Dadansoddi Cyllid Cymru

Wales Fiscal Analysis

Setting the scene

Wales on the eve of the 2026 Senedd Election

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Preface

This report is published as part of **2026 Scotland and Wales Election Analysis**, a collaboration between the Wales Governance Centre at Cardiff University and Fraser of Allander at the University of Strathclyde, with support from the Nuffield Foundation.

The Nuffield Foundation is an independent charitable trust with a mission to advance social well-being. It funds and undertakes rigorous research, encourages innovation and supports the use of sound evidence to inform social and economic policy, and improve people's lives. The Nuffield Foundation is the founder and co-funder of the Nuffield Council on Bioethics, the Ada Lovelace Institute and the Nuffield Family Justice Observatory. Find out more at: nuffieldfoundation.org. All views expressed in the following report are those of the authors and not necessarily the Foundation.

About us

Wales Fiscal Analysis (WFA) is a research body within Cardiff University's Wales Governance Centre that undertakes authoritative and independent research into the public finances, taxation, and public expenditures of Wales.

The WFA programme adds public value by commenting on the implications of fiscal events such as UK and Welsh budgets, monitoring and reporting on government expenditure and tax revenues in Wales and publishing academic research and policy papers that investigate matters of importance to Welsh public finance, options for tax policy, and the economics and future sustainability of health and social care services in Wales.

Working with partners in Scotland, Northern Ireland, the UK, and other European countries, we also contribute to the wider UK and international debate on the fiscal dimension of devolution and decentralisation of government.

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Executive Summary

This report provides an assessment of the Welsh Government's budget during the Sixth Senedd term (2021-26), examining how both the funding and the pattern of public spending have evolved over that period. It is intended to inform policy debates ahead of the May 2026 Senedd elections by offering an evidence base against which parties' fiscal commitments and spending priorities can be assessed.

Funding has increased over this Senedd term amid huge volatility

The outlook for the Welsh budget has changed dramatically several times during the Sixth Senedd term, with wild swings in both economic conditions and UK government fiscal policy under five different UK Chancellors and two different parties in government.

Successive UK governments have pointed to the Welsh Government's "largest-ever budget settlement". However, there has not been a step-change in the path of the Welsh budget. The projected increase in the block grant for day-to-day spending is set to average 1.9% in real terms over the course of the current UK parliament (2023-24 to 2028-29). This compares with 2.7% during the previous UK parliamentary term (2019-20 to 2023-24).

Despite no change in the headline rates of Welsh Rates of Income Tax, tax devolution has had a very favourable impact on the Welsh budget during the Sixth Senedd term. The net effect of tax devolution is a positive £511 million in 2026-27, up from £100 million in 2021-22, equivalent to 2.2% of available day-to-day spending next year.

The next Welsh Government faces a tricky – though highly uncertain – outlook

The recent Spring Statement led to £331 million of additional resource funding for 2026-27, which will be available to allocate by the next Welsh Government at supplementary budgets.

Beyond next year, the core block grant is set to increase by just 0.5% per year on average in real terms for the remainder of the current Spending Review period (2027-28 to 2028-29), with only slightly higher increases pencilled in for future years to 2030-31. This implies a tricky outlook for the next Welsh Government, particularly for the 2027-28 budget round later in the year, when block grant funding is currently set to fall in real terms.

The path of funding for the Welsh budget during the Sixth Senedd term has lessons for whomever forms the next Welsh Government. The outlook for spending is subject to massive uncertainty; the fiscal plans of the UK government can and do change dramatically and will shape the eventual size of the Welsh budget. Will the UK Chancellor stick to the tight spending plans pencilled in for future years? How will events in the Middle East influence economic forecasts underpinning UK fiscal policy? And how will the next Welsh Government respond?

Health spending growth has slowed down in recent budget rounds, following large cash injections in previous years

In December, the Welsh Government reached an agreement with Plaid Cymru to pass the Final Budget for 2026-27, which led to more spending on health and local government.

While Final Budget plans implied that spending on NHS services will increase by 1.7% in real terms, this did not account for significant additional funding allocated at supplementary budgets for in-year pressures and to reduce waiting times. Including this spending in 2025-26 implies NHS spending will *fall* in real terms next year, for the first time since 2012-13. It is highly likely therefore that the next Welsh Government will again make significant additional in-year allocations to the NHS.

The slowdown in NHS spending growth in recent budget rounds should be seen in the context of the significant top-ups made to spending plans during 2023-24 and 2024-25. Overall, day-to-day spending on health increased by an average of 3.9% per year in real terms from 2019-20 to 2024-25.

Structural pressures in the health system remain significant, with health board deficits widening in recent years and spending remains concentrated in hospital and acute care.

Local Government funding has also increased, but other areas have been cut back

For 2023-24 and 2024-25, the Welsh Government announced emergency cuts in spending across many areas – including arts and culture, environmental protection, transport, higher education, apprenticeships and rural investment schemes – to fund additional allocations for the NHS and Transport for Wales.

Funding for Local Government was protected from these midterm cuts, and the core settlement for Welsh local authorities has in fact increased at a faster rate than health spending since 2022-23, responding to significant spending pressures. Local government spending has also been boosted by rapid increases in Council Tax bills, with revenues increasing by over 10% (or £234 million) in real terms over the Sixth Senedd term.

Budgets outside of health and local government fell by approximately 6% in real terms between 2022-23 and 2024-25 and are set to remain below 2022-23 levels in 2026-27. Unfortunately, analysing which areas of spending has seen real terms cuts over multiple years is extremely difficult using budget documents. Outturn data suggests that Welsh Government spending on further and higher education, as well as on economic affairs, were cut back in the years to 2024-25.

Relative spending on devolved areas remains at approximately 115% of England's level per person

The question of how much Wales spends on devolved public services relative to England is a central issue in Welsh fiscal debates. Using a longstanding methodology used by HM Treasury, a recent estimate suggested Wales received funding equivalent to around 125% of England's level per person through the block grant in 2024-25, which alongside devolved taxes and borrowing would raise Wales' per person funding to fully 127% of that for England.

However, our analysis of actual spending on devolved services in that year suggests a much smaller gap than would be expected from these estimates. Per person spending on health is 9% higher than in England - or 4% higher when adjusted for Wales' older population – while spending on education is 7% higher. Per person spending on social services and other local government spending, alongside smaller areas of spending, is significantly higher in Wales.

But overall spending per person in Wales on largely devolved functions appears close to 115% of England's level, which is broadly consistent with the (out-dated) estimates of Wales' relative spending need made by the Holtham Commission (2010). Because there is no 'English budget', comparable spending in England on services devolved to Wales is not published and has to be estimated. Our analysis of actual spending suggests the existing methodology is significantly underestimating comparable spending in England – thereby inflating Wales' relative funding levels.

Higher education's unsustainable funding model is a key financial challenge for the next Welsh Government

Universities in Wales are facing financial pressures on multiple fronts. Wales' approach to higher education funding has prioritised student maintenance support over direct institutional funding. While progressive for students, this has left Welsh universities with lower institutional income per student and in weaker financial positions than many counterparts elsewhere in the UK.

Difficult trade-offs lie ahead: between student support and institutional funding, widening participation and research excellence, short-term stability and structural reform.

Spending on childcare has fallen behind England

The UK government has been expanding entitlements to childcare for parents in England, with working families now offered up to 30 hours a week for children aged 9 months to 2 years. This expansion will have increased the Welsh Government's budget by approximately £330 million by 2028-29.

Welsh Government spending allocations to relevant budget lines have increased over the course of the Sixth Senedd term, with childcare through the Flying Start programme expanding towards universal coverage for two-year-olds. But spending growth has fallen substantially behind the increases seen in England. In this context, childcare represents one of the most significant areas of policy divergence between the parties at the May 2026 Senedd election.

Analysing trends in Welsh Government budgets is more difficult than it should be

Understanding how governments allocate and manage spending is crucial for ensuring public funds are used effectively and transparently. However, there are significant barriers to meaningfully analysing Welsh Government spending across time. Transfers and movements between budget lines makes tracking how spending allocations have changed across years extremely difficult and should be addressed by the next government. This report uses several different approaches to meaningfully analyse the path of Welsh Government budget priorities over recent years.

1. Introduction

This report, funded by the Nuffield Foundation and written in partnership with the Fraser of Allander Institute at the University of Strathclyde, provides a comprehensive assessment of the Welsh Government's budget during the Sixth Senedd term (2021–26), examining how both the overall level of funding and the pattern of public spending have evolved over that period. It is intended to inform policy debate ahead of the May 2026 Senedd elections by offering an evidence base against which parties' fiscal commitments and spending priorities can be assessed.

The report is structured around four thematic areas. Section 2 examines how the Welsh Government's funding has changed — analysing developments in the resource and capital block grants, the impact of unexpectedly high inflation, and the increasingly significant contribution of devolved taxes to available spending power. Section 3 turns to the allocation of that spending across Welsh Government portfolios and functions, drawing on both budget documents and outturn data reported to HM Treasury, to identify where resources have been prioritised and where real-terms reductions have occurred. Section 4 looks at the relative priorities of the Welsh Government compared with the UK Government's for England, analysing the relative per person spending levels across functions. Sections 5 and 6 provide detailed analysis of health and higher education respectively — the two areas facing acute structural pressures entering the new Senedd term. A final section examines two cross-cutting policy questions that will require sustained attention from the incoming government, namely childcare provision and public sector productivity.

Throughout, the analysis draws on multiple data sources, including HM Treasury Block Grant Transparency data, Welsh Government budget documents, OSCAR II administrative outturn data, the Country and Regional Analysis publication, and Higher Education Statistics Authority institutional finance data. Where figures are presented in real terms, 2025-26 prices are used as the base year unless stated otherwise. The analysis focuses primarily on day-to-day (resource) spending, though capital budget trends are discussed where relevant.

A key analytical challenge is comparability over time. Frequent changes to Main Expenditure Group structures, large-scale in-year budget transfers, and differing accounting treatments make direct year-on-year comparisons of Welsh Government spending difficult. Where possible, the report makes adjustments to improve comparability and notes where caution should be exercised in interpreting the data.

2. How funding has changed

The Sixth Senedd has been a tumultuous period for the Welsh Government's budget. The outlook for Welsh public services has changed markedly at numerous UK Government fiscal events, with wild swings in both economic conditions and UK government fiscal policy under five different UK Chancellors and two different UK parties in government. This section will outline how funding for the Welsh Government changed over the Sixth Senedd term, analysing the impact of the 2021 Spending Review, the hit from unexpectedly higher inflation, and the favourable and very significant net effect of tax devolution over recent years.

