



Llywodraeth Cymru
Welsh Government

Welsh Government Final Budget Report 2026-27

January 2026

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



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Foreword

by the Cabinet Secretary for Finance and Welsh Language



We are publishing the Final Budget 2026-27 as we start the last months of the Sixth Senedd. It will provide the fiscal context for a new, reformed Senedd.

This a Budget forged in co-operation and collaboration and demonstrates the strength of the Senedd – parties working together to secure the vital resources people, business and public services need for the year ahead.

This Budget invests £27.5bn 2026-27. This is £1.2bn more than is available in 2025-26, and £400m more than was allocated at the Draft Budget in the autumn.

This Final Budget is the culmination of many months of scrutiny, engagement and collaboration. I am grateful to all Members of the Senedd for their detailed scrutiny of the Draft Budget and for working with us to secure a more ambitious Final Budget which uses all the resources available. I would also like to thank all parties for their willingness to enter into good faith discussions about the Budget, demonstrating the determination of the Senedd to see this Budget succeed.

I am grateful to Plaid Cymru for the constructive discussions which resulted in an agreement to enable this Budget to pass. It means there is an extra £180m for the health and social care budget and an uplift of 4.5% to the local government settlement for councils to invest in education, in social care and all the other vital services which make such a difference to people's lives.

This Final Budget also demonstrates the Welsh Government's continuing commitment to invest in public services and in economic growth. This is only possible as we have more than £1bn in new funding in 2026-27, over and above the £1.6bn uplift embedded in the current year's Budget. These uplifts are the result of the UK Government in Westminster working with the Welsh Government to make a real difference to the lives of people in Wales.

This is the last Budget in which I will be directly involved. It has been a privilege to have been part of the challenging – but always vital – business of determining how precious public spending is distributed over the course of the last decade and longer.

As Wales prepares for the democratic choices ahead, this Budget provides public services with certainty today and provides the next government with the platform to set its own priorities for the future.

Mark Drakeford

Cabinet Secretary for Finance and Welsh Language

January 2026

1. Executive Summary

Overview

This Budget provides stability and certainty to public services, investing more than £27.5bn to support communities across Wales. It builds on the spending decisions we made in 2025-26 and reaffirms our priorities set out in the Outline and Detailed [Draft Budget](#) published in the autumn. This is the last budget of the Sixth Senedd and the last budget before a reformed Senedd is elected in May 2026.

The Draft Budget was the starting point of the process. This Final Budget has been secured through collaboration, engagement and full consideration of the detailed scrutiny which has taken place over the last few months. The budget agreement between the Welsh Government and Plaid Cymru means that there will be more funding for the priority areas of the NHS and local government. We are also providing increases to all Main Expenditure Groups (MEGs) to reflect the Office for Budget Responsibility's (OBR) increased inflation and wage growth forecasts.

This report explains the changes and the decisions made since the Draft Budget. These include an increase in how much we can spend through adjustments to funding following the UK Government's Budget in November 2025 and updated devolved taxes forecast from the OBR. This Final Budget allocates £400m of additional funding.

Welsh Government funding

The funding available to the Welsh Government through devolved tax revenue and the UK Government's block grant for 2026-27 is £27.7bn. This is made up of £24bn of resource funding and £3.7bn of capital funding. In total, there is £176m more than was available at the time of the Draft Budget.

The UK Government's Spending Review in June 2025 set out multi-year settlements for the Welsh Government, to 2028-29 for resource and 2029-2030 for capital. The UK Budget on 26 November, confirmed additional funding of £508m for the Welsh Government over the Spending Review period.

Changes to the funding available to the Welsh Government in 2026-27 are outlined in chapter 3.

Welsh Government spending plans

We are investing £27.5bn in this Final Budget to support public services, people and communities and businesses across Wales. This is made up of £23.9bn of resource

funding and £3.6bn of capital funding. £118m goes to directly funded bodies¹. As part of the budget agreement with Plaid Cymru, there will be £120m of capital funding available to the next government to allocate. This therefore remains unallocated in the Final Budget.

We are investing £400m more in this Final Budget compared to the Draft Budget. This means that, in total, £1.2bn more money is being invested through this Final Budget than in 2025-26.

More funding is being invested in the NHS and in local government to support the services people rely on and use every day. All departments are seeing an increase in funding available to them. For areas outside health and local government, resource budgets are increasing to reflect the OBR's updated inflation and wage growth forecasts for 2026-27 from November 2025. Additional resource and capital funding is also being provided to support other key priorities, including bus services, apprenticeships, further education, flood prevention and maintenance of school buildings.

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

MAIN EXPENDITURE GROUPS (MEGs)	£000s		
	Fiscal Resource	Capital	Total
Health and Social Care	12,602,651	625,750	13,228,401
Housing and Local Government (ex NDR)	5,877,430	1,313,081	7,190,511
Education	1,865,169	401,990	2,267,159
Transport	706,194	561,373	1,267,567
Climate Change and Rural Affairs	596,535	332,357	928,892
Economy, Energy and Planning	496,986	346,239	843,225
Social Justice	144,194	19,778	163,972
Central Services and Administration	453,600	21,296	474,896
Total	22,742,759	3,621,864	26,364,623

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

The Budget Process

The 2026-27 Final 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 was published on 14 October 2025, and the Detailed Draft Budget was published on 3 November 2025. The Senedd welcomed the return to a two-stage budget process and additional time for scrutiny. The Senedd's scrutiny process took place between 14 October and 15 December; all Cabinet Secretaries attended portfolio committees to provide evidence. Responses to committee reports will be published ahead of the vote on the Final Budget on 27 January 2026.

Scrutiny is a vital part of building the Final Budget. The constructive engagement, challenge and recommendations from Senedd committees have been taken into consideration in the Final Budget. Some of the main issues outlined in scrutiny included additional funding for public services and the challenging position facing local authorities, as well as pressures arising from increased inflation forecasts. These have been addressed in the Final Budget.

Impacts of spending decisions

A budget presents a series of choices, and our decisions are shaped by the need to safeguard essential public services while investing in the long-term well-being of communities. Every decision we make means there is funding available for one area but also means that there is less funding available for other areas.

