



Llywodraeth Cymru
Welsh Government

Welsh Government Outline Draft Budget Report 2026-27

October 2025

The Draft Budget sets out the spending and financing plans of the Welsh Government for 2026-27



Contents

Foreword by the Cabinet Secretary for Finance and Welsh Language

1: Executive Summary

2: Financial and Economic Context

3: How the Welsh Government is Funded

3.1 Devolved Taxes

3.2 Block Grant

3.3 Other Sources of Funding

4: Welsh Government's Spending Plans

Annex A: Devolved Tax and Block Grant Adjustments

Foreword

by the Cabinet Secretary for Finance and Welsh Language



There is no greater responsibility for a government than creating a budget and securing its successful passage through the Senedd.

The Welsh Budget is not simply a ledger of numbers – of billions of pounds of resource and capital funding carefully spread between different columns and expenditure lines.

These are people's pay packets; they are the accounts of local businesses; the free school meals and teaching materials in our schools; the new trains on our railways and homes in our communities. They are the thousands of childcare placements which look after our children; the new roof on the art gallery; the sound stages at the summer music festivals; the prescriptions we take every day and the new life-saving medicines offering fresh hope.

It has been a privilege to be directly involved in the challenging business of making the Welsh budget for the last decade and more. Just as previously, I have carefully balanced the many needs which exist for investment across Wales. Against the uncertainty caused by the end of the Senedd term and a forthcoming election, it is more important than ever, that this budget provides a stable platform for Wales, especially for the public sector – and everyone who relies on public services. Their spending plans and budgets depend critically upon the outcome of this process.

Most of Wales' funding continues to come from the block grant settlement from the UK Government. However, our devolved taxes are playing an increasingly vital role in how our budget is built. They provide crucial levers that have a direct impact on the funding available. In this budget I set out some changes to devolved taxes, but there will be no change to the Welsh Rates of Income Tax.

The Draft Budget this year is to be published in two stages – the first, today, sets out the main building blocks, which are our funding, taxation decisions and the departmental allocations. On 3 November 2025, we will publish the departmental spending plans. The draft local government settlement will follow later in November.

The Draft Budget is the start of the budget process – it is not the end point. It allows our public services to begin their own planning for the next financial year. The Draft Budget allocates 98.6% of all the funding available for 2026-27. That means that more can be done to invest in the vital needs of Wales, by the time of the Final Budget in January.

My door therefore remains firmly open to working with other political parties in the Senedd who share my conviction that we have a collective responsibility to pass the Welsh Budget and believe a more ambitious budget could be agreed.

Our overriding responsibility as a government, and, indeed, our shared responsibility as Members of the Senedd, is to avoid the damage to Wales, to services, businesses and communities which would be caused by failure to pass a budget at all.

This Draft Budget provides the platform from which we can work together to do just that.

Rt Hon Mark Drakeford
Cabinet Secretary for Finance and Welsh Language
October 2025

1. Executive Summary

Overview

This is a budget that puts stability first and invests over £27bn in Wales. It is the last Budget which will be laid in the sixth Senedd. This Outline Draft Budget Report sets out the decisions Welsh Ministers have made about taxation and high-level resource and capital allocations for 2026-27.

Last year, the Welsh Government produced – and the Senedd approved – a budget which set out a roadmap for a brighter future. It provided an extra £1.6bn for public services and funding for the government’s priorities. This Draft Budget is built on those strong foundations. We are re-stating our investment decisions in those areas which matter most to people, ensuring investment in these areas continues by increasing funding levels in line with the Office for Budget Responsibility’s (OBR) projections for inflation in 2026-27. Protecting the funding secured through the Welsh Budget 2025-26 puts us firmly back on the path to growth.

The Draft Budget is the first stage of the budget process. We are putting forward a one-year budget which delivers stability and certainty for public services as we approach the end of the Senedd term. It is an open and responsible budget, providing all Welsh Government departments with increased funding in 2026-27.

This Draft Budget manages money carefully, enabling public services to plan with confidence in the run up to the end of the Senedd term. It also sets a foundation on which we will continue to build between now and January 2026, to ensure the passage of the Final Budget.

The Outline Draft Budget

The funding available to the Welsh Government through devolved taxes revenue and the UK Government’s block grant for 2026-27 is £27.6bn. This includes £21.9m from the block grant, £5.5bn from devolved taxes and £150m of capital borrowing.

Devolved taxes raise a significant amount of revenue, which allow us to spend more on our public services in Wales. As part of this Draft Budget, we are making decisions about the Welsh Rates of Income Tax, Land Transaction Tax and Landfill Disposals Tax.

We are providing more than £27bn in the Draft Budget to invest in Welsh public services. This is made up of £22.3bn of resource funding, £3.6bn of capital funding and £1.2m of non-domestic rates funding to local government. Of the remaining funding, £125m goes to directly funded bodies¹, and £380m remains unallocated. We are setting out plans

¹ The directly funded bodies are: Senedd Commission; Public Services Ombudsman for Wales; Wales Audit Office; and the Electoral Commission.

today to spend 98.6% of the funding available to us. We are providing £800m more in the Draft Budget 2026-27 than was allocated in the 2025-26 Final Budget.