Resource block grant funding: real terms increases amid huge uncertainty and turmoil

The outlook for the Welsh budget ahead of the 2021 Senedd election was highly uncertain, but implied difficult choices and trade-offs for the Welsh Government.[1] The fiscal response to Covid-19 had resulted in a huge but temporary increase in the Welsh Government's budget of £5.7 billion in 2020-21 and £2.7 billion in 2021-22. Beyond 2021-22 however, the UK government's indicative spending plans had been reined back significantly compared with pre-pandemic plans and included no Covid-19 related funding. Although no firm plans for the Welsh block grant had been published, Wales Fiscal Analysis projections implied that resource funding was set to increase by an average of 1.5% per year between 2021-22 and 2025-26 in real terms.[2] With likely increases to NHS and schools spending over those years, this outlook implied real terms cuts for other spending areas of the budget. This provided a difficult backdrop for party manifesto promises and fiscal plans.[3]

Within months after the election, however, the outlook for the Welsh Government's budget had improved dramatically. In September 2021, the UK government announced a new (albeit short-lived) Health and Social Care Levy to fund additional health and social care spending and later topped up spending plans at the October 2021 Spending Review (which set multi-year block grant settlement for years 2022-23 to 2024-25).[4] This improved spending outlook set the context for the December 2021 Welsh Government-Plaid Cymru Cooperation

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[1] Wales Fiscal Analysis (2021) Welsh Election 2021: Fiscal Outlook and challenges for the next Welsh Government, Cardiff: Wales Governance Centre. Available at: https://www.cardiff.ac.uk/__data/assets/pdf_file/0009/2514834/election_outlook_2021_FINAL_19042021.pdf
[2] Ibid.
[3] Wales Fiscal Analysis (2021) Senedd Election Briefing 2021, Cardiff: Wales Governance Centre. Available at: https://www.cardiff.ac.uk/__data/assets/pdf_file/0020/2516114/senedd_briefing_27Apr21_online.pdf
[4] Ifan, G. and C. Siôn (2021) UK Government Budget and Spending Review 2021: Implications for Wales, Cardiff: Wales Governance Centre. Available at: https://www.cardiff.ac.uk/__data/assets/pdf_file/0010/2580715/spending_review_2021_briefing_formatted.pdf

Agreement, which included spending commitments on universal free school meals and enhanced childcare provision.

This rosier picture would not last, as the UK's fiscal and economic climate took a dramatic turn for the worse during 2022. Russia's illegal invasion of Ukraine triggered vastly higher energy costs and a spike in inflation, which significantly reduced the real terms value of 2021 Spending Review settlement. While the initial planned increase in the block grant for day-to-day spending averaged around 2.7% per year in real terms over 2022-23 to 2024-25, eventual higher levels of inflation would have led to the funding settlement falling in real terms under these original plans.[5]

Chancellor Kwasi Kwarteng's Mini-Budget and the short-lived experiment in Trussonomics added an additional layer of uncertainty and turmoil. The eventual fiscal 'repair job' by the next Chancellor, Jeremy Hunt, at the 2022 Autumn Statement led to additional consequentials from NHS and schools spending in England in the short term, but with much tighter spending plans pencilled in for future years beyond 2024-25. The settlement was also topped up at the 2023 Spring Budget and Autumn Statement, with consequentials resulting from spending on public services, Business Rates relief measures and childcare expansion in England. This funding was not enough to outweigh the inflationary hit to the Welsh Budget, leading to emergency, in-year budget changes in October 2023 (discussed in the next section). Higher inflation led to industrial action by public sector workers and eventually higher public sector pay deals than were originally planned.

By the time of the 2024 UK General Election, the block grant for day-to-day spending was projected to increase by an average of 1.6% a year in real terms over the 2021 Spending Review period. The outlook beyond 2024-25 was austere, with spending plans – implicitly endorsed by both main parties at the election – implying the Welsh Government would grow by 0.8% per year in real terms from 2024-25 to 2028-29.[6]

Labour's inheritance and the outlook after the 2025 Spending Review

After the election, incoming Chancellor Rachel Reeves identified a 'black hole' in spending plans and announced £23 billion of additional current spending for 2024-25.[7] As illustrated in **Figure 1**, this restored the real terms value of the Welsh budget in 2024-25 to what would have been expected at the time of the 2021 Spending Review, when the block grant was originally

[5] The second bar of **Figure 1** shows real terms changes using the GDP deflator measure of inflation. The increase in CPI inflation – which may capture some of other costs facing public services such as for energy and pay – was even more pronounced.

[6] Ifan, G. and E.G. Poole (2024) 'Stark choices await the Welsh Budget – whichever party wins the UK General Election', Thinking Wales Blog. Available at: https://blogs.cardiff.ac.uk/thinking-wales/stark-choices-await-the-welsh-budget-whichever-party-wins-the-uk-general-election/

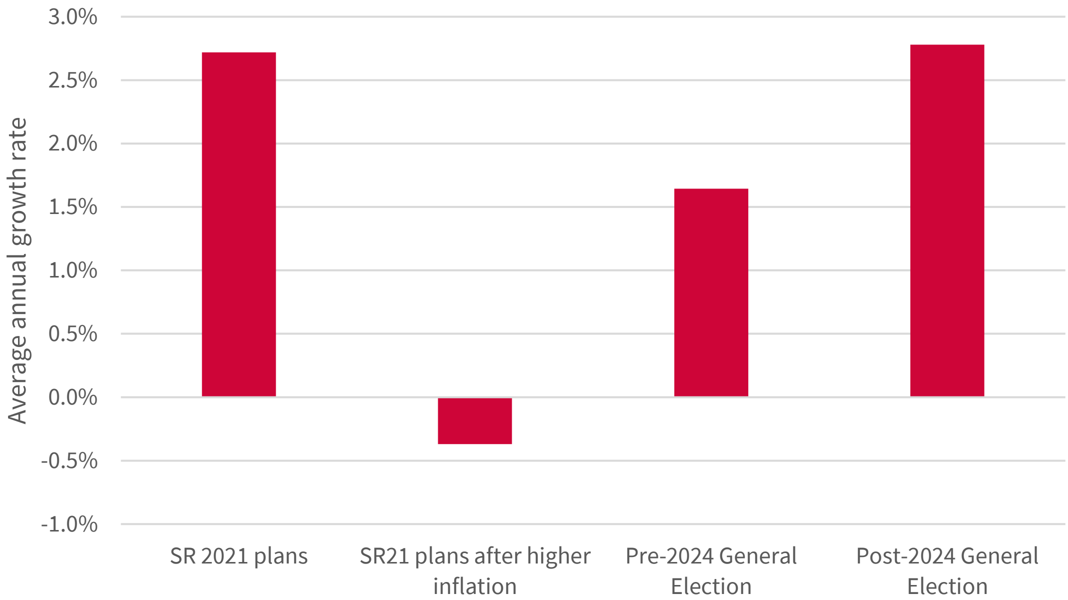
[7] Poole, E.G. and G. Ifan (2024) 'Autumn Reeves: The 2024 Labour budget and its implications for Wales', Thinking Wales Blog. Available at: https://blogs.cardiff.ac.uk/thinking-wales/autumn-reeves-the-2024-labour-budget-and-its-implications-for-wales/

set and before higher inflation eroded its value. However, other measures of inflation (such as CPI) would imply a larger inflationary hit to the budget and some of the additional funding reflected higher public sector pension costs.

Spending plans for 2025-26 were also significantly topped up relative to pre-election spending plans. However, the June 2025 Spending Review planned relatively slow growth in day-to-day spending for years 2026-27 to 2028-29. These plans – particularly for 2026-27 – have subsequently been topped up at the Autumn Budget 2025 and the Spring Budget 2026.

Figure 1

Average annual growth rate in resource Block Grant over Spending Review 2021 period (from 2021-22 to 2024-25)



Source: Authors' calculations based on HM Treasury (2025) Block Grant Transparency data October 2025. Notes: Figures presented before Block Grant Adjustments for devolved taxes, and excludes funding outside baselines and the Barnett formula (including Budget Cover Transfers, City & Growth Deals, funding from the Wales Reserve, one-off budget flexibilities and budget switches from capital to resource). It also excludes Covid-19 funding in 2021-22.

The UK government has continually pointed to the Welsh Government's "largest-ever budget settlement", and the increased investment in public services has been a core argument of the benefit of having two Labour governments in power.[8] The Welsh budget is significantly higher relative to the outlook suggested by the spending plans inherited from the previous Conservative government. However, as can be seen in **Figure 2**, there has not been a step-change in the path of the Welsh Government budget. The projected increase in the block grant for day-to-day spending is set to average 1.9% in real terms over the course of the current UK

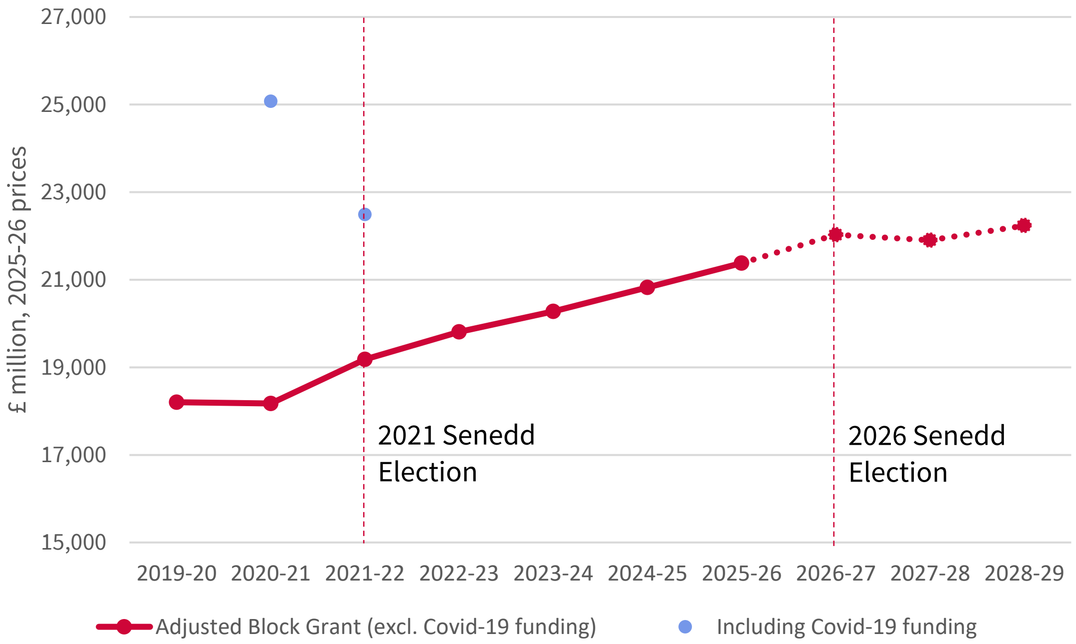
[8] For example: https://www.bbc.co.uk/news/articles/cg7yy5yx3k9o

parliament (2023-24 to 2028-29). Once additional costs related to public sector pensions (£218 million from 2024-25) and National Insurance Contributions (£221 million from 2025-26) are accounted for, the projected increase falls to 1.5% per year on average. This compares unfavourably with 2.7% average increases during the previous UK parliamentary term (2019-20 to 2023-24).

Crucially for the spending outlook for the next Welsh Government, the spending increases planned by the UK government are frontloaded. The March 2026 Spring Statement led to consequentials of £331 million for 2026-27 as a result of writing off SEND-related debts for English local authorities (which will be available to allocate for the next Welsh Government at supplementary budgets). The core block grant is then set to increase by just 0.5% per year on average in real terms for the remainder of the current Spending Review period (2027-28 and 2028-29), with currently only slightly higher increases pencilled in for future years to 2030-31. This implies a tricky outlook for the next Welsh Government, particularly for the 2027-28 budget round later in the year, when block grant funding is currently set to fall in real terms.

Figure 2

Block Grant for day-to-day spending (2025-26 prices)



Source: Authors' calculations based on HM Treasury (2025) Block Grant Transparency data October 2025 and Autumn Budget 2025. Notes: Figures presented before Block Grant Adjustments for devolved taxes, and excludes funding outside baselines and the Barnett formula (including Budget Cover Transfers, City & Growth Deals, funding from the Wales Reserve, one-off budget flexibilities and budget switches from capital to resource). It also accounts for replacement EU funding and IFRS16 accounting changes which are included as part of the general block grant from 2025-26 onwards.

