



Llywodraeth Cymru  
Welsh Government

WELSH GOVERNMENT

# Draft Budget 2025-26

## A Budget for a Brighter Future

December 2024

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# Foreword by the Cabinet Secretary for Finance and Welsh Language

Over the last 14 years, when making decisions about the Welsh budget, we have faced a series of difficult choices, year in and year out.

The political choices of previous UK governments – a decade of austerity; the hardest form of Brexit deal; the disastrous Truss mini-Budget and the cost-of-living crisis which followed – have all cast a long shadow on the funding available to Wales; to Welsh public services, businesses and to the public. This is because the majority of our funding comes directly from the UK Government in the form of a block grant.

The Welsh Government has worked hard over the last 14 years to protect Wales and Welsh institutions from the worst of the damage inflicted during that time by prioritising public services and putting money back in people's pockets wherever we can.

We will continue to provide targeted support through our local taxes, council tax and non-domestic rates. Low-income households are supported with their council tax bills through the Council Tax Reduction Scheme. We will also continue to provide support to businesses and other ratepayers to pay their non-domestic rates bills.

It remains true that we spend more on local government, more on health and social care and more on education per person in Wales than in England. However, after 14 years and despite our best efforts, many services are fragile and unable to withstand any further shocks. Too many services are too close to the brink.

Now, for the first time in 14 years, we are working with a UK Government which shares our values. In her first budget on 30 October, the Chancellor signalled additional resource and capital funding for Wales in 2025-26. This has enabled us to provide real terms uplifts to every Welsh Government departmental budget.

The Welsh Government is allocating an additional £1.5bn, compared to last year when the Cabinet faced the most difficult settlement in the history of devolution and had to make very tough choices to re-model and reprioritise spending plans in every part of government. This additional funding signals the start of a brighter future after 14 difficult years and a budget, which will create the conditions for growth and investment in the very fabric of our country.

For the first time, we have been given a real uplift in our capital budgets – 10 times the average annual growth in capital funding made available over the last 14 years. We will stretch the capital envelope even further by maximising our borrowing capacity, so we can fix the foundations, invest in infrastructure and encourage growth.

The new partnership between two governments – in Westminster and in Wales – means we can start to turn the corner and repair the damage of the last 14 years, putting us firmly on the road to growth.

While the Co-operation Agreement was ended early by Plaid Cymru, we continue to honour our ongoing obligations to fund the commitments within the agreement, which make up a small proportion of the Welsh Government's overall budget.

Throughout this process, we have been guided by the principles embedded in the Well-being of Future Generations Act and the First Minister's priorities. We have maintained our approach of understanding the integrated impacts of the choices we are taking and the need to act to prevent the worst impact to services. This means we are taking action in the short-term to protect them for the future. We maintain our commitment to respecting these principles as we progress and reflecting and adapting where necessary.

This Draft Budget 2025-26 is not a panacea. It will not fix everything – nor should we expect it to. For many areas, the resource settlements are tight, and pressures remain. The overall financial climate in which we all operate remains challenging. But for the first time, in a long time, this budget provides us with optimism about a brighter future.

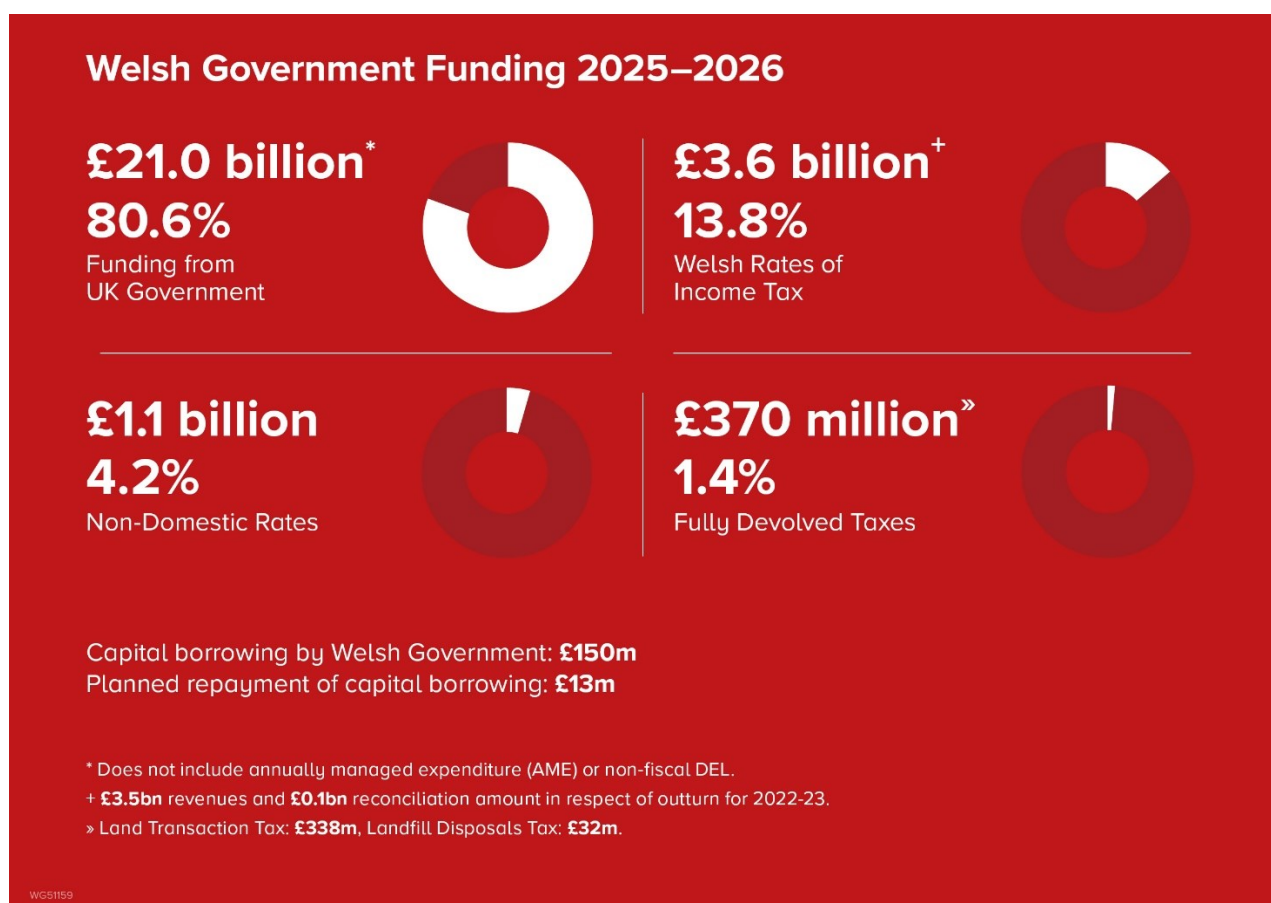
# Chapter 1: Strategic Context

## Overview

1. The Welsh Government's Draft Budget sets out our resource and capital spending and taxation plans for 2025-26.

## Sources of Finance and Fiscal Responsibilities

2. The Welsh Government is primarily funded via a block grant from the UK Government. The funding the Welsh Government receives via the block grant for 2025-26 is £21bn, this includes almost £18bn resource funding and over £3bn capital funding. For the first time, we are allocating over £3bn of capital at Draft Budget.
3. In addition to the block grant, around 20% of the Welsh Government's spending in 2025-26 will be funded through revenues from devolved taxation – Welsh Rates of Income Tax, Land Transaction Tax, Landfill Disposals Tax, and Non-Domestic Rates. Devolved taxation provides an important lever through which the Welsh Government can raise revenue and deliver on our strategic priorities.
4. The infographic below provides details of funding received by the Welsh Government for 2025-26.



5. Further information about tax policy and revenues is provided in Chapter 3.
6. The Welsh Government's fiscal framework agreement sets out the arrangements supporting tax devolution, capital borrowing powers, budgetary management tools and a needs-based adjustment to the Barnett formula.
7. A Sources of Finance table providing data for 2025-26 can be found in the [ODS workbook on the Welsh Government's Draft Budget](#).

### **Financial Transactions Capital**

8. We continue to maximise our existing portfolio of Financial Transactions (FT) capital investments. For 2025-26 we will receive £85.3m of FT capital from the UK Government, and we also expect to receive a further £42.4m of repayments from previous investments. We will use this to invest more than £127m in a wide variety of projects supporting businesses and the housing sector, benefitting many parts of our society and economy.
9. The specific allocations we are making for FT capital in 2025-26 are set out in Chapter 4.

### **Priorities for the Draft Budget**

10. This Draft Budget is published following a sustained period of challenging financial settlements for Wales. It is a budget for a brighter future enabling us to deliver on our priorities, protect and invest in vital public services and boost growth. We will be allocating an additional £1.5bn in resource and capital through this budget, in stark contrast to budgets of recent years.
11. We have shaped our spending plans to prioritise public services, ensuring they continue to deliver for the people of Wales with investment being targeted towards delivering on the Welsh Government's priorities:

**'Iechyd da' - A Healthier Wales** – cutting NHS waiting times, including for mental health; improving access to social care and services for women's health.