The Strategic Integrated Impact Assessment (SIIA) is the tool the Welsh Government uses to assess the impact of our spending decisions, particularly in relation to equality, sustainability and wellbeing. It helps us to better understand how the budget is likely to affect different groups of people in Wales and helps to ensure our funding is aligned with the principles of the Well-being of Future Generations (Wales) Act 2015.

This year we have made changes to our SIIA process to develop a more collaborative approach to better assess the strategic and cross cutting impacts of spending decisions. An [interim SIIA](#) was published at the Draft Budget. Alongside this Final Budget, we are publishing the [Final Budget SIIA](#) which provides an evidence-based approach to understand our budgetary decisions.

2. Financial and Economic Context

Overview

The [Wales Economic and Fiscal Report 2025](#) was published on 14 October 2025 alongside the Welsh Government's Draft Budget 2026-27. The analysis in this chapter summarises developments in economic conditions and in the economic and fiscal outlook that have occurred since then, to provide updated context for the Welsh Government's Final Budget 2026-27.

Economic update

Economic output, as measured by gross domestic product (GDP), is forecast to grow by 1.3% for 2025-26 according to the latest forecast by the OBR in November, up by 0.1% since the March forecast. Growth in 2026-27 is now expected to be 1.5%, down 0.4 percentage points since the March forecast.

By far the most significant economic change in the OBR's economic forecast was to downgrade prospects for growth through a reduction in trend productivity (output per hour worked) from 1.3% per year to 1% per year. The revision is the latest of several made since 2010 as productivity outturns failed to meet OBR expectations. Productivity growth averaged 2.1% a year before the financial crisis, 0.6% in the decade after that crisis and 0.4% between 2020 and 2024.

Despite the downgrade, the OBR's new central forecast is for productivity growth to more than double its post-2020 rate and improve substantially on its performance in the decade before the pandemic. Its anticipated acceleration reflects an expectation that recent shocks, including exit from the European Union and the pandemic, will fade. Adoption of artificial intelligence (AI) is likely to boost productivity moderately over the next five years with a larger impact expected in the long run.

The OBR noted that its new lower forecast is at the top end of a range of productivity forecasts from investment banks and think tanks. It emphasises that the outlook is highly uncertain, highlighting that there is a plausible upside scenario where annual productivity growth averages 1.5%. Equally, there is a plausible downside scenario where annual productivity growth averages 0.3% until 2030.

Changes in productivity are a key driver of living standards as measured by real household disposable income (RHDI). Inevitably, the deterioration in productivity prospects has weakened the outlook for RHDI. Income tax decisions announced in the UK's Budget in November – most notably extending freezes in personal tax and employee National Insurance Contributions (NICs) thresholds – will impact on disposable household income. In 2026-27, RHDI per person is expected to increase by just 0.3%. No improvement on this rate is expected in the following years through to 2030-31.

Since the Draft Budget 2026-27 was published, the labour market has continued to show signs of weakness. The number of employees in the private sector in Wales and the UK is down compared to last year, with job losses still most pronounced in lower paying industries. The OBR's latest forecast expects moderate further reductions in employment and a moderate increase in unemployment in 2026-27.

Inflation, as measured by the Consumer Prices Index (CPI) increased by 3.2% in the year to November 2025. In 2026-27, the OBR expects CPI inflation and the GDP deflator to both average 2.2%, both higher than forecast in March for 2026-27 by 0.3 and 0.6 percentage points, respectively.

Prospects of reduced inflation led a majority on the Bank of England's Monetary Policy Committee to reduce the Bank Rate to 3.75% from 4% on 18 December 2025. It is more likely than not that this will be reduced further in 2026-27, probably to between 3% and 3.5%. Since October 2025, UK Government borrowing costs, as measured by the 10-year gilt yields have fluctuated in a narrow range between 4.4% and 4.6%. The OBR's forecast shows borrowing costs increasing slightly in 2026-27.

Fiscal update

The UK Government's fiscal mandate requires its current spending to be covered by tax revenues by 2029-30. Before taking into account the policy measures announced in the UK Budget in November, the OBR judged the fiscal mandate would be met with a margin (so called 'fiscal headroom') of around £4bn or 0.1% of GDP. Despite the lower economic growth forecast for the medium term through the productivity downgrade, this impact had less overall effect on the fiscal forecasts due to offsetting impacts from slightly higher inflation and more wage-intensive-growth boosting tax revenues. That said, this was still a substantial reduction on the fiscal headroom of £10bn (0.3% of GDP) in the Spring Statement 2024, which itself was small by historical standards.

As a result of the tax and spending changes announced in the UK Budget, the fiscal mandate should be met by an increased margin, now £22bn or 0.6% of GDP in 2029-30. The margin of error is around three-quarters of the average headroom allowed by previous Chancellors. All the adjustments to achieve the £22bn surplus are through tax measures, which increase the current budget margin by £26bn. Changes in spending reduce the current budget margin by £4bn.

As well as the fiscal mandate, the UK Government has supplementary fiscal targets regarding public sector net financial assets and welfare spending. In the OBR's judgement, both supplementary targets are more likely than not to be met, although the margin for meeting the welfare target is estimated to be very small.

A significant spending decision at the UK Budget was the removal of the two-child limit within Universal Credit from April 2026. The UK Government estimates its removal will reduce the numbers of children in poverty by 450,000 by 2029-30. In Wales, around 70,000 children are estimated to benefit.

Overall, total UK public spending is expected to increase from 44% of GDP in 2024-25 to peak at 44.8% of GDP in 2027-28. It is projected to decrease to 44.3% of GDP in 2030-31. This would be 5.2 percentage points higher than its pre-pandemic level in 2019-20.

A key tax change is the freezing of personal tax and employer NICs thresholds for three more years from 2028-29 to 2031-32. Thresholds were first frozen in April 2022. NICs will also now apply on salary-sacrificed pension contributions from 2029-30. There are also increases in tax rates on income from dividends from April 2026. Income tax rates from property and savings will also increase from April 2027.