Taking Stock: The Sixth Senedd budget in context

Overall, the core block grant for day-to-day spending (excluding Covid-19 related funding) will have increased by 2.8% per year on average in real terms over the course of the Sixth Senedd (from 2021-22 to 2026-27). Historically, this represents the fastest increase in the budget since the 2nd Assembly term (2003-2007) and double the increase suggested by the outlook ahead of the last Senedd elections in 2021. There is a lesson here for political parties as they prepare their plans to form the next Welsh Government. The outlook for spending is subject to massive uncertainty; the fiscal plans of the UK government can and do change dramatically and will shape the eventual size of the Welsh budget. Recent events in the Middle East also remind us that the economic forecasts underpinning the UK government's fiscal policies can change rapidly; forecasts published just two weeks before the publication of this report already look out of date.

Managing this extraordinary budget volatility and uncertainty has been and will continue to pose a challenge. Even excluding the tail-end of Covid-19 funding, settlements agreed at Spending Reviews have been topped-up with later funding to an unprecedented degree. In recognition of this uncertainty, HM Treasury has agreed to numerous one-off flexibilities to the Welsh Government's budget, including carry forwards of late in-year consequentials (e.g. related to Council Tax rebate), large-scale resource-to-capital budget switches, and has allowed both larger drawdowns from and higher overall limits for the Wales Reserve (in 2023-24 and 2024-25). Outturns have been substantially different from supplementary budgets, with underspends averaging £186 million over the period between 2022-23 and 2024-25.[9] The large-scale uncertainties and one-off budget flexibilities suggest that the Welsh Government's budget management tools are still not fit for purpose, even after the partial adjustments for inflation announced at the 2025 Autumn Budget.[10]

Devolved taxes' substantial – and favourable – contribution to the Welsh budget

Alongside the Block Grant, devolved taxes also now play a key role in determining Welsh Government spending. Alongside the fully devolved taxes – Land Transaction Tax and Landfill Disposals Tax – the Welsh Government controls 10p of each band of Income Tax. The winning 2021 Welsh Labour Manifesto promised no increases in the Welsh Rates of Income Taxes "as long as the economic impact of coronavirus lasts" and no changes have been made to the headline rates. However, tax devolution has still had a significant impact on the Welsh budget. This is because the net effect of tax devolution depends on the how the Welsh Government's devolved revenues compare to the corresponding Block Grant Adjustments (BGAs) – the

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[9] According to HM Treasury Block Grant Transparency data.

[10] Ifan, G., Poole, E.G. and O. Cynfab (2025) 'Frozen 2: Tax Freezes, the 2-Child Limit (and what the 2025 Autumn Budget means for Wales), Thinking Wales Blog. Available here: https://blogs.cardiff.ac.uk/thinking-wales/frozen-2-tax-freezes-the-2-child-limit-and-what-the-2025-autumn-budget-means-for-wales/#_ftn5

amounts taken off the Block Grant to reflect tax devolution. These BGAs are linked to comparable UK government revenues in England and Northern Ireland, meaning faster relative growth in devolved revenues leads to a budget boost, and weaker relative growth in devolved taxes results in a lower budget.

As highlighted in our 2025 report on the Fiscal Framework,[11] and as illustrated in **Figure 3**, tax devolution has been an unmitigated budgetary success for the Welsh Government. On the latest forecasts, the net effect of tax devolution on the Welsh Government's budget is anticipated to reach a positive £511 million in 2026-27, including the projected effect of reconciliations in previous years, and is set to remain at a similar level until the end of the forecast period. This is up from under £100 million in 2021-22 and 2022-23. Tax devolution therefore adds 2.2% to available day-to-day spending next year, a substantial boost to the spending power of the Welsh Government budget during the Sixth Senedd.

The main cause of this budgetary boost has been the prolonged freeze in income tax thresholds – powers over which remain reserved to the UK government – first announced in 2021. The OBR notes that devolved Welsh income tax receipts by 2030-31 will be 21.3 per cent higher as a result of frozen income tax thresholds since 2021, compared to 14.3 per cent for equivalent revenues in England and Northern Ireland.[12] The deep freeze of thresholds has been bad news for Welsh disposable incomes, but a significant boost for the Welsh Government budget. Including the net effect of tax devolution with the increase in the underlying block grant outlined above, available funding for day-to-day spending has increased by 3.4% per year on average during the course of the Sixth Senedd term (from 2021-22 to 2026-27).[13]

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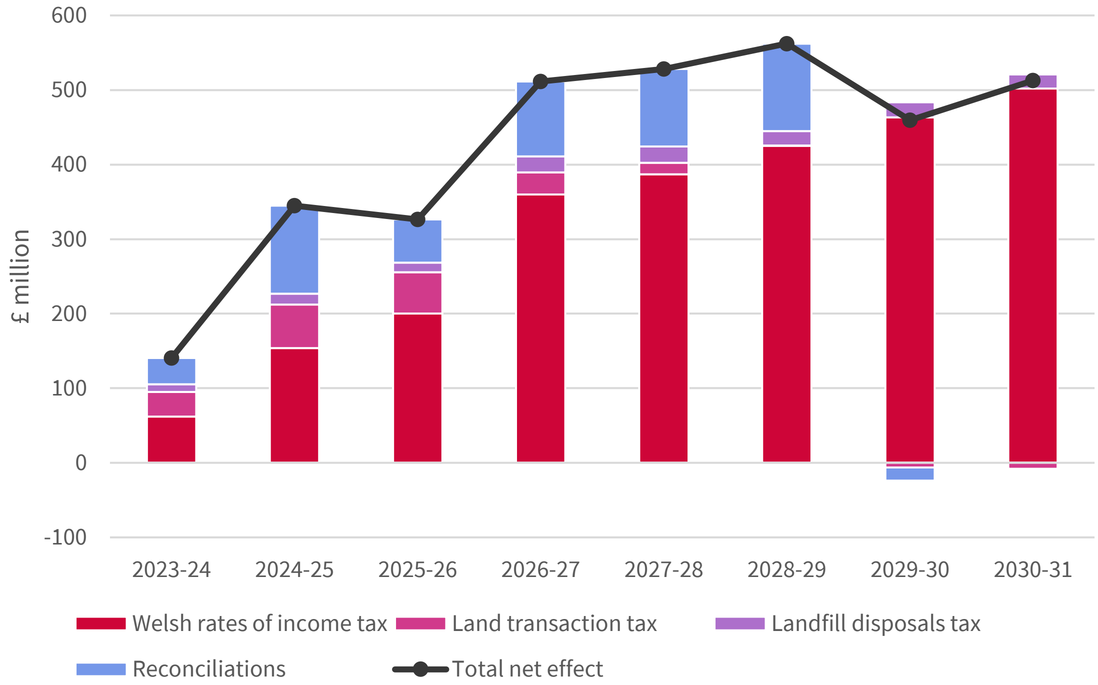
[11] Ifan, G., Poole, E.G. and Cynfab, O. (2025) '*A Decade On: Reforming Wales' Fiscal Framework*', Cardiff: Wales Governance Centre. https://www.cardiff.ac.uk/__data/assets/pdf_file/0010/2977768/A-Decade-On-Reforming-Wales-Fiscal-Framework.pdf

[12] Office for Budget Responsibility (2025) *November 2025 Devolved tax and spending forecasts.* https://obr.uk/docs/dlm_uploads/Devolved_tax_and_spending_forecasts_November_2025.pdf

[13] Some of this increase in resource funding has gone towards reducing Non-Domestic Rates revenues in real terms over the course of the Senedd term (as discussed later in this section), rather than increasing spending on public services.

Figure 3

Net effect of tax devolution on Welsh Government budget



Source: Own calculations based on Office for Budget Responsibility (2026) March 2026 Devolved tax and spending forecasts and Welsh Government budget documents. Figures differ from those presented in the Welsh Government's Final Budget for 2026-27 as they reflect forecast changes from the Spring Budget 2026.

Non-Domestic (Business) Rates and Council Tax

Alongside the block grant and the devolved taxes, day-to-day spending is also funded by revenues from Non-Domestic Rates (NDR). A series of large-scale relief packages have been implemented over the Sixth Senedd term, such as temporary reliefs for retail, leisure and hospitality businesses. Freezes or below-inflation increases in the multiplier and expansion of reliefs has meant NDR revenues have fallen significantly in real terms since before the pandemic. Revenues in 2026-27 are set to be 20% below 2019-20 levels in real terms.

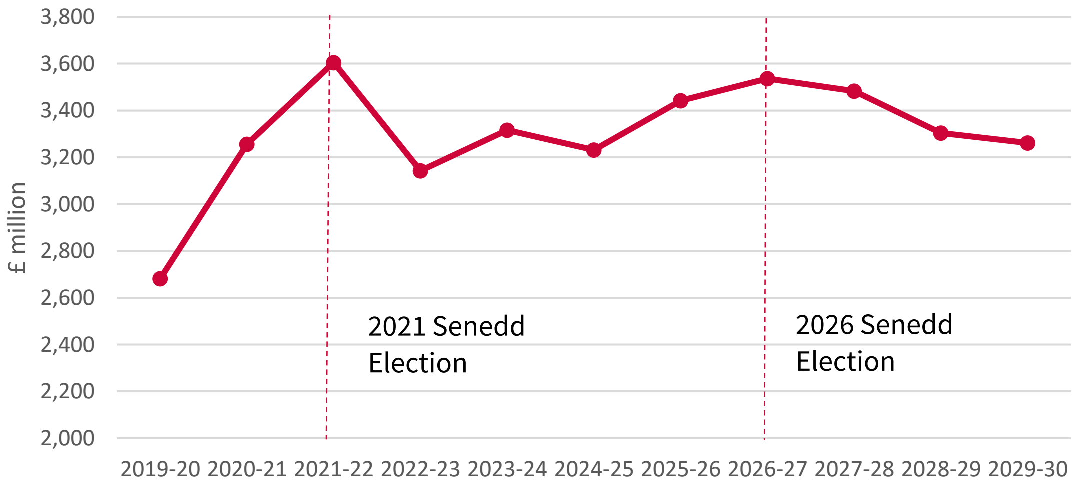
Local government spending in Wales is also financed by Council Tax revenues, with levels set by local authorities. With no freezes, caps or referendum requirements in place, average Band D Council Tax levels have increased by an average of 5.8% per year over the course of the Sixth Senedd term (from 2021-22 to 2025-26). This means that Council Tax revenues (after Council Tax Reduction Scheme) have increased by over 10% in real terms, or £234 million. The 2021 Welsh Labour manifesto committed to "reforming council tax to ensure a fairer system for all". However, the intended revaluation and possible reform of Council Tax were postponed until 2028, leaving an outdated and regressive system in place. The date for the revaluation in 2028 has been set in primary legislation. Given this provision in existing Welsh law, the political parties should now set out their intentions for reforming the system when the revaluation takes place, with options ranging from minimal reform to a 12-band proportional system.[14]

Capital spending at higher levels, but the outlook remains challenging for the next Welsh Government

At the March 2020 Budget, the UK government increased capital spending substantially, a decision which boosted the Welsh Government's capital budget ahead of the Sixth Senedd term. Under plans laid out at the 2021 Spending Review, the block grant for capital spending was set to remain at a relatively elevated in real terms to 2024-25. As was the case for day-to-day spending, higher levels of inflation significantly eroded the real terms value of the settlement for capital spending. Unlike day-to-day spending however, capital spending was not topped up to compensate for higher levels of inflation, and fell in real terms from 2021-22 to 2024-25 (see **Figure 4**).

