



# **Welsh Government Response to Local Government and Housing Committee report: Welsh Government Draft Budget 2025-26**

Set out below are the Welsh Government responses to each of the Committee's recommendations in the February 2025 report: Welsh Government Draft Budget 2025-26.

## Contents

<b>1. Recommendations and conclusions.....</b>	<b>3</b>
Recommendation 1. Strategic priorities and local government settlement.....	3
Recommendation 2. Earmarking resources for preventative, collaborative and transformative work.....	3
Recommendation 3. Corporate Joint Committees.....	4
Recommendation 4. Floor funding in the final budget.....	5
Conclusion 1. Full review of local government funding formula.....	5
Recommendation 5. Retained rates.....	6
Conclusion 2. Regularly reviewing and maximising reserves.....	6
Recommendation 6. Increased employers' NICs for public sector staff.....	6
Recommendation 7. Impact of increasing employers' NICs on third sector organisations.....	7
Recommendation 8. Commissioning updated analysis of cost benefits of investing in housing and regeneration.....	7
Conclusion 3. Use of Financial Transactions Capital (FTC) funding.....	8
Conclusion 4. Discussions with UK Treasury.....	8
Conclusion 5. BEL Funding mechanism and transparency.....	9
Recommendation 9. Local authorities impacted by asylum.....	9
Recommendation 10. UK Government and Local Housing Allowance.....	9
Recommendation 11. Social housing starts and TACP.....	10
Conclusion 6. Expenditure on building new affordable housing.....	10
Conclusion 7. Criteria to determine the quality accommodation.....	10
Conclusion 8. Leasing Scheme Wales.....	11
Recommendation 12. Empty Homes Grant expenditure.....	11
The Welsh Government should provide details about how much Empty Homes Grant was spent in 2023-24 and a projected spend for 2024-25.....	11
Conclusion 10. Empty properties enforcement.....	12
Conclusion 11. Help to Buy – Wales Scheme threshold.....	12
Conclusion 12. Remediation work and expenditure on high-rise residential buildings.....	13
Conclusion 13. Net Zero objectives on decarbonisation of homes.....	13
Conclusion 14. Warm Homes Programme funding.....	14
Recommendation 32. Local Authorities protocol.....	Error! Bookmark not defined.

# 1. Recommendations and conclusions

## **Recommendation 1. Strategic priorities and local government settlement**

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

### **Accept in principle**

The Welsh Government is working with the WLGA and local authority leaders to develop a Strategic Partnership Agreement which will drive our collective work and set out how we focus our shared resources on the delivery of an agreed set of priorities.

Local Government is crucial to the delivery of the First Minister's priorities, and the Strategic Partnership Agreement will involve complex and wide-ranging negotiation between the Welsh Government and local authorities on what is expected and achievable on both sides. It will help define roles and responsibilities at national, regional and local levels.

The agreement will include a set of principles like working together as trusted partners; early engagement on budget discussions; regular engagement between Ministers and Leaders; and involving local government in policy development, not just at delivery stage.

The Revenue Support Grant provides flexibility for local authorities to deliver on national and local priorities, prioritising funding to deliver services to meet the needs of local communities. Levels of hypothecated funding under the local government settlement will be kept under review with further dehypothecation or consolidation of grants where possible.

The Strategic Partnership Agreement will support the two spheres of democratic government to work together to deliver better outcomes on the issues that matter most to the people of Wales.

## **Recommendation 2. Earmarking resources for preventative, collaborative and transformative work**

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

### **Accept in principle**

The Welsh Government agrees with the need to invest in preventative measures including – but not limited to – social care. However, we remain of the view that decisions relating to the prioritising of funding should be made locally to reflect local priorities and circumstances.

Hypothecating the Revenue Support Grant for prevention sets a precedent for making funding decisions on behalf of democratic institutions. We believe they should make those decisions, but that we have a role in helping them to make choices based on evidence. I recognise that decisions around prioritising preventative or short-term actions are hard when finances are constrained, but that is the role of local leaders.

Prevention is one of the five ways of working that public bodies must adopt to follow the sustainable development duty under the Well-being of Future Generations Act, and we expect this to be part of those local decisions.

Public Services Boards and Regional Partnership Boards support partnership working through joint action plans (Local Well-being Plans and Area Plans) to deliver early intervention and preventative services. Public Services Boards are required to use existing funding collaboratively to improve local well-being.

We firmly agree with the need to share learning and good practice. The WLGA is a crucial trusted partner in securing this. I have agreed with them that future Welsh Government funding should be aligned to support strategic interventions and improvements, including supporting digital transformation and effective use of data.

