

# **Scrutiny of the Second Supplementary Budget 2025- 26**

March 2026

## 1. Introduction

- 1.** On 24 February 2026, the Cabinet Secretary for Finance and Welsh Language (the Cabinet Secretary) laid the Welsh Government's Second 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 5 March 2026.<sup>5</sup>
- 3.** This Supplementary Budget reflects budgetary changes since the First Supplementary Budget 2025-26, laid on 17 June 2025.<sup>6</sup>
- 4.** The Supplementary Budget 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.
- 5.** The Cabinet Secretary wrote to the Committee on 3 March with a detailed list of all Barnett consequentialials resulting from the UK Supplementary Estimates for 2025-26.<sup>7</sup>
- 6.** The Supplementary Budget also proposes a variation to the budgets from two of the bodies directly funded from the Welsh Consolidated Fund (WCF). The Committee considered the requests from the Senedd Commission (the Commission) and the Public Services Ombudsman for Wales (PSOW) at its meeting on 21 January 2026.<sup>8</sup> Audit Wales did not propose a variation to its budget on this occasion.

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

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

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

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

<sup>5</sup> [Finance Committee, RoP, 5 March 2026](#)

<sup>6</sup> [Welsh Government, First Supplementary Budget 2025-26: Explanatory Note](#)

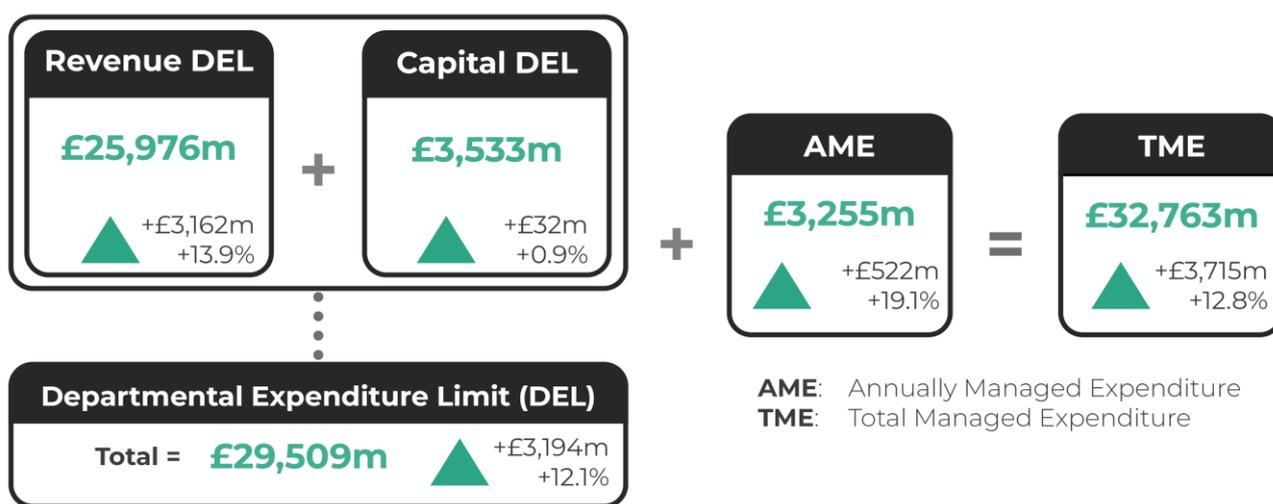
<sup>7</sup> [Letter from the Cabinet Secretary for Finance and Welsh Language, 3 March 2026](#)

<sup>8</sup> [Finance Committee, Agenda, 21 January 2026](#)

## 2. Overview

### Funding changes since First Supplementary Budget 2025-26

8. The Second Supplementary Budget shows an increase in revenue plus capital (excluding Annually Managed Expenditure or 'AME') allocated to Welsh Government departments of £3.2 billion (12.1 per cent), raising the overall funding allocated to departments from £26.3 billion to £29.5 billion.<sup>9</sup>



9. Almost £2.6 billion of this increase is allocated to the Education MEG as non-cash to the student loan ringfenced budget, following “a change to the student loans valuation model which brings the model in Wales in line with the model used by the UK Government’s Department for Education”.<sup>10</sup>

10. The Welsh Government’s explanatory note sets out ‘key allocations’, which includes:

- £125.8 million for public sector pay awards;
- £200 million revenue for health and social care;
- £72.2 million capital for transport;
- £60.5 million capital for education;

<sup>9</sup> [Welsh Government. Second Supplementary Budget 2025-26: Main expenditure group allocations](#)

<sup>10</sup> [Welsh Government. Second Supplementary Budget 2025-26: Explanatory Note, page 4](#)

- £150.8 million of allocations to and from Reserves.<sup>11</sup>

**11.** Outlining the approach taken to prioritising allocations in the Supplementary Budget, the Cabinet Secretary described it as a “tidying up exercise” to bring together financial decisions already made. He added:

*“... supplementary budgets have no separate priorities of their own; they reflect the priorities of the Government in the wider programme for government sense. Where there are major allocations, then, before they are made, I report those to the Cabinet for Cabinet discussion and decision making. In that sense, they reflect the priorities of the Cabinet as a whole. So, the largest revenue allocation reflected in the budget is £200 million for the health service, and that absolutely reflects the priority attached by the current Labour Government to funding the health service.”<sup>12</sup>*

