

# Scrutiny of the First Supplementary Budget 2025-26

July 2025



# 1. Introduction

- 1.** On 17 June 2025, the Cabinet Secretary for Finance and Welsh Language (the Cabinet Secretary) laid the Welsh Government First Supplementary Budget 2025-26 (the Supplementary Budget)<sup>1</sup>, an accompanying Explanatory Note<sup>2</sup>, Main Expenditure Group (MEG) allocations<sup>3</sup> and a Reserves Annex<sup>4</sup>.
- 2.** The Committee took evidence from the Cabinet Secretary at its meeting on 26 June 2025.<sup>5</sup>
- 3.** The Supplementary Budget reflects the budgetary changes since the Final Budget 2025-26, which the Welsh Government published in February and which was approved by the Senedd on 4 March 2025.<sup>6</sup> It regularises allocations to and from reserves, transfers within and between portfolios and includes adjustments to the Wales budget to reflect the impact of UK Government fiscal events.<sup>7</sup>
- 4.** In its Final Budget the Welsh Government allocated an extra £109 million compared to the Draft Budget 2025-26.<sup>8</sup>
- 5.** The Supplementary Budget also proposes a variation to the budgets from all three of the bodies directly funded from the Welsh Consolidated Fund (WCF). The Committee considered the requests from the Senedd Commission (the Commission), Audit Wales and the Public Services Ombudsman for Wales (PSOW) at its meeting on 7 May 2025.<sup>9</sup>

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<sup>1</sup> [Welsh Government, First Supplementary Budget 2025-26](#)

<sup>2</sup> [Welsh Government, First Supplementary Budget 2025-26: Explanatory Note](#)

<sup>3</sup> [Welsh Government, First Supplementary Budget 2025-26: Main expenditure group allocations](#)

<sup>4</sup> [Welsh Government, First Supplementary Budget 2025-26: Reserves Annex](#)

<sup>5</sup> [Finance Committee, RoP, 26 June 2025](#)

<sup>6</sup> [Welsh Government, Final Budget 2025 to 2026, 20 February 2025](#)

<sup>7</sup> [Welsh Government, First Supplementary Budget 2025-26, page 3](#)

<sup>8</sup> See: [Senedd Research, Budget 2025-26: What's new in the Welsh Government's Final Budget 2025-26? 3 March 2025](#)

<sup>9</sup> [Finance Committee, Agenda, 7 May 2025](#)

## 2. Overview

### UK Spending Review 2025

**6.** The UK Government announced the outcome of its Spending Review 2025 on 11 June 2025.<sup>10</sup> It includes a number of specific allocations for Wales, including:

- £445 million for rail enhancements (including £48 million over four years for the Core Valley Lines and to increase connectivity across Wales); and
- £118 million over three years on coal tip safety.<sup>11</sup>

**7.** Responding to the Spending Review, the Cabinet Secretary said:

*“The Welsh Government will receive an additional £5bn in resource and capital funding over the spending review period, including an additional £1bn in 2026-27, £1.6bn in 2027-28 and £2.4bn in 2028-29. In addition, we will receive an extra £4m in the current financial year.”<sup>12</sup>*

**8.** However, he also said that the Welsh Government was working with the UK Government to identify the details of the Spending Review before providing more information on the implications for Wales.<sup>13</sup>

**9.** When asked if the Welsh Government was satisfied with the specific allocations for Wales in the Spending Review, the Cabinet Secretary confirmed, in relation to coal-tip safety, “that is the sum of money we asked for in the comprehensive spending review ... And we are satisfied that that is the amount of money that the system can absorb”.<sup>14</sup>

**10.** In terms of rail funding, the Cabinet Secretary went on to explain that:

*“Of the £445 million, only £48 million of it actually comes into the Welsh Government's budget, the rest of it is essentially money that Network Rail will be deciding upon. The £48 million*

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<sup>10</sup> HM Treasury, Spending Review 2025 document, 11 June 2025

<sup>11</sup> HM Treasury, Spending Review 2025 document, 11 June 2025

<sup>12</sup> Welsh Government, Written Statement: Welsh Government response to the UK Spending Review 2025, 11 June 2025

<sup>13</sup> Welsh Government, Written Statement: Welsh Government response to the UK Spending Review 2025, 11 June 2025

<sup>14</sup> Finance Committee, RoP, 26 June 2025, paragraph 17

*is £12 million for each of four years. So, you will see that in next year's budget. Could we have used more? I think we could. So, we will continue to press the case for further investment in core Valleys lines enhancement.”<sup>15</sup>*

- 11.** In terms of the Spending Review's impact on the Supplementary Budget, the Cabinet Secretary confirmed that:

*“There's no impact at all on the supplementary budget ... because the supplementary budget really just codifies decisions that were already made and preceded the comprehensive spending review.”<sup>16</sup>*

- 12.** However, he added that:

*“... in the longer run, I think, particularly in the next Senedd term, the fact that we have a three-year revenue and a four-year capital horizon, and a promise of comprehensive spending reviews every two years, should mean that it will aid longer term thinking for the budget. It doesn't have an impact in the here and now.”<sup>17</sup>*

- 13.** When asked about the Welsh Spending Review, the Cabinet Secretary explained that “it's a different sort of exercise to the comprehensive spending review in Westminster”, adding that:

*“It is a review focused on the longer term challenges that will face budget making here in Wales ... There's no impact that you will see on this supplementary budget from all that work. And, really, I think, where the work will have its impact will be in decision making beyond this Senedd term. I want to make sure that any incoming Government has a body of work to draw on that has done that analytical work, has looked at some of the hard choices that are bound to be there, and are able to shape their longer term thinking by drawing on all of that.”<sup>18</sup>*