Our position is that earmarking specific support and sharing of knowledge through the WLGA on transformation, collaboration and prevention is more impactful than taking away local funding decisions.

### **Recommendation 3. Corporate Joint Committees**

The Welsh Government should assess whether Corporate Joint Committees are fulfilling their statutory duties and provide local authorities with strategic direction to improve regional collaboration and sharing of good practice.

#### **Accept in principle**

Ensuring the effectiveness of Corporate Joint Committees (CJCs) is a priority. The Welsh Government is working with local government to develop a prospectus setting out our shared ambitions for CJCs. This will include identifying what additional decision making could be devolved to CJCs to maximise their ability to deliver economic growth.

In collaboration with local government, the Welsh Government put in place the statutory framework for CJCs. The CJCs have statutory requirements to produce a Regional Transport Plan and a Strategic Development Plan. All four have made progress towards meeting these requirements. It is the role of Audit Wales and regulators to assess the extent of compliance. The Welsh Government welcomed the Audit Wales report on CJCs published in November 2023 which recognised their progress, whilst also setting out ongoing challenges. This report has been discussed with CJCs and will inform the prospectus.

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## **Recommendation 4. Floor funding in the final budget**

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

### **Accept**

The fundamental principle of the Local Government Settlement formula is that funding is distributed according to relative need. Each year, some authorities experience smaller increases than others due to relative changes in for example population and pupil numbers. A funding floor is appropriate when the change in allocation for an individual authority is considered to be unmanageable. Given the range of funding increases, the government said it was open to considering providing additional floor funding at final budget. The budget agreement between the Welsh Government and Jane Dodds MS, leader of the Welsh Liberal Democrats, included an additional £8.24m to secure a funding floor in the settlement at 3.8% in the final settlement published on 20 February.

Adjusting for transfers, the core revenue funding for local government in 2025-26 will increase by 4.5% on a like-for-like basis compared to 2024-25. No authority will receive less than an 3.8% increase meaning that every authority will see a larger increase than in 2024-2025. In 2025-26, local authorities will receive £6.14bn from the Welsh Government Revenue Support Grant (RSG) and non-domestic rates (NDR) to deliver key services.

## **Conclusion 1. Full review of local government funding formula**

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

### **Accept in principle**

The Government is committed to continuing to use and maintain a fair and transparent funding formula for the Local Government Settlement which is agreed with local government. The work-programme of the officer level Distribution sub group, overseen by the Finance sub Group includes specific reviews of the largest elements of the formula (education and social care IBAs) updating the deprivation and sparsity data and how this is used in the formula. Relevant statistical techniques such as regression and multilevel modelling were used to determine the indicators with the biggest relationship to cost when the formula was established. This is being reviewed, using the same techniques, to determine if these are still the strongest relationships.

The fundamental principle of the formula is that this funding is distributed according to relative need. The largest drivers of service expenditure are population levels, deprivation levels and sparsity and over three quarters of the funding is distributed through the local government settlement funding formula relies on data which is updated annually. Age specific demographic data is used in the formula in relation to relevant service blocks. These also take into account measures of deprivation, as health inequalities may mean increased need for social care at an earlier age, and population sparsity. The element of the formula used for adult social care, for example, has a number of different factors which reflect the need for care – pensioners with limiting long term illnesses, pensioners living alone, population over 85, pension credit claimants aged over 65 and dispersion

thresholds. The formula takes account of deprivation, age, health, and sparsity as all these things impact on costs.

### **Recommendation 5. Retained rates.**

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

#### **Accept**

The Welsh Government has developed an overarching non-domestic rates retention policy for Wales. This policy has been designed to find a balance between providing incentives for economic growth in designated areas, whilst protecting the pooling arrangement which is a fundamental feature of the non-domestic rates system and supports the funding of local government across Wales.

The rates retention programme will continue to be very closely monitored and regularly reviewed as the various economic development arrangements progress. It is crucial that the retained rates revenue can be clearly identified as additional revenue that would not have materialised without the actions of the economic development agreement, therefore not negatively impacting the established non-domestic rates pooling arrangement across Wales.

### **Conclusion 2. Regularly reviewing and maximising reserves**

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

#### **Accept**

The level of local authority reserves are matters for local elected members and will reflect longer terms plans as well as managing shorter term pressures. Reserves positions are reported to members regularly including through the annual budget process.

Local Authorities have reported they are drawing on reserves during this current financial year to respond to the pressures of inflation. Many are also planning to use reserves in the next financial year as part of their medium-term financial planning. It is good practice to review earmarked reserves on a regular basis to release or repurpose any that are no longer required and we will continue to encourage authorities to do so through the Society of Welsh Treasurers (SWT) and other groups as appropriate.