Figure 4

Welsh Government General Capital Budget (2025-26 prices)



Source: Authors' calculations based on HM Treasury (2025) Block Grant Transparency data October 2025; Autumn Budget 2025, and Welsh Government budget documents. Notes: Figures presented include funding outside baselines and the Barnett formula (including Budget Cover Transfers, City & Growth Deals, funding from the Wales Reserve, one-off budget flexibilities and budget switches from capital to resource). Assumes Welsh Government borrow to the maximum limit in years beyond 2026-27. It also accounts for IFRS16 accounting changes by subtracting the 2022-23 value for IFRS16 changes (£209 million) from previous years.

[14] See Institute for Fiscal Studies analysis of reform options here: https://ifs.org.uk/publications/assessing-welsh-governments-consultation-reforms-council-tax

Under March 2024 Spring Budget plans – which formed the basis for party manifesto plans at the 2024 General Election – UK government capital spending was set to fall by 2.2% per year in real terms beyond 2024-25. However, incoming Chancellor Rachel Reeves significantly boosted capital spending plans – facilitated by a change in the fiscal rules which allowed more borrowing for investment.

This means the Welsh Government's capital block grant has increased over the last two years, such that capital spending remains at a historically high level.[15] The Welsh Government has also utilised its borrowing powers during the Sixth Senedd. Outturn data suggests it borrowed £150 million in 2022-23, £125 million in 2023-24, and £80 million in 2024-25. The latest plans suggest borrowing of the total annual limit of £150 million in 2025-26 and at the newly enhanced limit of £165 million in 2026-27.

The capital budget (excluding Financial Transactions) therefore increased by 6.5% in real terms in 2025-26 and is set to increase by 2.7% in 2026-27. Beyond next year, however, capital spending is set to fall in real terms to 2029-30. Given this tighter outlook, parties may consider further use of the off-the-books 'Mutual Investment Model' (MIM) to use private sector borrowing to boost capital investment. Projects funded through the MIM so far have a combined capital value of up to £1.4 billion. However, such projects will have a meaningful impact on day-to-day spending over coming years (see later discussion of the Transport budget) and will likely entail higher costs than spending funded by the core capital budget or devolved borrowing from the bond markets.

[15] The Welsh Government's Draft Budget for 2025-26 showed a large increase in Capital Spending of 21% from 2024-25. However, this mostly reflected accounting changes with regards to the treatment of leases (IFRS16 changes), funding for which is no longer ring-fenced and is a core part of the block grant.

3. How spending has changed

Having considered how the Welsh Government's funding has changed over the Sixth Senedd term, the aim of this next section is to provide some insight into how the Welsh Government has decided to allocate its budget over the same period, up to and including the Final Budget for 2026-27 published in January 2026.

Understanding how governments allocate and manage their spending is crucial for ensuring public funds are used effectively and transparently. In Wales, Welsh Government spending plays a huge role in shaping the services and support people rely on every day, from healthcare and education to transport and housing. It is also a hugely significant component of the economy, roughly equivalent a quarter of Welsh GDP. However, while tracking *funding* for the Welsh Government budget is relatively straightforward, there are significant barriers to meaningfully analysing *spending* over time.

The Welsh Government provides detailed information on individual spending items (so-called **Budget Expenditure Lines**) each year, providing a more granular breakdown than most UK government departments. However, constant transfers and movements between budget lines make tracking how actual spending has changed across years extremely difficult. The higher-level **Main Expenditure Groups (MEGs)** also change regularly, reflecting changes in ministerial responsibilities. The current iteration of ministerial portfolios is available only back to 2024-25, when new MEGs replaced those introduced in May 2021. As such, it can be difficult to gauge where there has been prioritisation and reprioritisation of different areas by simply looking at portfolio budgets.

When it publishes its Draft Budget plans, the Welsh Government usually presents year-on-year changes, comparing plans for the forthcoming year with Final Budget plans for the current year. Over recent years, however, these year-on-year comparisons have often not been fit for purpose. Large scale in-year changes (both increases and reductions) to budget lines have transformed spending plans at Supplementary Budgets. While the Welsh Government has made 'baseline' adjustments to reflect pay and pension costs, not all additional in-year spending has been included, distorting year-on-year comparisons. These difficulties were also compounded in recent years by budgets being presented on different accounting standards (i.e. pre- and post- IFRS16 changes).

Meanwhile, comparing supplementary budget or outturn data with future Draft or Final Budget plans is complicated by recurring annual changes (e.g. Budget Cover Transfers from the UK government) that are only allocated at supplementary budgets, namely: additional health allocations from the Immigration Health Surcharge; and the reclassification of health R&D spending from resource to capital spending. Not accounting for these changes will also distort intertemporal comparisons.

There have also been other significant changes over recent years which need to be accounted for when analysing Welsh Government spending over time. These include additional costs of unfunded public sector pension schemes (SCAPE) from 2024-25, and the additional costs related to increased National Insurance Contributions.

The sections that follow draw on two separate approaches to analysing the profile of recent Welsh Government spending. The first examines recent Welsh Government budget rounds using published budget documents, tracing how allocations have shifted across portfolios since 2022-23. The second takes a longer view, using outturn data from OSCAR II and following an approach developed by the Fraser of Allander Institute to analyse Scottish Government spending[16] as well as HM Treasury's Country and Regional Analysis (CRA) publication to analyse spending by function and by economic category across the full Sixth Senedd term.

Analysing recent Welsh Government budgets

In October 2025, Finance Secretary Mark Drakeford unveiled the Welsh Government's Draft Budget for 2026-27. In presenting year-on-year comparisons, spending plans for the current year (2025-26) were adjusted to reflect additional in-year allocations for employers' National Insurance Contributions (£220 million) and increases to public sector pay (£137 million). An inflationary uplift was applied to each MEG of 2%-2.2%, reflecting the OBR's March 2025 inflation forecasts for 2026-27. This "neutral" approach left £231 million of day-to-day spending unallocated in budget plans, anticipating cross-party negotiations to pass the budget. Unlike the UK and Scottish governments, the Welsh Government has not outlined multi-year spending plans for the current Spending Review period.

The UK Autumn Budget in November included an additional £186 million of day-to-day spending for the Welsh Government budget in 2026-27. Changes in forecasts for devolved taxes and corresponding Block Grant Adjustments also provided a further £38 million.

In December, the Welsh Government reached a budget agreement with opposition party Plaid Cymru.[17] The deal prioritised frontline public services and meeting existing spending pressures, rather than funding new spending commitments or policy 'wins' usually associated with budget agreements.[18] It included £180 million additional funding for the health and social care budget and an additional £113 million for the local government settlement.

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[16] Fraser of Allander Institute (2024) 'Scotland's Budget Report 2024', University of Strathclyde. Available at: https://fraserofallander.org/wp-content/uploads/2024/11/Scotlands-Budget-Report-2024.pdf

[17] Welsh Government Written Statement, 9 December 2025, Budget Agreement https://www.gov.wales/written-statement-budget-agreement

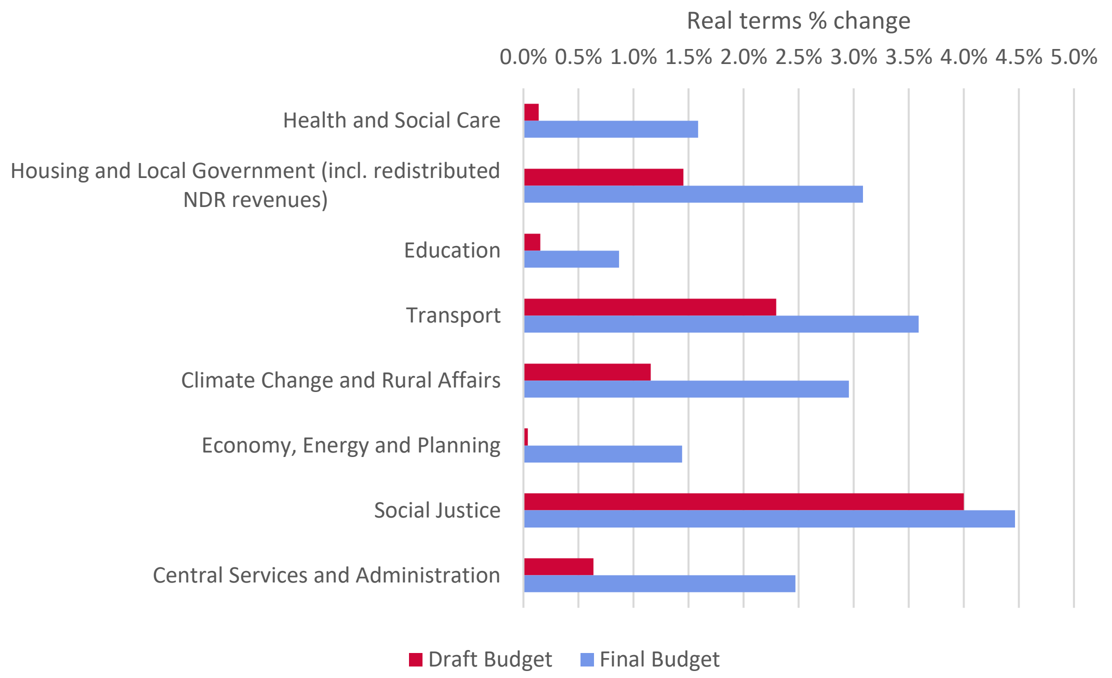
[18] Ifan, G. (2025) 'The Welsh Government-Plaid Cymru Budget Agreement – an immediate reaction', Thinking Wales. Available at: https://blogs.cardiff.ac.uk/thinking-wales/the-welsh-government-plaid-cymru-budget-agreement-an-immediate-reaction/#_ftn1

The Final Budget for 2026-27 also included further funding to reflect higher inflation and pay growth forecasts (£21 million) as well as other allocations, the most significant being a £65 million allocation to support the business rates transitional relief scheme.[19]

As discussed in the previous section, the UK Government's Spring Budget 2026 also included an additional £331 million of resource funding, which will be available to the next Welsh Government to allocate at supplementary budgets.

Figure 5

Changes in fiscal resource allocations by Main Expenditure Group, 2025-26 to 2026-27



Source: Welsh Government Budget Documents. Note: % change in 2026-27 is shown relative to 2025-26 Final Budget with baseline adjustments reflecting National Insurance Contributions costs and pay increases. Housing and Local Government budget includes 'Non-Domestic Rates Distributable Amount -AME'.

Figure 5 shows the year-on-year change in Welsh Government day-to-day spending from 2025-26 to 2026-27, before and after the Final Budget changes. The Health and Social Care budget – which accounts for 53% of day-to-day spending – is now set to increase by 1.6% in real terms next year. The budget for NHS services (a subset of the Health and Social Care budget) is set to increase by 1.7% in real terms, to over £12.1 billion next year.[20] Although much

[19] Welsh Government, 3 December 2025, *£116 million business rates support package announced* https://www.gov.wales/116-million-business-rates-support-package-announced

[20] This calculation excludes BELs related to social service and integration, early years, CAFCASS, Food Standards Agency and the inspectorates.

higher than under initial Draft Budget plans, this projected increase would be significantly slower than recent increases from 2019-20 to 2024-25 (3.7%) and the long-term average annual increase in NHS spending since the 1950s (3.6%).

This year-on-year increase takes into account additional allocations for increased employer National Insurance Contributions and pay costs in 2025-26. However, it does not take into account significant additional funding which has been allocated in-year for the NHS at supplementary budgets. The First Supplementary Budget for 2025-26 included £100 million to cut waiting times[21] and the Second Supplementary Budget in February 2026 allocated £200 million for in-year pressures and reducing waiting times (partly funded by a large drawdown from the Wales Reserve. Since cutting waiting times will remain a priority for the Welsh Government in 2026-27 (as it has been since the advent of devolution), this is not truly a one-off or temporary spending item, and can therefore reasonably be included in year-to-year comparisons. Adding this into the baseline implies that NHS spending *falls* in real terms next year, for the first time since 2012-13. It is therefore highly likely that the next Welsh Government will make significant further allocations to the NHS at supplementary budgets, both from the additional consequentials announced at the Spring Budget and from the Wales Reserve.

