

Mark Drakeford AS/MS

Ysgrifennydd y Cabinet dros Gyllid a'r Gymraeg
Cabinet Secretary for Finance and Welsh Language



Llywodraeth Cymru
Welsh Government

Peredur Owen Griffiths MS
Chair of Finance Committee
Welsh Parliament
Cardiff Bay
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11 July 2025

Dear Peredur

This letter provides information to support the forward financial planning for directly funded bodies, in line with the Government's commitments on this issue. It sets out the available information and also refers to the plans for the budget process this year.

Firstly, it is worth noting recent information on the UK's public finances. The public sector borrowed £149 billion in 2024-25 and is forecast to borrow £118 billion in 2025-26, based on the Office for Budget Responsibility's (OBR's) latest Economic and Fiscal Outlook from March this year. The UK Government's fiscal rules require the current budget to be in surplus by 2029-30 and public sector net financial liabilities to be falling as a share of GDP in the same year. The OBR's March forecast shows borrowing declining over the rest of this decade and these rules being met, but only by a very narrow margin.

Turning to the outlook for the Welsh Government's budget, the recent UK Government Spending Review provides a resource settlement for the Welsh Government for the next three years and a capital settlement for the next four years. There was substantial additional funding in October last year for 2024-25 and 2025-26 which provides a welcome upward shift in the resources available to the Welsh Government, compared to what was implied by the previous UK Government's plans. However, given the challenges for the public finances noted above, growth in the Welsh Government's settlement in future years remains modest. The resource settlement sees an increase of just over 3% a year between 2026-27 and 2028-29 in nominal terms, or an average 1.2% real terms increase each year. The capital settlement increases by £180m above the 2025-26 baseline in 2026-27 and then drops slightly in subsequent years. On average the capital settlement for 2025-26 to 2029-30 remains 0.8% higher in real terms than in 2023-24.

There are substantial and growing pressures on the costs of delivering key public services, which mean that difficult decisions and careful management of resources across the Welsh Government's budget will be required to deliver within the settlement outlined above. I expect directly funded bodies to be mindful of these pressures when setting their budgets.

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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.

The Spending Review outcome provides much needed certainty on the Welsh Government's block grant for 2026-27 to 2028-29. It is however worth noting that the overall envelope for the Welsh Government's budget also relies on forecast revenues from the devolved taxes. As set out in my statement to the Senedd on 1 July, the Welsh Government is planning a single year budget for 2026-27. The outline and detailed Draft Budget will be published on 14 October and 3 November respectively. The Final Budget will be published on 20 January 2026. The Draft Budget is likely to be published before the OBR's Autumn economic and fiscal forecasts, so will mainly draw on the tax revenue forecasts from March this year. These will be updated for the Final Budget in January, which will also take account of any other changes to our settlement resulting from the UK Autumn Budget.

Turning to prices and pay, the OBR's March 2025 forecast showed the GDP deflator increasing by 2.6% in 2025-26, 1.7% in 2026-27, and then around 2% a year beyond that. The same March forecast shows the Consumer Prices Index (CPI) increasing by 3.2% in 2025-26, 1.9% in 2026-27, and then 2.0% in subsequent years. UK average earnings are expected to increase by 3.7% in the current financial year and 2.2% next year.

The [Wales Economic and Fiscal Report](#) published alongside the Draft Budget in December 2024 provides longer term projections for the Welsh Government's budget. Since then we have had the UK Spending Review outcome and a more recent set of tax revenue forecasts from the OBR. In aggregate terms, taking account of these changes would have little impact on the starting point for these projections. The scenarios presented therefore remain relevant to the long-term outlook for the Welsh Government's budgetary prospects.

In summary, we have greater certainty over the prospects for the Welsh Government's funding than in recent years, providing a firmer basis for budget planning for the next Senedd. The UK Government's commitment to a Spending Review every two years also provides a more stable and predictable framework for planning, avoiding the situation experienced under the previous UK Government where there was no settlement for any forward year. As stated on 1 July, we are planning a business-as-usual budget for 2026-27 this autumn—a budget that restates into the next financial year the budget in place for the current financial year, with this year's spending plans taken forward and increased only in line with inflation. This will provide the next Senedd with additional resource to allocate to its priorities next year and a sound foundation for budget planning for the years beyond.

Yours sincerely,



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