**12.** We heard that the year-end position is being carefully managed, with “relatively modest amounts of money unallocated in both revenue and capital”. Despite ongoing uncertainties, such as the volatility of the weather and international circumstances, the Cabinet Secretary said he is confident the Government will fully utilise its spending limits while retaining sufficient reserves to address any unforeseen pressures that may arise in the final weeks of the financial year.<sup>13</sup>

**13.** The First Minister noted that monitoring pressures within the Health and Social Care MEG remains the most challenging aspect in producing the Supplementary Budget, requiring close management right up to year-end.<sup>14</sup>

## Fiscal levers

**14.** An additional £245.9 million of revenue and £53.4 million of general capital has been drawn down from the Wales Reserve along with £10.7 million of financial transactions capital.<sup>15</sup>

**15.** Devolved tax forecasts have increased by £32.8 million, while capital borrowing remains unchanged from the First Supplementary Budget at £150

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<sup>11</sup> [Welsh Government, Second Supplementary Budget 2025-26: Explanatory Note, pages 3-4](#)

<sup>12</sup> [Finance Committee, RoP, 5 March 2026, paragraph 8](#)

<sup>13</sup> [Finance Committee, RoP, 5 March 2026, paragraph 11](#)

<sup>14</sup> [Finance Committee, RoP, 5 March 2026, paragraph 12](#)

<sup>15</sup> [Welsh Government, Second Supplementary Budget 2025-26: Explanatory Note, page 10](#)

million. The amount required to repay principal borrowing also remains unchanged at £10.6 million.<sup>16</sup>

**16.** The Welsh Government has £46.8 million of resource (£42.2 million of fiscal resource) and £45 million of capital (£14.8 million of financial transactions capital) in its unallocated reserves following the Supplementary Budget. There are zero balances currently held in the Wales Reserve.<sup>17</sup>

**17.** The Welsh Government's Outline Draft Budget Report 2026-27 noted that:

*"Our current plans for 2026-27 do not assume any drawdown from the Wales Reserve. We will use the flexibility offered by the Wales Reserve to manage the in-year financial position and address any unexpected pressures, providing contingency for unforeseen risks which may arise."<sup>18</sup>*

**18.** In terms of managing the Wales Reserve up to the end of the financial year, the Cabinet Secretary said the aim is to ensure there is sufficient headroom to transfer any underspends into the Wales Reserve rather than lose them. He went on to say:

*"I'm very confident that there is room in the Wales reserve, because we've had unfettered access to the Wales reserve this year, so, we've drawn more out of it than we would have in other circumstances. There is undoubtedly room in the Wales reserve that if we end the year with capital and revenue underspends of the sort you see here, they'll be in the Wales reserve and they'll be available to the next Government."<sup>19</sup>*

## Budget flexibility

**19.** During scrutiny of the First Supplementary Budget 2025-26, the Committee noted its disappointment that there were no long-term changes made to allow the Welsh Government greater budget flexibilities as part of the UK Spending Review. The report stated:

*"In particular, the Committee would have expected to see progress to address issues around the real terms value of the*

<sup>16</sup> Welsh Government, Second Supplementary Budget 2025-26: Explanatory Note, pages 10 and 16

<sup>17</sup> Welsh Government, Second Supplementary Budget 2025-26: Explanatory Note, pages 11 and 32

<sup>18</sup> Welsh Government, Outline Draft Budget Report 2026-27, October 2025, page 18

<sup>19</sup> Finance Committee, RoP, 5 March 2026, paragraph 15

*Welsh Government's borrowing limits, the size of the Wales Reserve, and annual drawdowns from the Wales Reserve.*"<sup>20</sup>

**20.** The Committee recommended that 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.<sup>21</sup>

**21.** The Welsh Government's Outline Draft Budget Report 2026-27 said it continues to "press the UK Government for the permanent abolition of our annual Reserve draw-down limit, which is essential to give us the flexibility to better plan our finances".<sup>22</sup>

**22.** The UK Autumn Budget 2025 announced key changes to the Welsh fiscal framework. It stated:

*"To enable the Welsh Government to support people, businesses and public services in Wales, in 2026-27 the Welsh Government's annual and cumulative capital borrowing limits, overall Wales Reserve limit and annual RDEL and CDEL drawdown limits will all be increased by 10%. From 2027-28, each of those limits will be uprated annually in line with inflation. The government will also provide a temporary waiver of the Wales Reserve drawdown limits in 2026-27."*<sup>23</sup>

**23.** The Welsh Government's response to the Committee's report on the Draft Budget 2026-27 stated:

*"The HMT decision to increase limits by 10% followed by annual uprating brings the increases broadly into line with the approach agreed for the Scottish Government, where limits have been increased with inflation since 2023-24.*

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<sup>20</sup> Finance Committee, Scrutiny of the First Supplementary Budget 2025-26, July 2025, page 11

<sup>21</sup> Finance Committee, Scrutiny of the First Supplementary Budget 2025-26, July 2025, Recommendation 3

<sup>22</sup> Welsh Government, Outline Draft Budget Report 2026-27, October 2025, page 18

<sup>23</sup> UK Government, Budget 2025, 26 November 2025, page 106

*We will continue to work with the UK Government to secure further improvements in our fiscal flexibilities, including permanent access to the full Wales Reserve.”<sup>24</sup>*

