Llywodraeth Cymru
Welsh Government

New Ambition for Wales

The Draft Budget Report 2027-28 to 2029-30

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Foreword



Rt Hon Elin Jones MS
Cabinet Minister for Finance

This Draft Budget represents an historic moment for our politics – a budget put forward by a new government with a genuine mandate for change and a new ambition for Wales.

It is the first opportunity to invest in our six Programme for Government priorities: building a health and care service fit for the future, helping households with the cost of living, unleashing the potential of the Welsh economy, raising standards in schools, tackling child poverty, and standing up for Wales.

In the face of an exceptionally difficult budget settlement from the UK Government, this Draft Budget provides certainty and protection for our public services against a backdrop of economic uncertainty, rising costs and spending pressures. It also represents a break with the past in how we confront the challenges facing our public services, prioritise resources where they can make the biggest difference and deliver better outcomes for people and communities.

We are allocating additional investment that the NHS needs to tackle pressures and waiting lists, while driving a step-change in productivity and efficiency. We will fund the expansion of our childcare offer, so that more families access and benefit from this transformative investment. We are funding our Cynnal pilot, as the first step in addressing the scourge of child poverty in our country. And we are taking a fundamentally different approach to the economic levers we have at our disposal, establishing and resourcing the new Welsh Innovation and Development Agency to drive economic growth.

We deliver on these commitments from an exceptionally challenging budget position.

Our funding settlement is still mainly set by Westminster. This budget comes in the aftermath of a UK Autumn Budget which ignored the needs of the people of Wales. The additional funding for Wales announced did not offset the hit to our public services from higher inflation.

We don't possess all the fiscal tools we need, and arbitrary fiscal constraints limit our room for manoeuvre. Our inadequate capital borrowing powers leave us with a 10% real terms cut in our capital budget over coming years.

But the fiscal shackles and budget cuts imposed on us by the UK Government will not dim our ambitions. This budget takes a different approach – this is a reset. Ministers and their officials have examined every aspect of their portfolios, reviewing over 970 budget programmes, assessing both the outcomes they deliver and how they align with our priorities and objectives.

Too often, the language of efficiency has been ceded by those of us who believe in the value of public services. This budget will drive efficiency, improve productivity, and begin a concerted effort to reduce the administrative cost of government and the wider public sector.

Prevention and earlier intervention must also be viewed as a fiscal strategy as well as a social policy objective. Our new Public Sector Transformation Fund will drive this new approach.

Given the difficult budget position, departments, Arms-Length Bodies and other funded organisations inevitably face challenging settlements, but we will work with them to improve efficiency, reduce administrative costs and shift resources to front-line delivery. This is not about menial savings driven by ideology, but about delivering the best value for every pound of public spending and demanding excellence across the public sector. From now, the focus shifts from how much is spent to how it is spent.

If the fiscal arithmetic required us to be disciplined and resourceful in our approach to this Budget, the Senedd arithmetic has also demanded a collaborative approach with other political parties. Through early and constructive engagement with the Green Party, we have developed two proposals which are included in today's budget, namely: the Climate Resilience Fund and investment in community EV car clubs.

This Budget also leaves a sizeable pot of funding unallocated, which creates space for further meaningful discussions with other parties over coming weeks. There are common goals we share with other parties in the Siambr, and the Final Budget we publish in the Spring will seek to reflect the views of the Senedd.

We understand the scale of the challenge that this Budget must begin to address. The inherited legacy of underperforming public services and huge spending pressures. Patients waiting too long for treatments. Parents paying too much for childcare. The scars of poverty blighting the futures of our children.

This Budget won't solve those problems in a single year, but with new ambition and a new approach, we can set a new direction for Wales.

Section 1
Our Purpose

“This Budget begins the work of delivering our ambitions for Wales, resetting priorities and putting our resources behind the change we want to achieve.”

Introduction

This is the first Draft Budget of a Plaid Cymru Government. It marks a new direction and ambition for Wales, beginning the work of aligning our resources with our new Programme for Government to strengthen public services, grow our economy and improve people's lives.

It is a multi-year Budget, setting out two years of resource spending plans and three years of capital investment. Over the period covered by this Draft Budget, we will invest more than £60 billion in Wales to ensure we are bringing down waiting lists, supporting families with the cost of living, creating good, well paid jobs, raising educational standards, and tackling child poverty. This longer-term approach gives our public services and partners greater certainty, while allowing us to begin reshaping investment around the priorities of our new Government.

We start that journey in exceptionally difficult financial circumstances. Our resource funding is 0.5% lower in real terms than last year, and our capital funding is anticipated to fall in real terms by 9.6% over the period. This is at a time when demand for public services remains high and rising inflation continues to place pressures on limited resources. We cannot protect every programme or service from those challenges, and that reality has required us to make choices.

Our first priority in building this Draft Budget was to protect, and improve, the services people depend on most. We have prioritised funding for the NHS alongside local government, providing both with above-inflation increases in funding available to them. In a budget where the overall resource settlement is falling in real terms, that choice has consequences. Providing greater protection for these essential services has meant taking difficult decisions elsewhere.

But this Draft Budget is about more than managing a difficult settlement. It represents a reset in the way we fund delivery in Wales and a break with the past. Our priorities are different, but we also want to change how we think about public spending, focusing more closely on the outcomes it achieves, challenging established ways of doing things, and being prepared to shift resources when a different approach can deliver better results.

We promised to undertake a rapid review of government spending, and we have delivered on that commitment. As a Cabinet we have examined spending across every area of government, challenging existing commitments and asking whether resources are being directed to where they can make the greatest difference. This has not simply been an exercise in finding savings. It has been about making choices: protecting what matters most, stopping or reducing spending where it is no longer the best use of public money, and creating space for new priorities.

We have made those choices collectively as a government, looking beyond individual portfolios to what Wales needs from us as a whole. As a Cabinet, we have taken decisions together about where resources can make the greatest difference, creating the space to invest in our shared priorities.

We have taken a similarly purposeful approach to capital. We have built our capital plans from a zero base, testing investment against the priorities of the new Programme for Government rather than simply carrying forward previous allocations. This Budget therefore aligns capital investment with delivery of the Programme for Government, while continuing to support the broader environmental, social, economic and cultural outcomes set out in the Wales Infrastructure Investment Strategy.

This matters because investment alone is not enough. Despite significant public investment over many years, some of Wales's most entrenched challenges remain and, in areas such as poverty, have worsened. This Draft Budget considers not only how much we spend, but whether that spending is making the difference we need it to make.

That principle runs through our approach to this Draft Budget. As guardians of public money, we have a responsibility to make the best possible use of every pound. That duty exists in any financial climate, but it is more important than ever when resources are constrained.

Not every budget line shows a reduction, but across every area of the public sector we will focus on efficiency. We want to reduce the costs of administration wherever possible, remove duplication and move as much resource as we can from the back office to the frontline. Efficiency is not simply about spending less; it is about achieving better outcomes from the way resources are used.

Over the course of this Government we will shift more of our resources towards prevention and earlier intervention. Too often public services are required to respond once problems have become more severe, more difficult and more expensive to address. Changing that will take time. The immediate pressures facing public services mean that we cannot move resources away from acute needs overnight, and the Draft Budget does not pretend to complete that shift. It begins to establish the approach we will take over the remainder of this government term and begins the work of rewiring our investment towards preventative approaches.

This Draft Budget is the first stage in agreeing our spending plans. It will now be scrutinised by the Senedd, and we will listen carefully to that scrutiny before bringing forward our Final Budget.

We are realistic about what can be achieved within the resources available to us. This Budget cannot deliver our entire Programme for Government at once, nor can it resolve overnight the longstanding challenges facing Wales. But difficult financial circumstances do not diminish our ambition. This Budget establishes the foundations for a new approach. It protects the services people rely on most, begins to shift resources towards the priorities of our new Government, challenges us to make public money work harder and starts the longer-term task of moving investment towards prevention and better outcomes.

" This is the start of our journey. It is an ambitious reset, grounded in the reality of the resources available to us but focused firmly on the Wales we want to build. By making different choices, using our resources differently and maintaining our focus on what matters most, the Draft Budget makes progress now while laying the foundations for greater change over the years ahead."

A Whole Government Approach

We have deliberately structured this Budget Report to reflect the way we want government to work: around the outcomes we are seeking to achieve, rather than the boundaries between individual portfolios. The challenges facing Wales do not sit neatly within individual departments, and neither should our response to them.

Section 2 therefore brings together the resource, capital and financial transactions capital investments we are making across government around our shared priorities, showing how different parts of government contribute to delivering the Programme for Government.