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<sup>15</sup> Finance Committee, RoP, 26 June 2025, paragraph 18

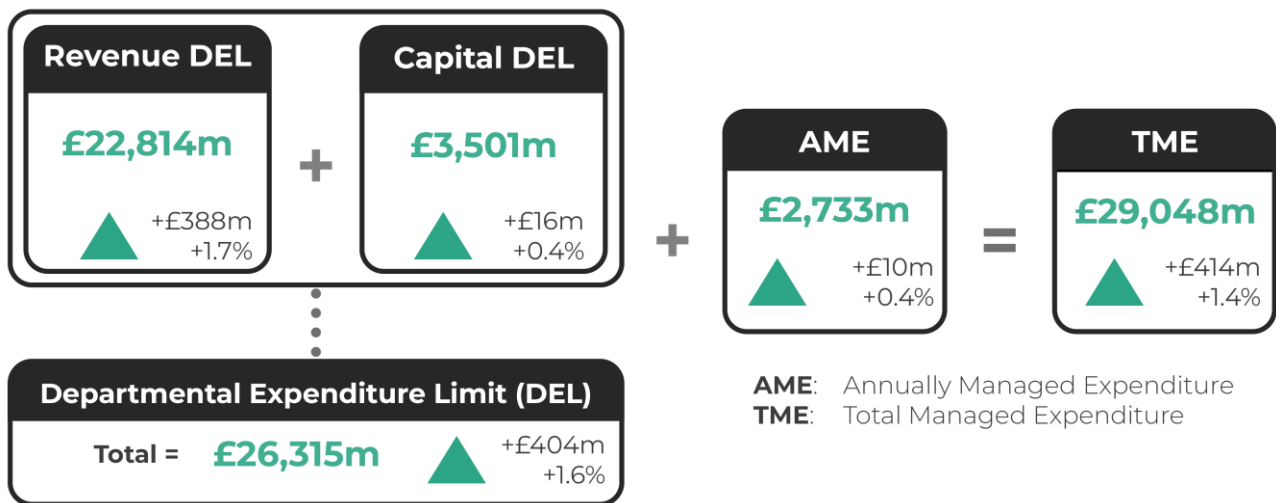
<sup>16</sup> Finance Committee, RoP, 26 June 2025, paragraph 12

<sup>17</sup> Finance Committee, RoP, 26 June 2025, paragraph 12

<sup>18</sup> Finance Committee, RoP, 26 June 2025, paragraph 15









## Funding changes since the Final Budget 2025-26

**14.** Overall, the Supplementary Budget shows an increase in revenue plus capital (excluding Annually Managed Expenditure) allocated to Welsh Government departments of £404.0 million (or 1.6 per cent) compared with the Final Budget.<sup>19</sup> Revenue DEL allocated to departments (also referred to as resource) will increase by £388.3 million (or 1.7 per cent) to £22.8 billion. Capital DEL will increase by £15.6 million (or 0.4 per cent) to £3.5 billion. The overall allocations are outlined in the following infographics:<sup>20</sup>



<sup>19</sup> Welsh Government, First Supplementary Budget 2025-26: Explanatory Note

<sup>20</sup> Welsh Government, First Supplementary Budget 2025-26: Explanatory Note

		Total revenue and capital allocation	Change Final Budget to First Supplementary Budget	
	Health and Social Care	£13,183m	£263m 2.0%	▲
	Housing and Local Government	£6,845m	£93m 1.4%	▲
	Education	£2,460m	£18m 0.7%	▲
	Transport	£1,422m	£4m 0.3%	▲
	Climate Change and Rural Affairs	£916m	-£1m -0.1%	▼
	Economy, Energy and Planning	£865m	£22m 2.6%	▲
	Central Services and Administration	£462m	£2m 0.4%	▲
	Social Justice	£162m	£3m 1.8%	▲

Note: Education includes allocation of £261.1 million of non-fiscal revenue due to student loans resource budget provision.

**15.** The Fiscal Resource baseline has increased by a net amount of £342.6 million, including:

- £270.1 million of Barnett consequentials (which includes £13.8 million in respect of the UK Spring Statement 2025 and £256.3 million in respect of the UK Government's Main Estimates from May 2025, of which £185.4 million relates to the change in National Insurance Contributions);
- £61.3 million transferred from the Home Office relating to the Immigration Health Surcharge;
- £1 million from HM Treasury ('HMT') reserves, including £846,000 in respect of Financial Advice Services and £175,000 for correction of "previous errors";
- £3.7 million from the Ministry of Justice in respect of Parc Learning and Skills Funding;

- £1.5 million from the Ministry of Housing, Communities and Local Government in respect of Homes for Ukraine;
- £125,000 from HMRC in respect of Debt Advice Funding;
- £5.0 million from the Department for Work and Pensions (DWP) in respect of the 'Economic Inactivity Trailblazer';
- A decrease of £16,000 relating to the Welsh Government's contribution to 'Civil Service Live 2025';
- A decrease of £128,000 in respect of funding for the Office for Budget Responsibility (OBR) work on devolved tax forecasts.<sup>21</sup>

**16.** The non-fiscal resource baseline increases by £188.2 million, of which, £36 million relates to general depreciation and £152.2 million relates to student loans.<sup>22</sup> The balance of unallocated non-fiscal resource reserves following the Supplementary Budget is £339.7 million.<sup>23</sup>