The tax increases announced in the UK Budget are back-loaded to the fourth and fifth years of the OBR forecast. In 2026-27, just £0.7bn is raised in extra taxation, more than offset by £6.6bn in additional public spending. But by 2030-31, these tax measures are expected to raise £30bn in revenue, equivalent to approximately 0.8% of GDP. The share of National Accounts taxes in national income is expected to increase from 34.7% in 2024-25 to 38.3% in 2030-31, a historic high and 5.4 percentage points above the pre-pandemic level of 32.9%.

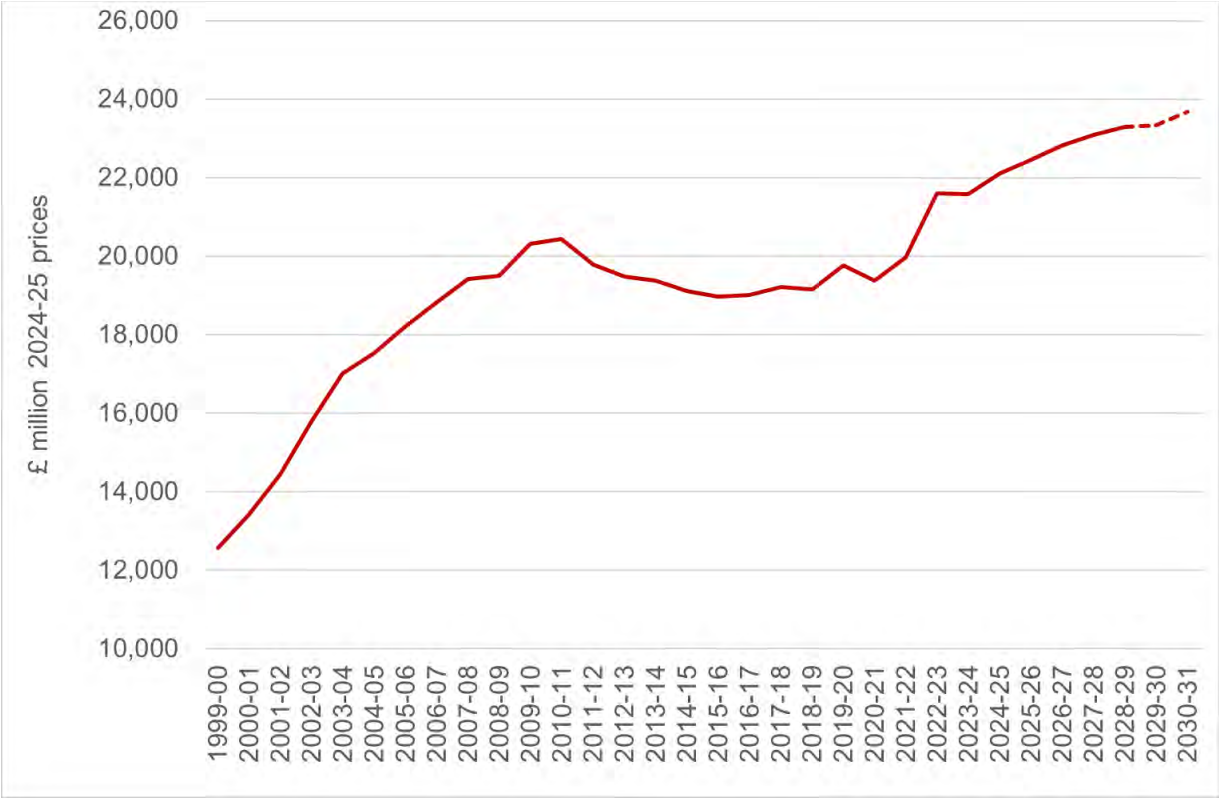
Implications for the Welsh Government's finances

There was additional funding for 2026-27 in the UK Budget on 26 November 2025, over and above that from the Spending Review, which was included in the Welsh Government's Draft Budget. There were also changes to the Welsh Government's fiscal flexibilities and changes to the devolved tax revenue forecasts and the associated block grant adjustments in 2026-27. These are explained in chapter 3.

The historical and projected fiscal resource and general capital budgets are shown in figures 2.1 and 2.2. Overall, the fiscal resource budget in 2026-27 is up 1.6% in real terms compared to 2025-26. It is expected to continue increasing in real terms over the remaining two years of the Spending Review period, although at a slightly lower real growth rate. Based on UK Government assumptions for overall discretionary public spending, similar growth is expected for the remainder of the decade.

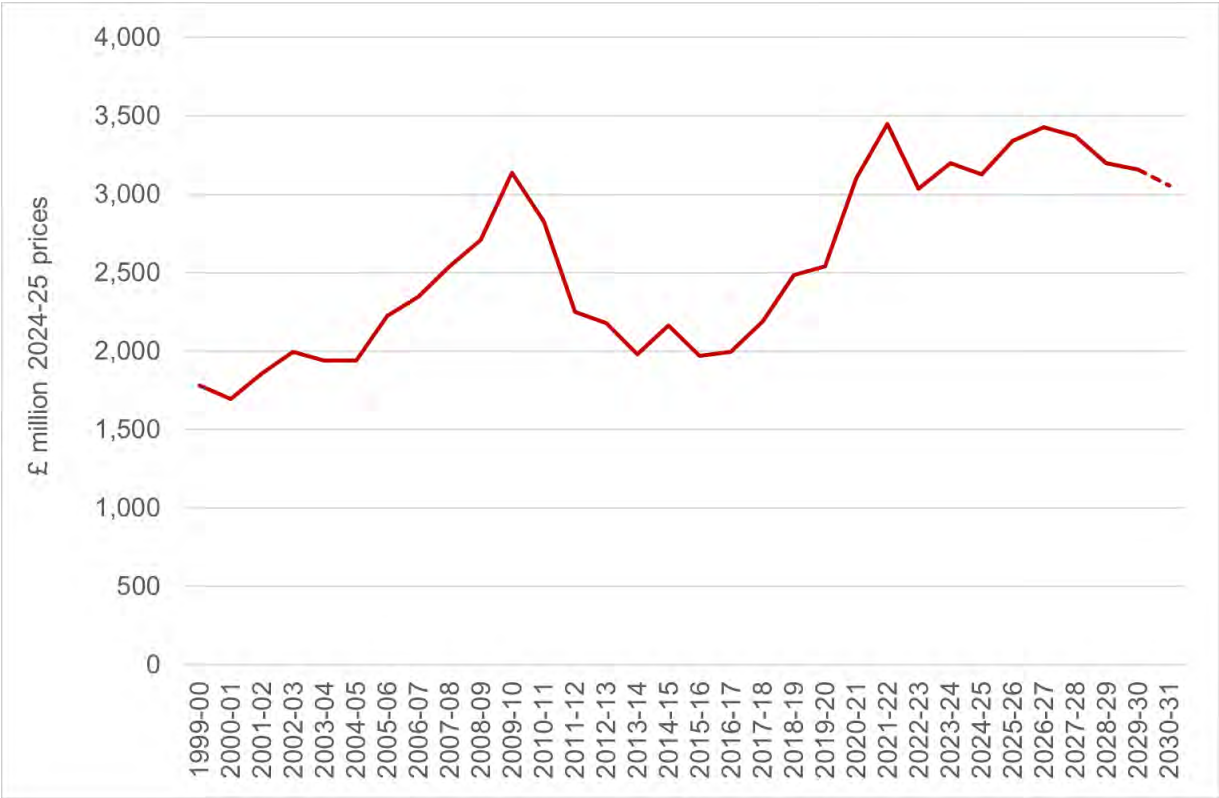
The general capital budget in 2026-27 is 2.5% higher in real terms than in 2025-26. It is, however expected to decline for the rest of the decade. The projections here assume the Welsh Government's capital borrowing facility is fully used. In that scenario, the overall limit is reached in 2030-31, accounting for the overall dip in that year.