The whole of Cabinet approach we have taken does not diminish the responsibility of individual Ministers for the budgets and decisions within their portfolios. Section 3 sets out allocations by Main Expenditure Group (MEG), while the Budget Expenditure Line (BEL) tables published alongside this report provide the detailed breakdown of our spending plans.

The Draft Budget Report does not seek to describe every individual investment being made across government. Further detail is available through those tables and will also be provided in the evidence submitted to Senedd Committees as part of their scrutiny of the Draft Budget. The table included in Annex C summarises how our investments will deliver against key outcomes of the Wales Infrastructure Investment Strategy.

Together, the Budget documents which are published today provide a clear line of sight from the purpose of this Government, through the investments we are making, to the detailed allocations through which they will be delivered.

Section 2
Our Investments

“We are investing in the services, people and communities of Wales, protecting what matters most while beginning to deliver the priorities of our new Government.”

Building a health and care service fit for the future and cutting waiting lists

A healthy population is the foundation of a stronger economy and a thriving Wales. Our immediate priority is to develop sustainable services and ensure people receive the treatment they need more quickly. But responding to the pressures facing the NHS today must go hand in hand with building a health and care system that is increasingly productive and sustainable for the future.

This Budget prioritises the NHS in exceptionally difficult financial circumstances. We are providing significant funding to support frontline services, support treatment and diagnostic capacity and begin putting NHS finances on a more sustainable footing. Our investment will support health organisations to respond to unavoidable demand and inflationary growth, rising complexity, while protecting access to essential care. This investment will enable actions to sustain and improve access, while providing a stronger foundation from which services can plan and deliver.

We are clear that this investment will not eliminate all access challenges, or resolve every pressure facing the NHS overnight. Demand remains high, workforce and capacity constraints remain, and improving performance and outcomes after years of sustained pressure will take time. Our investment provides a stronger foundation for improvement, but lasting progress will depend on reform, improved productivity and a continued focus on the outcomes achieved for patients.

We will work with the NHS to make the best possible use of its workforce, facilities, technology and resources, ensuring funding is directed towards services and approaches that deliver the greatest benefit.

Over the longer term, we want to change the balance of our health and care system. Too often, support is provided only once people have become seriously unwell, or their needs have become more complex. We will begin shifting towards prevention, earlier intervention and more care delivered through primary, community and integrated services closer to home. That will help people remain healthier and independent for longer, while reducing avoidable pressure on hospitals.

Social care is integral to that change. Strong social care services support people to live independently, enable timely discharge from hospital and help ensure people receive care in the setting most appropriate to their needs. Better integration between health and social care will therefore be essential to improving people's experience and making the whole system more sustainable.

We are also investing in the infrastructure needed to modernise services, including NHS buildings, medical equipment and digital infrastructure, increasing surgical and diagnostic capacity and developing more integrated health and care facilities. We are also investing in safety, maintenance and decarbonisation across the NHS estate, helping create safer, more resilient and lower-carbon services.

Improving health cannot be the responsibility of the NHS alone. Our health is influenced by the homes we live in, the food we eat, our education and employment, the transport available to us, our communities and our opportunities to be active. Over the course of this Government, we will take a whole-government approach to prevention and tackle the inequalities that mean good health is not experienced equally across Wales.

This Budget cannot complete that transformation immediately. It responds to the urgent pressures facing services now, while beginning the longer-term shift towards prevention, integration and better outcomes.

Our key investments

Resource

£12.4 billion for health and care in 2027-28, rising to £12.6 billion in 2028-29.

£64 million invested in A Healthier Wales.

£47 million for Substance Misuse.

£27 million for Mental Health.

£29 million for Targeted Health Protection and Immunisation.

Capital

£694.7 million for the health and care capital programme in 2027-28 and approximately £2 billion over three years. Which will be used to fund:

£285 million over three years for the Integration and Rebalancing Capital Fund.

£100 million over three years for digital priorities.

£171 million over three years for health projects and programmes, including elective care hubs.

Helping households with the cost of living

We know that the cost of everyday essentials continues to put pressure on household budgets across Wales. Helping families with the cost of living is therefore a priority for this Government, and this Budget uses the levers available to us to help reduce costs, maximise household incomes and strengthen financial security.

There is no single solution to the cost of living pressures people face. Childcare, housing, energy, transport and access to advice and financial support can all affect how far household incomes stretch. That is why we are taking a whole-government approach, combining practical help with longer-term investment to strengthen household resilience.

Recognising the immediate pressures facing families this winter, we have already announced a £130 million cost of living package, which will provide support alongside the longer-term investments set out in this Budget.

The cornerstone of our approach is childcare. Through this Budget, we have funded the first stages of our commitment to develop a universal Childcare Offer for children from nine months to four years, building towards 20 hours of funded childcare a week for 48 weeks of the year, while maintaining the existing 30-hour offer for eligible three and four-year-olds. By reducing one of the largest costs faced by many families, we can put money back into household budgets while helping more parents and carers to work, study or increase their hours. This reflects the approach in our Programme for Government, which places affordable childcare at the centre of our response to household costs.

We are also funding support that helps households maximise their incomes and access help when financial pressures arise. The Single Advice Fund helps people access the support to which they are entitled and the Council Tax Reduction Scheme helps reduce the pressure of essential household bills.

A safe, secure and affordable home is also fundamental to financial security. Through this Budget, we are investing in new social homes, helping increase the long-term supply of social housing. We are also investing in land acquisition and site preparation to strengthen the future housing pipeline, alongside substantial investment in residential decarbonisation and Warm Homes to improve energy efficiency and reduce household costs.

We are funding services that help people remain in their homes and prevent homelessness, alongside investment in Nest and housing retrofit to improve energy efficiency and reduce household energy costs.

Affordable transport also matters to household finances and people's ability to access work, education and essential services. Our wider investment in public transport includes continued support for reduced bus fares for children and young people, helping to keep the cost of travel down for families across Wales.

Our approach recognises that helping households today and building greater financial resilience for the future need to go together. Affordable childcare can make it easier to work, and secure energy efficient

housing can reduce household costs, affordable transport can improve access to opportunities, and advice and financial support can help people maximise their incomes and avoid problems escalating.

But we are realistic about the pressures that remain. This Budget cannot shield every household from increases in the cost of living, and difficult choices mean that some forms of support will be more constrained. For example, while our crisis support remains in place there is a reduction in the budget allocated for the Discretionary Assistance Fund which will mean a change in the level of support we are able to offer. Longer-term investment in childcare, housing and prevention cannot simply be assumed to remove those immediate pressures.

This Budget therefore combines practical action to reduce some of the costs households face today with investment that can strengthen financial security over the longer term.

Our key investments

Resource

Additional allocations of £75 million in 2027-28 and £111 million in 2028-29 for the Childcare Offer.

£211 million in 2027-28 for the Housing Support Grant.

£10.8 million for targeted homelessness prevention.

£13 million for the Single Advice Fund Scheme.

Capital

£543.6 million for the Social Housing Grant in 2027-28 and £1.57 billion over three years.

£125 million over three years for childcare.

£623.4 million over three years for residential decarbonisation and Warm Homes.

Financial Transactions Capital

Prioritising housing through multi-year certainty and increasing investment:

£243.2 million for Registered Social Landlords development loans;

£70 million for Help to Buy Wales;

£30 million for Land for Housing;

£30 million over three years for Transforming Towns;

£20 million for the Land Release Fund.

Unleashing the potential of the Welsh economy, and creating good well-paid jobs

Building a stronger, more productive economy is central to our ambition for Wales. Higher productivity can support stronger businesses, higher wages, better jobs and rising living standards.

But productivity is not driven by any single programme. It depends on businesses being able to invest and grow, people having the skills and opportunities they need, and the infrastructure, energy and connectivity that allow every part of Wales to contribute to our economic success. This Government's economic approach therefore connects investment across education, skills, childcare, health, housing, transport and digital connectivity.

This Budget begins to put in place a new approach to economic development. We have created a dedicated budget for our new Welsh Innovation and Development Agency and are investing more than £20 million in 2027-28 to begin the work needed to establish it. The Agency will provide stronger strategic leadership for economic development, with a particular focus on helping Welsh businesses to grow, increasing investment and strengthening the number of medium-sized firms rooted in Wales.

The opportunities presented by new technology will also be central to improving Wales' productivity. We are investing £13 million in our Digital Strategy, including £9.3 million for the new AI Institute and wider AI programme. This will help establish a national capability to accelerate the safe, practical and bilingual adoption of AI across public services and the Welsh economy. By connecting government, academia and industry, we want to strengthen AI skills, enable businesses and services to adopt new technologies and create new opportunities for innovation and economic growth.