**Jobs and green growth** – creating green jobs that tackle the climate crisis and restore nature, while making families better off; accelerating planning decisions to grow the Welsh economy.

**Opportunity for every family** – boosting standards in schools and colleges and providing more homes for social rent, ensuring every family has the chance to succeed.

**Connecting communities** – transforming our railways and delivering a better bus network; fixing our roads and empowering local communities to make choices on 20mph.

12. Chapter 4 outlines our main spending plans and decisions on additional investments.

## **Public Sector Pay**

13. The Welsh Government received additional funding from the UK Government in 2024-25 which enabled above inflation pay awards for over 180,000 of public sector workers in Wales. This funding is included in the baseline for 2025-26 so additional funding referred to for 2025-26 already include the uplifts provided in 2024-25.

## **Baselines**

14. As referred to above, significant funding has been provided in 2024-25 which is recurring and is therefore included in 2025-26 budgets before the additional funding allocations are made. These adjustments are outlined in the tables supporting the budget and show how the position has changed during 2024-25 from the 2024-25 Final Budget restatement set out in the 1<sup>st</sup> Supplementary Budget published in October.

## **Implications of the UK Government's Autumn Budget**

15. The Welsh Government was provided with a funding settlement for 2025-26 in the UK Government's Autumn Budget. The settlement for 2025-26 represented an increase of £695m resource and £235m general capital.
16. The Welsh Government fiscal resource Departmental Expenditure Limit (DEL) is £21.325bn for 2025-26, before block grant adjustments. The general Capital DEL is £3.276bn, with a further £85m for financial transactions.
17. The Welsh Government has been provided with a one-year settlement; this Draft Budget therefore outlines spending plans for one year only. We are expecting multi year settlements for resource and capital at the conclusion of the UK Spending Review in the first half of 2024 which will provide much needed certainty for the Welsh Government and our partners.
18. The UK Government confirmed, as part of the UK Autumn Budget, that devolved governments would be provided with additional funding to help mitigate the cost of increased employers' National Insurance contributions to support devolved public services, over and above the funding allocated in the UK Budget. The UK Government has confirmed it will use the official Office for National Statistics' definition of a public service employee for this purpose. We are continuing to work collaboratively with HM Treasury to clarify the level of this support, to inform our budget planning. This funding has not yet been provided to the Welsh Government and so does not form part of this Draft Budget.
19. The Welsh Government and UK Government are working together to deliver for Wales in a number of areas. An example of this is through the confirmation of additional funding for coal tip safety in Wales announced in the UK Government Autumn Budget; further details on the allocation of this funding can be found in Chapter 4. We have also received significant funding for public sector pay in 2024-25 which is being baselined

into 2025-26 and will support the vital work of our public sector workforce in communities across Wales.

### **Welsh Spending Review**

20. Looking beyond the 2025-26 Annual Budget, work has commenced on the Welsh Spending Review, an exercise that will consider longer-term fiscal planning for Wales, using all available fiscal levers. By addressing the well-recognised spending challenges, that Wales faces, over the longer term, this approach will provide the best defence possible against the challenging fiscal outlook for public finances. Consideration of these future challenges through a more preventative lens will be a key feature of this work.

### **Budget Process**

21. The Draft Budget 2025-26 is being published on 10 December 2024. Following scrutiny of these plans by the Senedd, the Final Budget 2025-26 will be published on 25 February 2025.



## Chapter 2: Financial and Economic Context

1. As the Wales Economic and Fiscal Report 2024 sets out, Wales' economy is deeply embedded within the wider UK economy. Many of the general trends which affect the UK economy are likely to be reflected in or heavily influence Welsh economic conditions
2. UK economic output or gross domestic product (GDP) increased strongly in the first half of 2024 following a period of recession in the second half of 2023. However, the upturn in performance has not been sustained, with output stalling in the third quarter.
3. For calendar year 2024, the Office for Budget Responsibility (OBR) and the Bank of England expect output growth of approximately 1.0% which is stronger than expected. When the Chief Economist's *Report and Fiscal Prospects 2023* was published 12 months ago, the growth rate was less than half of the annual pre-financial crisis average growth rate.
4. Compared with the pre-financial crisis performance, the UK economy has under-performed for 15 years. The OBR stated that measures included in the UK Government's Autumn 2024 Budget should boost the economy in 2025 with annual output growth projected at 2.0%. Growth is then expected to tail off somewhat in the following four years. The OBR states the UK Government's plans to increase investment spending could boost economic outturn in 2030 and beyond, especially if sustained at a higher level than previously planned.
5. The labour market has proved difficult to read in 2024 as the credibility issues that undermined the Labour Force Survey (LFS) in 2023 continue. As a result, Welsh Government analysts recommend consideration should be given to the trends exhibited by other labour market data sources to reach an informed view of labour market conditions.
6. These sources include the Annual Population Survey (APS), HMRC's Pay As You Earn (PAYE) Real Time Information and the Claimant Count, which is the number of people claiming unemployment-related benefits. Considering these wider sources, suggests the labour market in Wales and across the UK has lost momentum in 2024. There is some evidence the private sector was reducing employees toward the end of the year.
7. Aside from the loss of momentum in employment growth, there is also a high level of economic inactivity among the working age population, much of it induced by long-term sickness. The latest APS data, covering the period from July 2023 to June 2024, show there were around 470,000 economically inactive people aged between 16 and 64 in Wales; around 20,000 higher than pre-pandemic. This reversed the long-term trend of a declining inactivity rate in Wales and the UK.
8. Wales' economic inactivity rate of 24.4% is similar to the more comparable areas of the UK, including Scotland, Northern Ireland and the northern regions of England.

9. Weak economic growth over several years coupled with an increase to debt, triggered by the Covid-19 pandemic and energy price interventions used to support households and businesses during 2022, has left the public finances in a parlous state. The OBR expects UK Government borrowing or the budget deficit in 2024-25 to total £128bn, equivalent to 4.5% of GDP, the same as in 2023-24. Borrowing in 2025-26 is expected to be £106bn, equivalent to 3.6% of GDP. The average long-term (1955-56 to 2007-08) budget deficit is 2.3% of GDP.
10. Borrowing adds to the UK Government's stock of debt. Outstanding UK Government debt is currently just under 100% of GDP, compared with the pre-financial crisis level of 35.6% recorded in 2007-08. At the same time that borrowing and debt have increased, so too has the tax and public spending share of national income. The upwards trajectory in public spending can be explained by the unfavourable demographic trends of sickness among working-age people, as a result welfare spending and high debt servicing interest costs increased. Defence spending is poised to add to these pressures in the coming years, creating a highly challenging environment for future Welsh Government budgets.
11. The UK Government's Autumn 2024 Budget increased taxes and borrowing to enable additional spending on resource and capital budgets beyond what was expected earlier in the year. As a result, this has led to an increase to the Welsh Government's financial settlement for next year from the UK Government.
12. Despite the increases in government spending on public services this year and next, the outlook for public finances beyond looks challenging. On current UK Government spending plans, increases to public services spending over the medium term are expected to be much lower.
13. The Welsh Government's resource budget in 2025-26 is up 5% in real terms compared to outturn for 2023-24 on a like-for-like basis. Estimates for future years suggest more modest increases.
14. The Welsh Government's general capital budget in 2025-26 is up 7% in real terms compared to the outturn for 2023-24. Estimates for future years suggest a more challenging outlook for capital budgets, with some reductions possible in 2029-30 as borrowing limits are reached.
15. For more detail on the economic and fiscal context, please see the Welsh Government's [Wales Economic and Fiscal Report 2024](#).

## Chapter 3: Funding Arrangements

### Overview

1. The Welsh Government is funded by a block grant from the UK Government and by revenues from devolved taxes. The devolved taxes in Wales consist of Welsh Rates of Income Tax (WRIT), Land Transaction Tax (LTT), Landfill Disposals Tax (LDT) and Non-Domestic Rates (NDR). Taken together, they contribute more than £5bn to the Welsh budget in 2025-26.

### Tax Policy

2. Taxes provide a vital lever to support delivery of important strategic priorities for Welsh businesses and citizens. The Welsh Government's approach to tax policy development is underpinned by the *Tax Policy Framework*<sup>1</sup>, which sets out the fiscal devolution settlement established by the Wales Act 2014 and 2017. It outlines the Welsh Government's strategic priorities for tax together with the challenges and opportunities.
3. The updated *Tax Policy Framework* reflects on the learning and experience of tax policy formulation since tax devolution. It identifies and articulates the distinct Welsh approach to developing and delivering tax policy collaboratively, involving stakeholders and partners. It sets out how we will ensure we continue to embed sustainability, fairness and equality considerations in the way in which we address our priorities.
4. The Welsh Government published the *Tax Policy Work Plan 2021-2026*<sup>2</sup> alongside the update to the *Tax Policy Framework*. It builds on our Programme for Government<sup>3</sup> commitments in relation to devolved and local taxes and furthers the aim of delivering strong and stable tax devolution. It provides clear direction and certainty in respect of Welsh tax policy priorities for the five-year period.
5. Alongside this Draft Budget we have published the latest *Welsh Tax Policy Report* setting out progress against the five-year work plan<sup>4</sup>. It contains details of the tax changes made and those proposed in setting the funding envelope for this Draft Budget.
6. Welsh Rates of Income Tax (WRIT) were introduced on 6 April 2019. Income tax is partially devolved to Wales, which means that while the Welsh Government is able to vary the three income tax rates (basic, higher and additional) for Welsh taxpayers, all other aspects of the tax remain the responsibility of the UK Government, and HMRC continues to administer income tax in Wales<sup>5</sup>.

