



Llywodraeth Cymru  
Welsh Government

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# Final Budget 2025-26

February 2025

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## Foreword by the Cabinet Secretary for Finance and Welsh Language

For the first time in many years, this Final Budget puts us firmly back on the path to growth in Wales by providing further funding for public services, transport, the environment and rural affairs and the arts and culture, building on the significant investment we announced in the Draft Budget in December.

In publishing this Final Budget, the Welsh Government has worked closely with Jane Dodds MS, the leader of the Welsh Liberal Democrats, to agree more than £100m of additional investment, in areas where we have shared priorities. We have worked constructively together to ensure local authorities and the public services on which we all rely receive additional funding.

Collaborative and consensual working between the Welsh Government and other parties in the Senedd on areas of shared interest and mutual priorities has been a feature of devolution ever since the first Assembly was formed. It is a feature – and a real strength – of democracy in Wales.

I am committed to working with all parties in the Senedd to pass the 2025-26 Final Budget so that everyone in Wales can benefit from this ambitious Budget.

The additional funding confirmed in it includes £30m more for social care to target delayed hospital discharges and £30m which will ensure funding for the Flying Start programme to deliver child care to two-year-olds across Wales and to provide a further increase in childcare rate to support providers.

There is additional funding of £8.24m to provide a guaranteed funding floor in the local government settlement, which will support nine local authorities; £5m for local authorities to improve playgrounds and play spaces and a further £5m to support local authorities in decarbonising their leisure centres.

The agreement also provides £15m over two financial years to fund a pilot young person's bus fare scheme and funding to restore the fifth train on the Heart of Wales service from December 2025. An additional £10m is being invested in the Rural Investment Scheme and £5m to improve water quality enforcement. I am grateful to Jane Dodds for the constructive way in which we have been able to agree on these very important investments.

Following the publication of the Draft Budget, there has been thoughtful and robust scrutiny from Senedd Members, partners and stakeholders.

The Final Budget also provides additional funding to the arts, culture and sports sectors which is over and above the funding announced in the Draft Budget. This recognises the specific challenges in this important sector, which is so entwined with our heritage and identity and reaffirms our commitment to a more secure and sustainable future for arts and culture.

Taken together, the additional funding being made today with the £1.5bn committed in the Draft Budget, represents a brighter future for Wales.

## Introduction

1. The Welsh Government has tabled the Final Budget 2025-26 in accordance with Standing Order 20. The Final Budget sets out the Welsh Government's resource and capital spending plans for 2025-26.
2. The [Draft Budget 2025-26](#), published on 10 December 2024, sets out the Welsh Government's proposed spending plans and its taxation and borrowing proposals. Each Cabinet Secretary has also published detailed evidence papers for Senedd scrutiny committees in relation to the spending plans in each individual portfolio.
3. There are limited changes being introduced in the Final Budget which were not published in the Draft Budget. This Explanatory Note sets out those changes.
4. The timing of the UK Government's Autumn fiscal event on 30 October 2024, when the Welsh Government was notified of its settlement for 2025-26, once again had a significant impact on the publication of the Budget. The Welsh Government, with the agreement of the Senedd Business Committee and Finance Committee, triggered exceptional arrangements in relation to this year's Budget process.
5. The scrutiny of the 2025-26 Draft Budget by the Senedd and its committees took place between 10 December 2024 and 4 February 2025. Senedd committees published their Draft Budget scrutiny reports on 3 February 2025, prior to the Draft Budget debate in the Senedd on 4 February.
6. The Welsh Government welcomes the scrutiny of our Budget proposals provided by the Finance Committee and other Senedd committees. We have reflected on the recommendations made by all the committees and will respond formally to these before the Final Budget debate on 4 March.
7. As the changes between Draft and Final Budgets are limited and build on existing published spending plans, an assessment of these impacts has already been provided through the [Strategic Integrated Impact Assessment](#) published alongside the Draft Budget 2025-26.