Figure 2.1: Welsh Government Fiscal Resource Budget in real terms (£m)



Note: excludes COVID funding

Figure 2.2: Welsh Government General Capital Budget in real terms (£m)



3. Welsh Government Funding

Overview

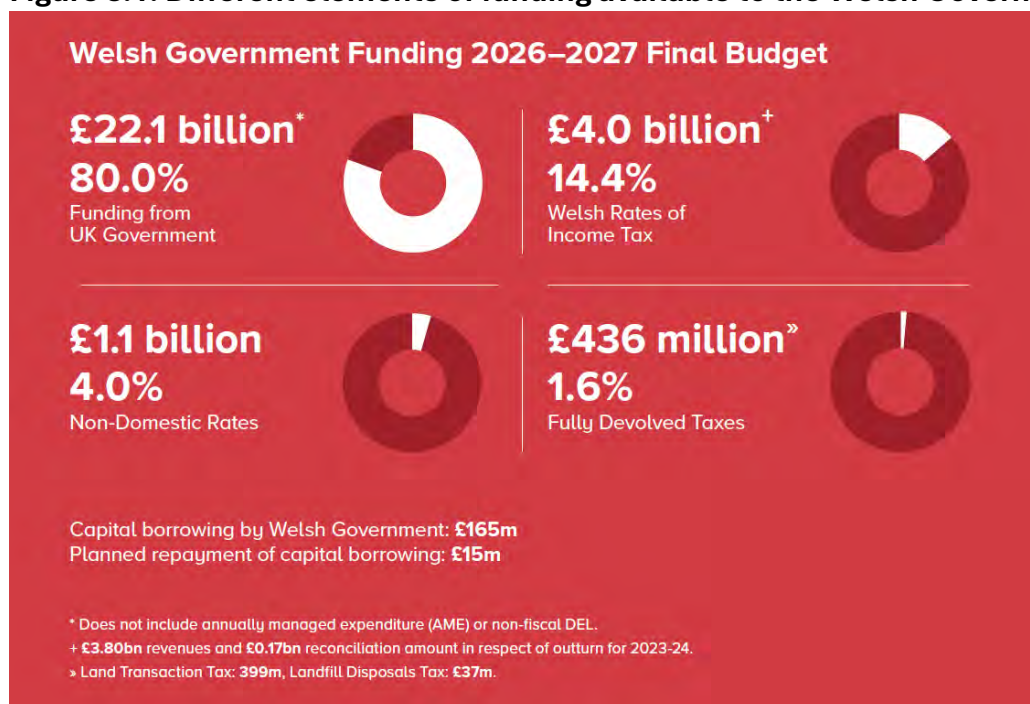
The Welsh Government and devolved public services in Wales are funded through a combination of revenue generated by devolved taxes and the block grant from the UK Government. The [Outline Draft Budget Report](#) and [Tax Policy Report](#) provide details on these sources of funding and the policy decisions available to Welsh Ministers through devolved taxation. This chapter outlines the changes to the funding available to the Welsh Government since the Draft Budget was published.

The funding available to us in 2026-27 is £27.7bn.² This is made up of £22.1bn from the block grant, £4.4bn from devolved taxes, £1.1bn from non-domestic rates and £165m of capital borrowing. Overall, there is £176m more funding available at the Final Budget than at the Draft Budget.

Resource consequential funding of £186m was announced at the UK Budget in November, offset slightly by a £13m increase in block grant adjustments. Outside the block, funding from taxation falls by £26m, with increases in forecast devolved tax revenues offset by a transitional relief scheme for non-domestic rates. Overall, this leaves an increase in resource funding of £147m.

The UK Budget also provided £14m of capital consequentials which, together with a 10% increase in the Welsh Government's capital borrowing limit, means an increase of £29m in the overall capital budget.