Figure 1.1: 2026-27 Draft Budget Fiscal Resource and Capital allocations

	£000s		
MAIN EXPENDITURE GROUPS (MEGs)	Fiscal Resource	Capital	Total
Health and Social Care	12,422,751	625,750	13,048,501
Housing and Local Government (ex NDR)	5,690,029	1,297,614	6,987,643
Education	1,851,904	380,022	2,231,926
Transport	697,374	551,373	1,248,747
Climate Change and Rural Affairs	586,104	322,357	908,461
Economy, Energy and Planning	490,128	339,633	829,761
Social Justice	143,554	18,705	162,259
Central Services and Administration	445,483	18,239	463,722
Total	22,327,327	3,553,693	25,881,020

UK Government Fiscal Events

In June 2025, the UK Government's Spending Review set out multi-year settlements for the Welsh Government. It provided resource budgets for the financial years up to 2028-29 and capital budgets up to 2029-30. This longer-term horizon provides additional certainty for the Welsh Government and increased ability to plan for the future.

The Draft Budget sets the spending plans for the first year of this settlement. It recognises, however, that changes may be made by the UK Government at its Autumn Budget on 26 November. The Office for Budget Responsibility (OBR) will also publish a new Economic and Fiscal Outlook on 26 November. Most importantly for the Welsh Budget, this will include updated forecasts for inflation, the devolved taxes and the equivalent UK taxes.

Our budget process is well designed to take account of such uncertainties, and we have flexibility to respond to any tax volatility and accommodate changes in the Final Budget.

Alongside the one-year Draft Budget, we are focusing on longer-term fiscal risks and opportunities through the work of our own Welsh Spending Review, which provides a

strategic approach to fiscal planning for Wales. The programme will establish an evidence base to inform the choices Wales will face in the future and will provide longer-term options to address these areas. Additionally, we are planning for the future in relation to tax. We are consulting about the way we make changes to devolved taxes, and on 3 November we will start a consultation to improve devolved tax legislation. Research is also underway to review the powers Wales has in relation to income tax. This will report in the new year.

The Budget Process

The 2026-27 Budget will be laid in accordance with the arrangements set out in the Budget Protocol between the Senedd and the Welsh Government.

The Outline Draft Budget 2026-27 is being published on 14 October, and the Detailed Draft Budget will be published on 3 November. This fulfils the Welsh Government's commitment to publish our Draft Budget early in the autumn term. This was possible because the UK Government provided details about our settlement in June 2025.

This Outline Draft Budget Report sets out our taxation, financing and high-level spending allocations; the Detailed Draft Budget will provide portfolio spending plans at Budget Expenditure Line (BEL) level. The Strategic Integrated Impact Assessment will be published on 3 November.

Following scrutiny of the Outline and Detailed Draft Budget by the Senedd, the Final Budget 2026-27 will be published on 20 January 2026 and debated on 27 January 2026.

Programme for Government and Wellbeing of Future Generations Act

Our approach to the 2026–27 Draft Budget has been significantly shaped by both the [Programme for Government](#) and the [Well-Being of Future Generations \(Wales\) Act](#). Together, these have influenced the budget's strategic priorities and its methodology.

The Programme for Government sets out our wellbeing objectives, which are designed to maximise our contribution to the seven well-being goals in the Well-being of Future Generations Act. These include creating a prosperous, resilient, healthier, and more equal Wales, as well as fostering cohesive communities, vibrant culture and language, and global responsibility. This Draft Budget builds on the foundations of 2025-26 in delivering for the people of Wales now and in the future.

The approach taken this year continues our commitment to the Well-being of Future Generations Act by modelling the five ways of working – long-term thinking, prevention, integration, collaboration, and involvement. By preserving flexibility and being open to working together, the budget supports long-term sustainability.

By maintaining funding for core services such as health, education, and climate action we are acting to prevent deterioration and ensure cross-sectoral benefits working towards

greater prevention and integration. As ever we have taken a collaborative approach to the budget, prioritising engaging and involving stakeholders in the budget process.

By ensuring security funding to continue the delivery of our key priorities we are reflecting our commitment to sustainable development and remaining aligned with the wellbeing goals and objectives. This Draft Budget is a product of strategic alignment between the Programme for Government and the Well-being of Future Generations Act. It reflects a mature and responsible approach to public finance, ensuring continuity, flexibility, and sustainability in line with Wales' long-term vision for wellbeing.

2. Financial and Economic Context

The Welsh economy is deeply embedded in the wider UK economy. Many of the general trends which affect the UK economy are reflected in or heavily influence Welsh economic conditions.

UK output or GDP increased sharply in the first quarter of 2025 by 0.7%. Some of the strength in output reflected companies front-loading exports to the US before the President of the USA's tariffs came into effect in the spring. Inevitably, GDP slowed in the second quarter, recording a growth rate of 0.3%. The Bank of England expects growth to be around 1.2% for calendar year 2025, although with a higher than expected second quarter, this may now be slightly higher.

The Bank of England forecasts a similar outturn for GDP growth in 2026 (at 1.2%) and a slightly stronger performance of 1.5% in 2027. Such outcomes would compare poorly with the 2% average annual gain recorded between 2010 and 2019, which, in turn was weaker than the 2.8% average annual gain achieved between 1998 and 2007.

In its March 2025 Economic and Fiscal Outlook, the Office for Budget Responsibility (OBR) judged that the UK Government's economic reforms should boost the UK economy's productive capacity moderately toward the end of this decade and more significantly in the 2030s. Even so, GDP growth, in the OBR's view, will not recapture pre-financial crisis rates either in the short-term or in the medium-term.

Employment has weakened over the past several months, according to the HMRC's Pay As You Earn (PAYE) data. Job losses are occurring predominantly in private sector industries in Wales and the UK. In the second quarter of 2025, private sector PAYE jobs in Wales were down 1.5% on the prior year. Job losses have been most pronounced in relatively low-paying activities. For example, in hospitality, the number of PAYE employees in Wales was down 5% on the previous year.

