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Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref MA/MDWL/1868/25

Peredur Owen Griffiths MS
Chair, Finance Committee
Senedd Cymru
Cardiff Bay
CF99 1SN

18 August 2025

Dear Peredur,

Thank you for your committee's scrutiny of the First Supplementary Budget 2025-26 and the report that followed.

I attach a written response to the recommendations for the Welsh Government which I hope you find useful.

Yours sincerely,

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.



Scrutiny of the First Supplementary Budget 2025- 26

Response to the Finance Committee Report

18/08/2025

In July 2025, the Finance Committee submitted its report on the Welsh Government's First Supplementary Budget of 2025-26. The report includes seven recommendations for the Welsh Government. This is the Welsh Government's response to those recommendations.

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1. Introduction

Our First Supplementary Budget for 2025-26 was published in June 2025. The Supplementary Budget reflects the budgetary changes since the Final Budget 2025-26, which the Welsh Government published in February and which was approved by the Senedd on 4 March 2025. It regularises allocations to and from reserves, transfers within and between portfolios and includes adjustments to the Wales budget to reflect the impact of UK Government fiscal events.

I thank the members of the Finance Committee for their report on the Welsh Government's First Supplementary Budget which contained eight recommendations and one conclusion; of these, seven recommendations were directed towards the Welsh Government. I have set out my response to the Report's individual recommendations below.

2. Response to the 6 recommendations for Welsh Government

Recommendation 1

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

Response: Accept

The Welsh Government will provide this information to the Senedd as soon as possible following each UK fiscal event. However, our ability to do so is dependent on timely information from the UK Government.

There have been three recent UK Government budget events, the Main Estimates, the UK Spring Statement and the UK Government Spending Review. I wrote to the Finance Committee on 23 June with information relating to consequential arising from the Main Estimates and Spring Statement for 2025-26.

The following table provides information on the consequential provided for 2025-26 in the UK Spending Review:

| | £m | £m |
|---|--------------|---------------|
| | Revenue | Capital |
| Transformation Fund: | | |
| Education | 4.153 | |
| MHCLG Local Government | 1.037 | |
| MHCLG Housing, Communities and Local Government | 0.031 | |
| Science, Innovation and Technology | 0.529 | |
| Energy Security and Net Zero | 0.024 | |
| Business and Trade | 0.034 | |
| Work and Pensions | 0.008 | |
| Office for Standards in Education, Children's Services and Skills | 0.009 | |
| Official Development Assistance: | | |
| Health and Social Care | -0.109 | -0.734 |
| Culture, Media and Sport | -0.009 | |
| Environment, Food and Rural Affairs | -0.474 | -0.259 |
| Science, Innovation and Technology | | -0.035 |
| Total* | 5.231 | -1.028 |

*Totals do not add due to rounding

Recommendation 2

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

Response: Accept

Where possible, the Welsh Government will provide this information to the Finance Committee following future major UK Government fiscal events. However, our ability to do so is dependent on the timing of UK Government events and the timing of our own supplementary budgets.

Recommendation 3

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

Response: Accept in principle

The long-stated aim of the Welsh Government remains a coherent needs-based funding system operating consistently across the UK. The First Minister and I have had collaborative discussions with UK Ministers, including the Chancellor of the Exchequer, where we continue to press for further fiscal flexibilities. We have requested agreement to update the Welsh Government borrowing and reserve limits from 2018-19 prices, in line with the latest Budget GDP deflators to restore them to their real value, and to index these to inflation thereafter. We have also asked for the Welsh Government annual reserve draw-down limit to be permanently abolished.

I most recently raised this issue with the Chief Secretary to the Treasury at our bilateral meeting on 26 June and I expect this to be considered as part of the UK Autumn Budget. In addition to these changes, there is also a strong case for bigger increases to the annual and aggregate limits on access to capital borrowing, so they are at least in line with inflation, with the aim of providing sufficient flexibility to allow prudent budgetary management from one

financial year to the next, in order to maximise the funding available to the Welsh Government.

I raised the wider issue of late UK Government allocations and end of year budget flexibilities alongside the Finance Ministers from Scotland and Northern Ireland at the Finance: Interministerial Standing Committee (F:ISC) on 26 June. This will be further considered as a substantive item at future meetings of the F:ISC.

The UK Government have responsibility for making decisions in this area and I will keep the Finance Committee informed of progress, ahead of publication of our Draft Budget in the autumn term.

Recommendation 4

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

Response: Accept

The Intergovernmental Relations (IGR) Review arrangements introduced in 2022 formalised the dispute resolution process and introduced an independent element for the first time. It forms part of a much wider system of active intergovernmental relations and dispute management and is a process of last resort.

The focus of the IGR Review is on dispute *avoidance* – as mature governments, we should be able to work together to collaborate in the best interests of our citizens, and in line with the devolution settlements and constitutional convention.

We stand ready, however, to use the dispute resolution process if we do not gain satisfactory outcomes in areas of concern and where we believe the dispute mechanism is likely to achieve the desired outcomes.

In respect of the UK funding arrangements, the Welsh Government has consistently pressed for the establishment of a coherent needs-based funding system operating consistently across the UK. Integral to this is the establishment of an independent body with oversight of the UK funding arrangements to ensure the rules within which Barnett operates are applied fairly and consistently and that there is a strengthened independent element for dispute resolution. We will continue to make this case and will update the Committee on progress ahead of the Draft Budget.

Recommendation 5

The Committee recommends that the Cabinet Secretary continues to press for full funding from the UK Government so that they align with the arrangements for other relevant public sector organisations in England, in order to close the shortfall in funding to cover the impact of the employer National Insurance Contribution increase on equivalent organisations in Wales.

Response: Accept

The UK Government has provided £185m in funding to Wales following its decision to increase employer National Insurance Contributions (NICs) in the UK Autumn Budget. This falls significantly short of the £257m devolved public sector employers in Wales need to meet the increased NICs costs they face.

This shortfall, of more than £70m, is a result of the UK Government decision that Wales should receive a Barnett consequential of the additional costs to devolved public sector employers in England, rather than the actual costs.

The Welsh Government has passed on in full the £185m to devolved public sector employers in Wales and has further made available an additional £36m from the Wales Reserve. This creates a total package of £220 million to support our public services, including further education, with increased NICs costs.

Setting the rate of employer NICs is a reserved matter and the responsibility of the UK Government. We will continue to press the UK Government for full funding of the costs associated with the NICs increase.

Recommendation 6

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

Response: Reject

This was a decision made by the UK Government, therefore it is for them to undertake such a detailed assessment.

Given the diverse nature of the charity sector and the above variables it is not possible to provide a definitive impact on the sector. However, the National Council for Voluntary Organisations has estimated that the cost to the voluntary sector of the UK Government's changes to employer National Insurance contributions could be as much as £1.4bn.

Recommendation 7

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

Response: Accept

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

The Cabinet Secretary for Health and Social Care and I have discussed how this additional funding will be monitored in year, and I am continuing to have regular tri-laterals with the Health Secretary and the Minister for Delivery where progress on reducing waiting times, utilising this funding, is discussed in detail. This is in addition to the regular financial and performance monitoring of NHS Wales, undertaken by the Cabinet Secretary for Health and Social Care and his officials.