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<sup>1</sup> [Tax policy framework update | GOV.WALES](#)

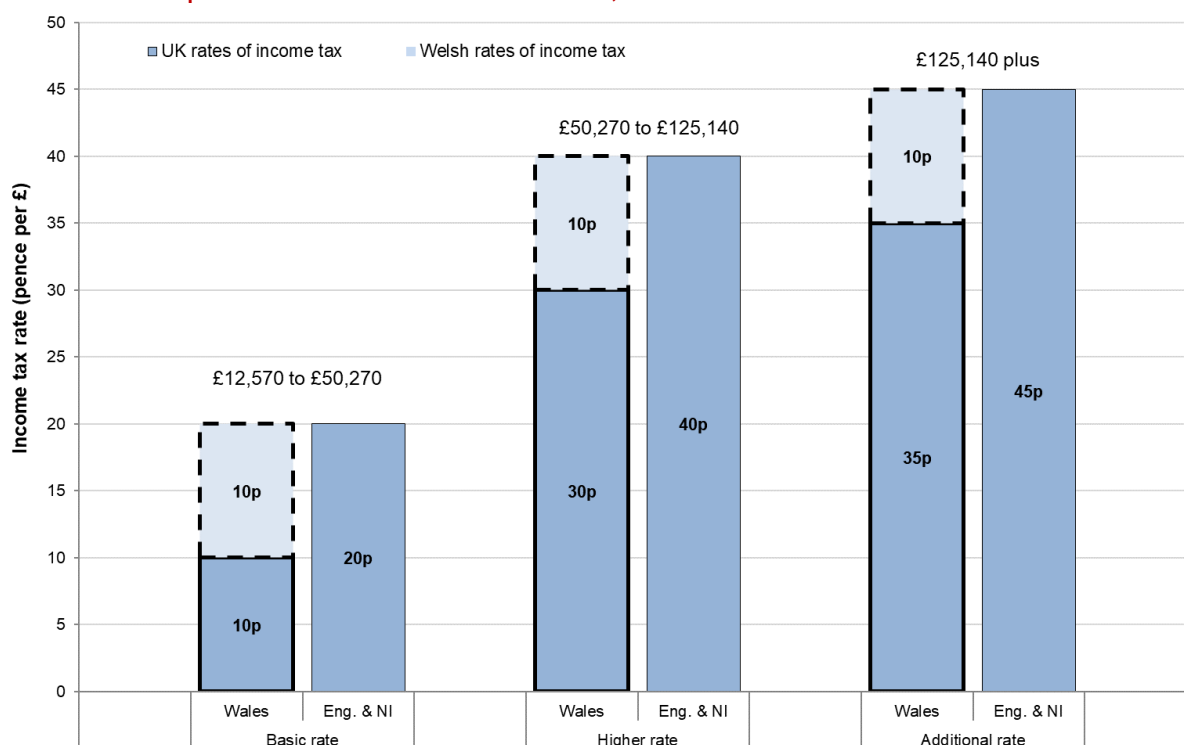
<sup>2</sup> <https://gov.wales/sites/default/files/publications/2021-11/tax-policy-work-plan-2021-to-2026.pdf>

<sup>3</sup> <https://gov.wales/programme-government>

<sup>4</sup> <https://www.gov.wales/tax-policy-report-december-2024>

<sup>5</sup> In most cases, Welsh taxpayers are defined as people who live in Wales, however a full definition is provided under s.8 of the Wales Act 2014: <http://www.legislation.gov.uk/ukpga/2014/29/section/8/enacted>

**Chart 3.1: Proposed Income tax rates in Wales, 2025-26**



7. The process for Wales involves the UK Government reducing each of the three income tax rates for Welsh taxpayers by 10p. The Welsh Government then decides whether to set the Welsh rates at 10p, thereby retaining parity between Welsh and English taxpayers, or to set different rates.
8. As the current tax burden on households in Wales is at its highest for a generation, combined with the continued pressures on household budgets, the Welsh Government proposes to set Welsh Rates of Income Tax for 2025-26 at 10p.
9. This means there will be no change to WRIT in 2025-26 and Welsh income taxpayers will pay the same rates of income tax as their counterparts in England and Northern Ireland.

### Other Welsh taxes

10. LTT and LDT are fully devolved to Wales. These two taxes are collected and managed by the Welsh Revenue Authority (WRA). LTT and LDT provide important levers through which the Welsh Government can, if appropriate, further other strategic government objectives, such as tackling the impact of the prevalence of second homes in Welsh communities or supporting the delivery of wider environmental objectives.
11. In return for the tax revenue, the Welsh block grant has been reduced by an amount equivalent to what the previous UK taxes (Stamp Duty Land Tax (SDLT) and Landfill Tax) raised in Wales for the UK Government. This means it is vital the two devolved taxes operate efficiently and effectively, to generate the revenue needed to fund Wales' vital public services.

## Land Transaction Tax

12. The LTT rates and thresholds are kept under review. The rates payable on higher residential rates transactions are being increased by 1 percentage point for each band with effect from 11 December 2024. No other changes to the rates and thresholds were made during this year. Previous permanent changes were made to the main residential rates in October 2022, and prior to that in December 2020.

Table 3.1: LTT residential main rates (from 10 October 2022)

Price threshold	LTT rate
£0 to £225,000	0%
More than £225,000 to £400,000	6%
More than £400,000 to £750,000	7.5%
More than £750,000 to £1,500,000	10%
£1.5m-plus	12%

Table 3.2: LTT residential higher rates (from 22 December 2020 until 10 December 2024)

Price threshold	LTT rate
£0 to £180,000	4%
More than £180,000 to £250,000	7.5%
More than £250,000 to £400,000	9%
More than £400,000 to £750,000	11.5%
More than £750,000 to £1,500,000	14%
£1.5m-plus	16%

Table 3.3: LTT residential higher rates (from 11 December 2024)

Price threshold	LTT rate
£0 to £180,000	5%
More than £180,000 to £250,000	8.5%
More than £250,000 to £400,000	10%
More than £400,000 to £750,000	12.5%
More than £750,000 to £1,500,000	15%
£1.5m-plus	17%

Table 3.4: LTT non-residential main rates (from 22 December 2020)

Price threshold	LTT rate
£0 to £225,000	0%
More than £225,000 to £250,000	1%
More than £250,000 to £1m	5%
More than £1m	6%

Table 3.5: LTT non-residential lease rent (from 22 December 2020)

Price threshold	LTT rate
£0 to £225,000	0%
More than £225,000 to £2m	1%
More than £2m	2%

### Landfill Disposals Tax

13. The 2025-26 Draft Budget proposes that the LDT standard rate increases to £126.15.
14. In a break from the previous rate-setting approach, the rate will be set to better reflect changes in actual RPI in the period 2022 to 2024, after several years of being set on the basis of forecast RPI. This is also in line with the UK Government's increase in the standard rate of Landfill Tax and therefore limits the incentive for waste tourism across the border.
15. The unauthorised rate will be increased to maintain its rate at 150% of the standard rate.
16. Following the public consultation on the lower rate of LDT, the 2025-26 Draft Budget proposes that the LDT lower rate is increased to £6.30. This increase in the lower rate reflects the Welsh Government's policy intention of incentivising reuse, recycling and reduction of waste and to reduce any incentive to misdescribe waste.
17. The proposed rates for LDT, subject to approval by the Senedd, are set out in the table below.

Table 3.6: LDT rates (rate per tonne)

Rate	From 1 April 2023	From 1 April 2024	From 1 April 2025
Standard	£102.10	£103.70	£126.15
Lower	£3.25	£3.30	£6.30
Unauthorised disposals	£153.15	£155.55	£189.25

## Non-Domestic Rates

18. The Welsh Government will cap the increase to the NDR multiplier in Wales to 1% for 2025-26. This is lower than the 1.7% (September CPI) increase which would otherwise apply from the default inflation of the multiplier in line with CPI. It is delivered at a recurring annual cost of £7m from 2025-26 onwards. Subject to approval of the required legislation by the Senedd, the provisional multiplier for 2025-26 is 0.568.
19. Capping the increase to the NDR multiplier to 1% is the maximum level of support affordable using all the consequential funding for Wales arising from decisions relating to the multiplier announced in the UK Government's Autumn Statement. It ensures all ratepayers who do not already receive full relief will benefit.
20. We will also be investing an additional £78m to provide a sixth successive year of support for retail, leisure and hospitality businesses with their NDR bills. This builds on the £1bn of support provided through our retail, leisure and hospitality rates relief schemes since 2020-21. Eligible ratepayers will receive 40% NDR relief for the duration of 2025-26. As in previous years, the relief will be capped at £110,000 per business across Wales.
21. In total, these measures will provide £85m of additional support for 2025-26. Combined with our fully funded permanent reliefs, which are worth £250m to businesses and other ratepayers every year, £335m will be invested in NDR support. Every ratepayer will benefit from this package.