Data quality issues with both the Labour Force Survey (LFS) and the Annual Population Survey mean it is not possible to be certain about current trends in unemployment and economic inactivity in Wales or the UK. Claims for unemployment-related benefits collected by the Department for Work and Pensions suggest unemployment has been edging up from a low rate. LFS data suggest economic inactivity is broadly stable at UK level. Economic inactivity caused by long-term sickness is also likely to remain elevated.

Inflation, as measured by consumer price inflation (CPI), has been slowly rising in 2025. Although it is still considerably lower than the highs of 2022, entering the second half of 2025 it was almost double the UK Government's 2% target at 3.8%. The Bank of England, which is responsible for achieving the target, expects inflation to peak in the third quarter of 2025 at around 4% and then to ease gradually to the target by the second quarter of 2027. However, the Bank has acknowledged the inflation outlook is uncertain with risks skewed to the upside.

The Bank uses monetary policy, mainly by changing the Bank Rate, to achieve price stability. The Bank Rate has been cut five times over the last year from a peak of 5.25% to 4%. Although the Bank has signalled it should remain on a downward path, likely settling at approximately 3.5%, there is some upside risk here.

Long-term interest rates, notably UK Government bond or gilt yields, are not directly controlled by the Bank. Gilt yields, in common with government bond yields in many other countries, are considerably above their level from a year ago. The fundamental driver of the increase in long-term interest rates is that, globally, the supply of government debt being issued is elevated and bond investors are concerned about the sustainability of public finances. The increase in UK gilt yields has been relatively pronounced. This may be related to the inflation rate in the UK; the Bank of England's sales of gilts and a decline in demand from pension funds for gilts related to defined benefit pensions being replaced by defined contribution pensions.

The well-documented economic shocks experienced over the last two decades, the related slow-down in GDP growth and the policy response to these developments has resulted in UK Government debt increasing from 35.6% of GDP in 2007-08 to 94.8% of GDP in 2024-25. The OBR expects debt to broadly stabilise over the next five years facilitated by lower annual borrowing. On the UK Government's plans, by 2029-30 any borrowing incurred will be solely for investment purposes with spending on day-to-day public services and interest payments on the national debt covered by receipts.

The UK Government published a multi-year Spending Review in June 2025. It set resource budgets for the three years to 2028-29 and capital budgets for the four years to 2029-30 for UK Government departments and the devolved governments. The Welsh Government's settlement included an additional £5bn in resource and capital funding over the spending review period, including an additional £1bn in 2026-27, £1.6bn in 2027-28 and £2.4bn in 2028-29. While the settlement means more funding for the Welsh Government to support public services and investment in infrastructure than the last UK Government's implied plans over the period, the fiscal environment for delivering public services remains very challenging.

Further detail is included in the [Wales Economic and Fiscal Report 2025](#) published alongside the Draft Budget.

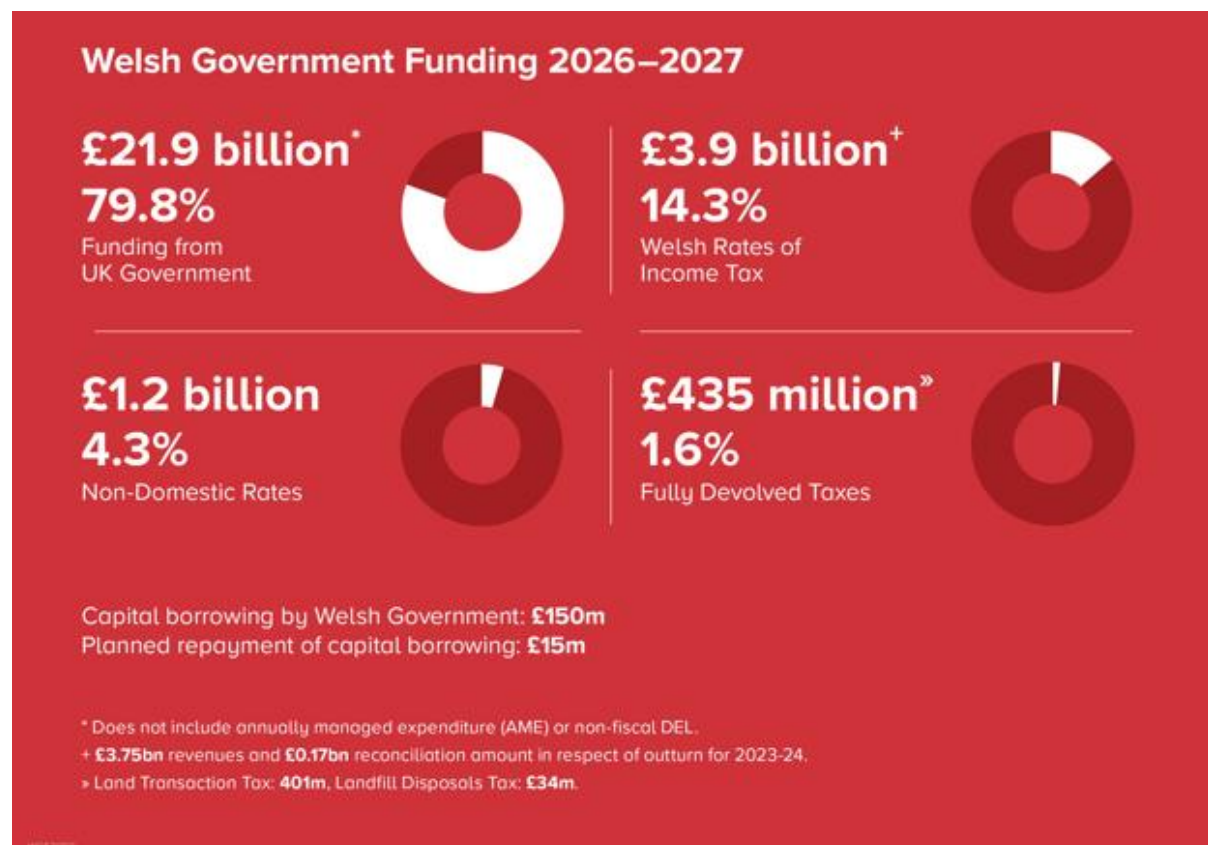
3. How the Welsh Government is funded

Overview

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 funding available to us in 2026-27 is £27.6bn.² This is made up of £23.8bn of resource funding and £3.7bn of capital funding.

