part of the local government settlement.
- council tax – the tax charged on homes based on property value. The level of tax is decided locally by councils, who also collect it. The process and rules for setting the tax are set out in the Local Government Finance Act 1992. To set the tax, councils must set a balanced budget. Notional council tax is also included in the local government settlement process.
- restricted grants – other grants allocated by the Welsh or UK Governments to councils for a specific and limited purpose. This can include the funding of a programme or funding to support a policy aim. These vary significantly in their value and topic.
- redistributed business rates – the tax charged to businesses based on the value of property. This is collected by councils but pooled nationally and then allocated through the local government settlement. Councils can offer discounts based on either local or national rules. The process and rules for this process are set out in the Local Government Finance Act 1988.
- fees and charges – payments made by service users to the council. This can include fees for planning applications, parking permits, or school meals.
- reserves – the use of accounting reserves that carry over usable funding from year to year. These can be created for either a specific or a general purpose to balance spending.

In 2025-26, most council spending was financed by RSG (**Exhibit 14**). When combined with restricted grants, this funded over 70% of council spending. This follows the consistent trend that shows the importance of grants to council spending.

Exhibit 14: total Welsh council spending by source, 2009-10 to 2025-26 (in million pounds at December 2025 prices)



Source: Audit Wales analysis of the Welsh Government's internal data

Notes: Due to how the Welsh Government collects this data, gross revenue spending includes precepts and levies collected by councils through Council Tax on behalf of other bodies. It also includes other adjustments, such as the costs of borrowing.

Where the line is below zero, this shows where councils have increased their reserves.

Restricted grants include any grants from the UK and Welsh Governments, the Welsh Government's sponsored bodies, European grants, grants from the National Lottery, and grants from developers. The Welsh Government gives most restricted grants, but data is not available to show the split between sources.

Audit Wales has adjusted the data to account for the impact of inflation. Figures are given at December 2025 prices using data provided by His Majesty's Treasury.

How does funding get allocated between councils?

When the Welsh Government sets its budget, it includes general funding for councils that they can choose how to spend. This is allocated annually through the local government settlement. The settlement includes two components – the Revenue Support Grant (RSG) and redistributed business rates (known as Non-domestic Rates or NDR).

Each council collects NDR and this contributes to a national total – known as the national pool. The purpose of the pool is to redistribute funding between areas that may find it easier to raise higher amounts compared to others. The pool is then redistributed based on shares of the adult population. For example, in 2025-26, the Isle of Anglesey County Council received 2.2% of the NDR Pool (£25.1 million), because it had 56,000 residents over 18 out of the Welsh total of 2.5 million.

The Welsh Government applies a formula to distribute its funding to councils called the Standard Spending Assessment (SSA). The SSA aims to share funding based on need and the factors that can increase the costs of services, such as deprivation and sparsity. The SSA calculates a total amount of funding for each council that includes RSG, NDR, and an estimated Council Tax.

The Welsh Government calculates the Council Tax element using the national average Band D level adjusted for a three-year average increase. This is purely notional and reflects local ability to set the level of Council Tax. There is no limit on Council Tax levels set by the Welsh Government. In 2025-26, this was £1,726. This is then multiplied by the equivalent number of Band D properties in each council area.[27] It does not include any premium on empty or second home properties. For example, this meant a notional Council Tax figure of £54.3 million for the Isle of Anglesey CC based on its 31,455 equivalent Band D homes.

The SSA total is divided into two elements. These are non-current spending, for example the costs of borrowing, and current spending, which is the amount spent on delivering council services. The Welsh Government calculates the total for non-current spending at a national level outside of the formula. For example, borrowing costs are based on the amounts councils have previously borrowed.

27 For example, one Band G property would be equivalent to two Band D properties in the calculation.

Current spending also has some elements that the Welsh Government calculate outside of the formula. This includes the Council Tax Reduction Scheme and the Deprivation Grant. The Welsh Government removes these figures from the total current spending before it applies the formula.