**17.** The Cabinet Secretary confirmed in evidence that “these changes don't affect the amount of revenue or capital available to us for spending purposes”.<sup>24</sup>

**18.** Following the publication of the Supplementary Budget, the Cabinet Secretary wrote to the Chair of the Committee on 24 June 2025 providing a list of all Barnett consequentials resulting from the UK Spring Statement and Main Estimates for 2025-26 which form part of the Supplementary Budget. These comprise additional funding for Wales of £270.107 million revenue, primarily relating to the impact of increased employers' National Insurance Contributions (NICs), and additional capital of £742,000.<sup>25</sup>

**19.** When asked to explain, in relation to NICs, the difference between the money received from UK Government departments in consequentials and the funding allocated to Welsh Government departments through the Supplementary Budget, an official accompanying the Cabinet Secretary explained that there can be a “mismatch between how the value of the

<sup>21</sup> Welsh Government, First Supplementary Budget 2025-26: Explanatory Note, page 11

<sup>22</sup> Welsh Government, First Supplementary Budget 2025-26: Explanatory Note, page 12

<sup>23</sup> Welsh Government, First Supplementary Budget 2025-26: Explanatory Note, page 24

<sup>24</sup> Finance Committee, RoP, 26 June 2025, paragraph 31

<sup>25</sup> Letter from the Cabinet Secretary for Finance and Welsh Language to the Chair of the Finance Committee, 24 June 2025

consequential was generated and the costs to the Welsh public service”<sup>26</sup>, adding that:

*“... the consequential we get are based on the size and organisation of the public sector in England, and then the costs are based on the size and the organisation of the public sector in Wales.”<sup>27</sup>*

## Fiscal Levers

**20.** There are no changes to the devolved tax income and forecasts reflect those published at the time of the Final Budget. However, the amount required to repay principal borrowing has reduced, increasing the amount of financing available by £2.4 million.<sup>28</sup> The level of borrowing remains as it was in the Final Budget, at £150 million.<sup>29</sup>

**21.** An additional £40 million revenue is being drawn down from the Wales Reserve.<sup>30</sup> At the Final Budget, there was no revenue funding identified to be drawn down.<sup>31</sup>

**22.** The Cabinet Secretary explained why the Supplementary Budget indicates a reduction in the cost of borrowing:

*“... the reduced costs of borrowing that you see in the supplementary budget are because we did not borrow the full £150 million that we had originally anticipated last year. At the time of the budget, we assumed that we would, so the costs associated with that were reflected in the budget. In the end, we borrowed less than £150 million and, therefore, the interest you have to pay is on a smaller sum and that reduced the cost of borrowing.”<sup>32</sup>*

**23.** In terms of enhanced borrowing powers, the Cabinet Secretary confirmed that “prudential borrowing is one of the things that we will press for” adding, in relation to the Wales Reserve, that:

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<sup>26</sup> Finance Committee, RoP, 26 June 2025, paragraph 75

<sup>27</sup> Finance Committee, RoP, 26 June 2025, paragraph 75

<sup>28</sup> Welsh Government, First Supplementary Budget 2025-26: Explanatory Note, page 12

<sup>29</sup> Welsh Government, First Supplementary Budget 2025-26: Explanatory Note, page 8

<sup>30</sup> Welsh Government, First Supplementary Budget 2025-26: Explanatory Note, page 7

<sup>31</sup> Welsh Government, Final Budget 2025 to 2026, 20 February 2025

<sup>32</sup> Finance Committee, RoP, 26 June 2025, paragraph 48



*“... what I'd really like to see is that we have continuously unfettered access to that reserve. It does not need to be micromanaged by the Treasury in that way.”<sup>33</sup>*

## Budget Flexibility

**24.** The Cabinet Secretary wrote to the Committee on 16 May 2025 outlining increased flexibility associated with the Wales Reserve. The letter says the First Minister requested additional funding flexibilities, with the UK Government waiving drawdown limits for 2025-26. It notes:

*“... whilst it provides additional flexibility to manage pressures this year, it is not a source of recurrent funding for the Welsh Government.”<sup>34</sup>*

**25.** The letter says that the amount available to draw from the Wales Reserve in 2025-26 will be confirmed once the Welsh Government outturn for 2024-25 is finalised.<sup>35</sup>

**26.** The Cabinet Secretary confirmed in evidence that the Welsh Government has “a working figure of around £250 million revenue still in the Wales reserve”, and “that is adequate for us to be able to manage our way through this year.”<sup>36</sup> He also explained that:

*“We have unfettered access to the Wales reserve for this financial year. That will be the main way in which we balance up the demands that will arise inevitably during the year.”<sup>37</sup>*

**27.** However, the Cabinet Secretary also identified areas where progress was required:

*“We want to go beyond that; we want a permanent restatement of the amounts we’re able to borrow, the amounts we’re able to draw out annually, the amounts we’re able to borrow, to bring them at least into line with their real value when they were agreed with David Gauke when he was the*

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<sup>33</sup> Finance Committee, RoP, 26 June 2025, paragraph 62

<sup>34</sup> Letter from the Cabinet Secretary for Finance and Welsh Language to the Chair of the Finance Committee, 16 May 2025

<sup>35</sup> Letter from the Cabinet Secretary for Finance and Welsh Language to the Chair of the Finance Committee, 16 May 2025