Figure 3.1: Infographic showing the different elements of funding available to the Welsh Government



² This does not include: non-fiscal resource; resource AME; and capital AME.

Figure 3.2: Components of Welsh Financing for the 2026-27 Draft Budget

COMPONENTS OF WELSH FINANCING	2026-27 Draft Budget
	£000s
FISCAL RESOURCE	
Departmental Expenditure Limit (DEL)	18,323,386
Wales Devolved Financing:	
Non Domestic Rates	1,178,000
Welsh Rate of Income Tax	3,926,538
Land Transaction Tax	400,671
Landfill Disposals Tax	34,458
Principal repayment of borrowing	-14,898
TOTAL FISCAL RESOURCE	23,848,155
CAPITAL	
Departmental Expenditure Limit (DEL):	
General	3,427,685
Financial Transactions	131,746
Total	3,559,431
Wales Devolved Financing:	
Borrowing	150,000
TOTAL CAPITAL DEL AND BORROWING	3,709,431
TOTAL FISCAL RESOURCE AND CAPITAL	27,557,586
Other items:	
Non-Fiscal DEL	1,237,929
Annually Managed Expenditure (AME):	
Fiscal	35,641
Non-Fiscal	341,993
Capital	1,447,478
TOTAL WELSH FINANCING	30,620,627

3.1 Devolved Taxes

Devolved taxation provides a vital lever through which the Welsh Government raises revenue and delivers our strategic priorities. Over the last decade, Wales has transformed its approach to public finance through the successful devolution of key taxes enabling us to capture the benefits of economic growth and policy innovation. We make decisions about devolved taxes, which influences how much we are able to spend on public services in Wales. These taxes also help to drive behaviour changes, which deliver on key priorities such as the reduction of waste to landfill.

This shift has enabled Wales to continue to invest in public services, respond to local priorities, and deliver targeted support for businesses and communities. The introduction of new taxes, such as the visitor levy, means Wales can continue to shape its fiscal future in ways that benefit the nation.

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). These fund around 20% of the Welsh Government's spending and, taken together, they will contribute £5.5bn to the Welsh Budget in 2026-27.

Taking account of the associated reductions to the Welsh Government's block grant, the devolved taxes are expected to deliver nearly £500m more in 2026-27 than would have been possible without tax devolution.

Tax Policy

The Welsh Government's approach to tax policy development is underpinned by the [Tax Policy Framework](#), which sets out the fiscal devolution settlement. This framework provides clear direction and certainty for Welsh tax priorities, reflecting our commitment to developing tax policy collaboratively with stakeholders, partners, taxpayers, and citizens.

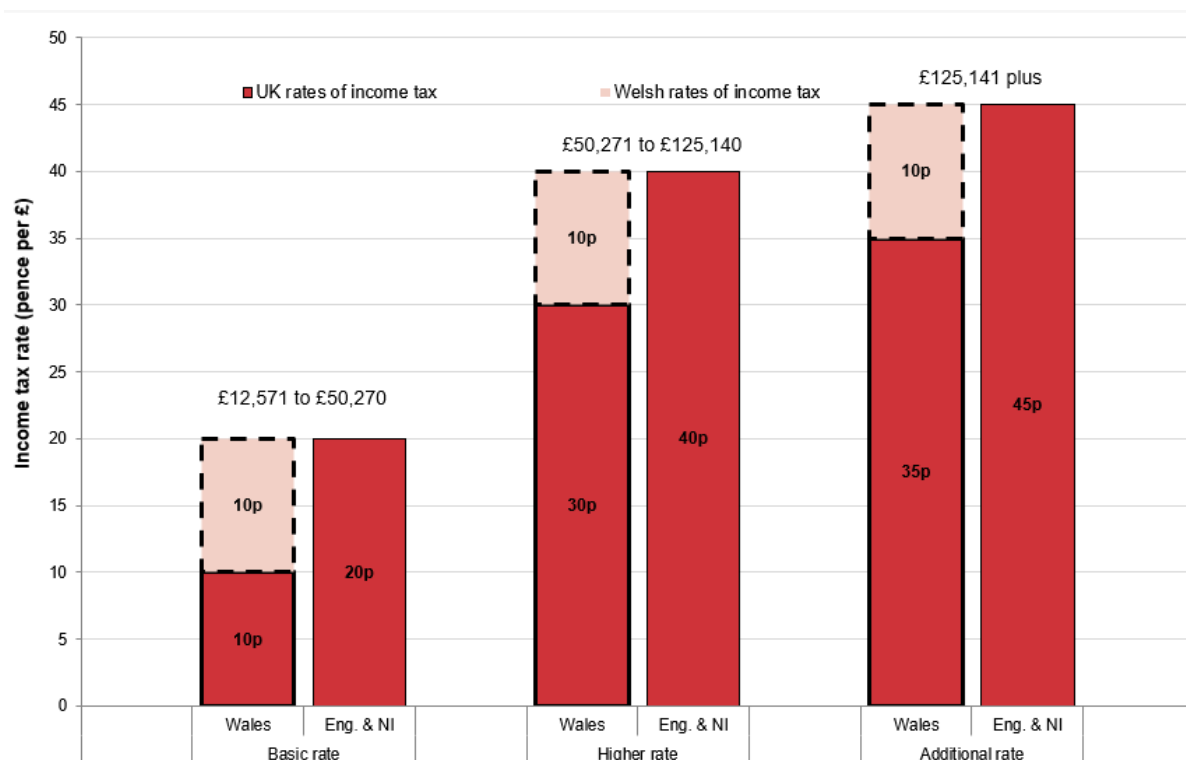
The *Tax Policy Framework* is guided by core principles, which ensure Welsh taxes raise revenue fairly, deliver government objectives, are clear, stable and simple, are developed through collaboration and involvement, and contribute to a more equal Wales. Since the introduction of devolved tax powers, the Welsh Government has developed a distinct approach to shaping tax policy which keeps the needs of the public, businesses, and communities at the forefront, and supports annual work plans and progress reports to maintain transparency and accountability.