Energy presents another major economic opportunity. Wales has significant renewable energy potential, and we want more of the jobs, investment and long-term economic value created from our natural resources to remain in Wales. Through this Budget we are funding work to strengthen renewable energy development and community ownership, alongside the development of a National Energy Strategy and Renewable Energy Sector Deal. We are also bringing together Trydan Gwyrdd Cymru, Ynni Cymru and the Welsh Government Energy Service as part of a stronger national energy offer.

We are also preparing the ground for a new economic partnership on the Crown Estate. Our ambition is to secure significant investment into Wales over the coming years and ensure opportunities from developments such as the Celtic Sea translate into Welsh jobs, stronger supply chains and more value retained in Wales. Work on the partnership is at an early stage and the scale of investment has not yet been agreed, but our ambition is to secure around £700 million of Crown Estate investment over the coming years.

Infrastructure is fundamental to that productivity mission. We are investing more than £815.2 million through the Enterprise, Connectivity and Energy capital programme in 2027-28 and around £2.3 billion over three years. This investment spans transport, business infrastructure, employment sites, broadband, tourism, innovation, science, renewable energy and regional development. Better transport and

digital connectivity will connect people to jobs and businesses to markets. We also know that accelerating vehicle electrification is a critical next step in delivering on Wales's climate commitments and our pathway to Net Zero. We are committing £30 million over three years to a strategic national programme of investment to accelerate vehicle electrification. Following constructive engagement with Wales Green Party, a portion of this funding will be invested in developing community EV car clubs. This will help provide accessible transport for underserved communities and reduce the need for families to own multiple cars.

Our approach must work for the whole of Wales. Rural communities and businesses are an essential part of our economy, supporting food production, tourism, employment and Cymraeg as a living language. We are providing £340 million a year through the Sustainable Farming Scheme, giving the sector greater certainty and supporting the long-term sustainability of Welsh farming while progressively delivering environmental outcomes.

We are directing public investment towards productivity, innovation and stronger economic institutions. Success will be measured by stronger Welsh businesses, good and well-paid jobs, increased investment and more economic value retained in Wales.

Our key investments

Resource

More than £20 million for the new Welsh Innovation and Development Agency.

£13 million for the Digital Strategy, including £9.3 million for the AI Institute and wider AI programme.

£4 million in 2027-28 and £3.6 million in 2028-29 for renewable energy development.

£1 million for the Economic and Fiscal Commission.

More than £403 million for rail services and £75 million for bus services in 2027-28.

£340 million a year for the Sustainable Farming Scheme.

Capital

£815.2 million for Enterprise, Connectivity and Energy capital in 2027-28 and £2.3 billion over three years.

£30 million over three years for strategic electric vehicle infrastructure.

£30 million over three years for Ynni Cymru.

£215.4 million over three years for agricultural and rural investment, of which £162 million is directly for the Sustainable Farming Scheme.

Financial Transactions Capital

£9 million for Cardiff International Airport.

£103.6 million for the Business Finance Fund.

£22.5 million for the Sustainable Agricultural Loans Scheme.

Raising standards in our schools, and ensuring the best conditions for learning

Education gives children and young people the knowledge, skills and opportunities they need to thrive throughout their lives. Raising standards in our schools is therefore one of our central priorities, with a particular focus on improving literacy and numeracy, attendance and the quality of teaching and learning.

Most funding for schools is provided through local authorities. In a difficult financial environment, we have prioritised local government with an overall increase of 2.8% to the settlement. Alongside this, we are providing £417.6 million each year directly to schools and local authorities, through the Local Authority Education Grant, to raise attainment, improve literacy and numeracy outcomes and drive continuous school improvement.

Raising standards also means ensuring that every child has the opportunity to learn. Poverty, additional learning needs, poor attendance and other barriers can affect a learner's ability to participate and achieve their potential. Evidence considered as part of the Budget shows continuing inequalities in educational participation and outcomes, including poorer attendance among pupils eligible for free school meals and barriers experienced by some disabled learners and learners with additional learning needs.

Our investment therefore combines a focus on standards with support for learners who face greater barriers to achievement. Funding for the Pupil Development Grant, additional learning needs and wider equity programmes will support schools and local authorities to improve attainment, attendance, wellbeing and inclusion.

Teachers and the wider education workforce are fundamental to improving standards. We are funding curriculum and assessment, professional support and incentives to help attract teachers into areas where they are most needed. Our approach will support high-quality, evidence-led teaching while maintaining our focus on literacy, numeracy, learner progress and school improvement.

We also want young people to have clear routes from school into further learning, training and good employment. Our investment in Junior Apprenticeships will give more 14 to 16-year-olds access to vocational learning alongside their school education, broadening the pathways available to young people and strengthening the connection between education and future opportunities.

The conditions in which children learn matter too. We are investing £407.1 million in education capital in 2027-28 and £1.2 billion over three years to improve the education estate. This will support childcare, school and college maintenance, additional learning needs, Welsh-medium provision, community-focused schools, digital infrastructure, decarbonisation and Sustainable Communities for Learning. Our aim is not simply to invest in buildings, but to provide modern, inclusive and effective environments in which learners and teachers can succeed.

We are realistic that sustained improvement in educational outcomes will take time. Funding cannot remove every barrier facing learners or schools, particularly where disadvantage outside the classroom affects attendance and attainment. There are also difficult choices elsewhere within education as we focus limited resources more closely on our priorities.

Our approach is therefore to concentrate investment where it can make the greatest difference, strengthen the foundations of learning and provide every child with the best possible opportunity to fulfil their potential.

Our key investments

Resource

2.8% overall increase in local government funding.

£417.6 million each year going directly to schools and local authorities which includes £127.8 million for the Pupil Development Grant and £37 million for Additional Learning Needs.

£19.9 million for curriculum and assessment which supports delivery of the Foundational Literacy and Numeracy Plan.

£2 million for Junior Apprenticeships.

£3.8 million for Initial Teacher Education incentives.

Capital

£407.1 million in 2027-28 and £1.2 billion over three years which includes supporting education and childcare infrastructure.

Tackling child poverty and securing the best future for every child in Wales

Tackling child poverty is a defining mission of this Government. It is both a moral imperative and an investment in Wales's future. Every child should be able to learn, participate and fulfil their potential, regardless of their family's income. Yet poverty continues to affect children's health, educational attainment and opportunities later in life.

Our ambition is not simply to alleviate the effects of poverty, but to break the cycle that allows disadvantage to pass from one generation to the next. That requires action across government. Family incomes matter, but so do children's health, their experience of education, the homes and communities they grow up in and the opportunities available to them as they move into adulthood. Our Budget choices across government therefore have a role to play in giving every child the best possible start in life.

We have begun that work through taking forward plans for Cynnal, our Welsh Child Payment pilot. We have provided £9.2 million across 2027-28 and 2028-29 to provide direct financial support to eligible lower-income families with young children and test the impact that this can have on child poverty, family wellbeing and children's outcomes. Building that evidence will help us understand the role direct financial support could play in a wider Welsh approach in the future.

We are also investing to ensure that hunger does not become a barrier to learning. We are committed to continuing our expansion of free school meals in secondary schools. This builds on universal provision in primary schools and will help more children access a nutritious meal during the school day, supporting their health, wellbeing and ability to participate fully in learning.

Education has a wider role in breaking that cycle. Through this Budget, we have funded support specifically focused on learners experiencing socio-economic disadvantage, alongside our wider investment to raise school standards. The Pupil Development Grant allocated through our wider Equity in Education funding recognises that poverty can affect attendance, attainment and participation. Improving those outcomes is not only an education priority. It is an investment in children's future opportunities and in reducing the risk that disadvantage experienced in childhood becomes entrenched throughout their lives.

This work extends beyond individual programmes. We will work with partners to develop a new strategy to tackle child poverty, with clear targets, benchmarks and milestones. This will strengthen accountability and help ensure action across government is focused on changing outcomes for children. Wider investment in health, housing, education and the economy will contribute to that mission without duplicating the specific investments set out elsewhere in this Budget Report.

We are realistic about the scale of the challenge. This Budget will not eliminate child poverty, and the difficult financial circumstances in which it has been developed mean that not every pressure facing low-income families can be removed. Our investments therefore do not remove every adverse impact, and we will continue to assess the combined effect of our decisions.

Our aim is clear - a child's circumstances today should not determine their opportunities tomorrow. By combining direct support with action to reduce hunger, overcome disadvantage in education and intervene earlier, this Budget begins the longer-term work of breaking the cycle of poverty and securing the best possible future for every child in Wales.