Figure 3.1: 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, Final Budget and changes

COMPONENTS OF WELSH FINANCING £000s	2026-27 Draft Budget	2026-27 Final Budget	Changes
FISCAL RESOURCE			
Departmental Expenditure Limit (DEL)	18,323,386	18,496,826	173,440
Wales Devolved Financing:			
Non-Domestic Rates	1,178,000	1,101,000	-77,000
Welsh Rate of Income Tax	3,926,538	3,976,926	50,388
Land Transaction Tax	400,671	399,017	-1,654
Landfill Disposals Tax	34,458	36,563	2,105
Principal repayment of borrowing	-14,898	-14,898	0
TOTAL FISCAL RESOURCE	23,848,155	23,995,434	147,279
CAPITAL			
Departmental Expenditure Limit (DEL):			
General Capital	3,427,685	3,441,441	13,756
Financial Transactions	131,746	131,746	0
Wales Devolved Financing:			
Borrowing	150,000	165,000	15,000
TOTAL CAPITAL DEL AND BORROWING	3,709,431	3,738,187	28,756
TOTAL FISCAL RESOURCE AND CAPITAL BUDGET	27,557,586	27,733,621	176,035
Other items:			
Non-Fiscal DEL	1,237,929	1,237,929	0
Annually Managed Expenditure (AME):			
Fiscal	35,641	35,641	0
Non-Fiscal	341,993	287,626	-54,367
Capital	1,447,478	1,380,354	-67,124
TOTAL WELSH FINANCING	30,620,627	30,675,171	54,544

3.1 Devolved Taxes

The devolved taxes in Wales are 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, contribute £5.5bn to the Welsh budget in 2026-27.

There have been changes to the devolved tax revenue forecasts and the associated block grant adjustments in 2026-27. The Final Budget includes an updated forecast for revenues from the Welsh Rates of Income Tax, as published by the OBR alongside the UK Budget in November.

The 2026-27 block grant adjustments for all three devolved taxes were set using the OBR's autumn forecast for equivalent UK taxes. The revenues for LTT and LDT reflect the most recent OBR forecasts, published in the updated Welsh Taxes Outlook alongside the Final Budget.

Overall, the devolved taxes provide a net benefit to the Welsh Government's budget of £524m in 2026-27 (including reconciliation amounts from previous years). This is an increase of £38m compared to the Draft Budget.

Welsh Rates of Income Tax

As confirmed at the Draft Budget, Welsh Rates of Income Tax will be set at 10p for each band, retaining parity with the income tax paid by taxpayers in England and Northern Ireland.

At the UK Budget on 26 November, changes were announced to the tax paid on property income under income tax. These include changes to the Welsh Rates of Income Tax, including the ability for the Senedd to set separate Welsh rates for property income if the Welsh Government agrees to take on this power. These changes will be made for the tax year beginning 6 April 2027, and this is the earliest the Senedd could set Welsh rates for property income separately.

Land Transaction Tax (LTT)

There are no changes being proposed at the Final Budget to the LTT proposals outlined at the Draft Budget stage.

Landfill Disposals Tax (LDT)

Following the OBR's publication of updated RPI forecasts on 26 November 2025, the LDT rates from 1 April 2026 will be:

- Standard rate - £130.75 per tonne
- Unauthorised disposals rate - £196.15 per tonne
- Lower rate - £8.65 per tonne

The lower rate has been subject to a larger increase than forecast RPI, to protect against potential waste tourism between England and Wales.

In the UK Budget, the UK Government announced it would cap the nominal difference between the lower and standard rates of Landfill Tax at £122.10 per tonne. The increase in the lower rate of LDT is designed to mitigate the risk that it would be more attractive for English operators to send lower-rated waste to landfill in Wales.

These rates are provided for in the [Landfill Disposals Tax \(Tax Rates\) \(Wales\) \(Amendment\) \(No.2\) Regulations 2025](#), which were made on 5 December and debated by the Senedd on 20 January 2026.

Non-Domestic Rates (NDR)

The next non-domestic rating list will take effect on 1 April 2026, following revaluation. This will be the second revaluation delivered this Senedd term and the first on the three-yearly cycle introduced as part of our programme of non-domestic rates reforms.

The NDR AME/distribution for 2026-27 has reduced as a result of the NDR transitional relief scheme, which will limit increases in NDR bills following revaluation on 1 April 2026. This reduction is offset by an increase in Revenue Support Grant (RSG) funding to local authorities to ensure their overall funding is not affected by the additional NDR relief.

The Welsh Government will provide [transitional relief](#) for all ratepayers whose liability increases by more than £300 following the 2026 revaluation. Any such increases will be phased in over two years. Eligible ratepayers will pay 33% of their additional liability in the first year (2023-24) and 66% in the second year (2024-25), before reaching their full liability in the third year (2025-26). We are providing £116m over two years to fully fund this relief, supporting all areas of the tax-base in a consistent and straightforward manner.

As a result of the 2026 revaluation, the standard multiplier will be reduced substantially in 2026-27, to 0.502. This will be the first reduction of the multiplier in Wales since 2010. The multipliers for 2026-27 have been determined to achieve revenue-neutrality, ensuring the overall contribution made by non-domestic rates to the funding of local public services is maintained in real terms.

A lower retail multiplier will re-balance the non-domestic rates system in favour of small to medium sized retail shops. The new retail multiplier will be set at 0.350 for 2026-27. This will reduce the non-domestic rates bills of eligible ratepayers by around £20m.

A higher multiplier will levy a marginal supplement on the largest (by value) properties in the tax-base, to offset the revenue foregone through the retail multiplier and support the overall policy objective. The new higher multiplier will be set at 0.515. This is little more than one penny in the pound higher than the standard multiplier for 2026-27 and substantially lower than the multiplier applicable to all properties in 2025-26.

This generous package of support is in addition to our fully funded permanent reliefs which are currently worth £250m to businesses and other ratepayers every year. The Welsh Government remains committed to supporting businesses to recover from recent economic challenges and to thrive moving forward.

The UK Government has indicated it will introduce additional support for pubs in England, following a change in policy from that included in the UK Budget in November. No further details are available about this support to enable us to consider this as part of the Final Budget. However, once details are available, we will be able to explore whether additional support - beyond the existing permanent relief schemes available to the pub and wider hospitality sector - is needed in Wales.

3.2 Block Grant

There was additional funding for 2026-27 in the UK Budget in November 2025, over and above that arising from the Spending Review, which was included in the Welsh Government's Draft Budget. This includes an increase of £147m in fiscal resource, taking account of block grant adjustments, and £14m in general capital funding. Details of block grant adjustments forecasts are outlined in annex A.

3.3 Other Sources of Funding

Wales will see increased fiscal flexibilities in 2026-27 which were announced alongside the UK Government's Budget. There will be 10% increases to the annual and overall cash reserve and capital borrowing limits in 2026-27, with limits thereafter increasing in line with inflation. We will have unlimited access to the Wales Reserve in 2026-27 for the second year in succession.

Capital Borrowing

There will be a 10% increase in our capital borrowing in 2026-27 with limits thereafter increasing in line with inflation. This means that we can borrow £165m in capital funding. This Final Budget plans to maximise capital borrowing at the £165m limit.

Wales Reserve

There will be a 10% uplift in our reserve limits in 2026-27 and limits will increase in line with inflation in future. Once again, the draw down limits for the Wales Reserve will be waived in 2026-27. This means we will have unlimited access to the Wales Reserve which could hold up to £385m. This Final Budget does not assume any drawdown from the Wales Reserve, leaving any funding available in the Reserve to manage the in-year financial position and address any unexpected pressures or unforeseen risks.

4. Revised Welsh Government Spending Plans

Context

The Welsh Government's Final Budget 2026-27 allocates more than £27.5bn of funding. £22.7bn of this is resource funding, £3.5bn general capital, £130m of financial transactions (FT) capital and £1.1bn in non-domestic rates. This means that £1.2bn more is being invested in 2026-27 compared to 2025-26.

The changes in this Final Budget mean that we are allocating £472m more fiscal resource and capital than we did at the Draft Budget stage. As outlined in chapter 3, there is a reduction in the NDR distribution of £77m.

The main increases are to the Health and Social Care and Housing and Local Government MEGs. This reflects our priorities to support the NHS and local government which deliver essential services, such as education and social care.

We are also increasing the funding available to other Welsh Government MEGs to reflect the increase in forecast inflation and wage growth for 2026-27. We are providing additional funding to support bus services, apprenticeships, further education, flood prevention and maintenance of school buildings.

Baselines and Draft Budget

The Draft Budget established a baseline of funding for each Welsh Government MEG to reflect recurrent funding decisions made during 2025-26. These mainly reflected increases to support public sector employers with increased National Insurance Contribution costs and to support public sector pay settlements.

All MEGs were uplifted at the Draft Budget stage to reflect the inflation and pay growth forecasts for 2026-27 at the time. All MEGs received an uplift of 2.2% on fiscal resource for the public sector pay elements of their budgets and 2% on non-pay fiscal resource, general capital and Financial Transaction capital.

Final Budget Increases

The Final Budget agreement provides additional allocations for health and local government. An extra £180m resource funding is being allocated to the health and social care budget to support the NHS. £112.8m additional resource funding will go to local government which means that the overall funding we provide to councils increases by 4.5% with every local authority seeing an increase of more than 4%. Both of these are the result of the agreement between the Welsh Government and Plaid Cymru.

The OBR revised its forecast for inflation and wage growth in its November 2025 Economic and Fiscal Outlook. The GDP deflator for 2026-27 has increased since the OBR's March

forecast to 2.2% and forecast CPI (the consumer price index) has also increased to 2.2%. wages growth forecasts have increased to 3.2% in November. We are therefore reflecting these forecasts with uplifts to all MEGs – the uplifts for the health and social care and housing and local government MEGs are included in the funding secured through the budget agreement.

Other fiscal resource and capital allocations are being made to support the Welsh Government's priority areas as well as to reflect issues raised during the scrutiny process of the Draft Budget.

Detailed tables showing all the changes being made at Final Budget are in the Tables Supporting Spending Plans and Budget Expenditure Lines (BEL) tables published on our website. The tables below show the additional allocations to fiscal resource, general capital and FTC budgets.

Figure 4.1: Fiscal Resource allocations

Fiscal Resource	£000s			
MAIN EXPENDITURE GROUPS	Budget Agreement	Further inflation and pay	Other allocations	2026-27 Final Budget
Health and Social Care	180,000	-	-100	12,602,651
Housing and Local Government (ex. NDR)	112,800	1,490	73,111	5,877,430
Education	-	8,265	5,000	1,865,169
Transport	-	3,820	5,000	706,194
Climate Change and Rural Affairs	-	2,431	8,000	596,535
Economy, Energy and Planning	-	1,858	5,000	496,986
Social Justice	-	387	253	144,194
Central Services and Administration	-	3,232	4,885	453,600
Total Allocations to Welsh Government MEGs	292,800	21,483	101,149	22,742,759

Figure 4.2: General Capital allocations

MAIN EXPENDITURE GROUPS	Additional Allocations	2026-27 Final Budget
Health and Social Care	-	625,750
Housing and Local Government	-	1,215,106
Education	20,000	401,990
Transport	10,000	561,373
Climate Change and Rural Affairs	10,000	322,157
Economy, Energy and Planning	4,000	316,149
Social Justice	-	18,248
Central Services and Administration	3,057	21,296
Total Allocations to Welsh Government MEGs	47,057	3,482,069

Figure 4.3: Financial Transaction Capital allocations

MAIN EXPENDITURE GROUPS	Additional Allocations	2026-27 Final Budget
Health and Social Care	-	-
Housing and Local Government	10,000	97,975
Education	-	-
Transport	-	-
Climate Change and Rural Affairs	-	10,200
Economy, Energy and Planning	-	30,090
Social Justice	-	1,530
Central Services and Administration	-	-
Total Allocations to Welsh Government MEGs	10,000	139,795

Health and Social Care

The financial climate in the NHS remains challenging as it continues to manage rising demand, reduce long waiting times and the overall waiting list and inflationary pressures. These issues were once again raised by the Senedd during the scrutiny process and during our discussions with stakeholders. The pressures facing the NHS was a core part of cross-party discussions on the Budget. As a result of those negotiations, we are pleased to be able to allocate an extra £180m in fiscal resource to the health and social care budget. This funding will support the NHS in continuing to improve access to NHS services and improve the quality of care for all.

This means the health and social care resource budget sees a total increase of £441m from 2025-26, which equates to a 3.6% uplift. This gives the department a total resource budget of £12.6bn, more than 55% of the Welsh Government's resource budget.

Housing and Local Government

Local government is a key delivery partner, providing a wide range of services, which people rely on and use every day, including social care and schools. Through the budget agreement, we are providing an additional £112.8m of resource funding to local authorities, providing them with certainty and stability for 2026-27. This is an average increase of 4.5% and will ensure all councils see an uplift of more than 4% in their settlement. In 2026-27, local authorities will receive £6.6bn from the Welsh Government Revenue Support Grant (RSG) and Non-Domestic Rates (NDR) to spend on delivering key services.

As part of the package of support for local authorities, additional resource funding of £65m is provided to the housing and local government MEG to support the business rates transitional relief scheme announced on 3 December 2025. An extra £5.5m was also announced at the provisional local government settlement stage to confirm the funding floor for local authority funding included in the Draft Budget.

An extra £2.6m resource funding is being provided to target pressures around homelessness prevention and support, demonstrating our commitment to supporting the most vulnerable at risk of homelessness. The funding contributes to supporting frontline stability and supporting the sector to pay the Real Living Wage. There is also an extra £1.5m to reflect the increase in wage growth forecast for areas of the portfolio outside of local government.

£8m of financial transactions capital (FTC) is being provided to the Transforming Towns scheme which will offer loan support to local authorities, acting as intermediaries in response to requests from private sector partners. This will unlock regeneration projects in towns, aligned with local placemaking plans, with private sector partners ultimately benefiting from the investment.

An extra £2m of FTC funding is being allocated to the Green Home Wales Scheme, bringing total funding to £5m next year. The scheme addresses a market gap in financing energy efficiency and clean heating upgrades for homeowners who can borrow but lack upfront capital.

Education

Most funding for schools is provided directly by local authorities via the revenue support grant (RSG). Just over £4m of the inflationary uplift of £8.3m to the education MEG will be used to support an increase in pay for teachers in further education institutions and sixth forms funded via Medr, as well as pay in other arm's length bodies.

An extra £4.2m will support schools, other educational settings and local authorities to deliver on their statutory responsibilities and improve national consistency and sustainable delivery of provision for children and young people with additional learning needs (ALN). This builds on the extra £9.1m for ALN in schools and colleges invested in the Draft Budget.

A further £5m of resource funding has been made available to support the increase in participation of learners in further education.

A significant increase of £20m capital funding is being allocated to the MEG, which will go to the Sustainable Communities for Learning Programme to continue the work to improve the quality of school and college buildings across Wales.

Transport

Extra resource funding of £6m will support bus services in this Final Budget. Demand for bus services is increasing across Wales but so are the costs related to providing bus services. An extra £10m in capital funding is being provided to invest in the bus fleet and depots. Together, this additional funding will protect the services we currently have in place and ensure Transport for Wales (TfW) can continue to deliver services and prepare for the implementation of bus franchising.

£2.8m resource funding is being allocated to rail services to support TfW with pressures around rail services and to protect those services for 2026-27.

Climate Change and Rural Affairs

Extra capital funding of £3.8m will increase the budget available for flood and coastal erosion risk to a record £83.8m, a total increase of £6.8m from 2025-26. This reflects our continued commitment to protect communities across Wales from the threat of flooding, committing more than £380m in this Senedd term.

£5m in resource and capital funding is being allocated for water quality to focus on enforcement as a tool to improve the water quality in our rivers and seas. This ensures the continuation of the funding provided as part of the 2025-26 Final Budget agreement and means that we can review the effectiveness of some of those interventions, including additional intelligence-led compliance activity and investment in underpinning systems and enforcement staff.

We are allocating a total of £1.3m to support and enhance the fisheries sector and our coastal communities across Wales. It is intended to focus investment on environmental protection and sustainability, workforce investment, coastal growth and capacity building, market development, science and evidence.

There is an uplift of £3.5m capital funding for the new Sustainable Farming Scheme (SFS), which means an overall budget of £105m targeted to support farmers to enhance the environmental and financial performance of their businesses during the introduction of SFS.

We are allocating £5.2m resource funding to Natural Resources Wales (NRW) to support delivery of its core functions and statutory duties.

Economy, Energy and Planning

An additional £5m is being provided to the apprenticeship programme to enable it to continue to create exciting opportunities and build on our commitment to create 100,000 new apprenticeship opportunities in this Senedd term.

There is additional funding of £1m for the Jobs Growth Wales Plus programme. This will provide further support to young people with additional learning needs.

£2.5m of capital funding is going to the National Library for Wales (NLW) to improve storage and collections care. As our Welsh national legal deposit library, it houses an extensive research library including collections of manuscripts, art, film, and photographs that are of national importance. NLW has made several changes over the last few years to improve user and visitor experience and this funding will enable them to continue with this.

Additional capital funding of £0.5m is going to support the delivery of the Priorities for Culture for the local museums, libraries and archive sectors in 2026-27. This will enable additional benefits to be delivered in our local sectors which has seen a strong demand of investment in 2025-26.

We are also increasing capital investment in the Arts Council of Wales's (ACW) to support the Priorities for Culture by £0.5m, bringing the total investment in its Strategic Capital Investment programme to £7.5m. This is extra funding for the physical infrastructure that underpins our rich arts scene. Combined this means we have allocated £14.5m capital to our local sectors to support the Priorities for Culture.

We are investing a further £0.5m of capital funding in sporting facilities through Sport Wales, bringing the total capital budget to £11m. This is more funding available for sporting facilities across Wales, such as 3G artificial pitches, tennis courts, refurbishing clubhouses, which is key to increasing participation levels in sport.

Social Justice

The inflationary uplift to Social Justice of £0.3m is going to support the delivery of the *New Approach to Volunteering*, focussing on delivering a stronger communications offer that celebrates volunteers, raises the profile of volunteering and inspires more people to get involved however they can.

There is an extra £0.3m to the MEG which was received at the UK Autumn Budget specifically for debt advice services.

Central Services and Administration (including Welsh language)

Further to the inflation and pay uplift for the CSA MEG of £3.2m, additional resource funding of £4.5m is being allocated. Welsh language resource budgets will see an increase to reflect the inflation and pay uplift. There will also be a resource uplift for the Welsh Government's central running costs to ensure sufficient resource to deliver our priorities and support the day-to-day running of the organisation. An extra £285,000 is being allocated to the Welsh Revenue Authority (WRA) for the collection of unpaid landfill disposals tax, which increases the OBR's revenue projections for the tax.

The additional capital funding of £3.1m to Cymraeg 20250 is to support grant-funded organisations delivering the Welsh Government's *Cymraeg 2050: A million Welsh speakers strategy*. This funding will primarily help the Urdd progress its pipeline of capital projects to expand informal Welsh-medium opportunities for children and young people at its centres across Wales. It will also provide vital support for the Eisteddfod to enhance its production capabilities and contribute to establishing the new statutory body for lifelong Welsh learning, the National Institute for Learning Welsh.

Administrative changes

There are a number of increases to budget expenditure lines (BELs) across all departments to reflect the increase to inflation and pay forecasts. There are also a small number of other administrative changes as part of this Final Budget. These are detailed below:

- £100,000 moving from the HSC MEG to the CSA MEG to provide additional capacity within the Mental Health Review Tribunal Unit, to support changes brought in by the new Mental Health Act.
- £285,000 within the Education MEG moving from Education Reform (LAEG) BEL to the Teacher Development and Support BEL to support the delivery of a revised programme of professional learning for future school leaders.

- £352,000 within the CCRA MEG moving from the Environment Legislation and Implementation, Governance and Communications BEL to Flood Risk Management and Water Policy Delivery BEL for an environment workplace scheme.

Unallocated funding

The 2026-27 Final Budget does not allocate all the resources available to the Welsh Government. A small amount of resource funding is left unallocated to manage in-year pressures which will arise during 2026-27.

The budget agreement included retaining £120m of capital funding which would be available for the next government to allocate after the Senedd election in May. This funding will be available from the unallocated general capital and further capital which will be made available during 2026-27 through in-year receipts.

Budget documentation

The following documents have been published alongside this Final Budget Report on our 2026-27 [Final Budget web page](#):

- [Annual Budget Motion](#)
- [Final Budget Explainer](#)
- [Tables Supporting Spending Plans](#)
- [Budgetary Expenditure Lines \(BEL\) Tables](#)
- [Strategic Integrated Impact Assessment](#)
- [Welsh Rates of Income Tax Ready Reckoner](#)
- [Wales Infrastructure Investment Strategy: Project Pipeline](#)
- Link to OBR forecasts for the devolved Welsh taxes

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 Government's budget.

Tax devolution impacts on 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 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 Agreement³.

The devolved tax revenue estimates used in the Final Budget are forecasts produced independently by the 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 the Welsh Rates of Income Tax (WRIT) and all relevant England and Northern Ireland taxes underpinning the block grant adjustments are taken from the OBR's Economic and Fiscal Outlook published alongside the UK Government's Budget on 26 November 2025. The Land Transaction Tax and Landfill Disposals Tax forecasts have been updated for the Final Budget. Details of all the forecasts are set out in the latest Welsh Taxes Outlook published by the OBR alongside the Final 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 Final Budget for 2026-27.

³ [Agreement on the Welsh Government's fiscal framework | GOV.WALES](#)

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 in table 1, together with the outturns and forecasts for the associated block grant adjustments.

Table A1: 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	3,277	3,585	3,804
Land Transaction Tax	372	270	341	374	399
Landfill Disposals Tax	42	30	34	34	37
Total	3,032	3,268	3,652	3,993	4,240
Block Grant Adjustments					
Welsh Rates of Income Tax	-2,535	-2,782	-3,020	-3,251	-3,444
Land Transaction Tax	-313	-237	-283	-303	-358
Landfill Disposals Tax	-25	-19	-19	-21	-15
Total	-2,872	-3,038	-3,322	-3,574	-3,816
Net revenue impact					
Welsh Rates of Income Tax	83	187	257	334	360
Land Transaction Tax	60	33	58	71	41
Landfill Disposals Tax	17	10	15	14	22
Total	160	230	330	419	423
Outturn					

The overall outlook for the net revenue impact of devolved taxation is positive, increasing by £193m 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 +£423m 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 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 21 August 2025, 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.

Table A2: 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	-3,262
<u>Outturns and latest forecasts</u>				
Revenues	2,618	2,968	3,277	3,585
Block Grant Adjustments	-2,535	-2,782	-3,020	-3,251
<u>Reconciliation amounts</u>				
Revenues	140	173	106	123
Block Grant Adjustments	-87	-49	-3	11
Fully devolved taxes				
<u>Block Grant Adjustments used in Budgets</u>				
Land Transaction Tax	-322	-241	-259	-303
Landfill Disposals Tax	-27	-21	-20	-21
<u>BGA outturns and latest forecasts</u>				
Land Transaction Tax	-313	-237	-283	-303
Landfill Disposals Tax	-25	-19	-19	-21
<u>Reconciliation amounts</u>				
Land Transaction Tax	9	4	-24	
Landfill Disposals Tax	2	2	0	

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 BGAs 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 BGA are applied to the budget 3 years after the year to which they relate. The 2023-24 reconciliation amounts are therefore applied to the 2026-27 Final 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.

Table A3: Forecasts and reconciliation amounts in the Welsh Government's Final Budget for 2026-27 (£m)

	2026-27 Final Budget January 2026
Tax revenues	
WRIT revenues	3,804
WRIT revenue reconciliation amounts	173
WRIT total	3,977
Land Transaction Tax	399
Landfill Disposals Tax	37
Total devolved tax revenues	4,413
Block Grant Adjustments	
Welsh Rates of Income Tax	-3,444
Land Transaction Tax	-358
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	-3,493
Land Transaction Tax	-381
Landfill Disposals Tax	-14
Total block grant adjustments	-3,889
Total net budgetary impact	524

The overall net impact of devolved taxation on the 2026-27 budget is +£524m, including +£101m reconciliation amounts in relation to previous years. Figure A1 shows the net budgetary impact of the devolved taxes over time, including forward years using the OBR's latest forecasts. The net position is expected to stay above +£500m for the rest of the current decade.

Figure A4: Net impact of devolved taxes on the Welsh Government Budget (£million)