### **Recommendation 6. Increased employers' NICs for public sector staff**

The Welsh Government should urgently provide a position statement on the additional funding to reflect the impact of increased employers' NICs for public sector staff, to support the local government budget setting process. This should include a minimum

**assumption of funding each council could expect and clarification on when an announcement about the amount of funding will be made.**

**Accept**

The UK Government has confirmed that it will provide funding to public sector employers to cover the increased costs of employers' NICs meeting the official ONS definition of a public sector employer. It has also confirmed that the Welsh Government will be provided with a share of that funding to support the devolved public sector, but we have not yet had confirmation of how much additional funding Wales will receive.

We are working with the UK Government to clarify the details and the level of support that will be provided.

The Cabinet Secretary for Finance and Welsh Language has confirmed that as soon as we know the amount of money that will come to Wales to help with public sector employer NICs, public sector organisations will be informed and the funding passed to them immediately.

### **Recommendation 7. Impact of increasing employers' NICs on third sector organisations**

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

**Accept**

National Insurance is not devolved. The UK Government's position is outlined in the response to recommendation 6.

We recognise third sector organisations and businesses are concerned about increases to employers' NICs. However, it is difficult to estimate the impact on third sector organisations due to changes in National Insurance rates, Minimum Wage and the fact that NICs costs will be fully or partially offset for many organisations through increased Employer Allowance.

### **Recommendation 8. Commissioning updated analysis of cost benefits of investing in housing and regeneration**

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

**Accept**

This recommendation aligns with commitments already made in response to the Audit Wales recommendations on affordable housing and the Local Government and Housing Committee's inquiry into Social Housing.

As the Committee highlight, some of this work has been undertaken previously, by Cardiff Metropolitan University, but also Public Health Wales and the Bevan Foundation have undertaken work in this area. However, we agree that an updated analysis is required. Officials will seek to commission a review of existing work and an updated analysis of this.

Recognising the importance of demonstrating the impact of our investments in Regeneration projects, an evaluation of the Transforming Towns Programme has already been commissioned, which provides our investment mechanism for supporting regeneration projects in Wales.

### **Conclusion 3. Use of Financial Transactions Capital (FTC) funding**

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

#### **Accept**

We continue to maximise every opportunity to leverage in additional support for homes that meet housing need. Our current programmes supported by FTC make significant contributions to both housing developers as well as the people of Wales.

I will write to the Committee, as requested, setting out how FTC has been used to fund housing projects in the last five years.

### **Conclusion 4. Discussions with UK Treasury**

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

#### **Accept**

The UK Government has also confirmed that the Welsh Government will be provided with our share of that funding to support the costs to the devolved public sector, but we have not yet had confirmation of how much additional funding Wales will receive.

We are working with HM Treasury to clarify the details and the level of support that will be provided.

As the Cabinet Secretary for Finance and Welsh Language outlined during the Draft Budget debate on 4 February, as soon as we know how much funding will come to Wales to support public sector employers, he will be letting those organisations know and will be passing the funding to them immediately.

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## **Conclusion 5. BEL Funding mechanism and transparency**

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

### **Decline**

The main purpose of combining the Housing Support Grant BEL and the Homelessness Prevention BEL into a single BEL within the 2024-25 budget was to provide flexibility across both budgets to support future work to shift focus from mitigation to prevention. This includes ongoing work to move away from grant funding individual projects and instead route funding through Local Authority partners via the Housing Support Grant, to better support a single strategic approach to tackling homelessness in each local authority area.

We therefore prioritised the additional £21m investment in the Homelessness Support and Prevention BEL within the 2025-26 Draft Budget to the Housing Support Grant, as this is the main preventative grant. Despite the challenging financial context, we were also able to protect funding for a range of other homelessness prevention projects and services that are funded via the Homelessness Support and Prevention BEL.

## **Recommendation 9. Local authorities impacted by asylum**

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

### **Accept**

Welsh Government officials have been working with Home Office counterparts throughout January to ensure funding is forthcoming to help local authorities address the pressures caused by an increase in the rate of asylum decision-making. We understand the Home Office intend to make a one-off payment to eligible local authorities in March. This 'Asylum Recognition Payment' has been decided by the Home Office based upon a UK-wide review of the number of asylum decisions estimated to be made and the number of homeless households recorded annually in 2023-24.