Alongside this Draft Budget we have published the [Welsh Tax Policy Report](#) which sets out more detail of the tax changes proposed in setting this Draft Budget.

Welsh Rates of Income Tax

The Welsh Government can vary the three income tax rates (basic, higher and additional) for Welsh taxpayers³. We have decided not to vary the current rates in 2026-27 and, in line with our previous commitments, we propose to set Welsh Rates of Income Tax at 10p. This means people in Wales will continue to pay the same rates of income tax as people in England and Northern Ireland.

Figure 3.3: Proposed Income tax rates in Wales, 2026-27



The process for Wales involves the UK government reducing each of the three 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 Fraser of Allander Institute and Bangor University have been appointed to undertake an independent review of income tax devolution in Wales, researching the performance of the Welsh Rates of Income Tax and other potential models for the future. This work is expected to conclude in January 2026.

³ 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:

<http://www.legislation.gov.uk/ukpga/2014/29/section/8/enacted>

Other Welsh taxes

Land Transaction Tax (LTT) and Landfill Disposals Tax (LDT) are fully devolved. These two taxes are collected and managed by the Welsh Revenue Authority (WRA). LTT and LDT provide important levers to support strategic government objectives. As Wales has its own tax revenues, the Welsh block grant is reduced by an amount equivalent to what the previous UK taxes (Stamp Duty Land Tax and Landfill Tax) would have raised in Wales for the UK Government. This means it is vital the two devolved taxes operate efficiently and effectively to generate revenue to fund public services in Wales.

Land Transaction Tax (LTT)

For 2026-27, Welsh Ministers propose that the residential and non-residential rates and thresholds for LTT remain unchanged.

We intend to make changes to the Multiple Dwelling Relief (MDR) regime, to introduce a new 'equalisation' rule to create per-dwelling parity between multiple-dwelling and single-dwelling transactions liable to the higher residential rates, and to increase the existing MDR minimum tax rule rate from 1% to 3%. These changes will improve fairness for taxpayers who purchase more than one dwelling in the same transaction, or in linked transactions

We will also introduce a new refund rule for the higher residential rates of LTT. The new refund will apply where a private landlord buys a dwelling and then leases it to a local authority in Wales through the Leasing Scheme Wales - this is a Welsh Government scheme which helps to deliver more affordable homes. The main residential rates of LTT will continue to apply to the transaction.

In May 2025, the Affordable Housing Taskforce recommended an LTT relief should be providing to local authorities when they buy property for social housing purposes – similar to the existing relief for registered social landlords (RSL). We are reviewing the effectiveness of the current RSL relief and considering whether it should be replicated for local authorities in Wales. This builds on a consultation to assess the options available for extending the RSL LTT relief to local authorities and other changes.

Figure 3.4 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%

Figure 3.5: 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%

Figure 3.6: 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%

Figure 3.7: 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 (LDT)

LDT contributes to the reduction of waste to landfill and supports our wider environmental objectives. We intend to uplift rates by forecast inflation, measured by the Retail Price Index (RPI), which will be released on 26 November. Therefore, the rates for 2026-27 will be set at the Final Budget following the UK Government's Autumn Budget.

An additional £285,000 will be invested in the WRA to support increased investigation activity in response to unauthorised disposals. The OBR forecasts this funding will result in additional LDT revenues of £715,000 in 2026-27. The current rates for LDT are set out in the table below.

Figure 3.8: LDT rates (rate per tonne)

Rate	From 1 April 2023	From 1 April 2024	From 1 April 2025
Standard	£102.10	£103.70	£126.15
Lower	£3.25	£3.30	£6.30
Unauthorised disposals	£153.15	£155.55	£189.25

Independent tax revenue forecasts

This Draft Budget is accompanied by updated independent forecasts of revenues from land transaction tax and landfill disposals tax from the OBR. The fully devolved Welsh taxes are contributing £435m to the Welsh budget in 2026-27

A summary Welsh Taxes Outlook report providing background and details about the forecasts has been published on the OBR's website.

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 June 2025, I updated the Senedd about the Welsh Government's progress to reform local taxes in Wales, including non-domestic rates. This includes moving to revaluations every three years, which will maintain fairness by ensuring that ratepayers' bills reflect relative changes in the property market. The final phases of the reform programme will be implemented on 1 April 2026.

The Welsh Government provided an extra £78m in the 2025-26 Budget for a sixth successive year of support for the retail, leisure and hospitality sector with their non-domestic rates bills. This builds on £1bn of support allocated since 2020-21 and recognises the economic pressures faced by the sector during the pandemic and subsequent cost-of-living crisis. This was a temporary relief, which was never intended to continue indefinitely. The Finance Secretary confirmed 2025-26 would be the final year of the relief for the retail, leisure and hospitality sector.