[21] Welsh Government, 19 June 2025, *Health Secretary announces £120 million to carry on cutting waiting times* https://www.gov.wales/health-secretary-announces-120-million-carry-cutting-waiting-times

Table 1

Welsh Government allocations for day-to-day spending, 2022-23 to 2026-27

	£ million, nominal terms					% average annual real terms change		
Financial year:	2022-23	2023-24	2024-25	2025-26	2026-27	2022-23 to 2026-27	2024-25 to 2026-27	2025-26 to 2026-27
Source:	Outturn	Outturn	Outturn	2nd Suppl. Budget	Final Budget			
Health and Social Care			11,603	12,509	12,603	-	1.6%	-1.2%
Housing and Local Government (inc. redistributed NDR revenues)			6,279	6,676	6,978	-	2.7%	2.8%
Education			1,809	1,833	1,865	-	-1.0%	-0.3%
Transport			571	673	706	-	8.4%	2.9%
Climate Change and Rural Affairs			544	590	597	-	2.0%	-0.9%
Economy, Energy and Planning			409	404	497	-	7.5%	20.6%
Social Justice			137	143	144	-	0.1%	-1.1%
Central Services and Administration			408	433	454	-	2.7%	2.6%
Total allocations	**19,221**	**20,288**	**21,758**	**23,260**	**23,844**	**1.8%**	**2.0%**	**0.5%**
of which:								
NHS services	9,532	10,224	11,163	11,968	12,062	2.3%	1.3%	-1.2%
Local Government Aggregate External Finance	5,117	5,536	5,877	6,273	6,556	2.7%	2.9%	2.4%
Other (residual)	4,573	4,528	4,718	5,019	5,226	-0.2%	2.6%	2.1%

*Source: Analysis of Welsh Government budget documents. Note: Day-to-day spending allocations includes Fiscal Resource Allocations and Redistributed Non-Domestic Rates Relief revenues included under Annually Managed Expenditure. Outturn and Supplementary Budget data adjusted for large annual Budget Cover Transfers (e.g. Immigration Health Surcharge) and recurring budget switches (e.g. Health Research and Development spending) to make more comparable to Budget data. NHS services line includes Budget Expenditure Lines supporting the NHS in Wales (excludes BELs related to social service and integration, early years, CAFCASS, Food Standards Agency and the inspectorates). * Local Government Aggregate External Finance taken from Final Local Government Settlements – using Final Aggregate External Finance adjusted for transfers each year. The 20.6% growth in the Economy, Energy and Planning portfolio in 2026-27 reflects an 'exceptional property sale' leading to a £70 million reduction in fiscal resource budget in the previous year.*

The next largest MEG is Housing and Local Government – representing well over a quarter of day-to-day spending. The vast majority of this allocation takes the form of non-hypothecated, general revenue support for Welsh local authorities, worth £6.6 billion in 2026-27. The additional funding in the Budget Agreement means Aggregate External Finance (AEF) is set to increase by 4.5% next year in nominal terms, or 2.4% in real terms.

The faster increase in Local Government funding compared with NHS spending next year follows the pattern of recent budget rounds. **Table 1** compares the latest budget data for 2025-26 and 2026-27 with outturn data for previous years (with some adjustments made for annual recurring budget transfers and switches). As well as analysing spending by each MEG from 2024-25, it also breaks out funding for NHS services and the local government settlement from 2022-23. The local government settlement will have increased by 2.9% per year on average in real terms from 2024-25 to 2026-27 (though this falls to 2.3% if we account for funding allocated for increased employer **National Insurance Contributions** from 2025-26). The average annual increase in NHS services spending from 2024-25 to 2026-27 is set to be lower, at 1.3% (and 0.9% if we again account for increased NICs). All other funding allocations – calculated here as a residual – will have increased by an average of 2.6% in real terms.

There are two Main Expenditure Groups that have seen particularly rapid growth over the past Senedd term. The Transport MEG will have grown by 17% between 2024-25 and 2026-27, reflecting an increase in the budget line for **Strategic Road Network Contractual Payments**; in particular for the **A465 Heads of the Valleys Route upgrade** (funded via the Mutual Investment Model) which will increase from £5.2 million to £36.8 million. Funding for **Rail Services Support (Transport for Wales)** and **Bus Service Support** has also increased. Meanwhile, the significant increase in the Economy, Energy and Planning MEG from 2024-25 mainly reflects an underspend at 2024-25 outturn from the **Development Bank of Wales** and the **Green Energy** budget.

The slowdown in NHS spending growth should be seen in the context of changes made during the 2021 Spending Review period. During the summer of 2023, then-First Minister Mark Drakeford issued a warning of significant financial pressures for the Welsh budget,[22] which led to within-year cuts being made to other budgets worth £214 million to fund additional allocations for the **NHS** and **Transport for Wales** – the latter explained by poor post-pandemic passenger and ticket revenue growth.[23] At the 2024-25 Draft Budget published in December 2023, the Welsh Government again topped up its indicative spending plans for the NHS and Transport for Wales, but cut back planned spending on other areas by £422 million, including spending on arts and culture, environmental protection, transport (outside of Transport for Wales), higher education, apprenticeships, to rural investment schemes).

These decisions – taken in the middle of the Senedd term as the value of the 2021 Spending Review settlement eroded in real terms – resulted in spending outside of health and local government falling by approximately 6% in real terms between 2022-23 and 2024-25. Although spending on these budgets has increased in more recent budget rounds, in real terms spending in 2026-27 remains slightly below 2022-23 levels. If we remove the increase to

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[22] Welsh Government Cabinet Statement, 9 August 2023, Written Statement: Update about Budget 2023-24 https://www.gov.wales/written-statement-update-about-budget-2023-24

[23] Welsh Government, 17 October 2023, Update on 2023-2024 financial position: summary of main changes, https://www.gov.wales/update-on-2023-2024-financial-position-summary-of-main-changes-html

the budget for Transport for Wales, spending on all other services will have fallen by 3% in real terms. Unfortunately, analysing precisely which areas of spending has seen these real-terms cuts over multiple years is extremely difficult using budget documents.

Analysing outturn data – Welsh Government spending

This section makes use the Treasury's **Country and Regional Analysis (CRA)** for a functional breakdown of Welsh Government spending, in real terms from 2019-20 to 2024-25. Given the difficulties of using budgeted data as outlined on pages 16-17, analysing spending from these perspectives provides insight into the structural and strategic shifts in spending over the Sixth Senedd term. As outlined above, a large part of the Welsh Government's budget is allocated in grant funding to local authorities – the spending funded by these grants, alongside other sources such as Council Tax revenues, is analysed in the next section.

Total Welsh Government expenditure increased in real terms (2025-26 prices) from £13.2 billion in 2019-20 to £17 billion in 2020-21 – an increase of 29% in a single year, reflecting the extraordinary fiscal response to the Covid-19 pandemic. Real expenditure declined over the subsequent three years. A relatively small increase in 2024-25 left total resource approximately 19% above its pre-pandemic level, though well below its 2020-21 peak. In aggregate, resource spending follows a pattern of temporary expansion followed by consolidation at a higher level, though trends differ significantly across individual functions.

Table 2

Welsh Government Resource spending by function, excluding grants to Local Government (2025-26 prices)

£ Millions	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	CAGR
Health	9,717	11,058	11,303	11,049	11,226	11,742	3.9%
Education	1,533	1,699	1,797	1,501	1,465	1,473	-0.8%
Economic Affairs	1,106	3,127	1,277	1,085	972	826	-5.7%
General Public Services	317	314	667	275	306	303	-0.9%
Recreation, Culture & Religion	178	266	226	183	171	171	-0.8%
Social Protection	161	387	473	396	261	260	10.0%
Environment Protection	145	124	182	161	185	253	11.8%
Housing Community Amenities	53	57	48	60	65	47	-2.4%
Public Order and Safety	4	4	2	3	2	2	-7.7%
Total	**13,214**	**17,036**	**15,975**	**14,711**	**14,653**	**15,078**	**2.7%**

Source: Authors' analysis of Country and Regional Analysis (2025), Country and Regional Analysis (2024).

Health represents the largest component of Welsh Government spending, consistently accounting for roughly three quarters of total resource expenditure in outside of the Local Government settlement. Unlike other functions, health spending did not fall back to its pre-pandemic level following Covid-19 interventions. Instead, the pandemic appears to have produced a ratcheting effect: real expenditure increased from £9.7 billion in 2019-20 to £11.1 billion in 2020-21 and remained at or above £11.0 billion thereafter. This likely reflects structural pressures including backlogs in care, rising workforce costs, declining productivity rates, and demographic demand from an ageing population. This prioritisation of health spending by the Welsh Government has meant that spending on **non-health** functions has **decreased** by an average of 1% per year in real terms.

Welsh Government **Education** spending peaked at £1.8 billion in 2021-22, reflecting temporary Covid-related funding. It should be noted here that the majority of devolved education spending is undertaken by local authorities (discussed below). Welsh Government education spending in this data mainly reflects spending on post-16 further and higher education, alongside smaller amounts for pre-primary and subsidiary services to education. Spending in 2024-25 had fallen back to £1.5 billion, 4% lower that its pre-Covid level in real terms. In this context, further and higher education stakeholders have persistently raised the alarm at funding challenges over recent years, a development discussed in section 6.

Spending on **Economic Affairs** is the most volatile function and is the main contributor to the overall spike in Welsh Government spending during the pandemic. Almost half of the increase in real resource spending during the pandemic was concentrated in this area, reflecting the support for businesses and employment, targeted sectoral interventions, and measures to stabilise the wider economy. Expenditure almost trebled in real terms in 2020-21 (from £1.1 billion to £3.1 billion) before gradually falling to £826 million by 2024-25, settling back at approximately one-quarter of its pandemic peak.

Other functions account for much smaller shares of Welsh Government spending and reflect varying trends over the Sixth Senedd term:

Environmental Protection is associated with the highest average growth rate of any function (11.8%). It is unfortunately not possible to break down which particular spending in this category has increased, as a large part is categorised as 'Environment protection n.e.c.' (or not elsewhere categorised).

Welsh Government spending for **Social Protection** mainly reflects spending related to social services (particularly in social exclusion and family and children categories), although the vast majority of social services spending comes under Local Government spending (discussed below). Over this period, Welsh Government spending on social protection also included time-limited income schemes, such as the Winter Fuel Support Scheme and a £150 Cost of Living payment of households in lower council tax bands.

General Public Services doubled in 2021-22, reflecting temporary administrative and centrally managed Covid-related programmes, but later fell back to roughly their pre pandemic level.

Taken together, spending over the Sixth Senedd term reflected a temporary and substantial pandemic-driven expansion, followed by retrenchment to an overall spending level that was higher than pre-pandemic levels. Within that aggregate picture, Health has undergone a sustained upward shift, absorbing a growing share of the budget, while many other functions have reverted to spending levels at or below their pre-pandemic baselines.