**24.** We sought clarification on the Treasury’s reluctance to remove the Wales Reserve drawdown limits and asked what engagement has taken place on this matter. The Cabinet Secretary indicated that this issue forms part of wider discussions with the Treasury on the fiscal framework. He suggested that Treasury Ministers worry that conceding to Wales “puts them under pressure from Scotland or Northern Ireland to do the same for them”. He added:

*“In my experience of the Treasury, it is an organisation dedicated to controlling public expenditure. It doesn't like to cede any of that control to anybody else. So, we're asking them here to lift some of the controls they have and to let us manage it. And it's against the grain for them—it's not the way they think.”<sup>25</sup>*

**25.** The Cabinet Secretary also suggested that Wales’s ability to operate effectively within the constraints of the current fiscal framework may lead the Treasury to question the need for further flexibility, adding:

*“Now, that's to misunderstand the case. The case is about managing better, not that we can't manage at all.”<sup>26</sup>*

## Vacant Land Tax

**26.** On 11 February 2026, the Cabinet Secretary announced that the Welsh Government and UK Government have reached agreement that a joint consultation will take place on the devolution of powers to introduce a Vacant Land Tax to the Senedd. While the timing of the consultation rests with the Treasury, the Cabinet Secretary described this as “an important step forward in our long-held ambition to introduce such a tax in Wales” and confirmed that the Welsh Government will “continue to press for swift progression to the next stage of the process”.<sup>27</sup>

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<sup>24</sup> [Welsh Government, Response to the Finance Committee’s report on the Welsh Government’s Draft Budget 2026-27, 23 January 2026, page 10](#)

<sup>25</sup> [Finance Committee, RoP, 5 March 2026, paragraphs 18-19](#)

<sup>26</sup> [Finance Committee, RoP, 5 March 2026, paragraphs 21-23](#)

<sup>27</sup> [Written Statement: Agreement to consult on devolution of powers for a Vacant Land Tax in Wales, 11 February 2026](#)

**27.** Although the Wales Act 2014 established a mechanism for devolving powers to create new Welsh taxes via Orders in Council, the Cabinet Secretary said “making it happen in practice has been absolutely tortuous”. He described the joint consultation as “a pivotal moment in that process”, adding:

*“I think the Secretary of State for Wales said in the House of Commons that the UK Government had made the decision that powers to create a vacant land tax would be devolved to Wales. We’ve got an agreement on the consultation. The consultation will be launched, I think, very quickly after the Senedd elections. It’ll be a short and technical consultation, and then, hopefully, we’re on the home straight so that this power can be devolved to Wales, and the Senedd can then decide whether or not it wishes to use it.”<sup>28</sup>*

## Committee view

**28.** The Committee notes the substantial increase of £3.2 billion to departmental allocations in the Second Supplementary Budget 2025-26, largely driven by the £2.6 billion non-cash adjustment to the student loans valuation model. We recognise the Cabinet Secretary’s assurance that the year-end position is being actively managed, with sufficient funds held in reserve to meet potential late emerging risks, and welcome this prudent approach. We also note his comments that pressures within the Health and Social Care MEG continue to present the greatest challenge to year-end management.

**29.** Throughout this Senedd, we have consistently raised concerns about the long-standing constraints of the Fiscal Framework and expressed our disappointment at the lack of progress in addressing borrowing limits, reserve limits and annual drawdown caps. We therefore welcome the steps taken in the UK Autumn Budget 2025 to increase Welsh borrowing and reserve limits by 10 per cent in 2026-27, with annual inflation linked uprating from 2027-28. However, the Committee regrets that these limits have not been increased in line with the changes in the GDP deflator between 2018-19 and 2026-27, which would have seen an increase in the region of 30 per cent. We note the Cabinet Secretary’s evidence regarding the Treasury’s reluctance to permanently remove the Wales Reserve annual drawdown limits. We consider this deeply disappointing. The abolition of equivalent drawdown limits for the Scottish Government demonstrates that the UK Government is willing to provide devolved

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<sup>28</sup> Finance Committee, RoP, 5 March 2026, paragraphs 112-114

administrations with greater fiscal flexibility where justified. In our view, there is a clear and compelling argument that a similar approach should now be applied to Wales.

**30.** While we remain frustrated that these issues have not been resolved during this Senedd term, we acknowledge the Cabinet Secretary's efforts and recognise the practical difficulties of reaching agreement between all devolved government and the Treasury on significant changes to the devolution settlement.

**Recommendation 1.** The Committee recommends that the next Welsh Government continues to pursue improvements to the Fiscal Framework and provides regular progress updates to its successor committee.

**31.** We welcome the announcement that the Welsh Government and UK Government have reached agreement to undertake a joint consultation on devolving powers to introduce a Vacant Land Tax. We share the Cabinet Secretary's view that progress to date has been extremely slow, but it is encouraging to hear that a clear path now appears to be emerging. We note the expectation that the consultation will be launched shortly after the Senedd election and will be short and technical in nature.

**Recommendation 2.** The Committee recommends that the next Welsh Government prioritises maintaining momentum with the UK Government to ensure the timely completion of the consultation and progression to the final stages of devolving powers to introduce a Vacant Land Tax.