## **Recommendation 10. UK Government and Local Housing Allowance**

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

Response: Accept

The Welsh Government continues to call for the restoration of Local Housing Allowance (LHA) rates to the 50th percentile (rather than the 30th percentile) and that rates are

uplifted annually. The Cabinet Secretary for Housing & Local Government has written to the UK Government on this issue, outlining the need for revised rental data to be used. We also continue to outline concerns about housing benefit subsidy rates paid for homeless households in temporary accommodation and the resulting financial shortfall, and corporate risks, faced by local authorities in Wales because of these rules.

## **Recommendation 11. Social housing starts and TACP**

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

### **Decline**

The additional £81m investment into social housing for 2025-26 will be used to start as many schemes as possible across both the Social Housing Grant and the Transitional Accommodation Capital Programme. This brings a total investment of £411m in 2025-26. My Written Statement on 6 February confirmed to the sector that TACP will be opening early in the new financial year with an indicative allocation of £100m. This is the same annual budget as TACP had in 24/25.

Data on social housing starts in Wales is not collected and therefore it is not possible to determine whether starts in 2025-26 will reduce. Data on social housing starts is only available through the New Housing Building in Wales statistical publication. Whilst starts are collected through this release, there are significant statistical concerns about the tenure breakdown. This is a UK-wide issue with the publication.

## **Conclusion 6. Expenditure on building new affordable housing**

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

### **Accept**

The Welsh Government ensures best value for its expenditure on building new affordable housing by balancing cost, quality, sustainability, wider impact and overall value for money.

I will write to the Committee, as requested, setting out how we ensure long-term viability, alongside maximising the social and economic impacts of affordable housing.

## **Conclusion 7. Criteria to determine the quality accommodation**

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

### **Accept**

Grant funded accommodation delivered through both the Transitional Accommodation Capital programme (TACP) and Social Housing Grant (SHG) programme can be used as permanent or temporary. All accommodation is required to meet Welsh housing standards if not immediately, over time.

I will write to the Committee, as requested, setting out how the standards apply to homes funded through our capital programmes.

The majority of homes funded by TACP have been let on a permanent basis. Homes that are temporary include shared accommodation, supported self-contained accommodation and all meanwhile accommodation.

### **Conclusion 8. Leasing Scheme Wales**

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

#### **Accept**

We are continuing to engage with the 3 remaining local authorities and anticipate that they will join the scheme this year. We will provide a further update to the Committee after the Easter recess. We will also be continuing with communication and marketing efforts to raise awareness of Leasing Scheme Wales.

### **Recommendation 12. Empty Homes Grant expenditure**

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

#### **Accept**

£1.7m was spent in 2023-24. The final 2024-25 position is to be determined and won't be known until early next financial year, however, latest forecast updates indicate projected spend of £5-6m for the period.

This investment has enabled 184 homes to be brought back into use across Wales to date, with work to bring a number of other homes well in progress and due for completion this year.

A review of the scheme is currently being undertaken which will explore the impact of the scheme as well as the processes and eligibility, including recommendations for potential changes to the scheme to maximise impact. This will include exploring potential options to assist local authorities to enable them to administer grants at an increased pace and scale within their areas. Further work will also be undertaken with the

five non-participating local authorities to explore barriers preventing them from participating in the scheme so that the grant is available in all parts of Wales.

## **Conclusion 10. Empty properties enforcement**

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

Accept

Reducing the number of empty properties is a priority for this Government and there are a number of interventions in place to support this. The provision of support and guidance to local authorities is an important part of this offer and as such Welsh Government intends to extend the support available to local authorities beyond the term of the current contract. The exact nature of this support is part of wider considerations around what additional support is needed for local authorities.

Additionally, an Empty Homes Handbook is being developed this year, which will be an informative guide to assist Local Authorities and Landlords in bringing Empty Homes back into beneficial use.

The handbook will offer detailed, practical guidance on the steps necessary to identify and secure empty homes through legal, financial, and persuasive means.

The handbook will help with learning, provide training and resource material enabling stakeholders to tackle the issues experienced when bringing empty homes back into use. We aim for the Handbook to be completed by the autumn.

## **Conclusion 11. Help to Buy - Wales Scheme threshold**

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

Accept

The Help to Buy - Wales price cap of £300,000 allows for fluctuations in the market and ensures that people in all areas of Wales have the opportunity to access the scheme. The scheme is not restricted to first time buyers so that all people who would like to own their own home but cannot afford to do so can access the scheme.

Help to Buy - Wales will be extended for 18 months from 1 April 2025. During this period, officials will work with stakeholders to fully consider the findings of the [Homebuyers Needs Research and the Place of Help to Buy Wales](#) report (July 2024) and assess if any changes to the scheme should be recommended. The areas under consideration will

include the appropriateness of the £300,000 price cap, if the scheme should be restricted to first time buyers, if the scheme should continue or whether there are alternative ways to support people to purchase their own home. When considering any changes to the scheme, working with stakeholders, it will be important to assess all options to ensure that any changes implements are cohesive and match the aims of the scheme.