Analysing outturn data - functional breakdown of Local Government spending

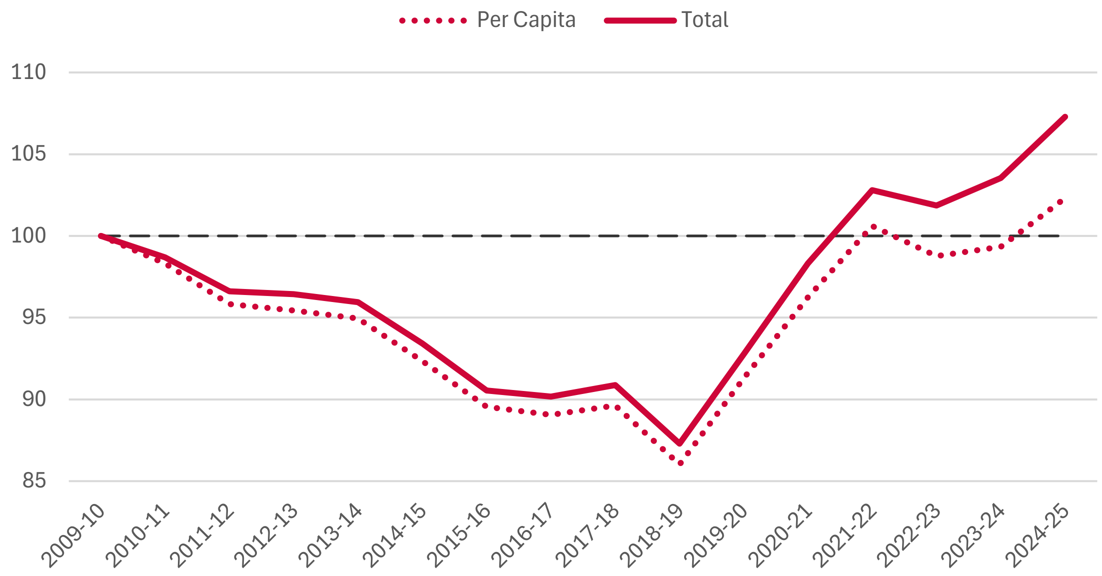
To uncover the full picture of devolved spending over the Sixth Senedd term, we next turn to local government spending in Wales.

Local Government spending generally increased in real terms between 2019-20 and 2024-25, although growth has not been entirely uniform from year to year. Total expenditure rose from £7.87 billion in 2019-20 to £9.10 billion by 2024-25, which represents an average real terms growth rate of 3% per year. This growth rate outpaces that of many Welsh Government functions and underlines the role that councils have undertaken in delivering frontline services in Wales. Spending pressures have also been funded through increases to Council Tax bills, which have grown by an average of 5.8% per year during the Senedd term.

As shown in Figure 6, not only has this sustained increase in expenditure since 2019 restored spending to pre-austerity levels, but it has lifted real terms spending **above its 2009-10 base**. This departs from the pattern of post-austerity local government budgets in England.

Figure 6

Real terms Local Government resource expenditure, indexed from 2009-10 = 100



Source: Author analysis of Country and Regional Analysis data, Office for National Statistics (2024),. This figure excludes spending on Housing Social Protection (housing benefit) and police services, which are both mostly funded by reserved UK government sources.

Education (primarily schools spending) and **social protection** (primarily social services) are by far the largest areas of local government spending, together accounting for 80% of resource spending. The dominance of education and social services budgets leaves councils with very limited flexibility, making them particularly vulnerable to changes in demographic demand (e.g. pupil numbers and ageing populations), inflation in care markets, and workforce pressures in schools and social care settings.

Education is the single largest function of local government expenditure, generally accounting for 45% of total expenditure. Education spending increased from £3.6 billion in 2019-20 to approximately £4 billion in 2024-25. Pre-primary and primary education drives this growth – accounting for more than 60% of the increase in total education spending.

Social Protection spending increased rapidly between 2019-20 and 2024-25; 40% of the increase in Local Government spending can be attributed to social protection, reflecting the intensifying pressures in both adults and children's social care.

Barring **Economic Affairs** which exhibits persistent growth throughout the period, other service areas generally grew only modestly over the period. But given the predominance of education and social protection spending, increases or decreases in all other components of spending only have a limited impact on the overall growth in local government spending.

Table 3

Local Government resource spending by function (2025-26 prices)

£ Millions	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	CAGR
Education	3,598	3,756	3,995	3,886	3,868	4,043	2.4%
Social Protection	2,684	2,869	3,019	3,013	3,123	3,186	3.5%
Environment Protection	452	490	497	491	497	491	1.6%
Economic Affairs	290	338	327	356	376	479	10.5%
Recreation, Culture & Religion	252	295	293	270	276	257	0.4%
General Public Services	240	247	243	264	249	261	1.7%
Public Order and Safety	203	194	196	199	210	212	0.9%
Housing & Community Amenities	147	146	148	155	180	169	2.9%
Defence	4	4	3	7	3	3	-2.5%
Total	**7,869**	**8,339**	**8,721**	**8,641**	**8,783**	**9,101**	**3.0%**

Source: Authors' analysis of Country and Analysis (2025), Country and Analysis (2024). Note: This table excludes spending on Housing Social Protection (housing benefit) and police services, which are both mostly funded by reserved UK government sources.

Analysing outturn data – the public sector pay bill

To analyse public sector pay pressures affecting both Welsh Government and local government service provision, we next draw on administrative outturn data reported by the Welsh Government to HM Treasury through the OSCAR II system. OSCAR provides detailed transaction-level information and forms the basis of publications such as Public Expenditure Statistical Analyses (PESA). To construct the pay bill tables, staff cost data are extracted from OSCAR and classified using the internationally standardised Classification of the Functions of Government (COFOG). This approach enables consistent functional comparisons over time and avoids complications linked to machinery-of-government changes. By isolating the economic category corresponding to compensation of employees, the analysis produces a functionally comparable series for the Welsh Government's public sector pay bill.

The analysis includes outturn data for all completed financial years up to 2023–24. Data for 2024–25 are excluded at this stage because only control totals are available rather than final audited outturns. This ensures that the analysis is based solely on realised expenditure.

The Welsh Government's public sector pay bill represents a substantial share of day-to-day resource spending, accounting for approximately 40% of total resource expenditure during the sixth Senedd. This level of spending creates a degree of fiscal rigidity: with such a large proportion of expenditure tied to staff costs, especially in essential public services, the Welsh Government has limited flexibility to redirect funding elsewhere without affecting service delivery.

Table 4 illustrates changes in the Welsh public sector pay bill by function between 2019-20 and 2023-24. Note that the pay totals reported here do not include spending on pay falling under local government spending, such as teachers and care workers: this explains why the education pay levels illustrated here appear disproportionately small.

Table 4

Public Sector pay bill by function (2025-26 prices)

£ Millions	2019-20	2020-21	2021-22	2022-23	2023-24	CAGR
Health	4,971	5,482	5,563	5,454	5,547	2.8%
General Public Services	212	221	219	210	210	-0.2%
Economic Affairs	117	98	121	129	37	-24.8%
Environment Protection	66	59	136	98	121	16.5%
Recreation, Culture & Religion	63	57	72	76	66	1.3%
Education	57	56	62	69	73	6.1%
Social Protection	58	56	60	67	71	5.2%
Housing / Community Amenities	12	11	14	15	15	5.8%
Public Order and Safety	1	0	1	1	1	8.8%
Total	**5,557**	**6,041**	**6,249**	**6,117**	**6,141**	**2.5%**

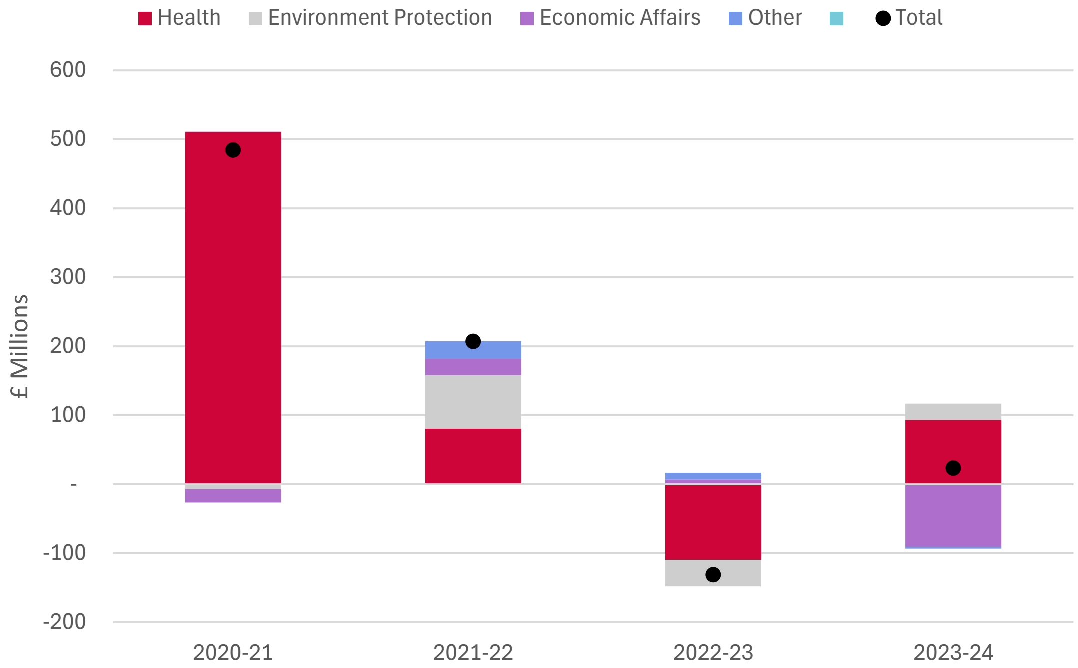
Source: Authors' analysis of OSCAR II data.

As shown in **Table 4**, real-terms growth in the pay bill since 2019-20 has been overwhelmingly driven by the health sector. Health pay increased by approximately £511 million in 2020-21 in real terms, largely reflecting pandemic-related workforce pressures. The health pay bill remained at roughly its pandemic level in the post-pandemic years. Given that health accounts for approximately 90% of the total Welsh Government pay bill, its fluctuations dominate movements in overall staffing costs across the Welsh Government, which is shown in **Figure 7**.

While health is the largest component, the analysis also highlights variations across other COFOG functions. General Public Service forms the second largest area of staffing expenditure, though significantly smaller in scale compared with health. Smaller functions such as economic affairs and environmental protection show more variation year to year, often reflecting time-limited programmes or organisational restructuring.

Figure 7

Real term change in public sector pay bill compared to previous year (2025-26 prices)



Source: Authors' analysis of OSCAR II data.

Taken together, the functional breakdown and the analysis of the public sector pay bill show that health spending has largely determined the trajectory of Welsh Government resource expenditure over the Sixth Senedd term. Given this dominance, section 5 examines health spending in greater detail, exploring how resources have been allocated within the NHS.

Before this, however, we analyse an oft-asked question in Welsh politics related to per person spending in Wales compared with spending in England.

4. Estimating Wales' Relative Spending per person relative to England

The question of how much the Welsh Government has to spend on devolved public services, relative to what the UK Government spends on equivalent services in England, is one of the most politically charged and analytically significant in Welsh fiscal policy. It bears directly on assessments of whether Wales is adequately funded, whether it is receiving a fair return from the Barnett formula, and whether the Welsh Government is spending any additional resources relative to Wales' population share effectively.

This debate has been given renewed impetus by a February 2026 report from the Institute for Fiscal Studies (IFS)[24] which, directly applying a longstanding methodology used by HM Treasury and agreed with the Welsh Government at the 2016 Fiscal Framework,[25] suggests that relative funding for the Welsh Government stood at approximately 125% of England's level per head in 2024-25. If this estimate were accurate, it would imply a very substantial additional resource available to Wales — some £4.7 billion more than a straight population share of English comparable spending — and would raise correspondingly challenging questions about the outcomes being delivered for that higher level of investment.