<sup>36</sup> Finance Committee, RoP, 26 June 2025, paragraph 24

<sup>37</sup> Finance Committee, RoP, 26 June 2025, paragraph 24

*Chief Secretary to the Treasury back in 2016-17. At the moment, in real terms, they're worth 30 per cent less than they were then, and the budget, of course, is billions of pounds larger than it was then ... and I will certainly be pressing for that to be done by the autumn budget.”<sup>38</sup>*

**28.** When asked about the nature of discussions with the Treasury, the Cabinet Secretary stated that “the conversations are better, but the disposition of the rule book is the same”, adding that:

*“There's no recourse, there's no element of independence in that assessment, and the people who make the original assessment are asking themselves whether they got it right ... The bigger picture is that people are marking their own homework.”<sup>39</sup>*

**29.** In terms of progressing these issues at Finance: Interministerial Standing Committee (F:ISC) meetings, the Cabinet Secretary stated that:

*“... I think there is an appetite for improving the way the current system works by greater transparency, by a firmer rulebook, by an element of independence in arbitration where there are disputes between different parties to it.”<sup>40</sup>*

**30.** The Cabinet Secretary also told the Committee that “There will definitely be discussions of financial flexibilities”<sup>41</sup> at the meeting of the F:ISC on 26 June 2025.

## Committee View

**31.** The Committee notes that the changes in the Supplementary Budget are minimal and that it largely codifies Welsh Government decisions that were made prior to the outcome of the UK Spending Review, published on 11 June 2025. The Committee welcomes confirmation from the Cabinet Secretary that the UK Government intends to provide forward funding figures for three years revenue and four years capital at future Spending Reviews and that they will take place biennially. We believe this is a beneficial approach that provides much

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<sup>38</sup> Finance Committee, RoP, 26 June 2025, paragraph 59.

<sup>39</sup> Finance Committee, RoP, 26 June 2025, paragraph 41.

<sup>40</sup> Finance Committee, RoP, 26 June 2025, paragraph 43.

<sup>41</sup> Finance Committee, RoP, 26 June 2025, paragraph 111.

needed funding certainty and enables the Welsh Government to develop a long-term approach to funding public sector organisations in Wales.

**32.** The Committee also notes the information provided in relation to the Welsh Spending Review and while we recognise that this work has no impact on the Supplementary Budget, we will naturally be interested in the way that it will impact decision-making within the Welsh Government over the long-term.

**33.** The Committee is grateful to the Cabinet Secretary for providing a breakdown of consequential funding in correspondence received after the Supplementary Budget was laid. This level of transparency is particularly helpful to the Committee in its scrutiny work. However, we have previously recommended that information about consequentials are published on a routine basis<sup>42</sup>, and call for this to be provided as soon as possible after each UK Fiscal Event, as well as incorporated within the Explanatory Notes of Supplementary Budgets in future.

**Recommendation 1.** The Committee recommends that the Cabinet Secretary provides timely dissemination of information on in-year Barnett consequentials to the Senedd, as soon as possible following each UK fiscal event.

**Recommendation 2.** The Committee recommends that the Cabinet Secretary incorporates information on Barnett formula consequentials, similar to that contained in the annex to correspondence issued by the Cabinet Secretary on 24 June 2025, into the Explanatory Notes of future Supplementary Budgets.

**34.** The Committee was disappointed to hear that there were no long-term changes made to allow the Welsh Government greater budget flexibilities as part of the UK Spending Review. In particular, the Committee would have expected to see progress to address issues around the real terms value of the Welsh Government's borrowing limits, the size of the Wales Reserve, and annual drawdowns from the Wales Reserve.

**35.** The Committee has consistently agreed with the Welsh Government during this Senedd that these limits should be amended in line with inflation. We have previously recommended the Cabinet Secretary continues to pursue with the UK Government a review of the Welsh Fiscal Framework. The Committee believes this should allow the Welsh Government maximum flexibility to remove the annual Wales Reserve drawdown limits and increase the size of both borrowing

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<sup>42</sup> Finance Committee, Scrutiny of the Welsh Government, Draft Budget 2025-26, February 2025, Recommendation 7

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limits and the Wales Reserve, at least in line with inflation, given that the real terms value of these limits have been eroded in recent years.<sup>43</sup>

**36.** While there are welcome developments in some of these areas, notably in relation to allowing the Welsh Government unfettered access to the Wales Reserve this financial year, it would be particularly disappointing if no progress is made on these matters before the end of this Senedd and we call on the Cabinet Secretary to continue to pursue these issues.

**Recommendation 3.** The Committee recommends the Cabinet Secretary works with the UK Government to reach a conclusion on issues with the Fiscal Framework, particularly regarding uprating borrowing and limits on the Wales Reserve in line with inflation, and removing the annual drawdown limit from the Wales Reserve, and request these are resolved before the end of the Senedd, with an update provided to the Committee on progress by the time the Draft Budget 2026-27 is published.

**37.** The Committee welcomes the Cabinet Secretary raising matters at F:ISC aimed at ensuring greater transparency in the decisions made by the Treasury in relation to devolved funding, in developing a firmer rulebook, and in establishing a mechanism to allow independent arbitration where there are financial disputes between different parties.

**38.** While we welcome the Cabinet Secretary's approach in relation to these issues and support him in his efforts we continue to be concerned that the relationship between the Welsh Government and HM Treasury is fundamentally undermined by a lack of robust dispute resolution mechanisms. We have previously recommended action in this area and the lack of progress in these discussions is regrettable.<sup>44</sup> This places the Welsh Government at a disadvantage, especially as the current position involves the Treasury both making the decisions on interpreting rules and investigating challenges to these decisions. The Committee supports a more balanced system of dispute resolution to address this.