## Independent tax revenue forecasts

22. This Draft Budget is accompanied by independent forecasts of devolved tax revenue from the OBR. A separate *Welsh Taxes Outlook* report providing background and details about the forecasts has been published on the OBR's website. The forecasts for the year covered by the Draft Budget are shown in Table 3.6.

Table 3.6: Tax revenue forecasts £m

	2025-26
Land Transaction Tax	338
Landfill Disposals Tax	32
Welsh Rates of Income Tax	3,603

## Block grant adjustments

23. Following the devolution of tax powers to Wales, the Welsh Government's block grant was reduced because revenues from devolved and partially devolved taxes now go directly to the Welsh Government rather than the UK Exchequer.

24. Changes in block grant adjustments are driven by growth in the equivalent UK taxes. For the purposes of this Draft Budget, the adjustments are consistent with OBR forecasts of the equivalent UK taxes in the October 2024 Economic and Fiscal Outlook.
25. Details of the block grant adjustments and reconciliation amounts to account for outturns are included in Annex C.

### **Wales Reserve**

26. The Wales Reserve was introduced in April 2018 as part of the fiscal framework arrangements to enable us to deal effectively with volatility arising from tax revenues and by retaining unspent resources for use in future years. It replaced the previous budget exchange process.
27. The Wales Reserve can hold up to £350m. Annual drawdowns are limited to £125m for resource spending and £50m for capital spending. There are no annual limits for payments into the reserve.
28. Our spending plans for 2025-26 do not assume any drawdown from the Wales Reserve, for either resource or capital. We will use the flexibility offered by the Wales Reserve in managing the in-year financial position to address unexpected pressures and provide contingency for unforeseen risks which may arise.

### **IFRS16 New Accounting Standards**

29. Following the implementation of the IFRS 16 Accounting Standard, additional funding has been included in the UK Government block grant settlement to support the necessary technical adjustment in respect of the treatment of leases.
30. Previously, this funding has been ring-fenced to address the impacts of IFRS 16 leases. From 2025-26 this allocation will form part of the general capital allocation.

### **Financial Transactions (FT) Capital**

31. The Welsh Government's Capital DEL settlement from the UK Government contains a specific form of ring-fenced capital used to boost state-led investment in private and third sector entities. A proportion of this funding needs to be repaid to the UK Government.
32. The FT capital settlement for 2025-26 is £85.3m. The Welsh Government is expecting repayments of around £42m, giving a total quantum to allocate of around £127m. Further information about our FT capital investments in 2025-26 is provided in Chapter 4.



## **Borrowing**

33. The Welsh Government plans to borrow for capital purposes from the National Loans Fund. Repayment forecasts for the period in which we have set capital plans can be found using this link to the Tables Supporting Spending Plans ODS workbook: [Tables Supporting Spending Plans](#)
34. The repayment forecast assumes a repayment period of 25 years and an interest rate of 4.8% for borrowing in the current financial year.
35. To provide as much capital investment as we can for 2025-26, we plan to, once again, maximise capital borrowing at the £150m limit.

## **Innovative finance**

36. In addition to our core capital budgets and borrowing powers, we continue to make full use of innovative financing solutions to help deliver timely additional investment in vital economic and social infrastructure. An update on these schemes is provided in Annex A.

## Chapter 4: Welsh Government's Spending Plans

### Overview

1. The Welsh Government's Draft Budget for 2025-26 is £21.4bn of resource expenditure and £3.4bn of capital expenditure.
2. The Welsh Government allocates funding to different departments or Main Expenditure Groups (MEGs) which cover different policies areas and are aligned with the [Ministerial responsibilities](#). The breakdown of funding per MEG for resource and general capital is as follows:

Fiscal Resource	£000s		
Main Expenditure Groups (MEGs)	2024-25	2025-26	
	Revised Baseline	New Plans	% Change
Health and Social Care	11,479,034	11,914,914	3.80%
Housing and Local Government	5,194,460	5,475,393	5.41%
Education	1,716,171	1,799,681	4.87%
Transport	581,870	651,527	11.97%
Climate Change and Rural Affairs	531,153	566,266	6.61%
Economy, Energy and Planning	442,005	461,005	4.30%
Social Justice	132,758	139,037	4.73%
Central Services and Administration	399,337	428,759	7.37%
<b>Total Fiscal Resource</b>	<b>20,476,788</b>	<b>21,436,582</b>	<b>4.69%</b>

General Capital	£000s		
Main Expenditure Groups (MEGs)	2024-25	2025-26	
	Revised Baseline	New Plans	% Change
Health and Social Care	439,030	614,030	39.86%
Housing and Local Government	1,071,630	1,191,280	11.17%
Education	346,500	374,500	8.08%
Transport	477,797	528,797	10.67%
Climate Change and Rural Affairs	232,059	304,014	31.01%
Economy, Energy and Planning	205,699	327,176	59.06%
Social Justice	14,540	17,890	23.04%
Central Services and Administration	10,661	15,661	46.90%
<b>Total General Capital</b>	<b>2,797,916</b>	<b>3,373,348</b>	<b>20.57%</b>

3. This chapter provides details on our budget commitments for 2025-26 and should be read alongside:
  - the tables supporting spending plans;
  - the [Infrastructure Finance Plan](#) which provides further details about our planned general capital allocations;
  - the Strategic Integrated Impact Assessment (SIIA) which sets out the impacts of our spending plans; and
  - the Wales Economic and Fiscal report, which provides the wider context that informs our budgetary decision-making process.

### **Welsh Government's Priorities**

4. The Welsh Government has aligned spending decisions in the 2025-26 Draft Budget with the First Minister's four priorities ([link](#)), which were shaped by what matters most to the people of Wales. Decisions were also made against the strategic context of the Well-Being of Future Generations Goals, our National Milestones, and our Programme for Government commitments. Details are outlined in the SIIA.
5. This budget enables us to reinvest in our public services after having to make some very difficult decisions in recent budget rounds. We still face pressures, but we have ensured that the fiscal resources we have as part of this budget are aligned to the most important issues for Welsh people with every department receiving an uplift of funding compared to last year. This budget signals a brighter future for Wales and puts the country on a path to growth once again.
6. The significant general capital and FT capital allocations provide much-needed investment in the fabric of Wales - in our hospitals, schools, housing and much more.

### **'Iechyd Da' - A Healthier Wales**

7. The Draft Budget reflects our priority to continue to reduce the longest NHS waiting times, including for mental health, and improve access to social care and services for women's health.
8. We continue to prioritise health and social care and in 2025-26 we will be investing a further £435m resource funding, this is on top of the extra funding provided to frontline NHS services in 2024-25. Taken together, our investment over the last two years in health and social care is £880m or 8%, most of this supports workforce pay.
9. This brings the annual resource budget for health and social care in 2025-26 to £11.915bn. This accounts for more than 55% of the Welsh Government's overall resource spending – the single largest area of spend.

10. More than £400m of this funding will support a range of additional allocations to the NHS, including activity to continue reducing the longest waiting times and improving timely access to care and treatment. It will also support a 2025-26 pay award for the workforce, building on the additional funding provided in 2024-25.
11. We are allocating more than £20m towards the education and training budget for the NHS workforce. This includes supporting the expansion of the North Wales Medical School and additional postgraduate medical and dental training places, ensuring we are training the workforce of the future.
12. In line with the Iechyd Da priorities, we will provide £3m towards improving healthcare for women, in line with the milestones set out in Wales' first Women's Health Plan, which is published on 10 December 2024. Women and girls make up just over 50% of the population in Wales but medicine and healthcare services have not necessarily met their needs, resulting in significant disparities in care between men and women. This funding will support the delivery of the Women's Health Plan and the NHS-led approach to improve women's health service delivery in 2025-26. It will ensure that women's experiences are heard and recognised and women's health is established as a priority for the NHS.
13. In Wales, every month two million people are in contact with the NHS services for a population of just over three million people. One-and-a-half million people have contact with primary care services every month and every year one-and-a-half million people are referred to secondary care services for treatment or further tests.
14. We know that the NHS in Wales is facing increasing demand for services at a time when the costs of care, including staffing and treatment, are rising. The additional revenue will help the NHS meet those costs but even with this, there will still be a requirement to deliver savings in 2025-26, to support financial improvement and sustainability, improve productivity, and deliver improvements in both financial and service performance.
15. Health boards will therefore need to continue to transform the way they are providing pathways and services, including moving more care out of hospitals, wherever possible, to ensure they are delivering effective and efficient care in 2025-26. We will support the NHS to become more productive by using our increased capital budget to invest in fit-for-purpose, modern, reliable equipment and digital technology. This will not only support the prevention of productivity loss within the NHS but also help reduce waiting times by addressing infrastructure fragility and sustainability.
16. We are providing an additional £175m of capital funding bringing our total capital investment in this Draft Budget to £614m. This investment will help to maintain and improve the NHS estate infrastructure, as well as investing in new equipment and digital technology.