For 2026-27, the Welsh Government is planning to introduce a lower multiplier for small to medium sized retailers. This will reduce non-domestic rates bills for these properties – this recognises the unique challenges faced by 'bricks and mortar' retail shops, not least through their exposure to competition from online retailers.

We will continue to provide considerable additional support for businesses through our permanent relief schemes, worth £250m annually.

The Welsh Government's non-domestic rates arrangements for 2026-27 will be determined as part of the preparations for our Final Budget. This will take account of all relevant information following the UK Government's Autumn Budget and the outcome of the next non-domestic rates revaluation, which will also take effect on 1 April 2026.

The Draft Budget reflects the expectation that non-domestic rates revenue will be maintained in real terms (in line with forecast CPI inflation). Baseline budgets for the development and administration of the local taxes (non-domestic rates and council tax) have been increased by 2%.

3.2 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.

In 2026-27, the Welsh Government's fiscal resource Departmental Expenditure Limit (DEL) will be £22.199bn before block grant adjustments. The general Capital DEL will be £3.428bn. Financial Transactions capital will be £132m.

Block grant adjustments

Following the devolution of tax powers to Wales, the Welsh Government's block grant was reduced because revenues from devolved and partially devolved taxes now go directly to the Welsh Government rather than the UK Exchequer.

Changes in block grant adjustments are driven by growth in the equivalent UK taxes. For the purposes of the Draft Budget, the adjustments are consistent with OBR forecasts of the equivalent UK taxes in the March 2025 Economic and Fiscal Outlook.

After accounting for the block grant adjustments, the devolved taxes are making a positive contribution of £486m to the Budget in 2026-27. Full details of the block grant adjustments and reconciliation amounts to account for outturns are included in Annex A.

Financial Transactions Capital (FTC)

Financial Transactions Capital (FTC) is used to boost state-led investment in private and third sector entities. A proportion of this funding needs to be repaid to the UK Government.

The FTC settlement from the UK Government for 2026-27 is £132m. The Welsh Government is expecting repayments from existing investments in 2026-27 of £13.2m, giving an available total of up to £145m to allocate.

3.3 Other Sources of Funding

Capital Borrowing

The Welsh Government plans to borrow for capital purposes from the National Loans Fund. Repayment forecasts for the period in which we have set capital plans can be found in the [Tables Supporting Spending Plans](#).

The repayment forecast assumes a repayment period of 25 years and an interest rate of 5.26% for borrowing in the current financial year. The cost of borrowing in 2026-27 is estimated at £24.3m. Whilst borrowing funds investment across all areas of the Welsh Government, the costs are met from within the Central Services and Administration MEG.

To provide as much capital investment as we can for 2026-27, we expect to maximise capital borrowing at the £150m limit.

Wales Reserve

The Wales Reserve is part of the fiscal framework arrangements which enable the Welsh Government to deal effectively with volatility arising from tax revenues and to retain unspent resources for use in future years.

The Wales Reserve can hold up to £350m. In previous years, annual drawdowns have been limited to £125m for resource spending and £50m for capital spending. In 2025-26, the Welsh Government had temporary access to the full Wales Reserve with no limits on drawdowns. We continue to press the UK Government for the permanent abolition of our annual Reserve draw-down limit, which is essential to give us the flexibility to better plan our finances.

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

Innovative Finance Schemes

We continue to make full use of innovative financing solutions to help deliver timely additional investment in vital economic and social infrastructure.

Innovative Finance and Mutual Investment Model (MIM) schemes provide a much-needed boost to capital budgets, ensuring vital facilities for the public are delivered sooner than would have otherwise been achievable. The Infrastructure Finance Plan will be published at the second stage of the Draft Budget and will include details of how innovative finance will be used for infrastructure investments.

4: Welsh Government Spending Plans

Context

The Welsh Government's Draft Budget 2026-27 allocates more than £27bn of funding for 2026-27. That is 98.6% of the resources available to us. £22.3bn of this is resource funding, £3.4bn general capital, £130m of FT capital and £1.2bn in non-domestic rates.

We are providing £800m more in the Draft Budget 2026-27 than was allocated in the 2025-26 Final Budget. This Draft Budget restates the investment decisions made in 2025-26 and increases the funding available to each Welsh Government department in line with forecasted inflation.

Baselines

The starting point for establishing a baseline of funding to each Welsh Government department or Main Expenditure Groups (MEGs) is the 2025-26 Final Budget. Any recurrent changes made since the 2025-26 Final Budget, including at the [First Supplementary Budget](#) are shown as baseline adjustments. Negative adjustments have also been made to account for one-off funding in 2025-26 which was not recurrent in nature.

The most significant additional funding provided since the 2025-26 Final Budget is funding to support the devolved public sector with increases in employers' National Insurance contributions (NICs) and increases to public sector pay in 2025-26.

The 2025-26 First Supplementary Budget confirmed the allocation of a total package of £220m to support public services and further education with increased NICs costs. This funding is being baselined for 2026-27.

Additional funding of £126m was provided to support increases in public sector pay in 2025-26. This funding is being baselined for 2026-27 at £137m to include a full academic year of teachers' pay.

The funding received by the UK Government for ringfenced purposes and which can only be spent on specific purposes, is allocated on a one-off basis and therefore does not form part of the baselines.

The 2026-27 Draft Budget allocations are being compared to these revised baselines to give fair and transparent reflection of uplifts for 2026-27.