## 3. Specific Allocations

### National Insurance Contributions

**32.** The Committee raised concerns about the shortfall funding to compensate public sector organisations for National Insurance Contributions (NICs) during its scrutiny of the First Supplementary Budget 2025-26. The Committee recommended 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 to close the shortfall in funding to Wales.<sup>29</sup> This was accepted by the Welsh Government.<sup>30</sup>

**33.** During the Committee’s legacy session, the Cabinet Secretary referred to the “much-rehearsed national insurance contribution issue” and went on to say that these “are the sorts of nitty-gritty, practical ways in which Barnett operates that I’m keen to focus on alongside the more independent oversight issue”.<sup>31</sup>

**34.** The Cabinet Secretary confirmed that no progress has been made in seeking to close the funding shortfall resulting from the increase in NICs:

*“... we’ve got nowhere with it, and in the view of the Treasury, that’s a decision that’s made—past, gone, move on.”<sup>32</sup>*

**35.** In seeking opportunities to press for change with the Treasury, the Cabinet Secretary offered the following advice to the next Welsh Government:

*“... pick your battles, because you could be arguing with the Treasury all day long about lots of different things, and if you do that, I think your energy is spread too thinly. If there are things you want to get done with the Treasury, you need to focus on those things, and I’m afraid that sometimes means you’ve got to leave some other things for another day.”<sup>33</sup>*

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<sup>29</sup> Finance Committee, *Scrutiny of the First Supplementary Budget 2025-26*, July 2025, Recommendation 5

<sup>30</sup> Welsh Government, *Response to the Finance Committee’s report on the First Supplementary Budget 2025-26*, August 2025, page 7

<sup>31</sup> Finance Committee, *RoP*, 11 February 2026, paragraph 87

<sup>32</sup> Finance Committee, *RoP*, 5 March 2026, paragraph 25

<sup>33</sup> Finance Committee, *RoP*, 5 March 2026, paragraph 26

**36.** The Cabinet Secretary emphasised the importance of recognising when progress on an issue is unlikely and redirecting attention to future opportunities instead. He suggested directing efforts to reforming the Barnett formula:

*“... there will be a paper at FISC on that. And if you can succeed in improving the operation of the system, then you will have a better rule book, and that better rule book will either avoid some of the problems we've seen, or will solve them in a way that doesn't make them individual issues. It's better to get the system to work better, and then some of these individual issues won't arise or can be better navigated. So, I would put my effort into improving the system rather than fighting it battle by battle.”<sup>34</sup>*

**37.** We heard that attempts to initiate discussions on replacing the Barnett formula have been unsuccessful, as others “maybe do reasonably well out of it”. The Cabinet Secretary explained that the joint paper from Wales, Scotland and Northern Ireland for the next meeting of the Finance Interministerial Standing Committee proposes improvements to the operation of the Barnett system and, while discussions are ongoing with the Treasury, it remains a possibility that the Treasury may also endorse the paper. He told us the proposals will not resolve all issues, but expects “to make progress and to create a path to resolving the issues that remain for further discussion”.<sup>35</sup>

## Health and Social Care

**38.** A total of £363.5 million has been allocated to the Health and Social Care MEG from fiscal resource reserves.<sup>36</sup>

**39.** Much of this funding is directed to the Core NHS Allocations budget line (£327 million). Of this, an additional £200 million of revenue funding has been allocated to support front line NHS services with in-year pressures and ongoing efforts to reduce waiting times in 2025-26.<sup>37</sup>

**40.** Of the £200 million allocation to the Core NHS Allocations budget line, the Cabinet Secretary indicated that around £140 million was provided to address health board overspends at the time of allocation, which have since reduced. The remaining £70 million covered two identified risks: higher-than-expected costs

<sup>34</sup> Finance Committee, RoP, 5 March 2026, paragraph 27

<sup>35</sup> Finance Committee, RoP, 5 March 2026, paragraphs 32 and 30

<sup>36</sup> Welsh Government, Second Supplementary Budget 2025-26: Explanatory Note, page 27

<sup>37</sup> Welsh Government, Second Supplementary Budget 2025-26: Explanatory Note, page 3

within the Welsh Risk Pool, due to faster and more expensive court case progress, and the need to resolve a long-standing dispute where some Agenda for Change staff had been banded at Band 2 despite undertaking Band 3 duties.<sup>38</sup>

**41.** When asked how much of the £200 million allocation in the Second Supplementary Budget would provide additional health provision, the Cabinet Secretary said “it’s not so much in the £200 million, it was in the £120 million that we discussed back at the first supplementary”.<sup>39</sup>

**42.** In its report on the First Supplementary Budget 2025-26, the Committee recommended 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.<sup>40</sup>

**43.** In response, the Cabinet Secretary said:

*“The Cabinet Secretary for Health and Social Care set out a detailed plan, with clear milestones and outcomes, of exactly how the money would be used this year to reduce waiting times for planned care.*

*The plan seeks to achieve the cabinet’s key milestones for planned care in 2025- 26 by:*

- Reducing the overall size of the waiting list by 200,000 pathways
- Maintain/Improving the 104 weeks wait position
- Delivering 350,000 or more treatments.”<sup>41</sup>

**44.** He explained that there are agreed arrangements for monitoring this additional funding in year, adding:

*“... I am continuing to have regular tri-laterals with the Health Secretary and the Minister for Delivery where progress on*

