

Introduce inflation cap to all Local Authority council tax increases in Wales

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Petition title: Introduce inflation cap to all Local Authority council tax increases in Wales

Text of petition: Local Authorities routinely apply above inflation increases to council tax rates whilst reducing services, often to fill shortfalls in Welsh Government settlements, which is unfair on working families. This puts unsustainable pressure on household budgets, increasing child poverty (Programme for Government priority).

Limiting increases to inflation would alleviate unsustainable pressure on household budgets whilst allowing fair inflation linked increases to local authority council tax revenues

1. Background

The majority of local government funding comes via Aggregated External Finance (AEF), which is comprised of the Welsh Government's Revenue Support Grant (RSG) and redistributed Non-Domestic Rates (NDR). The Final Local Government

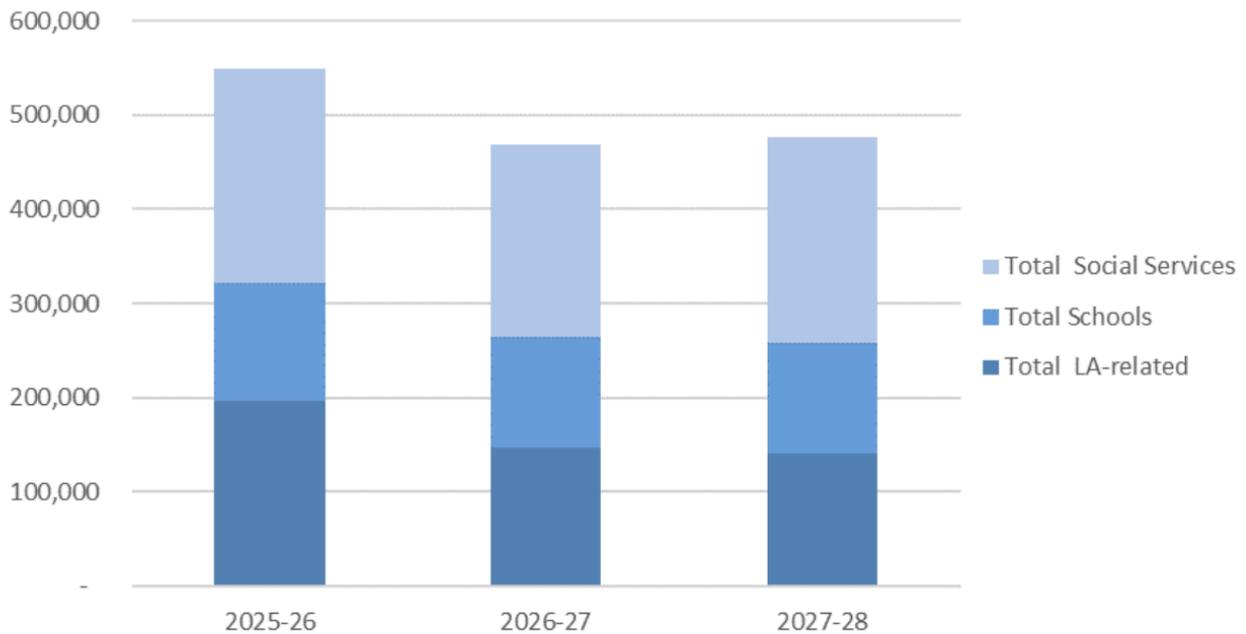


Settlement 2025-26 allocated £6.14 billion in core revenue funding and non-domestic rates (business rates) to the 22 local authorities in Wales. The Welsh Government also allocated £1.37 billion in specific grant revenue funding, and over £1 billion in capital.

Local authorities also raise a significant amount of funding themselves to support the delivery of local services. The most significant element of this is council tax, but there are also a number of other income streams for local authorities, such as discretionary charges for leisure services, parking and trade waste for example.

The Welsh Local Government Association (WLGA), in its written evidence on the Welsh Government’s Draft Budget 2025-26, estimated funding pressures in excess of £550 million for Welsh local authorities for 2025-26. The WLGA illustrated in its evidence the budget pressures, by type, faced by local authorities over the three years to 2027-28:

Budget pressures by type, 2025-26 to 2027-28, £000



Source: SWT Survey 2024

2. Average council tax increases

According to data on council tax levels for 2025-26, the total budget requirement for local authorities for the 2025-26 financial year is £9.4 billion, of which £2.8 billion (30%) is income from council tax.

Council Tax is made up of two core elements, the amount collected by the local authority to run its services, and the amount collected for the police element. Some areas will also collect a precept on behalf of a community and town council.

Average band D council tax in Wales for 2025-26 is £2,170. This includes £1,747 for county councils, £374 for police and £50 for community councils.

For the local authority element of council tax, band D increased by an average of £119 (7.1%) over the previous year. In 2024-25, the average increase was £122 (7.8%). Police increases averaged 7.5% (£26) for 2025-26. The last three financial years have seen some of the highest combined increases in average band D rates for several years.

In a blog post on *Thinking Wales – Meddwl Cymru*, Guto Ifan of the Wales Governance Centre notes that Council Tax has been utilised in Wales to offset austerity and plug gaps in police funding. However, he also states that Council Tax “continues to rise well above inflation” and that Wales is an outlier in the UK:

Since devolution in 1999, Welsh council tax bills have effectively tripled in nominal terms. Wales has averaged annual increases of 5%, compared with 4% in England and just 2% in Scotland.

3. Inflation measures

The rate of inflation is the change in prices for goods and services over time. Measures of inflation and prices include consumer price inflation, producer price inflation and the House Price Index.

The three key inflationary measures in the UK are the **Consumer Prices Index (CPI)**, **Consumer Prices Index with Housing (CPIH)** and the **Retail Prices Index (RPI)**.

There are key differences to them all:

- **CPI:** The UK government's main measure of inflation used to adjust benefits and the state pension. It measures the prices of goods and services purchased by households, reflecting the cost of living for consumers.
- **CPIH:** Is the same as CPI, but also includes the costs associated with owning or maintaining a home, such as mortgage interest rates and council tax.
- **RPI:** An older measure, still used for some contracts like rail fares, student loans, and index-linked gilts. It reflects the average change in the price of

goods and services. It also includes owner occupier housing costs. However, it no longer meets the required standard for designation as an accredited official statistic.

According to the Office of National Statistics (ONS) CPI rose by 2.6% in the 12 months to March 2025, while CPIH rose by 3.4% in the same period. The annual RPI inflation rate was 3.2% in March 2025.

4. Council tax limits and the legislative framework

The Welsh Ministers currently have powers to limit (cap) excessive increases in the budget requirement of local authorities in Wales. However, the Cabinet Secretary for Finance and Welsh Language, Mark Drakeford MS noted in a response to a similar petition in February 2025 that “the Welsh Government has respected the autonomy of local government and has not sought to cap or limit council tax in Wales since devolution”.

The Cabinet Secretary’s response at the time goes on to state that the:

Welsh Government channels as much of the available funding as possible into the unhypothecated Local Government Settlement so that local authorities have greater flexibility in allocating funding according to local priorities.

4.1. Legislative framework to limit excessive increases

The relevant legislation is the Local Government Finance Act 1992 (“the LGFA 1992”).

Section 52B of the LGFA 1992 gives Welsh Ministers the power to take action against a local authority if they consider that the budget requirement set out by the local authority for the upcoming year is ‘excessive’.

A “budget requirement” is the amount equal to how much the local authority’s expected spending (i.e. expenditure incurred during the year in performing its functions, grant monies that will have to be repaid to Welsh Ministers, allocation of funds to financial reserves and contingencies) exceeds its expected income (i.e. monies which the authority expects to receive that year, subject to certain exceptions).

Section 52B provides that Welsh Ministers must produce a set of principles that will be used to determine whether the budget requirement is excessive. It also provides that these principles must (as a minimum) contain a comparison of the budget requirement for the year under consideration with that of an earlier year.