Our key investments

Resource

£9.2 million over two years for the Cynnal pilot.

£103.5 million for primary and secondary school meals, including £10 million to expand free secondary school meals.

£158.8 million for Equity in Education, protecting £127.8 million through the Pupil Development Grant, supporting the attainment, attendance and wellbeing of learners affected by socio-economic disadvantage.

Capital

£3 million over three years for Supporting Communities capital.

Standing up for Wales and demanding fairness from Westminster

This Budget is built on the resources and powers currently available to Wales. But our ambition for our country is not limited by the current settlement. We will continue to stand up for Wales, making the case for fair funding, greater fiscal flexibility and the powers and investment our country needs to fulfil its potential.

That matters particularly in the difficult financial circumstances in which we have developed this Budget. The resources available to us are constrained at a time when demand for public services is high and Wales needs long-term investment in its infrastructure and economy. We will continue to press for reform of the way Wales is funded, greater flexibility over how we manage our finances and fair funding for responsibilities devolved to Wales.

We will also continue to make the case for fair investment in Wales. This includes seeking the rail funding Wales is owed, including consequentials associated with HS2, and the devolution of rail so that decisions about Welsh infrastructure better reflect our priorities. We will seek the devolution of Air Passenger Duty and make the case for further powers where they would enable Wales to deliver more coherent services and better outcomes for our communities.

But standing up for Wales is about more than funding and powers. It is also about being confident in who we are as a nation and ensuring Wales has a strong voice at home and internationally. Our culture, heritage and sport tell Wales's story, strengthen our communities, deliver economic, social and health benefits and provide opportunities to showcase our country to the world.

Through this Budget, we are therefore investing in Wales's cultural and sporting life. Our investment will support museums, libraries, archives, arts and heritage organisations, local culture and sport and the national institutions that preserve and promote Wales's unique cultural heritage. We are also investing in the facilities that allow more people and communities to participate, recognising the contribution culture and sport make to wellbeing as well as national identity. Standing up for Wales also means addressing the legacy of our industrial past and protecting communities from future risks.

Major international events provide another opportunity to put Wales on the world stage. We have funded our commitments for the Tour de France and UEFA EURO 2028, investing £10 million in 2027-28 towards these major events. There is a further £11.7 million being invested in the Euros in 2028-29.

These events are about more than the sporting spectacle itself. They provide an opportunity to promote Wales internationally, attract visitors, strengthen our reputation and showcase Welsh communities, culture and businesses to global audiences. Our international activity will be focused around opportunities including the Tour de France, Euros and our wider engagement with Europe, helping us build relationships and project a confident, outward-looking Wales.

Standing up for Wales therefore means making full use of the tools available to us today while continuing to argue for the resources and responsibilities Wales needs for the future. It also means investing in the institutions, events and relationships that allow Wales to tell its own story and strengthen its presence in the world.

Our key investments

Resource

£10 million in 2027-28 for the Tour de France and UEFA EURO 2028.

£127 million to support culture, heritage and sport in 2027-28.

£6.6 million investment in international activity and relationships.

£8.8 million over two years for school swimming.

Capital

£134.9 million over three years for culture and the arts, including grassroots and national schemes.

£27.5 million over three years for Cadw visitor and community projects.

£33 million over three years for Sport Wales capital.

£15.2 million in 2027-28, and £45.7 million over three years for coal-tip and reservoir safety, plus UK Government ring-fenced funding.

Better government – delivering our priorities

This Budget marks the beginning of a different approach to government. We have not simply carried forward inherited patterns of spending. We have examined where public money is going, challenged whether it continues to deliver the outcomes we need and begun redirecting resources towards the priorities of our new Government. As part of our rapid review of government spending, we examined more than 970 individual programme lines, while our approach to capital started from a zero base.

We will deliver better government by reducing unnecessary administration and duplication, simplifying services, and moving resources closer to the frontline. We will increasingly judge success by the outcomes public spending achieves.

Through this Budget, we have established a £25 million Transformation Fund to begin that work. This comprises £5 million to support transformation within the Welsh Government and £20 million for wider public service transformation. The Fund will invest in changes that can improve services, productivity and outcomes and reduce future spending pressures, supporting a longer-term programme of public service reform.

Technology, data and innovation will be important in that transformation. Alongside our Transformation Fund, we are investing in the digital systems, cyber security, infrastructure services and workplace technology that underpin effective government and public services. Used well, digital technology, automation and AI can make services simpler and more accessible, improve people's experience of government and allow staff to spend more time on the work that adds most value. But transformation cannot simply mean shifting costs elsewhere or making services more difficult to access. We will expect investment in reform to demonstrate measurable improvements in outcomes and productivity.

In some areas investment is needed to generate future savings and revenues. Our devolved taxes provide around 20% of the funding available to us. Through this Draft Budget, we are investing £13 million of resource in 2027-28 to enable the Welsh Revenue Authority to administer and collect these taxes efficiently, helping to secure vital revenues for public services across Wales.

Improving productivity across government and public services will be central to delivering more within the resources available. We want to make better use of our people, assets, technology and data and free up resources for frontline services and our priorities.

Prevention is also fundamental to better government. Too often, public services intervene after problems have become more serious, more damaging and more expensive to address. As this Budget demonstrates across health, child poverty, housing and education, we want progressively to shift more of our resources towards prevention and earlier intervention.

That transition will take time, particularly while acute pressures remain, but it will increasingly shape how we make spending decisions.

Responding to the climate and nature emergencies will also shape the choices we make across government. We will increasingly embed climate resilience, decarbonisation and the transition to net zero into the way we plan services, manage our estate and make investment decisions. We are also establishing a Climate Resilience Fund to strengthen Wales' ability to prepare for and respond to the effects of climate change. The fund will protect and prioritise resources for frontline action, including climate and nature-based solutions and provide a clearer focus for investment. It has been developed through early and constructive discussions with the Green Party, demonstrating the value of working together on areas of shared priority to shape investment in action on climate and nature. Acting earlier can reduce future costs as well as making our communities, infrastructure and public services more resilient to a changing climate. Our approach will therefore consider not only the immediate benefits of investment, but how the decisions we take today can support a more sustainable and resilient Wales over the longer term.

Delivering our priorities also requires government to work differently across organisational boundaries. We will work with local authorities, the NHS, schools, colleges and universities, public bodies, businesses, trade unions, the third sector and communities. We have renewed our Strategic Partnership Agreement with local authorities, strengthening the focus on roles, funding, accountability, data and outcomes.

Better government also means supporting our ambition for Cymraeg. Through this Budget, we are funding delivery of our Welsh language commitments, including implementation of the Welsh Language and Education (Wales) Act 2025. This includes work towards a revised Cymraeg 2050 Strategy, a National Framework for Welsh Education and Learning Welsh, and a National Institute for Learning Welsh, supporting our ambition to increase the number of Welsh speakers and the everyday use of our language.

This Budget cannot complete the transformation of government in a single year. Nor can greater efficiency and productivity remove all of the pressures created by a difficult financial settlement. Every part of the Welsh public sector will need to play its part, and change will sometimes require difficult choices. But this Budget begins that longer-term programme of reform, focused on prevention, productivity, resilience and securing better outcomes from every pound we spend.

Our key investments

Resource

£25 million for the Transformation Fund, including £5 million for Welsh Government and £20 million for wider public service transformation.

Investment in digital technology, data, automation and service redesign.

£46 million for Cymraeg and implementation of the Welsh Language and Education (Wales) Act 2025.

£10 million for the Climate and Nature Action Plan.

£31.8 million in Nature Recovery and Climate Resilience.

Capital

£20.4 million in 2027-28 and £61.2 million over three years for Central Services and Administration capital.

£39.3 million in 2027-28 and £117.9 million over three years for Flood Risk Management and Water.

£47.5 million in 2027-28 and £143 million over three years for Nature Recovery and Climate Resilience.

£50.7 million in 2027-28 and £153.9 million over three years for Decarbonisation and Circular Economy.

Financial Transaction Capital

£91.8 million over three years for further and higher education institutions to progress energy efficiency.

£4.5 million over three years for the Community Asset Loan Fund.

Cross cutting themes

Alongside our priorities, three cross-cutting themes run through the choices we have made in this Budget - productivity, prevention and climate. Each requires action across government and over the longer term. They are also closely connected. A healthier population can support a stronger economy, investment in prevention can reduce pressures on public services, and the transition to a lower-carbon economy can create new opportunities for businesses and communities. We have considered these themes across our spending decisions, rather than treating them as the responsibility of individual portfolios.