The tables below show the baseline adjustments for each MEG. The detail of each adjustment will be available in the BEL tables published as part of the Detailed Draft Budget on 3 November.

Figure 4.1: Fiscal Resource Baseline Adjustments

Fiscal Resource	£000s		
MAIN EXPENDITURE GROUPS	Final Budget 2025-26	Adjustments	Baseline
Health and Social Care	11,975,555	186,159	12,161,714
Housing and Local Government (ex NDR)	5,483,188	75,399	5,558,587
Education	1,800,854	11,870	1,812,724
Transport	661,777	6,548	668,325
Climate Change and Rural Affairs	579,966	-11,947	568,019
Economy, Energy and Planning	465,586	14,712	480,298
Social Justice	139,296	-3,977	135,319
Central Services and Administration	426,979	6,986	433,965
Total Allocations to Welsh Government MEGs	21,533,201	285,750	21,818,951

Figure 4.2: General Capital Baseline Adjustments

General Capital	£000s		
MAIN EXPENDITURE GROUPS	Final Budget 2025-26	Baseline Adjustments	Baseline
Health and Social Care	619,480	-5,450	614,030
Housing and Local Government	1,196,280	-5,000	1,191,280
Education	374,500		374,500
Transport	529,197	-400	528,797
Climate Change and Rural Affairs	306,566	-53,455	253,111
Economy, Energy and Planning	327,676	-106,329	221,347
Social Justice	17,890		17,890
Central Services and Administration	14,609		14,609
Total Allocations to Welsh Government MEGs	3,386,198	-170,634	3,215,564

2026-27 Draft Budget Increases

An inflationary uplift is being applied to each MEG to ensure every part of the Welsh Government will start 2026-27 with at least the same level of funding in real terms as their revised baseline this year (2025-26).

In calculating the inflationary uplift for each MEG, we have reflected the OBR's March inflation forecasts for 2026-27. The GDP deflator in 2026-27 was forecast to be 1.7%, and CPI (the consumer price index), was forecast to be 1.9%. We have also taken account of OBR's March pay growth forecasts for 2026-27 which was 2.2%.

A 2.2% uplift on fiscal resource is being provided for the public sector pay elements within each MEG. This takes account of the significant impact of public sector pay within some MEGs. A 2% uplift is being provided on non-pay fiscal resource, general capital, and for Financial Transaction capital.

The table below shows the inflationary uplift for each MEG. The difference in the percentage of fiscal resource is because of the differing level of public sector pay within each MEGs and to the full academic year impact of teachers' pay in the Housing and Local Government MEG.

Figure 4.3 Fiscal Resource Inflationary Uplift

Fiscal Resource	£000s		
MAIN EXPENDITURE GROUPS	Baseline	Inflationary Uplift	% change between Revised Baseline and Uplifted Baseline
Health and Social Care	12,161,714	259,334	2.13%
Housing and Local Government (ex. NDR)	5,558,587	122,801	2.21%
Education	1,812,724	37,414	2.06%
Transport	668,325	13,988	2.09%
Climate Change and Rural Affairs	568,019	11,684	2.06%
Economy, Energy and Planning	480,298	9,830	2.05%
Social Justice	135,319	2,735	2.02%
Central Services and Administration	433,965	9,271	2.14%
Total Allocations to Welsh Government MEGs	21,818,951	467,057	

Figure 4.4: General Capital Inflationary Uplift

General Capital	£000s		
MAIN EXPENDITURE GROUPS	Baseline	Inflationary Uplift	% change between Revised Baseline and Uplifted Baseline
Health and Social Care	614,030	12,281	2.00 %
Housing and Local Government	1,191,280	23,826	2.00 %
Education	374,500	7,490	2.00 %
Transport	528,797	10,576	2.00 %
Climate Change and Rural Affairs	253,111	5,062	2.00 %
Economy, Energy and Planning	221,347	4,427	2.00 %
Social Justice	17,890	358	2.00 %
Central Services and Administration	14,609	292	2.00 %
Total Allocations to Welsh Government MEGs	3,215,564	64,312	

Figure 4.5: Financial Transaction Capital Inflationary Uplift

Financial Transaction Capital	£000s		
MAIN EXPENDITURE GROUPS	Baseline - Final Budget 2025-26	Inflationary Uplift	% change between Revised Baseline and Uplifted Baseline
Health and Social Care	0	0	0%
Housing and Local Government	86,250	1,725	2%
Education	0	0	0%
Transport	0	0	0%
Climate Change and Rural Affairs	10,000	200	2%
Economy, Energy and Planning	29,500	590	2%
Social Justice	1,500	30	2%
Central Services and Administration	0	0	0%
Total	127,250	2,545	

A limited number of other adjustments have been made to provide additional funding for contractual obligations, funding ringfenced by HM Treasury for specific purposes, MEG to MEG transfers and costs resulting from the implementation of new legislation which has been agreed by the Senedd.

Unallocated funding

The 2026-27 Draft Budget does not allocate all the resources available to the Welsh Government. The Draft Budget is the first formal stage of the Budget process, and it remains the ambition of the Welsh Government to find areas of common priorities with Members of the Senedd to enable this funding to be allocated at the Final Budget in January 2026.

There is currently around £380m of unallocated funding. This consists of £231m resource, £136m general capital, and £13m financial transactions capital.

Budget Documentation

The following documents have been published alongside this Outline Draft Budget Report on our 2026-27 Draft Budget web page:

- [Draft Budget Proposals](#)
- [Outline Draft Budget Explainer](#)
- [Tables supporting spending plans](#)
- [Budget Improvement Plan](#)
- [Welsh Tax Policy Report 2025](#)
- [Wales Economic and Fiscal Report 2025](#)
- [Wales Economic and Fiscal report 2025 – Five Essential Insights](#)
- Link to OBR forecasts for the devolved Welsh taxes

The financial tables supporting this Draft Budget can be found in the Tables Supporting Spending Plans workbook. The tables are published in a single document which reflects our commitment to improve the transparency of budget data.