17. Recognising the importance of preventative health investments, we are increasing allocations to screening and vaccination programmes by £3m. This helps to ensure we identify some health issues earlier and, in the case of vaccination, prevent more serious illness later on. We will maintain the mental health ringfence at more than £820m.
18. We are allocating £3m to support the hospice sector in 2025-26. This funding will be recurrent, because we recognise the important role they play in supporting the NHS and all those who need end-of-life care.
19. We are investing an additional £20m to support our flagship Childcare Offer, which will provide a vital increase to the hourly rate paid to providers. This will help ensure the sustainability of the sector, support the workforce and improve settings and parental choice. It follows the decision to make non-domestic rates relief for the sector permanent, which will provide added support and stability for the sector.
20. We continue to prioritise funding for social care alongside funding for the NHS – the two must be supported together. Social care is being directly supported by local authorities. In 2025-26, the local government settlement (RSG) will be increased by £253m to reflect the additional pressures being experienced by local authorities. We welcome the announcement by the UK Government to increase the National Living Wage to £12.21 an hour and we continue to support the payment of the Real Living Wage for care workers at £12.61 an hour.
21. We also support Social Care directly through the health and social care portfolio, via a series of funds and grants, including more than £140m of directed funding, which will be maintained in 2025-26. This includes maintaining the existing support for the Eliminate programme. Our funding for regional partnership boards is also maintained and includes schemes to reduce delayed discharges and improve community-based provision.
22. This year, we consulted on raising the domiciliary care charge. We have decided to maintain the current maximum charge at £100 a week. An additional £5m will be allocated to local authorities as part of the local government settlement to support them. Further work will be undertaken to address any inconsistencies in the way domiciliary care charges are applied across Wales.

### **Jobs and Green Growth**

23. We want to create green jobs that grow the economy, tackle the climate crisis and restore nature, while making families better off. We also want to accelerate planning decisions to grow the Welsh economy. This is a budget which puts Wales firmly on the path to growth.
24. The Economy, Energy and Planning portfolio receives an additional £19m resource funding and more than £120m of capital funding – this includes ringfenced funding for city and growth deals.

25. This Draft Budget prioritises employment and skills provision, reflecting the importance of supporting people into high-quality jobs, which are designed to drive economic growth and tackle poverty. An additional investment of £6.5m resource funding will support our Flexible Skills programme, particularly in those sectors associated with decarbonisation.
26. We will continue to invest in our flagship apprenticeship programme to deliver 100,000 all-age apprenticeships over this Senedd term and this budget maintains resource investment at £144m. Learners aged 16 to 24 will continue to be prioritised in alignment with the Young Person's Guarantee commitment.
27. We are providing a package of additional NDR support – targeted relief for retail, hospitality and leisure businesses and funding to cap the multiplier at 1%, which will benefit all ratepayers – worth £85m next year. This is on top of our permanent reliefs, which are worth £250m a year. This aligns with ambitions to prioritise growth and will benefit every ratepayer.
28. We are actively tackling the issue of capacity and delays in the planning system which is a barrier to growth. Additional investment of £3.7m in 2025-26 will help accelerate planning decisions and support a programme for the digital transformation of planning services. Key delivery partners, including Natural Resources Wales, will receive an uplift in funding, including an additional £5m to enhance its capacity to progress infrastructure consents promptly and to provide necessary input in the land use and marine planning processes.
29. Additional resource funding of £5m is being invested in green energy to support development of new renewable energy projects and smart local energy systems in Wales which will combine emission reduction with providing environmental, health and social benefits.
30. The Welsh Government is continuing to invest in supporting city and growth deals alongside the £88m of ringfenced capital funding by the UK Government for this financial year. This support signals ongoing transformational investment across Wales to deliver sustainable skilled jobs and infrastructure and to communities across Wales.
31. An additional £23m capital funding is being invested to support our property and infrastructure programme which will target supply of employment sites and property development supporting the creation of green jobs and growth focused on regional priority projects for North, Mid and South Wales.
32. We will provide an extra £5m in resource funding and over £16m capital funding for culture, heritage and sport; and increase investment in our events and tourism industries with an additional £1.5m resource and £3m capital funding. Taken together, this investment will help to increase access and participation opportunities for communities across Wales, contributing to better physical and mental health, as well as supporting and growing job opportunities in these important sectors.

33. Funding in the Climate Change and Rural Affairs (CCRA) portfolio also supports the retention and creation of green jobs through flood risk management, coal tip safety, and improving water quality, nature restoration, forestry and timber industry and farming. An additional £36m resource funding and £72m capital funding (which includes ringfenced funding for border facilities) is being provided to CCRA.
34. The Welsh Government has committed funding of £65m from 2021 to 2025 for coal tips safety. We requested and received £25m of funding towards this from the UK Government for 2025-26 as part of their UK Autumn Budget. This additional funding we have secured will go towards mitigating the risks posed by these tips and enable us to expand the coal tip safety grant so we can expediate work on tips in Wales. We will continue to work with the UK Government to ensure that Wales' needs for future years are fully considered.
35. 2025-26 sees our significant investment in flooding continue. Since 2021, we have invested over £300m through our annual Flood Risk Management Programme to reduce flood risk to communities across Wales. As a result of this investment over 25,000 properties are already at reduced risk with a further 11,000 expected to benefit by 2025-26. Over the last two years we have maintained record amounts of flood funding of £75m per annum through our Flood and Coastal Erosion Risk Management Programme for local schemes to help communities mitigate against flood risk.
36. Our funding for the Welsh Government Energy Service provides critical advice and support to public bodies as they work towards our shared ambition of a net zero Welsh public sector by 2030. We have provided additional resource funding to continue to build on Wales' world leading performance on recycling and to realise the economic opportunities arising from keeping resources and materials in use for as long as possible and avoiding waste by investing in the Circular Economy.
37. We are prioritising support for the agriculture sector by maintaining the Basic Payment Scheme ceiling at £238m and providing an additional £5.5m resource and £14m capital funding for wider rural investment schemes. This will support the sector's transition to the Sustainable Farming Scheme while also promoting green growth by encouraging sustainable land management practices and safeguarding jobs in the agricultural and environmental sectors.
38. We are continuing to support the enhancement of food and drink supply chains and developing skills in this sector through further funding for Blas Cymru, which has generated more than £35m worth of contracts for Welsh food and drink businesses.

### **Opportunity for Every Family**

39. Significant investment through the Housing and Local Government (HLG) and the Education portfolios, together with additional investment in childcare, Welsh language and the Social Justice portfolio supports our aims to boost standards in our schools and colleges and provides more homes for social rent, ensuring every family has the chance to succeed.



40. An additional £83.6m of resource funding and £28m of capital funding is being provided through the Education budget, in addition to significant funding provided for schools and education through the local government settlement. This builds on significant additional funding for education in 2024-25 and will support the delivery of our priority aim to improve attainment and increase attendance in schools.
41. An additional £7m of resource funding will go towards supporting school attendance. We know too many children and young people are not attending school regularly – this is not unique to Wales and is partly a consequence of the Covid-19 pandemic. Missing school regularly impacts on a child’s education and future prospects, widening the gap in attainment levels.
42. A package of school attendance interventions will be funded through this budget aimed at engaging families, supporting learners to attend education and tackling disaffection. This includes funding for local authorities to increase the number of family engagement officers, funding for the community-focused school programme and an expansion to the school holiday enrichment programme, which runs through the summer.
43. £10m of additional resource funding will support learning and attainment in literacy and numeracy. This will provide essential funding for national support programmes, including phonics support, as well as specific and targeted interventions to support learners struggling with literacy and numeracy. It will also help to improve data collection on literacy and numeracy to support schools.
44. Extra investment of £14.3m resource funding will increase support for sustainable and improved delivery of provision for children and young people with Additional Learning Needs (ALN). This is on top of further investment in ALN support in 2024-25.
45. An additional £7.8m of resource funding will be provided through the Local Authority Education Grant to support schools and help to raise school standards. £31.6m will support tertiary education and provide high quality post-16 education, whilst £93.5m will be invested to maintain the universal provision of free school meals in primary schools.
46. An additional allocation of £28m of capital funding will improve the fabric of our educational estate, which will, in turn help to boost standards by providing an environment that encourages higher attendance and attainment and supports communities across Wales.
47. We know that roughly 38% of local authorities’ funding is spent on education. Therefore, in addition to funding for local authorities and education settings via the Education budget, the increase to the local government settlement of £253m will also provide support to schools, including for ALN and continue our programme of investment in Sustainable Communities for Learning.