**Recommendation 4.** The Committee recommends that the Cabinet Secretary presses HM Treasury for a more balanced system of dispute resolution, and reports back to the Committee on progress before the publication of the Draft Budget 2026-27.

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<sup>43</sup> Finance Committee, Scrutiny of the Welsh Government, Draft Budget 2024-25, February 2024, Recommendation 7.

<sup>44</sup> Finance Committee, Fiscal Intergovernmental Relations, October 2024, Recommendation 14.

### 3. Specific Allocations

#### National Insurance Contributions

**39.** The Welsh Government identifies allocations for increased NICs in the Supplementary Budget under “key allocations”.<sup>45</sup> The Supplementary Budget allocates £393 million from fiscal resource reserves. Of which, £220.6 million relates to allocations for changes to NICs. The Welsh Government has also transferred £4.7 million to fiscal resource reserves.<sup>46</sup>

**40.** On 30 May 2025, the Cabinet Secretary confirmed that the UK Government would provide £185 million to fund the cost of increased NICs, which he said fell “significantly short” of the £257 million cost.<sup>47</sup>

**41.** The Welsh Government will provide £36 million from reserves, meaning the Welsh Government will allocate funding of £220 million against the estimated cost of £257 million. The Cabinet Secretary notes the Barnett formula was used to determine the level of funding and the Welsh Government will continue to press the UK Government for “full funding”<sup>48</sup> of the associated costs.<sup>49</sup>

**42.** The Cabinet Secretary explained the Welsh Government’s approach to using the consequential funding provided:

*“... when the consequentials for national insurance came to the Welsh Government, I had already made a commitment that we would just be a post box for that purpose ... But I didn't simply wish to slavishly follow the percentages that were used for Whitehall departments. What I decided was that we would share the money equally across everybody. So, we've given everybody the same percentage uplift in the amount of money they have through the money that we have been able to provide.”<sup>50</sup>*

<sup>45</sup> Welsh Government, First Supplementary Budget 2025-26: Explanatory Note, page 4

<sup>46</sup> Welsh Government, First Supplementary Budget 2025-26: Explanatory Note, page 20

<sup>47</sup> Welsh Government, Written Statement: Funding to Support Devolved Public Sector Employers with Increased National Insurance Costs, 30 May 2025

<sup>48</sup> Welsh Government, Written Statement: Funding to Support Devolved Public Sector Employers with Increased National Insurance Costs, 30 May 2025

<sup>49</sup> Welsh Government, First Supplementary Budget 2025-26: Explanatory Note, page 4

<sup>50</sup> Finance Committee, RoP, 26 June 2025, paragraph 74

**43.** He added that “I felt that the most straightforward and the fairest way was to cover the same percentage for every part of the Welsh public service”.<sup>51</sup>

**44.** The Cabinet Secretary also confirmed that the Welsh Government had “been able to find money to help” organisations, and that:

*“The result is that our public services have a challenging but not extraordinarily large sum of money that they all have to find. So, I wish it wasn't like this. I wish the rulebook, as I see it, had been followed and the money had come in full. The size of the gap is significant, but I think we found a way to manage it.”*<sup>52</sup>

**45.** When questioned on the impact that the shortfall in NIC funding would have on the wider public sector in Wales, the Cabinet Secretary confirmed that:

*“... within the scope of the public services recognised by the Chancellor, the ONS definition, in Wales, those services have been funded at 86 per cent of the total amount. So, they are having to find between 14 per cent and 15 per cent themselves.”*<sup>53</sup>

**46.** The Cabinet Secretary also recognised that:

*“I'm not going to say this morning at all that there won't be an impact; inevitably, there will be. We will do what we can, where we can, to help to mitigate and manage that, but the impact is inevitably going to be real.”*<sup>54</sup>

**47.** When asked how the Welsh Government will plug the funding shortfall generated by the increase in NICs in future years, the Cabinet Secretary stated that:

*“It will be a question for me to resolve as part of the budget-making process for next year as to whether or not to baseline that £36 million and make it a permanent sum of money that public services can rely on. What I won't do is make the reserve*

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<sup>51</sup> Finance Committee, RoP, 26 June 2025, paragraph 74

<sup>52</sup> Finance Committee, RoP, 26 June 2025, paragraph 88

<sup>53</sup> Finance Committee, RoP, 26 June 2025, paragraph 70

<sup>54</sup> Finance Committee, RoP, 26 June 2025, paragraph 71

*an annual event, in which, year by year, you go back and try and fund that through reserves. That would not be sensible.”<sup>55</sup>*

**48.** During scrutiny of the Draft Budget 2025-26 in January 2025, the Committee discussed the funding for NICs with the Cabinet Secretary, who at the time suggested that the Welsh Government receiving a Barnett consequential of what would be provided in England would be “fundamentally unfair”, adding that:

*“The Chancellor’s guarantee was that the cost for public sector employers will be covered in full. I do not think it can be fair that that applies to one part of the United Kingdom and not another.”<sup>56</sup>*

**49.** In June 2025, the Cabinet Secretary said:

*“... we believe that the rule book was improperly applied in the way that compensation for public sector employers was decided in the Treasury.”<sup>57</sup>*

**50.** The Cabinet Secretary reiterated these points when giving evidence to the Committee, explaining that:

*“... it ought to be resolved ... by the UK Government providing the same level of support to Welsh, Scottish and Northern Irish public services as was provided to public services in England. Those costs are met in full in England. They should be met in full in Wales and the other devolved Governments.”<sup>58</sup>*