Given the significance of this figure, and its potential to shape political debate both during and after the Senedd election campaign, we turn to outturn data from HM Treasury's *Country and Regional Analysis* publication, to focus on spending on functions that are wholly or largely devolved.

Our estimates presented in this section do not corroborate a relative spending advantage on the recently reported scale. Rather, it suggests that **actual relative spending on devolved responsibilities in Wales sits at approximately 115% of England's level per person — broadly consistent with the estimate of relative need produced by the Holtham Commission in 2010**.

We next set out that analysis in detail.

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[24] See Brogaard, M. and Phillips, D (24 February 2026), *Recent Changes and the Future Outlook for Welsh Government Funding. Institute for Fiscal Studies* https://ifs.org.uk/publications/recent-changes-and-future-outlook-welsh-government-funding

[25] For example, see Table 4.C in the HM Treasury December 2021 Block Grant Transparency publication:
https://assets.publishing.service.gov.uk/media/61b8c523d3bf7f054e7695b7/BGT_Explanatory_note__HMT_template_.pdf
It was also agreed as part of the 2016 Fiscal Framework Agreement with the Welsh Government, see Annex A:
https://assets.publishing.service.gov.uk/media/5a7f48aee5274a2e87db4ea4/Wales_Fiscal_Framework_Agreement_Dec_2016_2.pdf

Isolating Devolved Spending for Comparison with England

Using the established HM Treasury methodology, the recent IFS report calculates that relative funding for the Welsh Government via the block grant approximated 125% of England's per person spending in 2024-25. This would imply that Wales gets £4.7 billion more to spend on devolved services through the block grant compared with a population share of what would be spent in England. The net effect of devolved taxes and borrowing added another half a billion of additional spending power. This means the Welsh Government would have been able to spend fully £1,652 more per person than the UK government does for England. But is this estimate of additional spend reflective of spending conditions on the ground?

To explore this question, we again use outturn data (i.e., actual spending on the ground) as published in the Country and Regional Analysis data. Total identifiable spending for Wales in 2024-25 – all spending for Wales by any level of government – was £48.3 billion, or £15,155 per person.[26] Overall, this was 115% of England's level per person.

But we next need to isolate spending by the Welsh Government and Welsh local government (which come under devolved responsibility), as opposed to all government spending for Wales. Total spending by the Welsh Government and Welsh local government amounted to £29.4 billion in 2024-25. Some of this funding is largely funded by the UK government or sits outside block grant and devolved financing; namely, policing (£1.1 billion),[27] housing benefit (£1.1 billion), and 'market support under CAP' (£256 million).[28] This leaves £26.1 billion of devolved and local government spending which is mainly financed by funding from the UK government and devolved sources and constitutes our estimate of **devolved** spending for Wales.

Unfortunately, we cannot directly compare this to an equivalent 'devolved' spending figure for England because there is no English budget. Comparing this figure with all spending by UK government departments for England would overstate English comparable spending, as UK government departments also spend on reserved services in Wales. What we can do though is to isolate spending on functions which are wholly or largely devolved to the Welsh Government and compare relative spending per person levels in Wales and England.

Specifically, we look at spending on health, personal social services, education, local public transport and roads, local authority housing, and all other local government services. There are also other smaller 'sub-functions' which are largely devolved (see notes in **Figure 8**). Taken together, spending on these areas amounted to £26.1 billion in 2024-25, or 97% of total devolved and local spending. UK government spending in these areas for Wales is very limited – at just 1.5% of spending on these functions for Wales – so we can be relatively confident that

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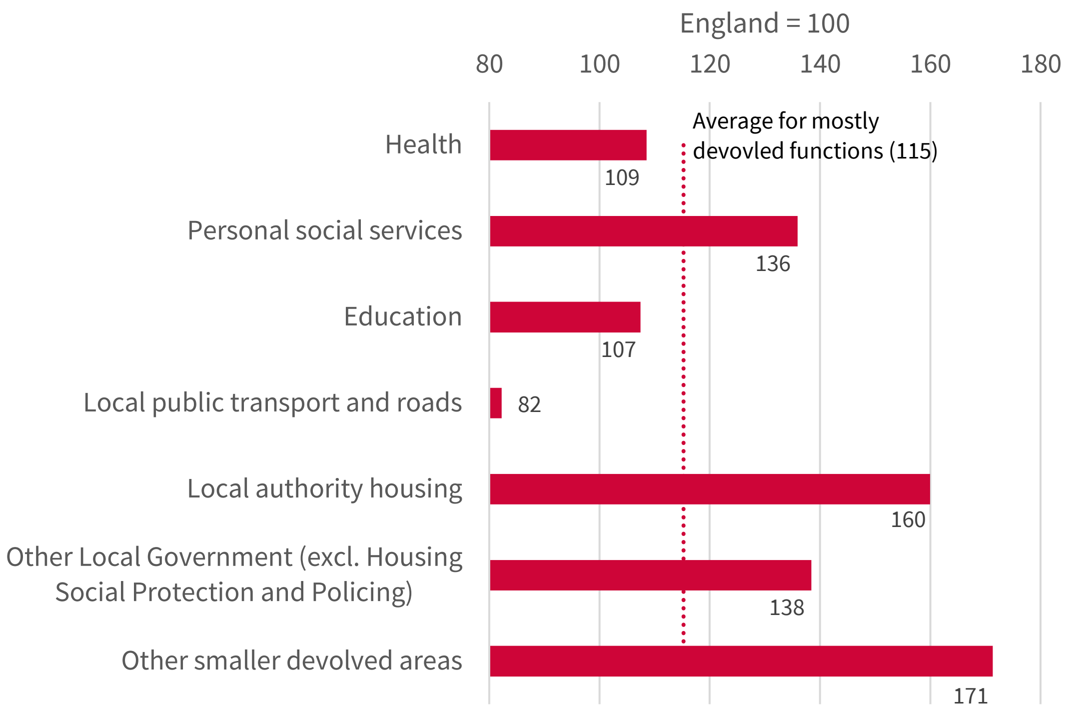
[26] CRA data is presented on a Total Expenditure on Services basis.
[27] This spending will include some spending by the Welsh Government through specific grant funding and revenue support grant, as well as a portion of Welsh Council Tax revenues.
[28] This now forms part of the Welsh Government's block grant but is excluded from calculations of relative funding.

we are broadly comparing spending on devolved functions with comparable spending by the UK government for England. This is close enough to allow us to broadly analyse the *relative* spending priorities of the Welsh Government in 2024-25.

Figure 8

Relative spending per person in Wales compared with England, by devolved function



Source: Authors' analysis of HM Treasury (2025) Country and Regional Analysis 2025. Notes: Compares spending by Welsh Government and Local Government for Wales against total spending in England on equivalent functions. Dotted line represent average for mostly devolved functions (115%). Other smaller devolved areas include Welsh Government spending in the following areas (and compared to non-Local Government spending in England): 'Executive and legislative organs, financial and fiscal affairs, external affairs'; 'General public services n.e.c.'; 'other agriculture, food and fisheries policy'; 'Environment protection n.e.c.'; 'Community development'; 'Recreational and sporting services'; 'Cultural services'; 'Recreation, culture and religion n.e.c.'; 'Civil defence'; 'Fire-protection services'; 'forestry'; 'Other industries'; 'Waste management'; 'Street lighting'; 'Religious and other community services'.

Figure 8 and Table 5 show relative spending levels in Wales on devolved functions compared with England. Health spending in 2024-25 – at £11.9 billion – accounts for the largest share of devolved and local government spending. Spending per person (£3,700) was 9% higher than in England, up from under 7% in 2022-23. The next largest function was education, which at £5.9 billion, or £1,800 per person, was 7% higher than in England. Spending on personal social services (£3.1 billion), local authority housing (£1 billion) and other local government services (£2.3 billion) were significantly higher on a per person basis than in England. This points to a prioritisation of local government services in Wales, which was a pattern during the austerity period of the 2010s, as well as the faster growth in Council Tax bills in Wales over recent decades.[29] Spending per person on local public transport and local and national roads was below English levels in 2024-25. Meanwhile, spending on other smaller devolved areas was significantly higher.

Spending on all the devolved functions outlined above came to £26.1 billion, or **£8,200 per person in 2024-25**. Comparing this to total spending on the same functions in England, **relative spending levels per person was 15% higher in Wales in 2024-25**. The remainder of devolved and local government spending for Wales – some £793 million – are in areas of joint responsibility. These mainly include spending on railways (£470 million) and 'General economic, commercial and labour affairs' (£158 million), for which roughly half is devolved and half is reserved. It is not possible to isolate the portion of spending for England on these functions which would be comparable to devolved spending for Wales. Devolved spending on the aforementioned residual functions falling under devolved and reserved responsibility could be higher in Wales – for example, the Welsh Government has decided to allocate its 'own' resources to the reserved rail enhancement spending over recent years. However, even if comparable spending in England on these functions was £0 in 2024-25 (which is not the case), this would mean total devolved and local government spending for Wales would be 19% higher than in England. As a reminder, relative funding levels from the Block Grant and devolved sources in 2024-25 was reportedly 27% higher than comparable funding in England – this is improbably unlikely given the outturn data analysed above.

This suggests that the calculated higher levels of relative funding are not fully reflected in relative spending on devolved responsibilities. **Actual relative spending levels on devolved functions in Wales appear much closer to the (now outdated) estimate of relative need of 115%.** It is important to note that these calculations are made on different basis to the Treasury/IFS numbers, namely: departmental budgets versus Total Expenditure on Services (TES). Some spending included in this analysis will be funded by other sources, such as Annually Managed Expenditure, Council Tax, locally financed expenditure (e.g. borrowing and reserves), as well as reflecting other timing and coverage differences. However, these differences cannot account for a £1.8 billion discrepancy; Wales supposedly gets approximately £5.3 billion more than a population share through the block grant and devolved taxes and borrowing, but actual spending on devolved services is only approximately £3.5 billion higher than a population share. This suggests that the methodology for calculating relative funding is significantly overstating the extent of Wales' higher levels of spending per person relative to England. While it is not clear why this is the case, it likely relates to the

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[29] Ifan, G., Poole, E.G. and O. Cynfab (2025) 'We Need to Talk About Council Tax: The Regressive Welsh Way of Raising Tax', Thinking Wales Blog. Available at : https://blogs.cardiff.ac.uk/thinking-wales/we-need-to-talk-about-council-tax-the-regressive-welsh-way-of-raising-taxes/

difficulty in estimating "comparable" English spending, which is not published and is estimated using the HM Treasury's comparability factors used in the Barnett formula.

The analysis in this section underscores the importance of looking beyond headline funding figures when assessing the Welsh Government's fiscal position. While relative funding levels may appear substantially higher than England's on some measures, actual observed spending on devolved functions tells a much more nuanced story — one broadly consistent with Wales' relative need rather than a position of significant fiscal advantage. This context matters for the chapters that follow.