48. The Cymraeg 2050 resource budget will be uplifted by £4.6m in 2025-26, which provides much needed support to increase Welsh language and support us to reach our target of a million Welsh speakers by 2050. £3.5m of this funding will support the Welsh language, including Coleg Cymraeg Cenedlaethol and the National Centre for Learning Welsh.
49. We are investing £81m of general capital funding for the Social Housing Grant and Transitional Accommodation Capital Programmes which will deliver more homes for social rent supporting our work to end homelessness and ensure everyone in Wales has a decent, secure place to call home. In addition, a further £26.25m of FT Capital has been made available to continue to support loans to Registered Social Landlords (RSL).
50. We are investing a further £5.5m of capital funding in the Independent Living Programme which supports housing adaptations. This is an effective, preventative investment, which supports independent living and the health and wellbeing of older people, disabled adults and children and can help support the timely discharge of people from hospital.
51. The primary focus of our capital investment in the Housing and Local Government portfolio will be on social homes – helping us to meet our target of building 20,000 social homes for rent - an additional £57m of FT capital will be provided for the Help to Buy scheme which will support people to own their own homes. We are investing an additional £2m of capital funding for private rented homes through the Leasing Scheme for Wales and extending our Green Homes scheme through the Development Bank of Wales.

## **Connecting Communities**

52. Through additional funding of almost £70m resource and £51m capital, we are progressing on our commitments to modernise our railway and deliver a better bus network, to fix our roads, and provide local choice on 20mph.
53. We are continuing to invest in rail services in the areas which are the responsibility of the Welsh Government. Our priority is the completion of the transformational Core Valley Lines project from a Victorian coal line to a modern Metro system. The total allocation to the rail capital budget (including non-Core Valley Lines elements) is £181.6m.
54. We are working with the UK Government to ensure a fair approach to rail funding and investment in Wales. This will form part of the UK Government's considerations for the next phase of the Spending Review.
55. Funding for bus networks is key as we prepare and plan for bus franchising through the forthcoming Bus Bill, which will be introduced to the Senedd in March 2025. An additional £9m resource funding is being invested in 2025-26 to meet the additional costs of services and the demand-led concessionary fares scheme.

56. We will maintain capital transport grants to local authorities. This £120m fund will support investment in resilient road projects, safe streets, active travel, bus infrastructure and EV charging infrastructure.
57. We are investing an additional £27m resource funding in the Strategic Road Network (SRN), which will help to address the significant maintenance backlog and deliver on our commitment to fix the state of roads. We will create a £25m road improvement fund to improve the SRN which will enable us to improve 100km of the network and reduce and prevent potholes.
58. We are investing £5m of recurrent resource support through a new Highways Management Local Government Borrowing Initiative, enabling local authorities to self-finance c.£60m of capital funding to be spent on highways management and fixing our local roads.
59. We are enhancing the resources available for road safety, decarbonisation, policy and evidence with an increase in resource funding from £6.9m to £9.0m to the transport strategy related budget.

## **Local Government**

60. Local authorities are a key partner in the delivery of a wide range of services which people throughout Wales rely on and use every day and which play a crucial role in the delivery of all four of our priorities. Through further investment in this Draft Budget we are protecting frontline delivery of vital public services and enhancing delivery of our priorities.
61. We are prioritising investment to local authorities, just as we have in previous years, by providing an increase of £253m to the local government settlement, a like for like basis uplift of 4.3%. We will continue to work in partnership with local authorities to ensure we do all we can within the funding available.
62. Social care, delivered by local authorities across Wales, is vital to helping people of all ages, live independent lives in their local communities. Social care also supports the NHS, ensuring people can be safely cared for at home and that they have the right support to recover from illness or injury after their hospital treatment ends. Partnership working between health boards and local authorities is key to improving preventative services and minimising hospital discharge delays. Roughly 30% of local authorities' funding is spent on social care.
63. Education is another critical service delivered by local authorities, with around 38% of total spending, as previously outlined. The core funding provided through the local government settlement underpins the provision of education through nursery, primary and secondary schools. It also supports children and young people with additional learning needs (ALN) through mainstream provision and special schools, providing opportunities for all children and young people.

64. We are continuing to reduce the administrative burden on local government by building on the work to consolidate or dehypothecate some grants in 2024-25. This builds on our strategic relationship with local government based on trust and delivering in partnership. It drives the focus away from unnecessary bureaucracy and continues to ensure the best use of resources for both local authorities and the Welsh Government.
65. The impact of the early changes to grants in 2024-25, for example the consolidation of education grants, is starting to emerge. It is essential we work with local authority colleagues to understand these impacts to inform the next phase of this work. We are also undertaking an exercise to modernise transport grants, exploring opportunities to amalgamate grants and provide transport funding at a regional level through Corporate Joint Committees.
66. We will formalise the Welsh Government's strategic relationship with local government through a partnership agreement with them which will set out how we will work together and what will be delivered, with a clear focus on delivery and outcomes for people.

### **Equality and Tackling Poverty**

67. Providing equal opportunities and improving the lives of everyone in Wales are the principles underpinning all our priorities. Funding through the Social Justice MEG alongside other budgets across the Welsh Government contribute to tackling poverty, equality and improving the wellbeing of everyone in Wales.
68. Financial inclusion budgets will see an uplift of more than £1m which provides additional funding for the Discretionary Assistance Fund to provide emergency support to those most in need. Digital inclusion will also see an increase of £1.4m which means we can provide more resource intensive support and target the most digitally excluded groups.
69. An additional £5m to the Supporting Communities budget is a significant boost to tackling food poverty and funding local food partnerships. It will also support tackling child poverty and the implementation of the *Child Poverty Strategy* as well as an expansion of support for Warm Hubs to continue the provision of safe and warm places within local communities.
70. A package of support for the third sector worth c£1m will help organisations and volunteers continue to provide vital services to the most vulnerable individuals and families; £13,000 will provide an uplift to credit unions.
71. £1.2m of additional funding is being invested to support the delivery of the *Violence against Women and Domestic Abuse and Sexual Violence Strategy* to provide victims with support and advice across all areas of Wales through regional grant funding.
72. Equality, Inclusion and Human Rights budgets will be uplifted to provide vital support to target action aimed at tackling inequality and advancing human rights, reflecting the challenging context still felt by those with protected characteristics.

73. Additional capital funding of £3m to the Social Justice MEG is being invested in digital inclusion, tackling food poverty, violence against women, domestic abuse and sexual abuse capital grants and the Communities Facilities Programme.

## Capital

74. We published our *Wales Infrastructure Investment Strategy* (WIIS) in December 2021, setting out the outcomes which investment in infrastructure in Wales should enable over a 10-year period. The WIIS committed us to developing a series of *Infrastructure Finance Plans* (IFPs), to operationalise the approach based on the UK Government budget settlements over the term of the strategy.

75. We are publishing our second [IFP](#) alongside this Draft Budget 2025-26 which allocates more than £3bn of capital to support our infrastructure plans over the one-year budget period. The IFP sets out the infrastructure investment areas which will enable delivery of a whole range of Programme for Government commitments and put Wales firmly on the path to growth.

76. From maintaining and upgrading our roads, to decarbonising more homes through retrofit, the infrastructure investments described in the [IFP](#) are an essential lever in delivering the vision of a fairer, greener, ever more successful Wales.

## Financial Transactions Capital

77. We continue to maximise our existing portfolio of FT capital investment, investing more than £127m in a wide variety of projects supporting businesses and the housing sector, benefiting many parts of our society and economy. The allocations for this year are set out below:

MEG	Programme	Investment (£m)
Climate Change & Rural Affairs	FE/HE Digarbon loan programme	10.00
Economy, Energy & Planning	Holyhead Breakwater <sup>6</sup>	20.00
Economy, Energy & Planning	Green Business Loans	4.50
Economy, Energy & Planning	Angel Investment Scheme	3.00
Economy, Energy & Planning	Wales Micro Loan Fund	2.00
Housing & Local Government	Help to Buy	57.00
Housing & Local Government	RSL Development Loans	26.25
Housing & Local Government	Housing Retrofit	3.00
Social Justice	Community Asset Loan Fund	1.50
<b>Total</b>		<b>127.25</b>

78. The investment in Holyhead Breakwater will ensure essential repairs are completed to the structure of the 2.4km-long Victorian breakwater. It will secure the future of the Port, safeguarding quality jobs in some of the most deprived communities.

<sup>6</sup> This is reprofiled spend from 2024-25 and not additional investment

79. Green Business Loans will support SMEs and medium-sized businesses, encouraging investment in energy efficiency enhancements and decarbonisation projects.
80. We will continue our support for Welsh businesses by providing a source of alternative finance through angel investment, whilst the Wales Micro Loan Fund will specifically support micro businesses, SMEs, and social enterprises. These schemes will encourage new business creation and economic growth in Wales.
81. The Digarbon Loan Fund programme supports Further and Higher Education organisations in Wales to decarbonise buildings, reducing carbon emissions and potentially saving energy costs. We are allocating funding to extend the scheme for a second year.
82. We are investing a significant amount of FT capital in housing related schemes, to support the delivery of our priority to provide Opportunity for Every Family. Help to Buy Wales has supported thousands of people to realise their dream of home ownership since its launch in January 2014 with more than 14,000 new homes delivered to date. We are therefore providing funding to extend the scheme for a further 18 months. We are also extending the RSL Development Loans scheme for one year. This has proved to be a key mechanism for delivering more homes for social rent, ensuring every family has the chance to succeed. These investments will provide a boost to the housebuilding industry and development supply chain, with new developments incorporating additional green features, such as renewable energy sources to help respond to our changing climate. For those who already own their own homes, we are investing to help retrofit and decarbonise their homes by funding heat pumps and solar panels.
83. The Community Asset Loan Fund offers incorporated voluntary sector organisations long term finance to enable them to take ownership of and protect community assets to support disadvantaged communities and reduce inequality. Proposed interventions this year are preventative in nature, for example providing accommodation for children who are looked after.