**51.** He added that:

*“If that route does not open up, then we will have to continue to weigh up with our colleagues in public services how we bridge the £72 million gap. This year, it's having to be done on a shared basis. The Welsh Government is covering half; half of it will have to be found by our colleagues in public services. What I'm doing today is acknowledging that that is an important conversation that will have to happen as part of the budget*

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<sup>55</sup> Finance Committee, RoP, 26 June 2025, paragraph 66

<sup>56</sup> Finance Committee, RoP, 23 January 2025, paragraph 56

<sup>57</sup> Plenary, RoP, 11 June 2025, paragraph 553

<sup>58</sup> Finance Committee, RoP, 26 June 2025, paragraph 68



*making, but it's not a conversation that I've resolved for today.”<sup>59</sup>*

## Health and Social Care

**52.** The Supplementary Budget outlines a resource allocation of £100 million to the Health and Social Care MEG. However, the Supplementary Budget document provides no further information on this, saying “Further information will be provided later this week”.<sup>60</sup>

**53.** When asked whether this was the most appropriate way to present this information, the Cabinet Secretary stated that:

*“It was a dilemma. We'd fixed the date of the supplementary budget. Jeremy separately had things he needed to line up to make his announcement on how the money was to be used. The choice for me was: did I put the money in the first supplementary budget without being able to explain exactly what the money is used for, which is what our normal practice would be? But I did know that this budget was being laid on a Tuesday and he was making the announcement on a Thursday. I myself, rightly or wrongly, came to the conclusion that that would be a sufficiently narrow gap for the Finance Committee to be able to interrogate that.”<sup>61</sup>*

**54.** He added that:

*“The alternative was to have not put the £100 million in the first supplementary budget, and to have put it in the second supplementary budget. I felt it was better for transparency reasons, given the decision had been made, to reflect it in this first supplementary budget, and to live with that 48-hour gap between declaring the money and being able to explain fully the purposes to which that money would be put.”<sup>62</sup>*

**55.** Following the publication of the Supplementary Budget, the Cabinet Secretary for Health and Social Care, Jeremy Miles MS, announced on 19 June

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<sup>59</sup> Finance Committee, RoP, 26 June 2025, paragraph 68

<sup>60</sup> Welsh Government, First Supplementary Budget 2025-26: Explanatory Note, page 5

<sup>61</sup> Finance Committee, RoP, 26 June 2025, paragraph 98

<sup>62</sup> Finance Committee, RoP, 26 June 2025, paragraph 98



2025, £120 million to “carry on cutting waiting times”.<sup>63</sup> The announcement includes objectives to:

- reduce the overall size of the waiting list by 200,000;
- eliminate all 2 year waits; and
- restore the diagnostic wait times to be reduced to under 8 weeks by March 2026.<sup>64</sup>

**56.** The Cabinet Secretary explained that this additional funding had been accompanied by “a series of meetings with the health Secretary” and officials “to give me confidence that the plans that were coming forward were plans that could be realised in practice”.<sup>65</sup> He also stated that:

*“... it was a detailed process, line by line, looking at what health boards said they would deliver for the money that we were being asked to provide, and a lot of testing of that, a lot of challenge of that, and a detailed schedule, health board by health board, of what the money is intended to deliver for patients, and, because I felt there was genuine rigour in the process, we were able to come to an agreement on that sum of £100 million.”<sup>66</sup>*

**57.** When asked how the Welsh Government is assuring itself that the £100 million allocation will deliver the planned outcomes, the Cabinet Secretary confirmed that the “primary responsibility” for delivering outcomes with the funding provided lies with the Cabinet Secretary for Health and Social Services. In addition, the Cabinet Secretary stated that:

*“There are then challenge meetings, as you might call them, led by Julie James in her Minister for Delivery capacity, and I join her for that, particularly with the health portfolio ... I get invited in order for me to continue to have confidence that the*

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<sup>63</sup> Welsh Government, Press Release: Health Secretary announces £120 million to carry on cutting waiting times, 19 June 2025

<sup>64</sup> Welsh Government, Press Release: Health Secretary announces £120 million to carry on cutting waiting times, 19 June 2025

<sup>65</sup> Finance Committee, RoP, 26 June 2025, paragraph 94

<sup>66</sup> Finance Committee, RoP, 26 June 2025, paragraph 94

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*money we are providing is turning into the activity that was promised.”<sup>67</sup>*

## Committee View

**58.** The Committee regrets that the funding provided by the UK Government to compensate public sector organisations for the increase in NICs is around £72 million short of estimates provided by public sector organisations in Wales. The Committee notes the significant evidence received from organisations during our consultation on the Draft Budget 2025-26<sup>68</sup>, as well as in recent correspondence issued to the Cabinet Secretary from representatives of the third sector<sup>69</sup>, and is deeply concerned by the financial impact this is having on organisations across Wales.

**59.** We welcome the steps taken by the Cabinet Secretary to plug this gap, including giving public sector bodies the same percentage uplift in the amount of money provided for this purpose and using the Wales Reserve to fund half of the estimated shortfall. The Committee is also supportive of the Cabinet Secretary pressing for further funding from the UK Government in this area.

**60.** However, it is deeply regrettable that the UK Government is not providing the same level of support to Welsh public services as provided for in England, where the costs are covered in full, and we agree with the Cabinet Secretary that this is fundamentally unfair and does not follow the “rule book” that should apply in this instance.