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<sup>38</sup> [Finance Committee, RoP, 5 March 2026, paragraph 41](#)

<sup>39</sup> [Finance Committee, RoP, 5 March 2026, paragraph 44](#)

<sup>40</sup> [Finance Committee, Scrutiny of the First Supplementary Budget 2025-26, July 2025, Recommendation 7](#)

<sup>41</sup> [Welsh Government, Response to the Finance Committee’s report on the First Supplementary Budget 2025-26, August 2025, page 8](#)

*reducing waiting times, utilising this funding, is discussed in detail.”<sup>42</sup>*

**45.** Reflecting on these monitoring arrangements and the outcome of the £120 million allocation in the First Supplementary Budget, the Cabinet Secretary said “I feel very confident now that that money has done what we wanted it to do”. He outlined the impact of that allocation:

*“The health Minister said to me that it would buy 200,000 additional out-patient appointments and, as of February, 165,000 of those had already been booked and delivered. He said to me that it would accelerate the number of cataract operations done in Wales and, by January, nearly 32,000 had been carried out, compared to 17,000 the year before.”<sup>43</sup>*

## Education

**46.** The Supplementary Budget allocates £2.6 billion non-fiscal resource to the ringfenced student loans budget. This reflects a change to the student loans valuation model, aligning the approach in Wales with the model adopted by the UK Government.<sup>44</sup>

**47.** The Cabinet Secretary emphasised that this allocation relates solely to non-cash cover and is not available to spend:

*“So, if people say, ‘Why aren't you spending that on schools?’, the answer is, ‘It's not that sort of money.’ It is a very large sum of money, but it's not money that comes to the Welsh Government that we can choose to use it for those other sorts of purposes.”<sup>45</sup>*

**48.** He explained that the new UK-wide model for valuing student loans, fully implemented in 2025–26, reflects lower-than-expected repayment levels compared with assumptions in the previous model. As a result, the Treasury has had to provide a higher level of non-cash cover to all four nations to account for this change. While the adjustment involves a large sum, we heard that similar increases have been applied in England, Scotland and Northern Ireland, and

<sup>42</sup> [Welsh Government, Response to the Finance Committee's report on the First Supplementary Budget 2025-26, August 2025, page 8](#)

<sup>43</sup> [Finance Committee, RoP, 5 March 2026, paragraphs 43-44](#)

<sup>44</sup> [Welsh Government, Second Supplementary Budget 2025-26: Explanatory Note, page 4](#)

<sup>45</sup> [Finance Committee, RoP, 5 March 2026, paragraph 46](#)

future year-on-year changes are expected to be much smaller now that the scheme is operating “on a more honest basis”.<sup>46</sup>

**49.** To date, the Treasury has fully funded the student loans schemes on the basis that costs are broadly comparable across the four nations.<sup>47</sup> The Welsh Government’s consultation, ‘The future of tertiary education in Wales: five challenges and calls for submission’, notes:

*“The Welsh Government’s most recent analysis found that projected Welsh student loan outlay based on current Welsh and UK Government policy is now (within a margin of error) nearly equal to the modelled UK Government policy counterfactual.”<sup>48</sup>*

**50.** The Cabinet Secretary addressed the impact of the new student loans valuation model on the Welsh Government’s future funding:

*“... provided our scheme doesn't cost more than schemes elsewhere in the United Kingdom, the Treasury will continue to cover it. I think the thing for us to watch in the coming months is whether our system is more generous than systems elsewhere, and when it starts to cost us real money as well. ... I think it is true to say that there was a period when Treasury oversight of the student loan model was relatively relaxed, with a lot of latitude in the way that they interpreted it. Whereas in more recent years, the Treasury has taken closer oversight of this policy issue. They have tightened up the rules, the rules are clearer, the rules are tighter, and we will have to be more careful, therefore, that the scheme that we have doesn't lead to costs directly on our own revenue budget.”<sup>49</sup>*

**51.** The Supplementary Budget allocates £60.5 million from general capital reserves to support capital programmes in schools, Further Education and Higher Education establishments. This includes:

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<sup>46</sup> Finance Committee, RoP, 5 March 2026, paragraph 47

<sup>47</sup> Welsh Government Consolidated Accounts 2024-25, page 175

<sup>48</sup> Welsh Government, The future of tertiary education in Wales: five challenges and calls for submission, January 2026, page 46

<sup>49</sup> Finance Committee, RoP, 5 March 2026, paragraph 51

- £35 million to support essential capital repairs and maintenance across schools and colleges in Wales.
- £25.5 million to support the Higher Education and Further Education sectors with invest-to-save capital transformation and capital maintenance.<sup>50</sup>

**52.** The Cabinet Secretary told us the £60.5 million allocation arose from in-year capital management, as additional capital became available through UK-level fiscal events or emerging underspends.<sup>51</sup>

**53.** In terms of the extent to which this funding will address the maintenance backlog, the Cabinet Secretary said:

*“... in the last decade, 20 per cent of all school and college buildings in Wales have benefited from the twenty-first century schools and colleges programme, which is extraordinary compared to what has happened elsewhere. So, in that sense, there's a lot of our estate that is very modern and in a very good state of repair, and, since 2018, we've invested over £300 million in the running maintenance of other buildings. So, the extra £60 million, particularly in the schools context, continues to make an inroad into any backlogs.”<sup>52</sup>*