The Welsh Government allocates the remaining funding between service areas based on the budgeted spending of councils. This is to make sure services with the highest spending, like education, receive weighting in the formula. It then uses the actual spending recorded by councils to then distribute funding within services where there are small formulae, known as Indicator Based Assessments (IBAs). For example, within education there are separate IBAs for primary, secondary, and special education.

Each IBA allocates funding between councils based on the indicators of need. This includes population, deprivation, and population dispersion. For example, the special school IBA allocates funding to councils based on school age population (80%), settlement size (10%), children in lone parent households (3.3%), children in out of work families (3.3%), and children in households where the head is in a low occupation classification (3.3%). Most IBAs share funding in this way.

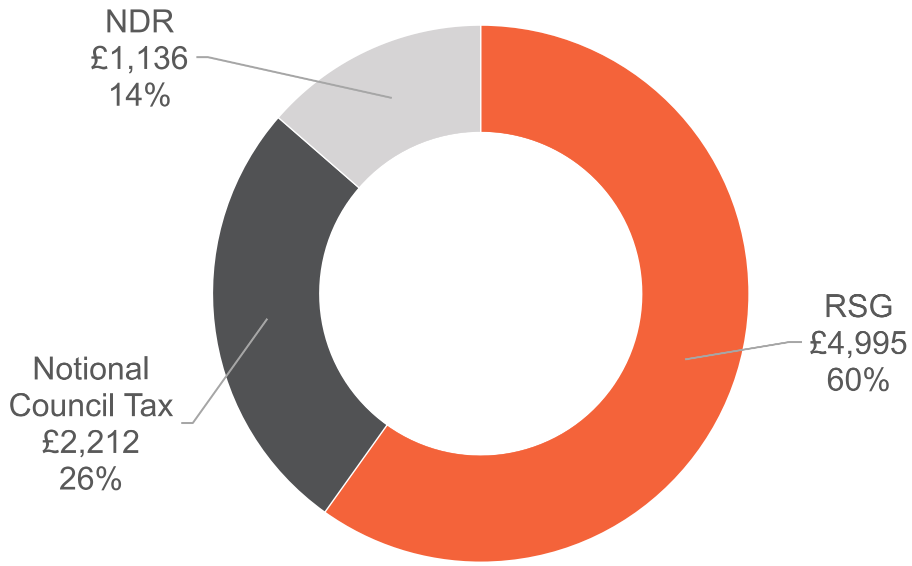
Some IBAs share funding as a proportion of other IBAs. This can be due to a service area being new or for administration. For example, education administration is allocated to councils based on relative allocations of the other education IBAs.

The total funding for each council is calculated by adding together the results of each IBA. The non-current and current spending values calculated separately to the IBAs are also then added back. From this council total, the Welsh Government removes the notional Council Tax figure as councils collect this themselves. This leaves the total of NDR and RSG funding that the Welsh Government allocates to councils.

In some years, the Welsh Government has guaranteed a minimum increase to the funding it gives to councils. This is known as a funding floor. This is added as a top-up to the settlement. In 2025-26, the minimum increase was 3.8%. For example, Isle of Anglesey CC received a top up of £0.3 million in addition to the £110.5 million total calculated by the formula.

Exhibit 15 shows how the cost of delivering council services in 2025-26 (£8.3 billion), calculated by the SSA, was funded. This meant that the Welsh Government provided £6.1 billion to councils. Councils were able to add to this funding by setting their own levels of Council Tax.

Exhibit 15: estimated funding of the costs of delivering council services in the 2025-26 settlement by the Welsh Government



Source: Audit Wales analysis of data from the Welsh Government

Notes: the Council Tax figure included was nominal and does not reflect the actual amount collected.

The settlement does not include restricted grants, which are allocated in addition to RSG and NDR.