Annex A: Devolved tax revenues and block grant adjustment forecasts

Introduction

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

Tax devolution impacts the budget in two ways. Firstly, the devolved tax revenues represent a significant share of the overall funding for the budget - with non-domestic rates they make up around 20%. Secondly, those revenues are accompanied by reductions to the grant from the UK Government, known as block grant adjustments.

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 change in the adjustments is 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.

The forecasts for Land Transaction Tax (LTT) and Landfill Disposals Tax (LDT) have been updated for the Draft Budget 2026-27 and are set out in more detail in the latest Welsh Taxes Outlook published by the OBR. The forecasts for the Welsh Rates of Income Tax and those underpinning the block grant adjustments are taken from the OBR's March 2025 Economic and Fiscal Outlook.

The first section of this annex sets out the net impact of tax devolution – this is 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 Draft Budget 2026-27.

Section 1: Revenues and Block Grant Adjustments

This section includes the latest tax revenue forecasts, alongside outturns for years available. These are set out in table 1, together with the outturns and forecasts for the associated block grant adjustments.

Figure A.1: Tax Revenue and Block Grant Adjustment Outturns and Forecasts (£m)

	2022-23	2023-24	2024-25	2025-26	2026-27
Revenues					
Welsh Rates of Income Tax	2,618	2,968	3,331	3,586	3,754
Land Transaction Tax	372	270	341	368	401
Landfill Disposals Tax	42	30	34	35	34
Total	3,032	3,268	3,706	3,989	4,189
Block Grant Adjustments					
Welsh Rates of Income Tax	-2,535	-2,782	-3,077	-3,291	-3,441
Land Transaction Tax	-313	-237	-283	-287	-348
Landfill Disposals Tax	-25	-19	-19	-16	-15
Total	-2,872	-3,038	-3,379	-3,594	-3,804
Net revenue impact					
Welsh Rates of Income Tax	83	187	254	295	313
Land Transaction Tax	60	33	58	81	52
Landfill Disposals Tax	17	10	15	19	20
Total	160	230	327	395	385
Outturn					

The overall outlook for the net revenue impact of devolved taxation is positive, increasing by £155m between the latest full outturn for 2023-24 and the forecast for 2026-27. The net revenue impact of the devolved taxes in 2026-27 is forecast to be £385m in total, with positive contributions from all three taxes.

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 2023-24 was published in July 2025.

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 21 August, detailing the reconciliation amounts for 2023-24. For 2024-25 and 2025-26 reconciliation amounts are estimated using the most recent forecast. Actual and forecast reconciliation amounts are shown in Table 2.

Figure A.2: Reconciliation amounts, outturns and forecasts (£m)

	2022-23	2023-24	2024-25	2025-26
Welsh Rates of Income Tax				
<u>Used in Budgets</u>				
Revenues	2,478	2,795	3,171	3,462
Block Grant Adjustments	-2,447	-2,733	-3,017	-3,261
<u>Outturns and latest forecasts</u>				
Revenues	2,618	2,968	3,331	3,586
Block Grant Adjustments	-2,535	-2,782	-3,077	-3,291
<u>Reconciliation amounts</u>				
Revenues	140	173	160	123
Block Grant Adjustments	-87	-49	-60	-29
Fully devolved taxes				
<u>Block Grant Adjustments used in Budgets</u>				
Land Transaction Tax	-322	-241	-259	-298
Landfill Disposals Tax	-27	-21	-20	-15
<u>BGA outturns and latest forecasts</u>				
Land Transaction Tax	-313	-237	-283	-287
Landfill Disposals Tax	-25	-19	-19	-16
<u>Reconciliation amounts</u>				
Land Transaction Tax	9	4	-24	
Landfill Disposals Tax	2	2	0	

Outturn

Outturn data for the fully devolved taxes (LTT and LDT) and UK equivalents is more timely and is now available up to 2024-25. 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 block grant adjustments tend to be relatively small. These are also shown in table 2. (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 2026-27.

The reconciliation amounts for WRIT revenues and block grant adjustments are applied to the budget three years after the year to which they relate. The 2023-24 reconciliation amounts are therefore applied to the 2026-27 Budget.

The reconciliations for the block grant adjustments relating to LTT and LDT are applied two years after the year to which they relate. The 2024-25 reconciliations are applied in 2026-27.

Figure A.3: Forecasts and reconciliation amounts in the Welsh Government's Draft Budget for 2024-25 (£m)

	2026-27 Draft Budget October 2025
Tax revenues	
WRIT revenues	3,754
WRIT revenue reconciliation amounts	173
WRIT total	3,927
Land Transaction Tax	401
Landfill Disposals Tax	34
Total devolved tax revenues	4,362
Block Grant Adjustments	
Welsh Rates of Income Tax	-3,441
Land Transaction Tax	-348
Landfill Disposals Tax	-15
<u>Reconciliation amounts from previous years</u>	
Welsh Rates of Income Tax	-49
Land Transaction Tax	-24
Landfill Disposals Tax	0
<u>Total</u>	
Welsh Rates of Income Tax	-3,490
Land Transaction Tax	-372
Landfill Disposals Tax	-14
Total block grant adjustments	-3,876
Total net budgetary impact	486

The overall net impact of devolved taxation on the 2026-27 budget is £486m, including a favourable £100m reconciliation in relation to previous years.