## Chapter 5: Tables Supporting Spending Plans

1. Devolved expenditure in Wales for 2025-26 comprises allocations to Welsh Government Main Expenditure Groups (MEGs) of £24.9bn.
2. The tables which support this Draft Budget narrative can be found in the open data source (ODS) workbook tables supporting spending plans, on the Welsh Government's Draft Budget webpage. [Tables Supporting Spending Plans](#)
3. Publishing the tables in a single document in ODS format reflects the Welsh Government's commitment to improve the presentation and openness of Budget data.
4. The tables included in the ODS workbook comprise:
  - Sources of Finance for Welsh Government;
  - Allocation of the Wales Budget;
  - Summary of the Welsh Government MEG Total Allocations;
  - Changes to the Welsh Government MEG Resource Allocations;
  - Changes to the Welsh Government MEG Capital Allocations;
  - Changes to the Welsh Government MEG AME Allocations;
  - Direct Borrowing for Capital Purposes;
  - Financial Transactions Capital Allocations and Disaggregation;
  - Mapping of Capital Budget Allocations to Investment Areas and Sectors;
  - Reconciliation Between Administrative Budget and Resource Allocations in the Draft Budget Proposals;
  - Year on Year Changes; and
  - Year on Year Changes reflecting updates to 2024-25 Pay and Superannuation Contributions Adjusted for Past Experience (SCAPE<sup>7</sup>).
5. The table setting out the allocation of the Wales Budget shows the components of the Wales Expenditure Budget, broken down by MEG and indicative budgets for the Senedd Commission, the Auditor General for Wales and the Public Services Ombudsman for Wales. It also shows unallocated reserves funding, reflecting our fiscal strategy of utilising funding held in the Wales Reserve to manage the in-year financial position and not holding an unallocated DEL reserve. The MEG allocations reflect the high-level priorities set out in Chapter four and form our control totals for managing the Budget throughout the year.
6. There are additional tables for the 2025-26 Budget only. These show the percentage changes arising from comparing the 2025-26 Draft Budget figures with the restated Final Budget 2024-25, but also including recurrent pay and SCAPE<sup>7</sup> changes, which arose in-year. This provides an additional view of comparability.

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<sup>7</sup> SCAPE refers to the process for setting employer contribution rates at valuations of unfunded public service pension schemes.

7. Within the MEG allocations there are different types of expenditure which are used for different purposes:

- Fiscal resource;
- Non-fiscal resource;
- General capital;
- Financial Transactions capital; and
- Annually Managed Expenditure (AME).

8. The tables showing summaries of the Welsh Government MEG Total Allocations 2025-26 set out the MEG allocations by these categories. They can be found using the link to the ODS workbook shown in paragraph 2 of this chapter.



## Annex A: Technical Information on Innovative Finance Schemes

1. Innovative Finance and Mutual Investment Model (MIM) schemes provide a much-needed boost to capital budgets, ensuring vital facilities for the public are delivered sooner than would have otherwise been achievable.
2. The [2025-26 Infrastructure Finance Plan](#), published alongside this Draft Budget, reflects the new capital budget allocations for the 2025-26 financial year and the role our innovative finance schemes, such as the MIM, play in supporting the outcomes of the *Wales Infrastructure Investment Strategy*. It also sets out how we will continue to finance a range of infrastructure investments through revenue financed schemes.
3. Unhypothecated funding continues to be distributed through the revenue support grant (RSG) for two local government borrowing initiatives for highways and schools. Funding also continues to be allocated for two rounds of investment using the Housing Finance Grant.
4. The Coastal Risk Management Programme will maintain investment in local authority coastal defence assets to manage current and future risks from climate change and sea level rise to coastal communities. Construction of the first scheme started in 2019-20 and the budget continues to roll over funding for the programme up to 2025-26. There are currently 15 local authority schemes in the programme and, in allocating a multi-year settlement, we will monitor the delivery profile of these schemes.
5. Three schemes are being delivered using the MIM. The A465 dualling project is expected to complete in 2025. The Welsh Government continues to work with the Welsh Education Partnership Company on the construction of a pipeline of schools and colleges as part of the Sustainable Communities for Learning Programme. The first two education MIM projects are now underway – an all-through school in Mynydd Isa with Flintshire Council and primary school developments with Rhondda Cynon Taf Council. Construction of the new Velindre Cancer Centre is expected to be complete in 2027.
6. Service payments for MIM schemes will not begin until the new infrastructure projects are available for public use.
7. Financial transactions (FT) capital will continue to be used to finance the public sector shareholding in MIM schemes. This will be managed by the Development Bank of Wales on behalf of Welsh Ministers.
8. In support of our commitment to transparency, we published the second MIM report in May 2024, which describes our activities from July 2022 to March 2024. We have also published the Education Strategic Partnership Agreement and A465 project agreement (with commercially sensitive information redacted).



## Annex B: Devolved Tax and Block Grant Adjustments

### Introduction

1. This report sets out the latest devolved tax revenue forecasts and the details of how they affect the Welsh Government's budget.
2. Tax devolution impacts on the Welsh Government's budget in two ways. Firstly, the devolved tax revenues represent a significant share of the overall funding for the budget (together with non-domestic rates, they contribute around 20%). Secondly, those revenues are accompanied by reductions to the grant from the UK Government known as block grant adjustments.
3. The initial level of the block grant adjustments was based on the revenues in Wales from the relevant tax at the point of devolution. The year-to-year change in the adjustments is based on growth in the equivalent revenue streams in England and Northern Ireland. The detailed mechanisms are set out in the Welsh Government's fiscal framework agreement<sup>8</sup>.
4. The devolved tax revenue estimates used in the budget are forecasts produced independently by the Office for Budget Responsibility (OBR), in accordance with the Welsh Government's fiscal framework agreement. The block grant adjustments are based on forecasts of equivalent revenues in England and Northern Ireland for the same year, also from the OBR. The devolved tax forecasts are set out in more detail in the *Welsh Taxes Outlook* published by the OBR alongside the Welsh Government budget. The relevant forecasts for the block grant adjustments are included in the annex to that publication.
5. The first section of this report sets out the net impact of tax devolution – the difference between devolved tax revenues and the associated block grant adjustments each year.
6. As the budgetary impact of tax devolution is based on forecasts, a reconciliation process is required once annual outturn information is available. Reconciliation amounts are applied to the budget in later years. The second section of this report shows the latest set of reconciliation amounts.
7. The third section sets out how revenues, block grant adjustments and reconciliation amounts affect the sources of finance in the Welsh Government's Draft Budget 2025-26.

### Section 1 Revenues and Block Grant Adjustments

8. This section includes the latest tax revenue forecasts, alongside outturns for years where that is available. These are set out in table 1, together with the outturns and forecasts for the associated block grant adjustments.

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<sup>8</sup> [Agreement on the Welsh Government's fiscal framework | GOV.WALES](#)

Table 1: Tax Revenue and Block Grant Adjustment Outturns and Forecasts (£m)

	2021-22	2022-23	2023-24	2024-25	2025-26
<b>Revenues</b>					
Welsh Rates of income tax	2,384	2,618	2,924	3,257	3,462
Land Transaction Tax	402	372	272	319	338
Landfill Disposals Tax	45	42	30	31	32
<b>Total</b>	<b>2,832</b>	<b>3,032</b>	<b>3,226</b>	<b>3,608</b>	<b>3,833</b>
<b>Block Grant Adjustments</b>					
Welsh Rates of income tax	(2,312)	(2,535)	(2,777)	(3,078)	(3,262)
Land Transaction Tax	(287)	(313)	(237)	(259)	(298)
Landfill Disposals Tax	(26)	(25)	(19)	(20)	(15)
<b>Total</b>	<b>(2,625)</b>	<b>(2,872)</b>	<b>(3,033)</b>	<b>(3,357)</b>	<b>(3,575)</b>
<b>Net revenue impact</b>					
Welsh Rates of income tax	72	83	147	179	201
Land Transaction Tax	115	60	35	61	40
Landfill Disposals Tax	19	17	11	11	18
<b>Total</b>	<b>206</b>	<b>160</b>	<b>193</b>	<b>251</b>	<b>258</b>
<b>Outturn</b>					

9. The overall outlook for the net revenue impact of devolved taxation remains positive. It fell back a little in 2022-23 but is expected to increase in both 2023-24 and 2024-25. The net revenue impact of the devolved taxes in 2025-26 is forecast to be +£258m in total, with positive contributions from all three taxes.

## Section 2: Reconciliation amounts

10. Outturn information for both Welsh Rates of Income Tax (WRIT) revenues and the associated block grant adjustment is only available around 16 months after the end of the relevant year. The most recent outturn information for 2022-23 was published in July this year.
11. Both elements are fixed for budgetary purposes using the OBR's forecasts from the previous Autumn. A joint technical note with HM Treasury was published on 3 October 2024, detailing the reconciliation amounts for 2022-23. For 2023-24 and 2024-25 reconciliation amounts are estimated using the most recent forecast. Actual and forecast reconciliation amounts are shown in Table 2.

Table 2: Reconciliation amounts, outturns and forecasts (£m)

	2021-22	2022-23	2023-24	2024-25
<b>Welsh Rates of Income Tax</b>				
<u>Used in Budgets</u>				
Revenues	2,064	2,478	2,795	3,171
Block Grant Adjustments	(2,099)	(2,447)	(2,733)	(3,017)
<u>Outturns and latest forecasts</u>				
Revenues	2,384	2,618	2,924	3,257
Block Grant Adjustments	(2,312)	(2,535)	(2,777)	(3,078)
<u>Reconciliation amounts</u>				
Revenues	320	140	128	86
Block Grant Adjustments	(213)	(87)	(44)	(61)
<b>Fully devolved taxes</b>				
<u>Block Grant Adjustments used in Budgets</u>				
Land Transaction Tax	(277)	(322)	(241)	(259)
Landfill Disposals Tax	(23)	(27)	(21)	(20)
<u>BGA outturns and latest forecasts</u>				
Land Transaction Tax	(287)	(313)	(237)	(259)
Landfill Disposals Tax	(26)	(25)	(19)	(20)
<u>Reconciliation amounts</u>				
Land Transaction Tax	(10)	9	4	
Landfill Disposals Tax	(3)	2	2	
<b>Outturn</b>				

12. Outturn data for the fully devolved taxes (LTT and LDT) and UK equivalents is more timely and is now available up to 2023-24.
13. As with WRIT, the block grant adjustments for the fully devolved taxes are set using the previous Autumn forecasts but, unlike WRIT, are revised in-year as well. This means that the reconciliation amounts for the block grant adjustments tend to be relatively small. These are also shown in table 2. (There are no reconciliations for the revenues for the fully devolved taxes themselves, as outturns affect the Welsh Government budget with immediate effect.)

### Section 3: Forecasts and reconciliation amounts in the Welsh Government budget

14. This section brings together information from the first two sections to show the overall impact on the Welsh Government's funding for 2025-26. Table 3 provides details for 2025-26 consistent with the Sources of Finance table, Tab 1 in the [Tables Supporting Spending Plans](#) .ODS workbook.

15. The reconciliation amounts for WRIT revenues and block grant adjustment are applied to the budget three years after the year to which they relate. The 2022-23 reconciliation amounts are therefore applied to the 2025-26 Budget.
16. The reconciliations for the block grant adjustments relating to LTT and LDT are applied two years after the year to which they relate. The 2023-24 reconciliations are applied in 2025-26.

**Table 3: Forecasts and reconciliation amounts in the Welsh Government's Draft Budget for 2025-26 (£m)**

	<b>2025-26 Draft Budget December 2024</b>
<b>Tax revenues</b>	
WRIT revenues	3,462
WRIT revenue reconciliation amounts	140
WRIT total	3,603
Land Transaction Tax	338
Landfill Disposals Tax	32
<b>Total devolved tax revenues</b>	<b>3,973</b>
<b>Block Grant Adjustments</b>	
Welsh Rates of income tax	(3,262)
Land Transaction Tax	(298)
Landfill Disposals Tax	(15)
<u>Reconciliation amounts from previous years</u>	
Welsh Rates of income tax	(87)
Land Transaction Tax	4
Landfill Disposals Tax	2
<u>Total</u>	
Welsh Rates of income tax	(3,349)
Land Transaction Tax	(294)
Landfill Disposals Tax	(13)
<b>Total block grant adjustments</b>	<b>(3,656)</b>
<b>Total net budgetary impact</b>	<b>317</b>

17. The overall net impact of devolved taxation on the 2025-26 Budget is +£317m, including reconciliation amounts in relation to previous years.

## **Annex C: Glossary of financial terms**

### **Action**

Within each Spending Programme Area (SPA), budgets are allocated to a number of sub-programmes known as Actions.

### **Ambits**

Descriptions of the specific purposes for which the Welsh Ministers are authorised by the Senedd to spend resources. Ambit descriptions and resource limits are contained within the Annual Budget Motion. Ambits correspond to MEGs.

### **Annually Managed Expenditure (AME)**

Expenditure which cannot reasonably be subject to firm, multi-year limits in the same way as DEL and is therefore reviewed twice a year as part of the HM Treasury's Budget and pre-Budget report processes. AME typically consists of programmes which are large, volatile, or demand-led; for example, the issue of student loans. Local authority expenditure financed by Non-Domestic Rates is also reflected in AME Budgets.

### **Budget Expenditure Line (BEL)**

Within each Action, budgets are allocated to a number of sub-expenditure groups known as BELs. Tables showing budgets at BEL level are available in [Welsh Government budgets](#).

### **Barnett Formula**

The formula used by the UK Government to calculate changes to the block grant allocated to the Welsh Government (and other Devolved Governments). The Welsh Government receives the same changes in funding per head of the population as announced in England for services which are devolved to Wales. As part of the fiscal framework agreed between the Welsh Government and UK Government in 2016, there is also a needs-based factor applied to the Barnett formula allocations to Wales. This is currently set at an additional 5%.

### **Budget Motion**

The means by which the Senedd authorises the Welsh Ministers to spend resources up to a specific level for specified purposes and to draw cash up to a specific limit from the Welsh Consolidated Fund.

### **Capital**

Expenditure that in the main results in a physical asset, for example a new building. A proportion of the Capital DEL includes Financial Transactions Capital.

### **Departmental Expenditure Limit (DEL)**

The multi-year budget limit for the Welsh Government set by HM Treasury. DEL is planned and controlled on a multi-year basis in Spending Reviews. The Welsh Government DEL and AME Budgets have separate capital and resource limits.

### **Depreciation**

The drop in value of an asset due to wear and tear, age, and obsolescence. Under resource budgeting, depreciation is part of the Welsh Government's DEL but is a non-fiscal resource DEL item.

### **Direct Charges on the Welsh Consolidated Fund**

Expenditure which is legally required to be charged directly to the Welsh Consolidated Fund and therefore does not score against the budgets of the Welsh Government or any other body. Direct charges include the remuneration of the Presiding Officer and Auditor General.

### **Financial Transactions Capital**

Financial Transactions Capital is part of the capital DEL settlement that can only be used for loans and equity investments to third parties. In the main, the funding must be repaid to HM Treasury.

### **Fiscal Resource DEL (previously known as near-cash)**

The Fiscal Resource DEL budget scores most of the department's current expenditure. Expenditure is recorded on an accruals basis. It includes expenditure on pay, current procurement, resource grants, and subsidies.

### **Main Expenditure Group (MEG)**

The Welsh Government DEL is divided into a number of Main Expenditure Groups. There are currently eight MEGs: Health and Social Services; Finance and Local Government; Education and the Welsh Language; Climate Change; Economy; Rural Affairs; Social Justice; and Central Services and Administration.

### **Non-Fiscal Resource DEL (previously known as non-cash)**

The Non-Fiscal Resource DEL budget scores the department's current expenditure in respect of impairment of student loans and depreciation. Non-Fiscal Resource DEL is ring-fenced and cannot be used to fund fiscal resource DEL spending.

### **Receipts**

Some areas of Welsh Government activity generate income, for example, through the sale or rental of assets. These are represented in the budget as negative figures.

### **Resource Budgeting**

The Welsh Government's budget is set on a resource basis derived from accruals information. Accruals information measures resources as they are consumed rather than when the cash is paid. So, for example, resource budgeting includes a charge for depreciation, a measure of the consumption or wearing out of capital assets.

### **Resource (previously known as revenue)**

Current expenditure, for example funding for the pay of public sector workers and to purchase consumable goods and services.

### **Spending Review**

Every two or three years, HM Treasury reviews expenditure for each UK Government department and sets budgets for the forthcoming years. Budgets for the Devolved Governments are derived from these budgets via the Barnett formula, which is the mechanism used by HM Treasury to calculate public expenditure allocated to Wales to reflect changes in spending levels allocated to public services in England.

### **Spending Round**

The Spending Round is a UK Treasury-led process to allocate resources across all government departments, according to the Government's priorities. It does not include a revision to tax forecasts.

### **Total Managed Expenditure (TME)**

This is an HM Treasury control total which is comprised of the total Departmental Expenditure Limit plus Annually Managed Expenditure.

### **Wales Reserve**

The Wales Reserve has been in operation since April 2018 as a tool to enable the Welsh Government to manage its budget across years. The Welsh Government will be able to save surplus revenues from the devolved taxes and underspends on the DEL in the Reserve for use in future years. The Reserve will be able to hold up to £350m, with an annual drawdown limit of £125m for resource and £50m for capital. There will be no annual limit for payments into the Reserve.

### **Welsh Consolidated Fund**

The account into which the money voted by the UK Parliament for use by the Welsh Government, the Senedd Commission, the Auditor General, and the Public Services Ombudsman for Wales is paid.