## Transport

**54.** The Welsh Government allocates £97.9 million to the Transport MEG from general capital reserves. This comprises:

- £72.2 million to meet additional costs associated with rolling stock on the rail network to support work to modify and decarbonise the Transport for Wales train fleet.
- £25.7 million to support in year pressures and additional activity on the Core Valley Lines Transformation project.<sup>53</sup>

**55.** The Cabinet Secretary confirmed that this allocation relates to costs associated with modifying Transport for Wales's Class 231 trains from diesel-only

<sup>50</sup> [Welsh Government, Second Supplementary Budget 2025-26: Explanatory Note, pages 4 and 28](#)

<sup>51</sup> [Finance Committee, RoP, 5 March 2026, paragraph 67](#)

<sup>52</sup> [Finance Committee, RoP, 5 March 2026, paragraph 69](#)

<sup>53</sup> [Welsh Government, Second Supplementary Budget 2025-26: Explanatory Note, pages 3, 6 and 28](#)

operation to hybrid capability so they can operate on newly electrified lines. He explained that interest rates were a key factor in reaching a decision on whether to meet the costs in this year or the next:

*“... the decision was to pay the bill in this year, because next year the interest rates could have been higher and we’d have ended up paying more. And by paying the bill this year, it creates headroom in next year’s budget for TfW, and there will be other things that they will be managing.”<sup>54</sup>*

## Economy, Energy and Planning

**56.** The Supplementary Budget surrenders £70 million to reserves “following an exceptional property sale”. These funds have been repurposed to support other Welsh Government priorities.<sup>55</sup>

**57.** The Cabinet Secretary confirmed that the receipt relates to the sale of the former Hynix building and two plots at the Celtic Lakes site in Newport to Vantage Data Centres. He added that the sale was “overseen by the independent valuers that the Welsh Government used to make sure that we are getting proper market value for it”.<sup>56</sup>

## Committee view

**58.** The Committee is disappointed that no progress has been made in resolving the NICs funding shortfall for Welsh public sector organisations. Despite the Welsh Government’s efforts to pursue this issue, we note that the Treasury appears unwilling to revisit its decision. We find the Cabinet Secretary’s advice on how best to press for change with the Treasury both pragmatic and valuable for future administrations. We also recognise the Cabinet Secretary’s argument that focusing on securing improvements to the Barnett system could yield wider benefits that reduce the need for issue-by-issue negotiations.

**59.** We note the £363.5 million allocated to the Health and Social Care MEG which includes the targeted use of an additional £200 million to address health board overspends, Welsh Risk Pool pressures and funding to address the Agenda for Change banding dispute. We also recognise the evidence provided on the

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<sup>54</sup> [Finance Committee, RoP, 5 March 2026, paragraph 12](#)

<sup>55</sup> [Welsh Government, Second Supplementary Budget 2025-26: Explanatory Note, page 6](#)

<sup>56</sup> [Finance Committee, RoP, 5 March 2026, paragraph 77](#)

impact of the £120 million allocation in the First Supplementary Budget, demonstrating the value of the Welsh Government's oversight arrangements.

**60.** The Committee welcomes the additional £60.5 million capital allocation to support school repairs and maintenance and to provide “spend-to-save” funding in tertiary education.

**61.** We are grateful for the explanation provided by the Cabinet Secretary and his officials regarding the £2.6 billion non-cash allocation resulting from the new UK-wide student loans valuation model, which revises future assumptions about graduates' future earnings. We note that the Treasury currently fully funds student loan schemes on the basis that costs are broadly comparable with England. However, future Welsh Governments will need to carefully consider the long-term costs of any policy divergence to ensure that supporting the student loan book does not constrain the wider education budget.

**62.** The Committee notes that this is not actual funding that would be received by the Welsh Government and therefore cannot be spent. We are concerned that this £2.6 billion non-cash adjustment may be misunderstood by stakeholders as additional spending capacity for education services. We believe these types of adjustments should be explained more clearly in budget documentation to avoid confusion.

**Recommendation 3.** The Committee recommends that the next Welsh Government reviews the long-term viability of the student finance model and its interaction with wider education funding.

**Recommendation 4.** The Committee recommends that the next Welsh Government enhances the clarity of budget documentation by providing an explanation of large non-cash items to ensure stakeholders understand that these allocations do not represent additional funding available for services.

**63.** We note the £97.9 million of capital allocated to the Transport MEG, particularly the decision to provide £72.2 million funding to make Class 231 trains capable of running on both diesel and electrified lines. We recognise that meeting costs in this financial year is expected to generate headroom for Transport for Wales in 2026-27 and mitigate the risk of higher interest costs.

**64.** The Committee also notes the surrender of £70 million to reserves following the exceptional property sale at Celtic Lakes and welcomes the Cabinet Secretary's assurances regarding independent valuations and the reuse of these funds to support other priorities.

## 4. Directly Funded Bodies

**65.** The Supplementary Budget proposes variations to the budgets of the Senedd Commission and the Public Services Ombudsman for Wales (attached as an annex). The Committee considered these at its meeting on 21 January 2026.<sup>57</sup> Audit Wales did not submit a supplementary budget request on this occasion.