## **Conclusion 12. Remediation work and expenditure on high-rise residential buildings**

We will continue to raise the pressing need for the pace of remediation work on high-rise residential buildings to increase. We ask the 106 Local Government and Housing Committee, 8 January 2025, paper 1 107 Local Government and Housing Committee, 15 January 2025, RoP paragraph 140 Welsh Government Draft Budget 2025-26 45 Cabinet Secretary to explain the reasons for the capital and revenue underspends in 2023-24 and what proportion of the capital and revenue budgets she expects to be spent in 2024-25. We also request an explanation as to whether the 2023-24 underspends were re-profiled, and if so, how.

### **Accept**

Building safety remediation continues to be a key priority for the Welsh Government. There are 433 buildings within our Building Safety Remediation Programme. 43% of buildings are either complete or works have started and 47% are in the planning stages. The remaining 10% either do not require works or the remediation needs are yet to be identified.

Remediation work has progressed at the fastest pace possible. Budgetary issues have had no negative impact on delivery. These projects are complex and are subject to many external factors impacting speed of progress.

We have an increasingly detailed understanding of the work to be undertaken across the programme and the profile of spend needed over the coming years.

We are in the advanced stages of preliminary investigations and surveys for Orphan and Smaller developer buildings. Remediation of these buildings will require the largest proportion of capital budget allocation. Applications for funding for many of these buildings are expected during 2025-26.

The 2024-25 Building Safety capital budget of £127.67m has been reprofiled to £60m this year. The reprofiled budget will be directed to support the delivery of more homes. Helping maximise delivery against our core objective of eliminating homelessness through the availability of more homes.

## **Conclusion 13. Net Zero objectives on decarbonisation of homes**

We do not believe that the Welsh Government will be able to meet its own Net Zero objectives on decarbonisation of homes in Wales given that it is yet to publish a route

map and an action plan. The Welsh Government should provide an update on when this will be published.

### Decline

The Heat Strategy for Wales, published in July 2024, sets out our policy to decarbonise heat across the economy, including in the residential sector. We are finalising the routemap and action plan for the residential sector and aim to publish it during the spring. Our approach builds on the actions identified in the strategy and has taken account of a range of evidence, including the advice of the Decarbonisation Implementation Group, Senedd Committees and the Climate Change Committee.

In the meantime, our delivery has not been hampered and we are making good progress against the short term actions identified in the Heat Strategy.

## **Conclusion 14. Warm Homes Programme funding**

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

### Accept

Revenue: £2.731m

This covers operational costs for the advice service, delivered by EST; the installation service, delivered by British Gas; and the quality assurance function, delivered by Pennington Choices.

This budget line also covers programme funding for 5 members of staff to manage the new Nest scheme, close the previous iteration and carry out priority projects including those that link with wider housing decarbonisation.

The funding also provides 25% of the costs of five Knowledge and Analytical Services staff to provide the evidence base for delivery of the Warm Homes Nest scheme and Fuel Poverty policy.

Revenue: £1m

This funds wider fuel poverty activity to:

- support Local Authorities to extend the reach of support for fuel poor households by leveraging UK ECO 4 Flex funding;
- developing interim targets to underpin our Fuel Poverty plan and to contribute to the overall housing decarbonisation pathway;
- revise fuel poverty estimates to develop a better understanding of the current situation;
- support in scoping fuel poverty content of a future Housing Conditions Survey; and
- develop an evaluation framework for Warm Homes Nest to ensure it delivers against our wider benefits, and to also consider the impact of other fuel poverty schemes operational in Wales.

Capital: £37.5m

This covers the delivery of energy measures in fuel poor homes as part of the new Warm Homes Nest scheme. The new scheme will deliver deeper retrofit to homes with the aim of addressing climate change alongside fuel poverty. The PAS2035 industry standard will be followed in the scheme delivery. Consequently, the financial spend per property is anticipated to be significantly higher than in previous iterations of the scheme.

While it is not possible to accurately forecast demand in 2025-26, it is reasonable to assume that a scaling of the capital investment will result in a similar percentage increase in properties supported. A proportion of the funding will also be used to rectify poor workmanship in legacy schemes in Bryn Carno, Caerphilly and Caerau, Bridgend; and to insulate British Iron and Steel Federation (BISF) homes, in Cardiff, which are extremely poorly insulated due to the construction methods used.

It is probable that, based on a recent survey commissioned by Welsh Government, similar support will be required in Arfon to remediate faulty EWI under a legacy scheme.