**61.** In line with our previous recommendations on this subject<sup>70</sup>, we continue to support the Cabinet Secretary in his efforts with the UK Government to both secure full funding for the NIC shortfall in this financial year and to develop a sustainable plan to manage recurring costs without relying on reserves in future financial years.

**Recommendation 5.** The Committee recommends that the Cabinet Secretary continues to press for full funding from the UK Government so that they align with the arrangements for other relevant public sector organisations in England,

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<sup>67</sup> Finance Committee, RoP, 26 June 2025, paragraph 96

<sup>68</sup> Finance Committee, Welsh Government Draft Budget 2025-26: Consultation, November 2024

<sup>69</sup> Letter from third sector providers of supported living across Wales to the Cabinet Secretary for Finance and Welsh Language: National Insurance pressures on third sector supported living providers, 10 June 2025

<sup>70</sup> Finance Committee, Scrutiny of the Welsh Government Draft Budget 2025-26, February 2025, Recommendation 10

in order to close the shortfall in funding to cover the impact of the employer National Insurance Contribution increase on equivalent organisations in Wales.

**62.** The Committee is concerned that no compensation will be provided to third sector providers or commissioned services, particularly social care, in response to the shortfall caused by the increase in employer NICs. As a result, the Committee calls on the Welsh Government to assess the impact of this funding shortfall on third sector bodies and commissioned services, encompassing those organisations delivering frontline services who are often providing services on behalf or instead of public sector agencies, such as the NHS and local authorities.

**Recommendation 6.** The Committee recommends that the Cabinet Secretary undertakes a detailed assessment to quantify the direct and indirect effects of the increase in National Insurance Contributions on the third sector and commissioned services, to understand the long-term impact of this shortfall.

**63.** The Committee notes the scrutiny processes that the Welsh Government has in place to ensure that outcomes in the Health and Social Care MEG can be delivered with the additional £100 million funding provided in the Supplementary Budget to reduce waiting times. We further note that the Cabinet Secretary is assured that these arrangements are robust and will lead to the desired outcomes.

**64.** The Committee welcomes the details provided about the “challenge meetings” that the Cabinet Secretary has been part of and that he has confidence that the money being provided will deliver the intended objectives. Nonetheless, the Committee expects to see more evidence of how Welsh Government allocations are linked to outcomes, to ensure the effective use of this substantial additional funding. This is an area of strategic importance for the Committee given our ongoing concerns regarding productivity within the health service in general.<sup>71</sup>

**Recommendation 7.** The Committee recommends that the Cabinet Secretary explains how the Welsh Government maintains rigorous scrutiny and monitoring of health service funding to ensure it delivers the intended outcomes, including how the funding is reviewed and adjusted based on performance and outcomes.

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<sup>71</sup> See: [Finance Committee, Scrutiny of the Welsh Government Draft Budget 2025-26, February 2025, Recommendation 34](#)

## 4. Directly Funded Bodies

**65.** The Supplementary Budget proposes variations to the budgets from all three of the bodies directly funded from the Welsh Consolidated Fund (WCF). The Committee considered the requests from the Senedd Commission (the Commission), Audit Wales and the Public Services Ombudsman for Wales (PSOW) at its meeting on 7 May 2025.<sup>72</sup>

**66.** All of the requests relate to additional funding required to cover the following changes to NICs announced by the Chancellor of the Exchequer on 30 October 2024, effective from 6 April 2025:

- an increase in the rate of employers' NICs 1.2 percentage points to 15 per cent; and
- a change in the level at which employers start paying NICs for each employee, which will fall from £9,100 to £5,000.<sup>73</sup>

### Senedd Commission

**67.** The Committee considered the Commission's draft budget on 3 October 2024 and laid its report on 22 October 2024.<sup>74</sup> The budget motion, agreed by the Senedd on 20 November 2024, provided the Commission with £83.845 million of Resource Budget for 2025-26.<sup>75</sup>

**68.** The Senedd Commission proposes an increase in its overall budget by £773,000 with a corresponding increase in the net cash requirement. The Explanatory Memorandum states that this includes the following changes:

- an increase to the Commission's budget of £475,000 million to reflect the increase in employer NICs;
- an increase in the budget for Members' salaries and related costs of £298,000 million to reflect the increase in employer NICs.<sup>76</sup>

**69.** The Explanatory Memorandum states that:

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<sup>72</sup> Finance Committee, Agenda, 7 May 2025

<sup>73</sup> HM Treasury, Autumn Budget 2024, 30 October 2024

<sup>74</sup> Finance Committee, Scrutiny of the Senedd Commission Draft Budget 2025-26, October 2024

<sup>75</sup> Plenary, RoP, 20 November 2024

<sup>76</sup> Senedd Commission, Supplementary Budget: Explanatory Memorandum, May 2025

*“The expectation is that funding will be made available by HM Treasury to mitigate the impact of the increase. It is not possible for the Commission to meet these additional costs from within existing resources due to the scale of project delivery during 2025-26 to deliver the change to a larger Senedd and support the ongoing Ways of Working programme.”<sup>77</sup>*

**70.** Adding that:

*“The Commission budget was laid before the Autumn budget was delivered and therefore the impact of the increase in Employer NICs was not included.”<sup>78</sup>*

## Audit Wales

**71.** The Committee considered the Estimate for the Wales Audit Office 2025-26 on 7 November 2024<sup>79</sup>, and laid its report<sup>80</sup> in November 2024. The Estimate<sup>81</sup> for the Wales Audit Office 2025-26 of £9.791 million for resource funding and £9.236 million for cash funding, was approved by the Senedd through the annual budget motion on 4 March 2025.<sup>82</sup>