### Senedd Commission

**66.** The Commission's Budget for 2025-26<sup>58</sup> of £83.845 million was approved by the Senedd on 20 November 2024<sup>59</sup>. On 8 July 2025<sup>60</sup>, the Senedd agreed the First Supplementary Budget 2025-26 which included an increase to the Commission's budget by £773,000 to adjust for the increase in employer National Insurance Contributions (NICs) from 13.8 per cent to 15 per cent and a reduction in the level at which employers start paying contributions from £9,100 to £5,000<sup>61</sup>.

**67.** The Senedd Commission is not seeking any additional funds from the WCF in its Second Supplementary Budget, instead it is proposing to decrease its overall budget by £4.001 million and to decrease the net cash requirement by £3.501 million. The Explanatory Memorandum accompanying the supplementary budget request states that the Commission proposes the following changes:

- a decrease to the Commission's total budget of £82,000 to return funding for National Insurance Contributions;
- a decrease in the budget for Members' salaries and related costs of £460,000 to reflect anticipated underspend (in addition to the National Insurance funding adjustment);
- a decrease in the budget for Annually Managed Expenditure of £500,000 to reflect the updated forecast costs (non-cash);
- a re-allocation of revenue funding to capital of £4.182 million; and

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<sup>57</sup> [Finance Committee Agenda, 21 January 2026](#)

<sup>58</sup> [Senedd Commission, Budget: 2025-26 Planned Step Change, November 2024](#)

<sup>59</sup> [Plenary, RoP, 20 November 2024](#)

<sup>60</sup> [Plenary, RoP, 8 July 2025](#)

<sup>61</sup> [Senedd Commission, Supplementary Budget 2025-26 Explanatory Memorandum, May 2025](#)

- a decrease in both resource and cash requirements resulting from a refund in relation to the payment of 'Rates' of £2.959 million.<sup>62</sup>

**68.** The Chief Executive and Clerk wrote to the Committee on 10 December 2025, notifying Members of the refund the Commission has received regarding the rateable value of the Cardiff Bay estate amounting to £3.603 million, with the Commission intending to retain £644,000 and return the remaining amount to the WCF.<sup>63</sup>

**69.** Following additional correspondence sent<sup>64</sup> by the Committee seeking clarification on these points, a further response was received from the Chief Executive on 19 December stating that:

*"The Commission's intention is to return the balance of the refund to the WCF by treating the funds received as 'drawdown' and consequently reducing the amount drawn for the year. This will not affect the overall cash requirement or the total resource requirement for the year; it simply alters the method of receipt. The refund will be noted in the Supplementary Budget, with no consequential changes to the financial figures.*

*Once the new charge for office rates is confirmed, the 2026-27 budget will be updated through a supplementary budget."*<sup>65</sup>

**70.** The letter also provides further information regarding how the £644,000 sum was arrived at, explaining that

*"... this sum was determined following a review of the Estates' Forward Maintenance Register, to identify projects scheduled for the next two to three years pertaining solely to the Senedd building. The intention is to approve expenditure now where it may alleviate future budgetary pressures."*<sup>66</sup>

<sup>62</sup> [Senedd Commission, Second Supplementary Budget 2025-26, Explanatory Memorandum, January 2026](#)

<sup>63</sup> [Letter from the Chief Executive and Clerk of the Senedd to the Finance Committee, 10 December 2025](#)

<sup>64</sup> [Letter from the Finance Committee to the Chief Executive and Clerk of the Senedd, 15 December 2025](#)

<sup>65</sup> [Letter from the Chief Executive and Clerk of the Senedd to the Finance Committee, 19 December 2025](#)

<sup>66</sup> [Letter from the Chief Executive and Clerk of the Senedd to the Finance Committee, 19 December 2025](#)

**71.** The letter also confirms that these projects include replacing the remaining lights in the Senedd with LED (£150,000) and Senedd lift upgrades (£494,000).<sup>67</sup>

**72.** In further correspondence issued on 15 January 2026, the Chief Executive provided a further update on the accounting treatment for the cash rebate included in the Supplementary Budget:

*“The Commission engaged with Welsh Government early in the process to confirm how the monies could be returned to the Welsh Consolidated Fund and had confirmation that the proposed approach was sound. This approach was outlined in my letter dated 8 December 2025, whereby the Commission would reduce the amount of cash drawn down so that the total quantum of cash received remained the same, but the method of receipt was part ‘drawdown’ and part ‘refund’.*

*However, when Welsh Government has tried to apply the changes through the budget in practice, it has become clearer that, whilst it is a perfectly proper accounting treatment (hence the initial position), a transfer of cash between the Commission and the Welsh Consolidated Fund would not reflect the refund in a way which would make the money available to the wider public sector.”<sup>68</sup>*

**73.** She added:

*“To that end, the numbers in the Second Supplementary Budget have been updated to reflect a reduction in both the cash and resource required for the year. This is so that the monies can properly be recognised.*

*For assurance, the Commission has not changed its position in terms of the amount being returned; this is a technical accounting adjustment, to be able to properly recognise the amount in budgetary terms, only.”<sup>69</sup>*

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<sup>67</sup> [Letter from the Chief Executive and Clerk of the Senedd to the Finance Committee, 19 December 2025](#)

<sup>68</sup> [Letter from the Chief Executive and Clerk of the Senedd to the Finance Committee, 15 January 2026](#)

<sup>69</sup> [Letter from the Chief Executive and Clerk of the Senedd to the Finance Committee, 15 January 2026](#)

## Public Services Ombudsman for Wales

**74.** The PSOW Estimate 2025-26<sup>70</sup> sets out cash and resource requirements of £6.358 million and £6.392 million respectively, and was approved by the Senedd through the annual budget motion on 4 March 2025<sup>71</sup>. The PSOW's First Supplementary Budget 2025-26<sup>72</sup>, considered by the Committee on 7 May 2025<sup>73</sup>, proposed an increase to its cash and resource budget of £84,000 to meet the additional costs associated with the increase in employer NICs announced by the UK Government in its autumn budget in October 2025.