Exhibit 16 shows that councils have had a significant amount of consistency in the proportional share of the total amount of RSG available. This is important as it provides a realistic share to base their estimates from to help them scenario plan over the medium-term (**paragraph 43**).

Exhibit 16: the average percentage share of RSG received by Welsh councils 2011-12 to 2025-26 and 2026-27

Council	Average 2011-12 to 2025-26	2026-27
Blaenau Gwent	3%	3%
Bridgend	5%	5%
Caerphilly	6%	6%
Cardiff	10%	11%
Carmarthenshire	6%	6%
Ceredigion	2%	2%
Conwy	4%	4%
Denbighshire	3%	4%
Flintshire	5%	4%
Gwynedd	4%	4%
Isle of Anglesey	2%	2%
Merthyr Tydfil	2%	2%
Monmouthshire	2%	2%
Neath Port Talbot	5%	5%
Newport	5%	5%

Council	Average 2011-12 to 2025-26	2026-27
Pembrokeshire	4%	4%
Powys	4%	4%
Rhondda Cynon Taf	9%	8%
Swansea	8%	8%
Torfaen	4%	4%
Vale of Glamorgan	3%	3%
Wrexham	4%	4%

Source: Audit Wales analysis of data from the Welsh Government

Note: Percentages are rounded to the nearest round figure.

3 Key terms in this report

Term	Description
Capital spending	The spending by councils on purchasing, building, or developing assets to deliver services. It does not include the ongoing costs of running the assets.
Chief financial officer	The most senior financial officer in councils. They are responsible under Section 151 of the Local Government Act 1972 to make sure that councils have 'arrangements for the proper administration of their financial affairs'. For this reason, they are commonly referred to as Section 151 officers.
Distribution Sub-Group (DSG)	The group of some chief financial officers, the WLGA, and Welsh Government officials that meets to discuss how the Welsh Government allocates funding.
Finance Sub-Group (FSG)	The group chaired by the local government minister and made up of some council leaders, the WLGA, other Welsh Ministers (when relevant), and Welsh Government officials that meets to discuss how the Welsh Government funds councils.
Local government settlement	The annual announcement by the Welsh Government that sets out how much funding it will provide to councils.
Official statistics	Statistics produced by bodies named in the Statistics and Registration Service Act 2007 that meet the Code of Practice for Statistics. This includes data from the ONS, UK, and Welsh Governments.

Term	Description
Restricted grant	These are grants that must be used for the purpose set out in an offer letter by the Welsh Government. Councils typically must meet conditions to receive this funding. They are also referred to as hypothecated grants.
Revenue spending	The spending by councils on the delivery of services and running itself on a day-to-day basis. It does not include the purchase of assets used to deliver services.
Standard Spending Assessment (SSA)	The method that the Welsh Government uses to share its funding to councils in relation to how much it costs to deliver council services.
Sustainable development principle	The sustainable development principle is defined as acting in a manner 'which seeks to make sure that the needs of the present are met without compromising the ability of future generations to meet their own needs.'
Unrestricted grants	These are grants that councils have greater flexibility to use how they want to, whilst still being restricted to either revenue or capital spending. They are also referred to as unhypothecated grants.
Welsh Local Government Association (WLGA)	The body that represents local government bodies – the 22 principal councils, four police services, three national park authorities, and three fire and rescue authorities in Wales.

About us

The Auditor General for Wales is independent of the Welsh Government and the Senedd. The Auditor General's role is to examine and report on the accounts of the Welsh Government, the NHS in Wales and other related public bodies, together with those of councils and other local government bodies. The Auditor General also reports on these organisations' use of resources and suggests ways they can improve.

The Auditor General carries out his work with the help of staff and other resources from the Wales Audit Office, which is a body set up to support, advise and monitor the Auditor General's work.

Audit Wales is the umbrella term used for both the Auditor General for Wales and the Wales Audit Office. These are separate legal entities with the distinct roles outlined above. Audit Wales itself is not a legal entity.

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Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg.