

This discussion paper has been written by officials of the Welsh Government. Ministers have not had an opportunity to comment on the contents. Exemplifications of changes are provided simply to inform discussion by DSG members. They are not Welsh Government proposals or statements of Government policy for or against changes.

Employer NI contributions

Summary

1. This paper set out possible options on the distribution of any funding received from the UK Government for the increase in employer's national insurance costs.

Views sought

2. DSG are asked to discuss the options presented and any further options to be investigated in advance of any funding notification, with the aim of agreeing a fair way forward for all authorities.

Related papers

3. DSG (2025) Paper 01.

Background

4. National Insurance is not devolved and the UK Government announced increases to the employer's national insurance rate in the October 2024 Autumn Statement.
5. The UK Government has confirmed it will provide funding to public sector employers to cover the increased costs of employer National Insurance contributions. It will use the official ONS definition of a public sector employer.
6. The UK Government has now said they are providing a Barnett share based on England's costs - not Wales' actual needs.
7. Our initial estimate is devolved public sector employers in Wales face a £253m. The approach the UK Government is taking leaves us with a significant shortfall. We estimate we could be circa £65m a year short on the extra costs public services in Wales will have to pay. This is approximately 25%.
8. Final confirmation of how much additional funding we will receive to support the additional costs to devolved public sector employers will be confirmed through UK Main Estimates, published on 16/5/25. Welsh Treasury are currently working through the detail.
9. The latest estimates collected through the WLGA give costs of:

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	£000
NJC staff	75,835
Teaching staff	31,747
HRA staff	3,289
Total employed	110,871
Commissioned c	42,797
other	12,325
total external	55,122
Grand total	165,993

Local authority staff – including teachers

10. Irrespective of the total amount of funding available we know that will be difference between all 22 authorities in Wales of where the impact of national insurance costs impact.
11. Authorities have different mixes of services delivered by in house staff, through commissioned work or through contracts. This can include provision of social care, housing services, school catering as just a few examples.
12. It is expected that although local authorities themselves will see an increase in their own staff costs, there will also be an impact on commissioned rates and contract amounts as the NI cost impact local government partners and suppliers, whether they be private companies or the third sector.

Distribution options

13. At the last DSG the group discussed three options for funding distribution – at the last meeting it was felt that a distribution that move across into the settlement easily would be the most sensible way forward. Annex A shows an exemplification of the differences based on the revised forecasts collected by the WLGA.

Discussion point - are there any different views given the expected quantum?

Option 1 - Distribute funding based on directly employed staff, as per the WLGA data collection.

Option 2 - Distribute based on the overall local government settlement.

Option 3 - Distribute based on the SSA areas that are predominantly driven by staff costs (all education, personal social services, transport, other services).

Fire authorities

14. We understand the fire authorities have included the cost of the increased NI in their levy to local authorities already. Therefore any related funding will be directed to local authorities. The total estimated cost is £4m.

Discussion point – what is the best approach to distribution?

Distribution options

Option 1 – add into the total amount of funding and distribute on the agreed option for local authority staff.

Option 2 – collect exact information from fire authorities and fund specific amounts pro rata to the total available to the relevant authorities.

Option 3 – fund on the total Fire SSA

Option 4 – fund on the fire service IBA

National Parks

15. We understand the national parks levy is a proportion of the national parks grant. Therefore the increase in NI is not included and we propose to give any additional funding direct to National Park Authorities through a grant.

Discussion point – are DSG content with this approach?

Housing Revenue Account

16. Some authorities have HRA and related staff. This was not included in the original WLGA estimates for all authorities but is included in the revised estimated provided to treasury and the overall figure is fairly consistent for directly employed staff. Where authorities do not have HRA they will have contracted out provision to housing associations etc who are not covered by the government definition of public sector. They will therefore need to meet the increased costs from either efficiency or increasing income through rents.

Discussion point – – what is the best approach to distribution?

Distribution options

Option 1 – distribute pro rata based on estimates from local authorities with HRA

Option 2 – add to the total for local authorities and treat as any other commissioned / contracted service vs in house provision and distribute on the agreed methodology for the main local authority funding.

Way forward

17. Is there any else that DSG think that needs to be considered?
18. The proposed distribution will be circulated to FSG through the WLGA for agreement.

Local Government Finance Policy and Sustainability

Welsh Government

Table 1: Exemplifications on the 2025-26 final settlement (£000) and WLGA revised figures (teachers and NJC staff – excludes HRA)

Authority	Option 1	Option 2	Option 3		Difference between option 2 and option 1	Difference between option 3 and option 1	Difference between option 3 and option 2
Isle of Anglesey	1,549	1,877	1,890		328	341	13
Gwynedd	3,450	3,311	3,336		- 139	- 114	25
Conwy	3,329	3,043	3,000		- 286	- 329	- 43
Denbighshire	3,032	2,837	2,782		- 195	- 250	- 55
Flintshire	2,587	3,852	3,890		1,265	1,303	38
Wrexham	3,548	3,414	3,430		- 134	- 118	16
Powys	3,031	3,568	3,584		537	554	17
Ceredigion	2,531	1,981	1,957		- 550	- 573	- 23
Pembrokeshire	3,698	3,285	3,306		- 412	- 392	21
Carmarthenshire	5,824	5,031	5,056		- 793	- 768	25
Swansea	7,391	6,261	6,275		- 1,130	- 1,116	14
Neath Port Talbot	4,215	3,879	3,844		- 336	- 371	- 35
Bridgend	3,584	3,699	3,689		116	105	- 11
The Vale of Glamorgan	3,192	3,317	3,356		125	163	38
Rhondda Cynon Taff	6,564	6,537	6,507		- 28	- 57	- 29
Merthyr Tydfil	1,511	1,645	1,633		135	123	- 12
Caerphilly	5,170	4,775	4,758		- 395	- 412	- 17
Blaenau Gwent	1,673	1,903	1,861		230	188	- 42
Torfaen	2,258	2,503	2,506		245	248	3
Monmouthshire	2,430	2,153	2,161		- 277	- 269	7
Newport	3,903	4,337	4,343		435	441	6
Cardiff	8,031	9,288	9,335		1,258	1,304	47
Wales	82,500	82,500	82,500				

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Table 2: Exemplifications on the 2025-26 final settlement (£000) and WLGA revised figures (teachers, NJC staff, commissioned and other – excludes HRA)

Authority	Option 1	Option 2	Option 3		Difference between option 2 and option 1	Difference between option 3 and option 1	Difference between option 3 and option 2
Isle of Anglesey	1,460	1,877	1,890		417	430	13
Gwynedd	2,801	3,311	3,336		510	535	25
Conwy	3,748	3,043	3,000	-	705	748	43
Denbighshire	3,020	2,837	2,782	-	182	237	55
Flintshire	2,200	3,852	3,890		1,652	1,690	38
Wrexham	3,750	3,414	3,430	-	336	320	16
Powys	3,626	3,568	3,584	-	59	42	17
Ceredigion	2,150	1,981	1,957	-	169	193	23
Pembrokeshire	3,546	3,285	3,306	-	261	240	21
Carmarthenshire	5,460	5,031	5,056	-	428	403	25
Swansea	6,429	6,261	6,275	-	169	155	14
Neath Port Talbot	5,489	3,879	3,844	-	1,610	1,646	35
Bridgend	3,311	3,699	3,689		389	378	11
The Vale of Glamorgan	3,759	3,317	3,356	-	441	403	38
Rhondda Cynon Taff	6,869	6,537	6,507	-	332	361	29
Merthyr Tydfil	1,220	1,645	1,633		425	413	12
Caerphilly	4,318	4,775	4,758		458	441	17
Blaenau Gwent	1,474	1,903	1,861		429	387	42
Torfaen	1,801	2,503	2,506		702	705	3
Monmouthshire	3,216	2,153	2,161	-	1,062	1,055	7
Newport	4,529	4,337	4,343	-	192	186	6
Cardiff	8,324	9,288	9,335		964	1,011	47
Wales	82,500	82,500	82,500				