**75.** In its Second Supplementary Budget the PSOW proposes a reduction to its cash and resource budget of £16,000. The Supplementary Estimate states:

*"£16k relates to expenditure that is no longer needed following the death of one of the spouses of former Local Government Commissioners, to whom PSOW has responsibility for pension payments."*<sup>74</sup>

**76.** The Supplementary Estimate also notes:

*"A staff secondment to the Ombudsman Association ended in August 2025. There are efficiency savings of £14k, in unpaid wages following the departure of the staff member, which is offset by a reduction in secondment income we will no longer receive. The net effect of this change is nil."*<sup>75</sup>

## Committee view

**77.** The Committee notes the Senedd Commission's intention to reduce cash and resources required from the WCF as a result of a refund received regarding the rateable value of the Cardiff Bay estate. The Committee also recognises that the Commission will retain £644,000 of the £3.603 million being refunded. We welcome the additional information provided by the Commission in explaining how the £644,000 was calculated and how it will be utilised. We also welcome assurances from the Commission that, by engaging early in the process with the

<sup>70</sup> [Public Services Ombudsman for Wales. Estimate 2026/27.](#)

<sup>71</sup> [Plenary. RoP. 4 March 2025.](#)

<sup>72</sup> [Public Services Ombudsman for Wales. 1st Supplementary Budget - 2025/26](#)

<sup>73</sup> [Finance Committee. Agenda. 7 May 2025](#)

<sup>74</sup> [Public Services Ombudsman for Wales. Second Supplementary Budget 2025/26](#)

<sup>75</sup> [Public Services Ombudsman for Wales. Second Supplementary Budget 2025/26](#)

Welsh Government, the correct accounting procedures have been followed to enable the funding to be reallocated.

**78.** The Committee notes the PSOW's Second Supplementary Budget 2025-26 which returns £16,000 to the WCF. The Committee also notes the implications arising from the departure of a staff member with regard to the reduction in secondment income.

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

**Public Services Ombudsman for Wales**

**2<sup>nd</sup> Supplementary Budget – 2025/26**

**Explanatory Memorandum to the Chair of the Finance Committee**

This Supplementary Budget submission has been prepared in accordance with Welsh Parliament Standing Orders 18A.2 and 20.36 (dated January 2025).

**Changes to staff costs**

There are 2 matters that have resulted in changes to our staff costs:

- A staff secondment to the Ombudsman Association ended in August 2025. There are efficiency savings of £14k, in unpaid wages following the departure of the staff member, which is offset by a reduction in secondment income we will no longer receive. The net effect of this change is nil.
- £16k relates to expenditure that is no longer needed following the death of one of the spouses of former Local Government Commissioners, to whom PSOW has responsibility for pension payments.

Our Estimate submission for 2026/27 reflected the full year effect of these changes, and this Supplementary Budget reflects the in-year impact on our budget.

**Additional Resources Sought**

In summary, we propose a variation to the annual budget motion in compliance with Standing Order 20.36 in respect of:

- A reduction of £16k (cash and resource) to reflect changes to a staff secondment and payments due to former Local Government Commissioners.

All figures in £000s	Estimate 1 <sup>st</sup> Supp	Changes	Revised Estimate
Staff salaries and related costs	5,194	(30)	5,164
Premises and facilities	162		162
Professional fees	267		267
IT costs	351		351
Investment in IT & Digital Strategy	105		105
Office costs	105		105
Travel, training and recruitment	43		43
Communications	70		70
<b>Total Revenue Expenditure</b>	<b>6,297</b>	<b>(30)</b>	<b>6,267</b>
Total Income	(27)	14	(13)
<b>Net Revenue Expenditure</b>	<b>6,270</b>	<b>(16)</b>	<b>6,254</b>
Capital Expenditure – DEL	5		5
<b>Total Resources Required</b>	<b>6,275</b>	<b>(16)</b>	<b>6,259</b>
Depreciation and amortisation	70		70
Depreciation – leased assets	87		87
Interest charge – leased assets	44		44
Capital AME – dilapidations	-		-
<b>Total Resource Expenditure</b>	<b>6,476</b>	<b>(16)</b>	<b>6,460</b>
Depreciation and amortisation	(70)		(70)
Depreciation – leased assets	(87)		(87)
Interest charge – leased assets	(44)		(44)
Capital AME – dilapidations	-		-
Change in working capital	147		147
Other non-cash movements	20		20
<b>Cash Requirement from WCF</b>	<b>6,442</b>	<b>(16)</b>	<b>6,426</b>