Productivity

Improving productivity is essential to raising living standards and creating a stronger Welsh economy. Wales has significant strengths, but we also have a longstanding productivity gap with the rest of the UK. Closing that gap will require sustained action over time. It means helping businesses to invest, innovate and grow, while ensuring people have the skills and opportunities they need to participate in the economy.

Our approach goes wider than traditional economic development. Good health, skills, affordable childcare, housing and reliable transport all affect people's ability to work and fulfil their potential. Infrastructure, energy and digital connectivity influence where businesses invest and how effectively they can operate.

Our Budget therefore brings together investment across these areas to strengthen the conditions for long-term growth. It also recognises the role of new technology and innovation in improving productivity across both the economy and public services.

Prevention

Prevention means acting before problems occur or become more serious. Doing so can improve outcomes for people and communities, while reducing the need for more costly intervention later. This is particularly important when public services are under pressure and demand continues to grow.

This approach runs through many of the choices in this Budget. In health and care, it means earlier diagnosis and treatment and more support closer to home. For families, it means acting earlier to tackle poverty and the barriers that can affect children's life chances. In housing, it means helping people remain in secure homes and preventing homelessness. Prevention also extends to the risks facing Wales over the longer term, from flooding and environmental harm to economic inactivity, animal disease and cyber threats.

We know that shifting towards prevention will take time. Acute pressures cannot be ignored while that transition takes place. Our approach is therefore to respond to immediate needs while progressively investing in action that can reduce future demand and improve outcomes over the longer term.

Climate

Responding to climate change requires action across the whole of government. The choices we make about energy, transport, housing, infrastructure and land use can all contribute to reducing emissions. They can also help build an economy and public services that are better prepared for the effects of a changing climate.

This Budget supports the transition to a lower-carbon Wales while recognising the wider opportunities it can create. Renewable energy can support jobs, investment and stronger Welsh supply chains. More sustainable transport and energy-efficient homes can reduce emissions while improving people's everyday lives. Our investment in farming, forestry, biodiversity and the circular economy can also support climate and nature while creating opportunities in rural and local economies.

But reducing emissions is only part of the challenge. We must also prepare for changes that are already happening. Building resilience to flooding, heatwaves and wildfires requires us to think about climate risk across our infrastructure, communities and public services. Acting now can help reduce future costs and ensure the investments we make today remain resilient for the future.

Next Steps

Productivity, prevention and climate are long-term challenges and will remain central to how we think about the use of public money. As we move towards the Final Budget, we will continue to consider these themes alongside the evidence and views received through scrutiny and engagement. This will help ensure that our decisions balance the pressures we face today with the need to deliver outcomes over the long term.

Section 3
Our Finances

"We will manage Wales's finances responsibly, making full and effective use of our tax, borrowing and funding arrangements to support our ambitions for Wales."

How we are funding our Budget

Sections 1 and 2 of this report set out what we are seeking to achieve through the Draft Budget and how our investments support delivery of the Programme for Government. They deliberately look beyond traditional portfolio boundaries, reflecting the way our priorities depend on action and investment across government.

This section explains how those investments are funded. It sets out the economic and fiscal context in which the Budget has been developed, the resources available to Wales and how those resources come together to finance our spending plans. It then sets out the funding allocated to each Cabinet Minister through the Main Expenditure Groups (MEGs).

Fiscal and Economic Context

The choices we make through this Budget do not take place in isolation. The strength of the economy affects the resources available to government, while changes in our population, living standards and labour market shape the pressures facing public services. Around 80% of Welsh Government funding comes from the UK Government, meaning developments in the wider UK economy and public finances also have a significant bearing on the funding available to Wales.

The economic context is challenging. Growth has returned but remains weak by historical standards. Households continue to face higher prices and pressure on their incomes, while demographic and health trends are increasing demands on public services and risk constraining future economic growth. At the same time, Wales needs to respond to profound longer-term changes, including the transition to net zero and the growing use of artificial intelligence.

These conditions have shaped the choices we have made in this Budget. They reinforce the need to protect the services people rely on today, while investing in the stronger and more productive economy needed to sustain those services in the future. The Wales Economic and Fiscal Report 2026, published alongside this Draft Budget, provides the detailed analysis underpinning this assessment. Five insights are particularly important to the choices set out in this Budget.

Economic growth has returned, but is weak by historical standards

The UK economy grew in 2025 and is expected to continue growing over the next two years. However, higher energy prices and international instability mean the outlook remains uncertain. The latest forecasts differ in their assessment of the strength of near-term growth, but both the Office for Budget Responsibility and the Bank of England expect the economy to continue growing.

The longer-term picture remains more difficult. Growth in economic output per person remains well below the rates seen before the financial crisis, while Wales has one of the lowest levels of economic output per person in the UK.

This matters for our Draft Budget. A stronger economy provides a stronger foundation for household incomes and the public finances. Persistently weaker growth makes it harder to increase living standards and meet growing demands on public services.

Productivity is Wales's key long-term economic challenge

Improving productivity is the most sustainable way to support higher wages, better living standards and stronger public revenues over the long term. Closing the productivity gap would help raise incomes in Wales and increase the resources available to support public services, enable lower taxes, or both.

That is why this Budget must do more than respond to immediate pressures. Alongside supporting the services people depend upon now, our decisions need to contribute to a stronger economy capable of supporting higher living standards and more sustainable public finances in the future.

Wales faces growing demographic and health pressures

The pressures facing our public services are not simply a consequence of the immediate fiscal position. They also reflect significant changes in Wales's population and health.

Wales has an ageing population and its working-age population is projected to fall. At the same time, healthy life expectancy has fallen and long-term sickness remains a major cause of economic inactivity. Together, these trends risk constraining economic growth while increasing demand for public services.

This creates a particularly difficult challenge for the public finances: potentially fewer people participating in the economy alongside greater demand for health and other public services. It strengthens the case for the emphasis we place in this Budget on prevention, improving outcomes and using public money effectively, recognising that these are long-term challenges that cannot be addressed through a single Budget.

Households remain under financial pressure, despite improvements in living standards

The circumstances facing households are also central to the choices we have made. Inflation has fallen significantly from its 2022 peak, but remains above the target rate, and households continue to face much higher prices than before 2022. Household incomes in Wales remain below the UK average and poverty rates remain persistently high.

The latest forecasts also point to continued pressure. The OBR expects UK living standards, measured by real household disposable income, to fall by 0.8% in 2026 and barely increase in 2027. Interest rates and borrowing costs add further pressure for households and businesses across the UK.

The fact that these pressures are not experienced equally is important when making choices about taxation, spending and public services. It is one reason why, in developing this Budget, we have considered not only the overall resources available but the impact our choices will have on people and communities across Wales.

Wales faces major long-term changes to its economy

The Budget must also look beyond the immediate economic cycle. Climate change, artificial intelligence and demographic change are likely to reshape Wales's economy and its public finances over the coming years.

The transition towards net zero is one of the most significant of these changes. It is expected to bring long-term benefits but will also require substantial investment. AI has the potential to change how businesses operate, how people work and how public services are delivered. Demographic change will alter both the productive capacity of the economy and the nature of demand for public services.

These changes create both opportunities and pressures. Our task is therefore not simply to manage the fiscal position we face today, but to use the resources available to us in ways that strengthen Wales's ability to respond to the challenges ahead.

What this means for our Budget

Taken together, these five insights explain an important part of the choices we have made. We are setting this Budget against a backdrop of subdued growth, continued pressure on household finances, rising demands on public services and substantial longer-term economic change. The deterioration in the wider UK fiscal position, including higher debt interest costs, places further pressure on the resources available for public spending.

That context requires choices. We have prioritised funding for the services under greatest pressure, while looking across government for opportunities to reprioritise resources and use them more effectively. But protecting services today cannot be our only objective. A stronger, healthier and more productive economy is ultimately fundamental to improving living standards and placing our public services on a more sustainable footing.

Welsh Government Financing

Over the three-year period covered by this Draft Budget, we will provide more than £60 billion of investment. The resources that make this possible come from a combination of the UK Government settlement, devolved taxation, borrowing and other financing arrangements.

The Welsh Government and public services in Wales are funded through a combination of revenue generated by devolved taxes and a block grant from the UK Government.

The total funding available to us in 2027-28 is £28 billion. This is made up of £24.49 billion of resource funding for day-to-day spending and £3.74 billion of capital funding for infrastructure and buildings. For 2028-29, there is £29 billion: £25.42 billion of resource funding with a reduction to our capital funding to £3.68 billion of capital funding. For 2029-30 the Welsh Government only has a capital funding settlement, with £3.71 billion available. The next UK Spending Review will take place in 2027, at which point our resource and capital settlements will be reset for three and four years respectively.