**72.** Wales Audit Office’s First Supplementary Budget proposes an increase of £389,000 to its revenue resource.<sup>83</sup> The Explanatory Memorandum concludes:

*“... we have carefully considered whether we could fund the extra cost by identifying savings and efficiencies, but with an already challenging savings target of £200,000 being included in our Estimate for 2025-26, we are unable to do so.”<sup>84</sup>*

<sup>77</sup> Senedd Commission, Supplementary Budget: Explanatory Memorandum, May 2025

<sup>78</sup> Senedd Commission, Supplementary Budget: Explanatory Memorandum, May 2025

<sup>79</sup> Finance Committee, RoP, 16 October 2024

<sup>80</sup> Finance Committee, Annual Scrutiny of the Wales Audit Office and the Auditor General for Wales, November 2024

<sup>81</sup> Audit Wales: Estimate of Income and Expenses for Audit Wales for the year ended 31 March 2026, October 2024

<sup>82</sup> Plenary, RoP, 4 March 2025

<sup>83</sup> Audit Wales, Supplementary Estimate 2025-26, April 2025

<sup>84</sup> Audit Wales, Supplementary Estimate 2025-26, April 2025

## Public Services Ombudsman for Wales

**73.** The Committee considered the PSOW Estimate 2025-26 on 16 October 2024<sup>85</sup>, and laid its report<sup>86</sup> in November 2024. The PSOW Estimate 2025-26<sup>87</sup> set out cash and resource requirements of £6.358 million and £6.392 million respectively, was approved by the Senedd through the annual budget motion on 4 March 2025.<sup>88</sup>

**74.** The PSOW's First Supplementary Budget<sup>89</sup> proposes an increase to its cash and resource budget of £84,000. It states:

*"The increase in employer National Insurance contributions for staff is outside the Ombudsman's control. The Cabinet Secretary for Finance and Welsh Language confirmed that the UK Treasury had advised that additional funding will be provided to cover the costs of employer national insurance contributions for public sector workers."*<sup>90</sup>

**75.** It goes on to say:

*"In previous years, such changes were handled through an in-year supplementary budget allocation. This was the case when employer pension contributions increased significantly in 2019/20, and when National Insurance contributions were increased (and then subsequently reduced) in 2022/23."*<sup>91</sup>

## Committee View

**76.** The Committee notes the requests submitted by the Senedd Commission, the PSOW and Audit Wales and recognises that they are directly related to the increases in employer NICs announced by the UK Government in its autumn budget in October 2025. The Committee also notes that the Cabinet Secretary has previously told the Committee that the UK Government will provide funding

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<sup>85</sup> Finance Committee, RoP, 16 October 2024

<sup>86</sup> Finance Committee: Annual Scrutiny of the Public Services Ombudsman for Wales, November 2024

<sup>87</sup> Finance Committee: Annual Scrutiny of the Public Services Ombudsman for Wales, November 2024

<sup>88</sup> Plenary, RoP, 4 March 2025

<sup>89</sup> Public Service Ombudsman for Wales, First Supplementary Estimate 2025-26, March 2025

<sup>90</sup> Public Service Ombudsman for Wales, First Supplementary Estimate 2025-26, March 2025

<sup>91</sup> Public Service Ombudsman for Wales, First Supplementary Estimate 2025-26, March 2025

to public sector employers to cover the increased costs of the changes to employer NICs using the official ONS definition of a public sector employer.<sup>92</sup>

**77.** The ONS classify all of the DFBs as ‘central government’, so they are within their public sector definition.<sup>93</sup> The Committee is therefore content with the requests submitted, however, at the time the Committee considered this issue in May 2025, there was also uncertainty regarding the level of funding that the Welsh Government would receive and the Committee agreed to these requests in principle based on the position with NICs at the time.

**Conclusion 1.** The Committee is content with the variation to the budgets for the Senedd Commission, Audit Wales and the Public Services Ombudsman for Wales.

**78.** While the Committee agrees in principle to the supplementary requests of the DFBs, we are mindful of the impact that increases in NICs is having on the wider public sector in Wales, as noted in Chapter 3 of this report. As a result, we believe that the DFBs should provide an update to the Committee to explain how the additional funding provided in the First Supplementary Budget will cover the costs of the increases in NICs within their respective organisations, and to provide assurances that any surplus funding for this purpose is returned to the WCF and not used for any other areas.

**79.** The Committee also asks the DFBs to clarify whether the additional funding provided will cover permanent staff costs or if it will also cover the costs of staff employed by third parties working within those organisations.

**Recommendation 8.** The Committee recommends that the Senedd Commission, Audit Wales and the Public Services Ombudsman for Wales:

- provide a breakdown of how the additional funding provided through the First Supplementary Budget 2025-26 covers costs relating to the increase in employer National Insurance Contributions within their organisations, including whether this covers staff employed by third parties as well as permanent staff costs, once details of the UK Government’s main supply estimates are known;

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<sup>92</sup> [Welsh Government, Response by the Cabinet Secretary for Finance and Welsh Language to Finance Committee’s recommendations on the Draft Budget 2025-26, February 2025, Recommendation 10](#)

<sup>93</sup> [Office for National Statistics, Public sector classification guide and forward work plan, 23 April 2025](#)

- confirm that any surplus funding allocated for this purpose is returned to the Welsh Consolidated Fund;

and for this information to be provided in early 2026 prior to the Second Supplementary Budget 2025-26 being laid before the Senedd.