## Update on the Economic Context 2025-26

8. Economic conditions and near-term prospects have deteriorated since the publication of the [Wales Economic and Fiscal Report](#) in December 2024.
9. Output or GDP stagnated across the UK in the second half of 2024, and for the year as a whole it is likely it increased by less than 1%. Growth in GDP per person, which underpins living standards more than aggregate GDP, was weaker than aggregate GDP owing to strong population growth.
10. The Bank of England's latest economic forecast suggests performance is not going to improve materially any time soon. UK GDP is expected to barely increase in the current quarter and to pick up only moderately through the balance of the year. Inflation is expected to increase, as is unemployment.
11. These outcomes would likely feature in Wales too. Lack of robust comprehensive labour market data and output data continue to hamper attempts to gauge more detailed insight of the performance of the Welsh economy.
12. The Bank of England's forecast indicates that the short-term outlook is one of little more than stagnation, continuing the pattern of the last few years. From the first quarter of 2022 to the fourth quarter of 2024, aggregate UK GDP increased by approximately 1.5%. This is well below the average growth rate for just one year before the financial crisis.
13. A major risk to the global economic outlook has crystallised under the new US Government. The administration has imposed additional tariffs on imports from China and swingeing increases are on pause for imports from Mexico and Canada. There is a real threat of significant disruption to global trade, which would damage the world economy and impact the economy in Wales. National Institute for Economic and Social Research analysis suggests a trade war could halve economic growth in the UK this year.
14. A second risk has materialised as bond market investors are concerned about the negative implications of US Government budget policy on its public finances. These concerns have spilled over to the UK with gilt yields increasing sharply in January before retreating over the last few weeks. Further volatility cannot be ruled out in the weeks and months ahead, potentially raising the cost of capital for businesses, increasing the cost of household mortgages and making government borrowing more expensive.
15. The combined effects of lower growth and higher borrowing costs for the UK Government are likely to mean considerable downside risks to the Office for Budget Responsibility's fiscal outlook published last October. This could make it more difficult for the UK Government to meet its fiscal rules, against which there was little headroom in the October forecasts. This in turn could have implications for the overall spending envelope beyond 2025-26 for UK departments and devolved nations in the forthcoming spending review. The Office for Budget Responsibility will publish an updated economic and fiscal forecast on 26 March.

## Changes between Draft and Final Budget 2025-26

16. The changes made between the publication of the Draft and Final Budgets are outlined below and reflected in the [Tables Supporting Spending Plans](#) (.ods workbook).
17. The detailed changes to each department's spending plans are set out in the [Final Budget 2025-26 Budget Expenditure Lines \(BEL\) tables](#) which are published together with this Explanatory Note.
18. Changes shown in the Final Budget 2025-26 have been agreed by Welsh Ministers in line with the aims set out in the Draft Budget: to protect public services, grow the economy and target investment 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.

### Sources of Finance for Welsh Government

19. This Final Budget contains a small change in the latest revenue forecasts for Land Transaction Tax and Landfill Disposals Tax. Details about the tax forecasts are published in the Office for Budget Responsibility's update to the [Welsh Taxes Outlook](#) published alongside the Final Budget.

### Additional allocations at Final Budget - Resource

20. We are allocating a further £30m of resource funding for social care through the Health and Social Care (HSC) Main Expenditure Group (MEG) to target delayed hospital discharges and provide more care and support in local communities. In 2025-26, it will be provided through a Pathways of Care Transformation Grant to local authorities to boost investment in community-based social care. It will support assessments and provide packages of care to ensure people can leave hospital when they are medically fit to do so, helping to reduce the level of delayed hospital discharges. It will also strengthen community-based care services.

21. An additional £30m of resource funding is being provided for childcare. This is on top of the £20m included in the Draft Budget. The £30m will fund the extension of Flying Start childcare in all local authority areas. Local authorities have set out plans about how they will expand Flying Start childcare in their areas. This funding will make childcare available to the majority of two-year-olds identified in those plans in 2025-26. The funding will also support a further uplift in the hourly rate to £6.40 for childcare, to support providers with cost pressures. This is in addition to our recent announcement about moving to annual rate reviews from 2025-26 and our decision to make 100% rates relief for all childcare premises permanent.
22. We are providing an additional £10m to the Rural Investment Scheme to invest in our rural economy as part of the Sustainable Farming Scheme Preparatory Phase, ahead of the introduction of the scheme in 2026. This will support our farmers and the wider food supply chain to produce food sustainably, contribute to our climate and nature objectives and support our rural communities. A wide range of advice and financial support will be made available in addition to the Basic Payment Scheme, including Habitat Wales Scheme, Organic Support Payment, Woodland Creation and Restoration, a range of small grants to support farmers who choose to purchase new equipment, create and maintain environmental features or develop their agricultural businesses.
23. In this Final Budget, we are allocating a further £8.24m through the local government settlement to ensure every local authority sees an increase in their funding of at least 3.8% compared to 2024-25 on a like for like basis. This floor is 1.5% higher than the previous year and supports nine authorities. We recognise the substantial pressures facing local authorities and the wide range of public services they deliver, including social care, education, housing support and other vital community services. The Draft Budget provided more than £6.1bn for core local authority funding through the local government settlement, an increase of over £253m on a like for like basis compared to 2024-25. This further uplift will enable authorities to respond to local pressures and priorities.
24. Recognising that public transport can help support young people to access education, employment, training and services, we are providing £8m through this Final Budget to support the introduction of an improved bus fares offer – of £1 single fares – for 16 to 21-year-olds. This funding to the Transport MEG complements our bus reform agenda and our efforts to improve social justice and deliver on the First Minister’s Connected Communities priority.
25. We are investing an additional £1m of recurrent resource support through a new Highways Management Local Government Borrowing Initiative. With the £5m announced at Draft Budget, this is a total commitment of £6m in 2025-26 together with a further £4m in 2026-27. This will enable local authorities to self-finance c.£120m of capital funding to be spent on highways management and fixing local roads and pavements.
26. We are allocating £5m for water quality in rivers and seas, focused on enforcement – £3.5m will be resource funding and £1.5m will be capital,

allocated to the Climate Change and Rural Affairs (CCRA) MEG. This will enable additional intelligence-led compliance activity and follow up on incident classification. It will support investment in underpinning systems, invest in enforcement staff and build on existing joint arrangements with the police. It will also support multi-agency partnership and strategic focus on water quality improvement.

27. An additional £4.381m is being provided through the Economy, Energy and Planning (EEP) MEG for the arts, culture, heritage, publishing, creative and sports sectors to reflect the challenging position the sector has faced recently. This is in addition to funding allocations made in the Draft Budget and helps to restore funding for these sectors to 2023-24 levels.
28. We are providing £1.25m in 2025-26 to implement improvements to the Heart of Wales line between Swansea and Shrewsbury. This will enable the introduction of an additional service in the timetable from December 2025 which will be based on passenger usage, with links to bus provision as part of enhanced services for Mid Wales. This funding, through the Transport MEG, is part of our programme to improve rail services for customers and deliver on our priority to Connected Communities.
29. Funding of £0.2m is being provided to further progress the redevelopment of the Wyese Arts Centre in Builth Wells. The theatre recently received Shared Prosperity Funding to update a feasibility study completed in 2018. This funding, through the EEP MEG, will take the project forward to a final 'developed design' stage.
30. An additional £0.05m is being allocated to the Wales and Africa small grants scheme, through the Central Services and Administration (CSA) MEG. The scheme supports and encourages Welsh civil society, businesses, and public bodies to take mutually beneficial action on global citizenship, skills exchanges and mutual learning, partnership working and climate change action to help deliver the UN Sustainable Development Goals.

### **Additional allocations at Final Budget - Capital**

31. An allocation of £5m capital, through the HSC MEG, is being made to improve play spaces and opportunities for children. This funding for local authorities will give them the flexibility to purchase large scale items to improve the quality of play spaces, refurbish playgrounds and will support the creation of accessible play spaces and opportunities for children.
32. An additional £5m is being provided through the HLG MEG to increase the support available to local authorities to install low carbon heating systems in their leisure centres making them greener, warmer and more sustainable. This is through the low carbon heat grant which provides support to local authorities to decarbonise their buildings from offices through to schools and care homes.

33. £1.5m of capital funding is being provided for water quality in rivers and seas focused on enforcement as outlined in paragraph 26.
34. £0.45m is being made available to Powys Teaching Health Board, through the HSC MEG, to further progress the development of the outline business case for the North Powys Integrated Health and Social Care Centre at Newtown, following completion of the usual scrutiny and governance process. The scheme proposes to provide a one-stop centre focused on prevention and primary care services to improve health outcomes and reduce inequalities.
35. £0.5m is being allocated through the EEP MEG to help support improvements and refurbishment of roadside toilets on the strategic road network. The works will include full refurbishment and renewal of assets to help better link communities with more inclusive travel, providing improved roadside facilities to users of the road network.
36. An allocation of £0.4m, through Transport budgets, will allow the Welsh Government to progress the design and implementation of initial safety measures related to the Pont Y Bat road junction on the A470. Longer term solutions will be developed during a monitoring period where the data collected will be used to inform those solutions.

### **Correction to Draft Budget BEL tables**

37. There was a transposition error in the published Draft Budget BEL tables within the CCRA MEG between the Coal Tip and Reservoir Safety Delivery BEL and National Parks BEL. An additional £0.4m was allocated to Coal Tip and Reservoir Safety Delivery and an additional £2m was allocated to National Parks when £2m should have been allocated to Coal Tip and Reservoir Safety Delivery and £0.4m allocated to National Parks. This is being corrected at Final Budget.

### **Administrative Changes**

38. We are making a number of administrative changes between Main Expenditure Groups (MEGs), responding to a range of matters which have arisen since publication of the Draft Budget.
39. There are several technical changes of fiscal resource between Ministerial portfolios in this Final Budget. They are listed here with full details in the accompanying BEL tables:
  - Transfer of £1.1m from the HSC MEG to the Education MEG to support the nursery provision of the childcare offer for Wales;
  - A transfer of £0.443m from the HLG MEG to the Social Justice (SJ) MEG for the Refugee Well Housing project; the Hosting scheme project; and the Streetlife project;
  - Transfer of £0.073m from the CSA MEG to the Education MEG for activities related to Siarter Iaith;



- Transfer of £0.05m from the Public Service Boards BEL in SJ MEG to the CSA MEG for the Wales Centre for Public Policy public services workstream;
  - A transfer of £0.134m from the SJ MEG to the HSC MEG due to change in the rate of pension for Llais, the Citizen's Voice Body.
40. There are three changes related to Invest to Save programmes to return budget responsibility, future funding and management of the schemes to the relevant departments:
- A transfer of £1.607m of resource funding from CSA MEG to the HSC MEG;
  - A transfer of £0.2m of resource funding from CSA to Climate Change and Rural Affairs (CCRA) MEG for Invest to Save Green Growth;
  - A transfer of £1.052m of capital funding from CSA MEG to CCRA MEG for Invest to Save – Welsh Government Energy Service and Smart Living.
41. In addition to the transfers between Ministerial portfolios, there are a number of fiscal resource transfers between BELs within the same portfolios. These are generally administrative in nature and have no net effect on the individual MEG totals. These include:
- A transfer of £1.611m from Core NHS Allocations (BEL 020) in the HSC MEG to support health boards to manage unavoidable inflation costs and demand pressures for 2025-26.
  - A transfer from Core NHS Allocations (BEL 020) in the HSC MEG of £0.343m to Primary Care IM&T (BEL 030) and £1.148m to Digital Health and Care Wales (BEL 35) to support pressures associated with digital inflation and to reflect the priority being given to digital as a key enabler in developing sustainable financial plans.
  - A transfer of £0.125m from Core NHS Allocations (BEL 020) in the HSC MEG to Other Direct NHS Allocations of recurrent foundation economy costs to NWSSP baseline.
  - A transfer of £12.5m from the Support for Childcare and Play (BEL 310) to Children and Communities Grant (BEL 1087) within the HSC MEG, required for continued Flying Start childcare alignment;
  - A transfer of £0.1m from Welsh in Education (BEL 5164) to Cymraeg 2050 (LAEG) (BEL 4504) in the Education MEG to further support local authorities' late immersion provision.
  - A transfer of £0.02m from Welsh in Education (BEL 5164) to Estyn Programme Expenditure (BEL 6280) in the Education MEG to enable the implementation of Estyn's inspection of local authority language immersion centres.