UK Government Block Grant

The majority of our funding comes through the UK Government block grant.

A portion of the total funds raised through taxes in the UK is allocated to Wales by the UK Government through the block grant. Adjustments to the block grant are determined using the Barnett formula. The formula is used to calculate changes to the block grant following an increase or decrease in UK Government spending on programmes in England which are devolved in Wales. Adjustments are also made in relation to taxation changes.

Full details of block grant adjustments and reconciliation amounts to account for outturns are included in Annex A.

Devolved Taxes

Alongside the block grant, devolved and local taxation provides a vital lever through which the Welsh Government raises revenue. These help fund the essential public services that people and businesses across Wales rely on. The devolved taxes in Wales are the Welsh Rates of Income Tax (WRIT), Land Transaction Tax (LTT), Landfill Disposals Tax (LDT) and Non-Domestic Rates (NDR).

Devolved taxes fund around 20% of the Welsh Government's spending and, taken together, will contribute £5.8 billion available to the Welsh budget in 2027-28 and £6.2 billion in 2028-29. Taking account of associated reductions to the Welsh Government's block grant, the devolved taxes are expected to deliver nearly £700 million more in 2027-28 than would have been possible without tax devolution.

More detail of the Devolved Taxes and their rates are at Annex B.

Capital Borrowing

For capital investment we can also use our borrowing powers. In order to fund our capital investment plans, we intend to borrow £168 million in 2027-28, £172 million in 2028-29 and £175 million in 2029-30. This is within the annual borrowing limits set by the UK Government, which are uprated annually in line with inflation.

The repayment forecast assumes a repayment period of 25 years and an interest rate of 5.66%. The estimated overall cost of borrowing in 2027-28 is £31.9 million, £40.6 million in 2028-29 and £49.3 million for 2029-30.

Whilst borrowing funds investment across all areas of the Welsh Government, the costs are met from within the Central Services and Administration MEG. Repayment forecasts for the period in which we have set capital plans can be found in the Tables Supporting Spending Plans.

Overprogramming

To provide us with the best opportunity to fully deploy our capital resources, the budget provides for a modest overprogramme of our capital plans of 2%.

Innovative Financing

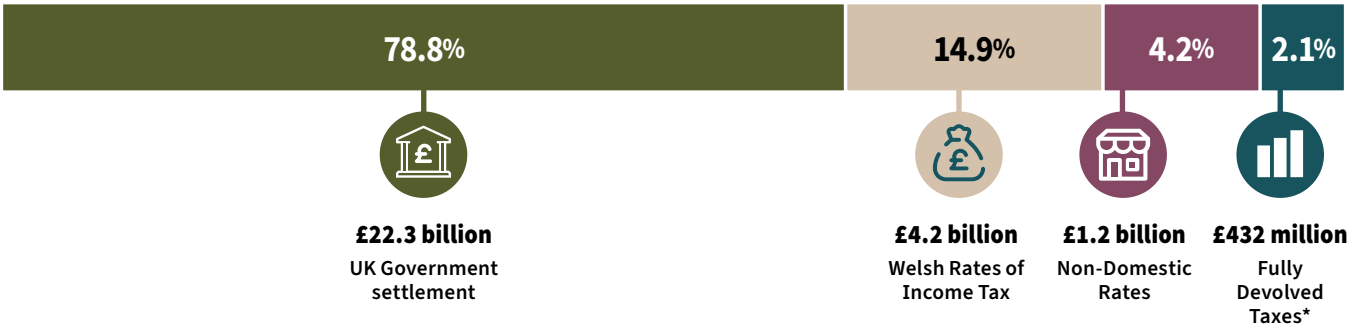
In line with our Programme for Government commitment, we will consider how we use new and innovative forms of finance where they can offer additional investment in infrastructure, accelerate delivery and demonstrate value for money. The Mutual Investment Model remains one of those options.

Components of Welsh Financing

Bringing these elements together provides the overall financing position for the Budget.

Welsh Government Funding 2027 to 2028

Total funding from the main sources shown below.



Capital borrowing by Welsh Government
£168 million

Planned repayment of capital borrowing
£18 million

* **Fully devolved taxes total includes Land Transaction Tax and Landfill Disposals Tax. Land Transaction Tax: £402m, Landfill Disposals Tax: £30m.**

Welsh Government Funding 2028 to 2029

Total funding from the main sources shown below.



Capital borrowing by Welsh Government
£172 million

Planned repayment of capital borrowing
£22 million

* **Fully devolved taxes total includes Land Transaction Tax and Landfill Disposals Tax. Land Transaction Tax: £432m, Landfill Disposals Tax: £31m.**

	2027-28 Draft Budget £m	2028-29 Draft Budget £m	2029-30 Draft Budget £m
Fiscal Resource			
Departmental Expenditure Limit (DEL)	18,684	19,288	-
Non-Domestic Rates	1,190	1,310	-
Welsh Rate of Income Tax	4,210	4,379	-
Land Transaction Tax	402	432	-
Landfill Disposals Tax	30	31	-
Principal repayment of borrowing	-18	-22	-
Total Fiscal Resource	**24,498**	**25,418**	**-**
Capital			
General Capital DEL	3,423	3,317	3,314
FTC	152	191	217
Total Capital DEL	**3,575**	**3,508**	**3,530**
Capital Borrowing	168	172	175
Total Capital Budget	**3,744**	**3,680**	**3,705**
Total Fiscal Resource and Capital	**28,242**	**29,098**	**3,705**
Annually Managed Expenditure (AME)			
Fiscal	44	43	
Non-Fiscal	1,371	1,583	
Capital	1,452	1,437	1,500
Total Annual Managed Expenditure	**2,867**	**3,063**	**1,500**
Total Welsh Financing	**31,109**	**32,160**	**5,205**

How that Funding is allocated

Bringing these sources of funding together provides the resources available to support our spending plans. The table below sets out how that funding is allocated across Main Expenditure Groups over the period of this Draft Budget.

Whilst the Senedd will only vote on the proposed allocations for 2027-28 in Spring 2027, we are providing indicative allocations for future years to enable our delivery partners to plan with confidence for the longer term.

These indicative allocations provide a firm basis for that planning, but we recognise that no multi-year budget can anticipate every change in circumstances. We will review future year plans as our priorities are delivered, the impact of efficiencies and reforms becomes clearer, and new pressures or opportunities emerge. This will allow us to respond to changing circumstances while maintaining the longer-term certainty that a multi-year budget is intended to provide.

Fiscal Resource Allocations

Main Expenditure Groups (MEGs)	2027-28 Draft Budget £000s	2028-29 Indicative Draft Budget £000s
Health and Care	12,426,791	12,626,777
Local Government, Housing and Planning (excluding NDR)	5,817,686	5,932,686
Education and the Welsh Language	2,104,936	2,105,293
Enterprise, Connectivity and Energy	844,134	869,134
Rural Resilience and Sustainability	556,588	559,088
Social Justice and Equality	577,966	689,016
Culture and Sport	127,338	132,338
Central Services and Administration	593,707	607,418
Total	**23,049,146**	**23,521,750**

Capital Allocations (includes Financial Transaction Capital)

Main Expenditure Groups (MEGs)	2027-28 Draft Budget £000s	2028-29 Indicative Draft Budget £000s	2029-30 Indicative Draft Budget
Health and Care	694,669	673,549	673,549
Local Government, Housing and Planning	1,395,876	1,397,906	1,448,177
Education and the Welsh Language	405,103	405,074	391,045
Enterprise, Connectivity and Energy	838,730	761,430	784,620
Rural Resilience and Sustainability	345,513	351,413	316,913
Social Justice and Equality	20,625	20,627	20,587
Culture and Sport	65,412	65,412	65,412
Central Services and Administration	20,420	20,420	20,420
Total	**3,786,348**	**3,695,831**	**3,720,723**

Together, these allocations provide the financial foundation for the investments set out in Section 2 and delivery of our Programme for Government.

Section 4
The Technical Annexes

"We will underpin our Budget with clear, transparent information about the funding arrangements and technical decisions on which our plans are built."

Technical Details

The previous sections set out what this Budget seeks to achieve, the investments we are making and how they are funded.

This section provides the technical detail underpinning those plans. It explains the adjustments and accounting decisions used to construct the Draft Budget and signposts the detailed allocations, Budget Expenditure Lines and supporting tables published alongside this report.