Section 52C provides that the Welsh Ministers may publish a report which sets a “notional amount” for a local authority’s budget requirement, to be used as the basis of any comparison between the year under consideration and any previous year. Notional amounts may be set by the Welsh Ministers in certain circumstances such as where there has been a change in function or boundary – thereby allowing a valid comparison can be made with the budget requirement for the year under consideration. It may also be used to set a notional amount where there was no budget requirement set for an earlier year.

Following determination using the principles required by section 52B, if the Welsh Ministers are of the opinion that the amount calculated by an authority as its budget requirement for the year is excessive, section 52D enables the Welsh Ministers to “designate” or “nominate” the local authority in question.

4.2. Designated Local Authorities

Section 52E provides that if a local authority is *designated*, the Welsh Ministers must notify the authority of the amount which they propose should be the maximum amount calculated by the local authority as its budget requirement for the year, and set out the maximum amount which the Welsh Ministers propose the authority could calculate as its budget requirement for the year without the amount calculated being excessive.

The local authority can then either:

- accept the designated maximum amount provided by the Welsh Ministers; or
- under section 52F, to challenge the decision of the Welsh Ministers.

If an unsuccessful challenge to the maximum amount is made by the local authority, the Welsh Ministers are able to issue an order to the local authority to ensure that the authority complies.

4.3. Nominated Local Authorities

Section 52L provides that if a local authority is *nominated*, the Welsh Ministers must notify the authority of the amount which they would have proposed as the target amount of budget requirement for the year under consideration if they had *designated* the authority.

After a local authority has been nominated, the Welsh Ministers can decide whether to:

- *designate* the authority; or
- determine an amount that they propose should be the notional amount calculated by the authority as its budget requirement for the year.

If the local authority receives notification from the Welsh Ministers of a proposed amount, the authority has 21 days to either:

- accept the amount proposed by the Welsh Ministers; or
- challenge the proposed amount and request that the Welsh Ministers reconsider their determination.

If the amount proposed is challenged by the local authority and the reasons given for the challenge are agreed with, the Welsh Ministers may reconsider their decision.

4.4. Interpretation of the legislation

While the provisions in Chapter IVA of the LGFA 1992 do not specifically mention council tax, the title of the chapter which they fall under is called “Limitation of Council Tax and Precepts”. A House of Commons Briefing Paper on Council tax capping published in 2004 (specifically Chapter III) provides some background as to why this section of the legislation provides Ministers with the power to cap council tax.

Welsh Ministers have in the past outlined how they might be prepared to use the powers available to limit increases in council tax if these were deemed excessive. For example, in her statement on the Provisional Local Government Settlement for 2014-15 (16 October 2013), the then Minister for Local Government (Lesley Griffiths MS), said:

In enabling Local Authorities to make local decisions about council tax, I am offering them flexibilities in managing their budgets which are not

available to their counterparts in England where restrictive freezes apply. However, I have made it very clear I am prepared to use capping powers available to me in the event of excessive increases.

A similar statement was made in 2015 by the then Minister for Public Services, Leighton Andrews AM, stating in his [letter accompanying the Final Local Government Settlement 2015-16](#):

I am prepared to use the capping powers available to me should I consider any proposed increase in council tax to be excessive. I also expect every authority to take account of all the available funding streams in considering service provision and setting its budget and Council Tax.

Despite this, in his response to the petition, the Cabinet Secretary for Finance and Welsh Language states that the Welsh Government “has respected the democratic responsibility of local authorities and has not used powers to cap council tax in Wales since devolution”. He continues by noting that:

The responsibility for setting a local authority’s annual budget and as part of that, decisions about council tax, are matters for each local authority and its elected members...

Limiting council tax increases to an arbitrary percentage becomes a target for local authorities to raise council tax to the maximum allowed rather than carefully considering what is necessary.

Every effort is made to ensure that the information contained in this briefing is correct at the time of publication. Readers should be aware that these briefings are not necessarily updated or otherwise amended to reflect subsequent changes.