Directly Funded Bodies

Over the period of this multi-year budget, £250 million of funding goes to the directly funded bodies: the Senedd Commission, Public Services Ombudsman for Wales, the Wales Audit Office, and the Electoral Commission.

These budgets are determined separately and are not available for the Welsh Government to allocate. They are therefore accounted for before we establish the funding available for Welsh Government spending.

Once this funding has been accounted for, the remaining resources provide the starting point from which we establish our spending baselines.

Resource Baselines

The Final Budget 2026-27 has been restated to align with the new Ministerial portfolios, and is the starting point for this Budget.

From this starting point, we have then established revised resource baselines which reflect the technical changes required before Ministers took substantive decisions about the allocation of the funding available.

These adjustments include transfers to and from the UK Government for specific ring-fenced purposes, machinery of government changes, technical accounting adjustments and recurrent in-year allocations made through the 2026-27 Second Supplementary Budget.

Welsh Government Workforce Transfers

It is essential that the Welsh Government is transparent about the resources it uses to fund its workforce. Previously, some Welsh Government staff costs were accounted for within individual departmental programme budgets. The Draft Budget changes this, bringing staff funding together in a single place within the Central Services and Administration (CSA) MEG.

This is a reclassification of existing budgets, providing a clearer picture of the full cost of the Welsh Government workforce and enabling more effective scrutiny. Previously, it was difficult to identify the total cost of the workforce and distinguish staff costs from programme spending. The change is cost neutral and does not alter the overall funding available for Ministerial priorities or investment in public services.

Bringing these budgets together will strengthen financial management, improve consistency in workforce reporting and forecasting, and provide greater clarity about the resources used to support the delivery of Welsh Government priorities. These improvements will help to support us in our work to transform public services.

Public Service Pensions Adjustments

The Draft Budget includes a technical adjustment relating to the cost of public service pensions. Following the latest actuarial valuations of the main unfunded public service pension schemes, including the NHS, Teachers and Civil Service schemes, employer pension contribution rates will reduce from April 2027. This means participating employers will require less funding to meet the same pension obligations.

The UK Government has treated this reduction in pension costs as a technical funding adjustment rather than additional spending power for departments. As a result, the Welsh Government's block grant has been reduced through a negative Barnett consequential of more than £500 million.

To reflect this, we have made corresponding adjustments to the baselines of affected Main Expenditure Groups (MEGs), removing funding equivalent to the estimated reduction in their pension costs. Although this reduces the published budgets of affected MEGs, it does not represent a reduction in the funding available for services or activity: the costs those budgets need to meet have reduced by an equivalent amount. The adjustment is therefore cost neutral for affected organisations.

These adjustments are commonly referred to as SCAPE (Superannuation Contributions Adjusted for Past Experience) adjustments.

Further Detail

This report provides an overview of our spending plans and the decisions underpinning them. More detailed financial information is published alongside the Draft Budget. The Tables Supporting Spending Plans provide further detail on the composition of the Budget, while the Budget Expenditure Line tables set out allocations at a more granular level.

Together, these documents provide the detailed financial information underpinning the plans set out in this Budget Report and support scrutiny of the Draft Budget by the Senedd and its Committees.

Annex A

Devolved Taxes

This Annex provides further detail of devolved and local taxes and their rates.

Devolved tax rates and bands

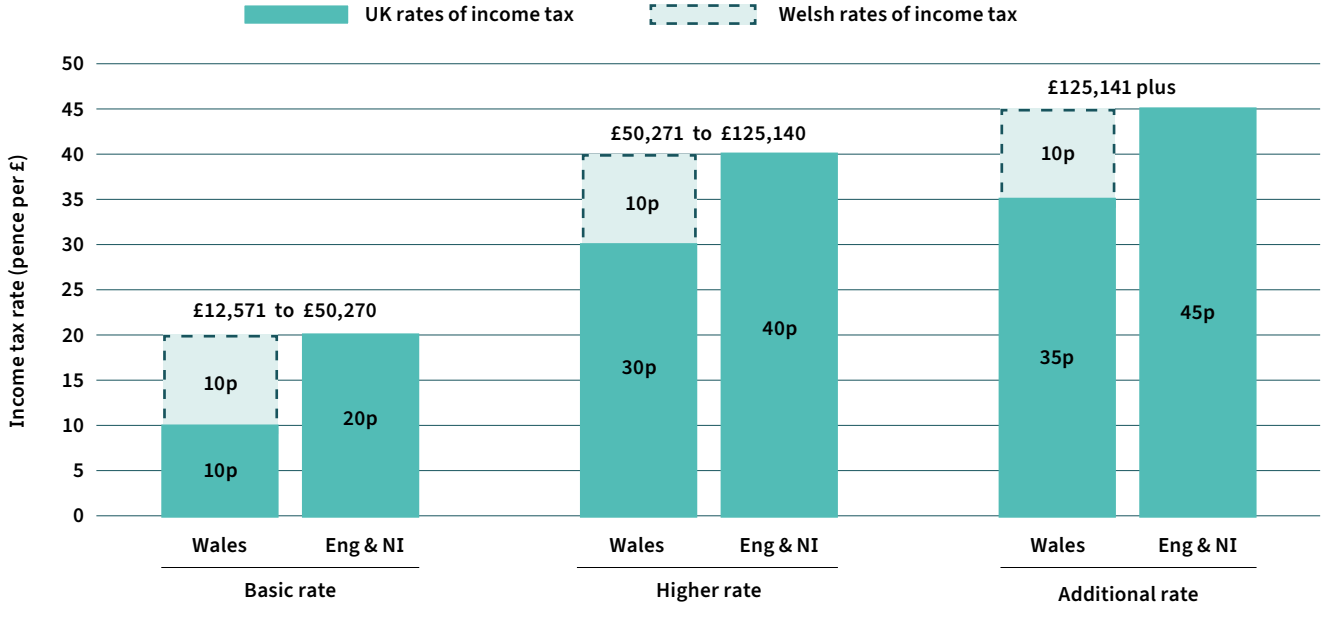
The Welsh Government can vary six income tax rates for Welsh taxpayers[1]. These are the basic, higher and additional main rates and the equivalent 3 Welsh property rates.

The process for Wales involves the UK Government reducing each of the six income tax rates for Welsh taxpayers by 10p. The Welsh Government can then decide to set the Welsh rates at 10p, retaining parity between Welsh and English taxpayers, or to set different rates. The graph below shows this for the main Welsh rates which represent 98% of devolved income tax revenue.

Welsh Rates of Income Tax

The separate property rates are being introduced for the first time in April 2027. For 2027-28 we propose to set all six of the Welsh Rates of Income Tax (WRIT) at 10p. This means people in Wales will continue to pay the same rates of income tax as people in England and Northern Ireland.

Proposed main income tax rates in Wales 2027-28



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

For the property rates, the UK Government has increased its rates by 4p in each band. This means that Welsh taxpayers will pay 10p in each band to the Welsh Government but will pay an additional 4p in each band to the UK Government relative to the main rates (14p, 34p and 39p for each band respectively).

Land Transaction Tax

Land Transaction Tax (LTT) is charged on the purchase and lease of land and buildings in Wales and raises revenue to support essential public services. For 2027-28, LTT rates and thresholds remain unchanged.

LTT residential main rates

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

LTT residential higher rates

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

LTT non-residential main rates

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

LTT non-residential lease rent

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

Landfill Disposals Tax

Landfill Disposals Tax (LDT) contributes to the reduction of waste to landfill and supports our wider environmental objectives. We intend to uplift the standard and unauthorised disposals rates by forecast inflation, measured by the Retail Price Index (RPI). The lower rate will be uplifted to maintain the cash terms difference of £122.10 per tonne between the lower and standard rates.

LDT rates (rate per tonne)

Rate	From 1 April 2026	From 1 April 2027
Standard	£130.75	£136.70
Lower	£8.65	£14.60
Unauthorised disposals	£196.15	£205.05

Non-Domestic Rates

Non-domestic rates, or business rates, are charged on most non-domestic properties, including shops, offices, pubs, warehouses, factories, holiday rental homes or guest houses, and car parks.

In September, the Welsh Government announced the early changes we are making to deliver our Programme for Government commitment to rebalance non-domestic rates to better support high street businesses in hospitality, leisure and retail. The lower multiplier currently applied to retail shops will be extended to eligible small to medium sized food and drink hospitality, visitor accommodation and leisure properties, providing a permanent 30% reduction in rates bills. Regulations to give effect to these changes, from 1 April 2027, were approved by the Senedd on 3 November.

Further details of non-domestic rates arrangements for 2027-28, including the values of the multipliers, will be determined as part of the preparations for our Final Budget.

Annex B

Devolved Taxes

This annex sets out the latest devolved tax revenue forecasts and the details of how they affect the Welsh Government's Budget.

Devolved tax forecasts and net budgetary impacts

Tax devolution impacts the Welsh Government's Budget in two ways. Firstly, the devolved tax revenues represent a significant share of the overall funding for the Budget (together with Non-Domestic Rates, around 20%). Secondly, those revenues are accompanied by reductions to the grant from the UK Government known as block grant adjustments (BGAs).

The initial level of the block grant adjustments was based on the revenues in Wales from the relevant tax at the point of devolution. The year-to-year changes in the adjustments are based on growth in the equivalent revenue streams in England and Northern Ireland. The detailed mechanisms are set out in the Welsh Government's Fiscal Framework Agreement .

The devolved tax revenue estimates used in the Budget are forecasts produced independently by the Office for Budget Responsibility (OBR), in accordance with the Welsh Government's fiscal framework agreement. The block grant adjustments are based on forecasts of equivalent revenues in England and Northern Ireland for the same year, also from the OBR.

Details of the forecasts for the devolved Welsh taxes and the relevant England and Northern Ireland taxes underpinning the block grant adjustments are set out in the latest Welsh Taxes Outlook published by the OBR alongside the Draft Budget.

The first section of this annex sets out the net impact of tax devolution - the difference between devolved tax revenues and the associated block grant adjustments each year.

As the budgetary impact of tax devolution is based on forecasts, a reconciliation process is required once annual outturn information is available. Reconciliation amounts are applied to the Budget in later years. The second section of this report shows the latest set of reconciliation amounts.

The third section sets out how revenues, block grant adjustments and reconciliation amounts affect the sources of finance in the Welsh Government's Budget for 2027-28 and 2028-29.

Section 1 Revenues and Block Grant Adjustments

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

Tax Revenue and Block Grant Adjustment Outturns and Forecasts (£million)

	2024-25	2025-26	2026-27	2027-28	2028-29
Revenues					
Welsh Rates of Income Tax	3,300	3,601	3,906	4,081	4,240
Land Transaction Tax	341	363	374	402	432
Landfill Disposals Tax	34	32	29	30	31
Total	**3,675**	**3,997**	**4,309**	**4,514**	**4,703**
Block Grant Adjustments					
Welsh Rates of Income Tax	-3,001	-3,235	-3,469	-3,590	-3,708
Land Transaction Tax	-283	-308	-306	-342	-383
Landfill Disposals Tax	-19	-24	-16	-15	-18
Total	**-3,303**	**-3,567**	**-3,791**	**-3,947**	**-4,109**
Net revenue impact					
Welsh Rates of Income Tax	299	366	438	491	532
Land Transaction Tax	58	55	69	60	48
Landfill Disposals Tax	15	8	12	16	13
Total	**372**	**429**	**518**	**567**	**594**

Key - shaded numbers refer to outturn

The overall outlook for the net revenue impact of devolved taxation is positive, increasing by £194 million between the latest full outturn for 2024-25 and the forecast for 2027-28.

Section 2: Reconciliation amounts

Outturn information for both Welsh Rates of Income Tax (WRIT) revenues and the associated block grant adjustment is only available around 16 months after the end of the relevant year. The most recent outturn information for 2024 was published in July this year.

Both elements are fixed for budgetary purposes using the OBR's forecasts from the previous autumn. A joint technical note with HM Treasury was published on 27 August, detailing the reconciliation amounts for 2024-25. For 2025-26 and 2026-27, reconciliation amounts are estimated using the most recent forecast. Actual and forecast reconciliation amounts are shown below:

Reconciliation amounts, outturns and forecasts (£m)

	2023-24	2024-25	2025-26	2026-27
Welsh Rates of Income Tax				
Used in Budgets				
Revenues	2,795	3,171	3,462	3,804
Block Grant Adjustments	-2,733	-3,017	-3,262	-3,444
Outturns and latest forecasts				
Revenues	2,968	3,300	3,601	3,906
Block Grant Adjustments	-2,782	-3,001	-3,235	-3,469
Reconciliation amounts				
Revenues	173	129	139	102
Block Grant Adjustments	-49	17	26	-25
Fully devolved taxes				
Block Grant Adjustments used in Budgets				
Land Transaction Tax	-241	-259	-303	-306
Landfill Disposals Tax	-21	-20	-21	-16
BGA outturns and latest forecasts				
Land Transaction Tax	-237	-283	-308	-306
Landfill Disposals Tax	-19	-19	-24	-16
Reconciliation amounts				
Land Transaction Tax	4	-24	-5	
Landfill Disposals Tax	**2**	**0**	**-3**	

Outturn data for the fully devolved taxes (LTT and LDT) and UK equivalents is more timely and is now available up to 2025-26. As with WRIT, the block grant adjustments for the fully devolved taxes are set using the previous

autumn forecasts but, unlike WRIT, are revised in-year as well. This means that the reconciliation amounts for the BGAs tend to be relatively small. These are also shown in the table. (There are no reconciliations for the revenues for the fully devolved taxes themselves, as outturns affect the Welsh Government budget with immediate effect.)

Section 3: Forecasts and reconciliation amounts in the Welsh Government Budget

This section brings together information from the first two sections to show the overall impact on the Welsh Government's funding for 2027-28 and 2028-29.

The reconciliation amounts for WRIT revenues and BGAs are applied to the Budget 3 years after the year to which they relate. The 2024-25 reconciliation amounts are therefore applied to the 2027-28 Budget and forecast reconciliation amounts for 2025-26 to 2028-29.

The reconciliations for the BGAs relating to Land Transaction Tax and Landfill Disposals Tax are applied 2 years after the year to which they relate. The 2025-26 reconciliations are applied in 2027-28.

Forecasts and reconciliation amounts in the Welsh Government's Final Budget for 2027-28 (£m)

	Draft Budget November 2026	
	2027-28	2028-29
Tax revenues		
WRIT revenues	4,081	4,240
WRIT revenue reconciliation amounts	129	139
WRIT total	**4,210**	**4,379**
Land Transaction Tax	402	432
Landfill Disposals Tax	30	31
Total devolved tax revenues	**4,643**	**4,842**
Block Grant Adjustments		
Welsh Rates of Income Tax	-3,590	-3,708
Land Transaction Tax	**-342**	**-383**
Landfill Disposals Tax	-15	-18

	Draft Budget November 2026	
	2027-28	2028-29
Reconciliation amounts from previous years		
Welsh Rates of Income Tax	17	26
Land Transaction Tax	-5	0
Landfill Disposals Tax	**-3**	**0**
Total		
Welsh Rates of Income Tax	-3,573	-3,681
Land Transaction Tax	-347	-383
Landfill Disposals Tax	-18	-18
Total block grant adjustments	**-3,939**	**-4,083**
Total net budgetary impact	**704**	**760**

The overall net impact of devolved taxation on the budget is +£704 million in 2027-28 and +£760 million in 2028-29, including reconciliation amounts in relation to previous years of +£137 million and +£165 million in the two years.

Annex C: Capital Investment Outcomes

Main Strategic Outcomes of the Wales Infrastructure Investment Strategy delivered by each MEG's Capital Programme

Well-being Domain	No.	Wales Infrastructure Investment Strategy - Strategic Outcome	Health Care and Prevention	Local Government, Housing & Planning	Education & Welsh Language	Enterprise, Connectivity & Energy	Rural Resilience & Sustainability	Social Justice & Equality	Culture & Sport	Central Services & Administration
Environmental	1	Decarbonisation and greenhouse gas reduction	■	■	■	■	■		■	■
	2	Investment in biodiversity and natural capital					■			
	3	Improvements in air and water quality					■			
	4	Reduction in unsustainable consumption of natural resources	■			■	■	■		■
Social	5	Improving and protecting the physical health, safety and well-being of the people of Wales	■	■	■	■	■	■	■	■
	6	Improving and protecting the mental health and well-being of the people of Wales	■	■	■			■	■	
	7	Reducing social inequalities	■	■	■			■	■	■
	8	Improving access to key public services	■	■	■			■	■	■
Economic	9	Help to increase employment levels across Wales	■	■		■	■			
	10	Help to improve business productivity	■			■	■			■
	11	Increase real household incomes		■	■	■	■			
	12	Improve educational outcomes			■					
Cultural	13	Improve access to and increase use of the Welsh Language			■				■	■
	14	Encourage access to and participation in cultural activities, including arts & heritage				■			■	
	15	Improve participation level in sport & recreation			■				■	
	16	Improve investment in communities across all parts of Wales	■	■	■	■	■	■	■	■