Table 5

Relative spending per person in Wales compared to England by devolved function, 2024-25

	£ million	£ per person	England per person = 100
Total spending	**48,293**	**15,155**	**115**
Total UK government spending:	**18,928**	**5,940**	**-**
Social protection (excl. social services)	16,121	5,059	118
Other	2,808	881	-
Total devolved and local spending	**29,365**	**9,215**	
Outside Block Grant and devolved sources (see notes)	2,424	**761**	
Funded by BG and devolved sources:	**26,941**	**8,455**	**-**
of which:			
Mostly devolved areas	**26,148**	**8,206**	**115**
Health	11,921	3,741	109
Personal social services	3,273	1,027	136
Education	5,884	1,846	107
Local public transport and roads	682	214	82
Local authority housing	986	310	160
Other Local Government	2,330	731	138
Other smaller devolved areas	1,072	336	171
Other devolved & local spending in mixed areas	793	249	-

Source: HM Treasury (2025) Country and Regional Analysis 2025. Notes: Compares spending by Welsh Government and Local Government for Wales against total spending in England on equivalent functions. Other smaller devolved areas include Welsh Government spending in the following areas (and compared to non-Local Government spending in England): 'Executive and legislative organs, financial and fiscal affairs, external affairs'; 'General public services n.e.c.'; 'other agriculture, food and fisheries policy'; 'Environment protection n.e.c.'; 'Community development'; 'Recreational and sporting services'; 'Cultural services'; 'Recreation, culture and religion n.e.c.'; 'Civil defence'; 'Fire-protection services'; 'forestry'; 'Other industries'; 'Waste management'; 'Street lighting'; 'Religious and other community services'. Spending 'Outside Block Grant and devolved sources' refers to Police, Housing Benefit and CAP spending.

5. Health spending in Wales

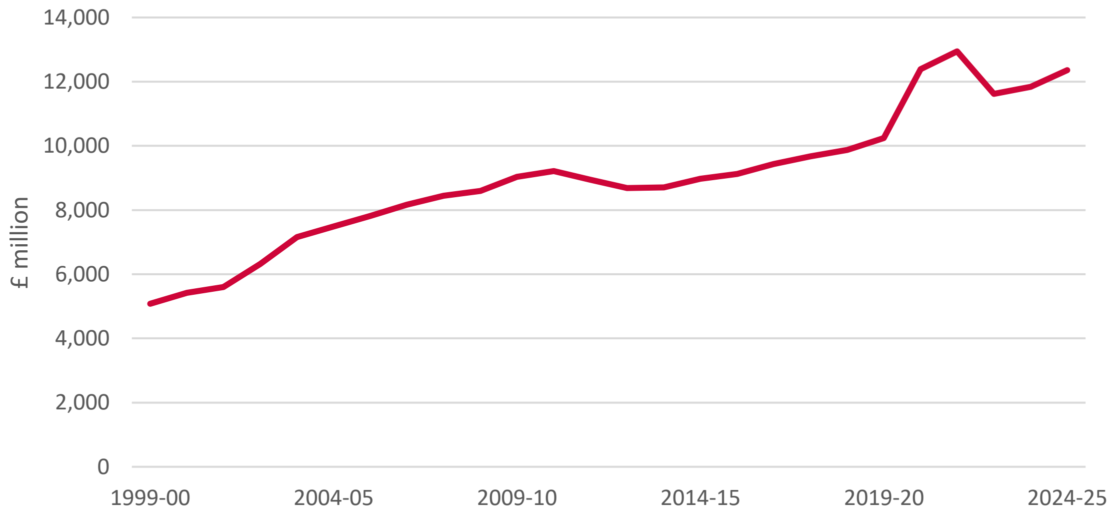
Spending on health care accounts for a majority of the Welsh Government's day-to-day budget. This section takes a slightly longer and deeper look at this critical area. As observed at length in section 3, large movements between budget lines and presentational differences across years create significant challenges in using Welsh Government budget documents to analyse health spending. We first focus on how spending has evolved since devolution, before looking at spending by economic category, health board and level of care.

Longer term trends

Figure 9 presents total spending on health for Wales from 1999-00 to the latest outturn year, 2024-25. Health spending increased by 143% over this period, or 122% on a per person basis. On average, health spending has increased by 3.6% per year in real terms since the advent of devolution, in line with the long-run, UK-wide average growth rate in NHS spending since the 1950s.

Figure 9

Total health spending for Wales, 1999-00 to 2024-25 (2025-26 prices)



Source: Office for National Statistics (2024) Country and Regional Public Sector Finances; HM Treasury (2026) Country and Regional Analysis.

This long run trend masks large variations in spending growth rates from year-to-year. During the first decade of devolution (1999-00 to 2009-10), spending growth averaged almost 5.9% per year in real terms, with large increases particularly in the first half of the decade. Austerity budgets from 2010-11 led to significantly lower rates of growth during the subsequent decade

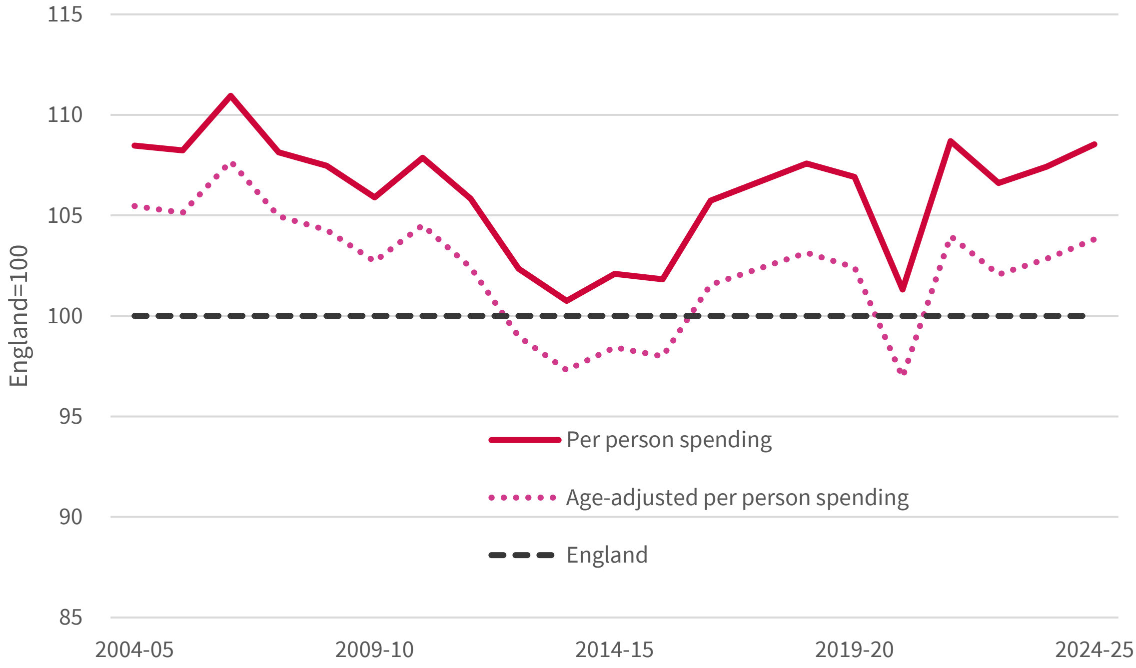
(2009-10 to 2019-20), with spending growth slowing to an average of 1.3% from 2009-20 to 2019-20. The Welsh Government took the decision to cut health spending in real terms during the first years of the decade to protect other areas of the budget from even deeper cuts. The share of day-to-day spending accounted for by health still increased throughout this period, from 42% of Welsh Government day-to-day spending allocations in 2010-22 to more than 50% in recent years. The Covid-19 pandemic led to a spike in health spending, and as explored earlier, was only partly reversed in subsequent years. Growth in health spending has averaged 3.8% per year in real terms from 2019-20 to 2024-25.

UK government decisions to increase health spending in England are frequently the largest sources of additional funding for the Welsh Government through the Barnett formula, and this is likely to remain the case in the Seventh Senedd term. These funding decisions taken by the Welsh Government have had an impact on relative spending levels in Wales compared to England.

Figure 10 shows relative spending levels in Wales compared with England over the last twenty years. Until 2010-11, spending per person was approximately 8% higher than in England. During the first years of austerity there was a sharp subsequent drop in relative spending levels as English spending was protected in real terms: in 2013-14, per person spending had contracted to almost the same level as England.

Figure 10

Relative health spending per person for Wales (England=100)



Source: Office for National Statistics (2024) Country and Regional Public Sector Finances; HM Treasury (2026) Country and Regional Analysis.

Figure 10 also shows relative age-adjusted per person spending, which adjusts for the age composition of the population to reflect the fact that higher levels of spending is necessary for a similarly sized population if it is older. On this measure, spending fell below English levels during the early 2010s. Since 2013-14, spending per person on health has once again grown more rapidly in Wales, meaning the initial relative advantage in health spending has been restored (to 109% by 2024-25). The drop in relative spending levels in the first year of the Covid-19 pandemic reflected much lower levels of spending on PPE and Test and Trace in Wales compared to England: Test and Trace was managed by local authorities in Wales and PPE was not associated with the level of cost overruns that have been well documents for England. This allowed the Welsh Government to allocate more of a share of Covid-19 funding to business support and local government spending, as well as allowing it to carry funding forward into the next financial year.[30]

Pay and procurement spending

Table 6 dissects health spending by economic categories, showing that resource spending is overwhelmingly concentrated in two economic categories: pay, and procurement. In 2019–20, pay (£4.97 billion) and procurement (£4.66 billion) together accounted for 99.7% of all identifiable health resource expenditure. As shown in Table 6, the health budget is effectively a two-component system, with financial pressures determined by developments in workforce costs and purchased goods and services.

Table 6

Health Spending (resource) by economic category (2025-26 prices)

£ million	2019-20	2020-21	2021-22	2022-23	2023-24	CAGR
Procurement	4,656	5,501	5,618	5,486	5,570	4.6%
Pay	4,971	5,482	5,563	5,454	5,547	2.8%
Grants to the Private Sector	26	31	35	26	29	2.5%
Subsidies	5	5	19	17	13	26.2%
Total	**9,659**	**11,019**	**11,235**	**10,982**	**11,159**	**3.7%**

Source: Authors' calculations based on OSCAR II data, HM Treasury.

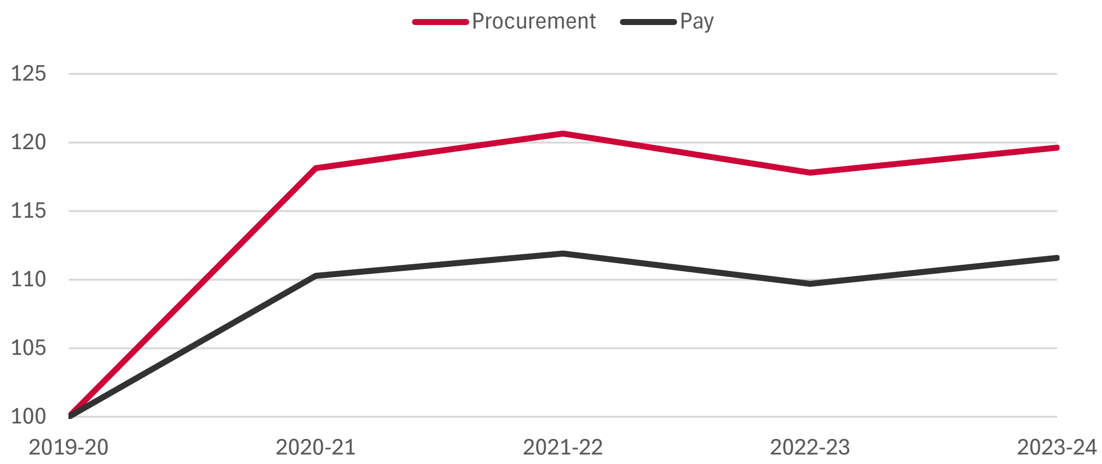
As illustrated in **Figure 11**, both pay and procurement have grown substantially in real terms since 2019–20. While public debate has often focused on pay settlements, procurement

[30] See page 18-19 of Wales Fiscal Analysis (2021) 'Welsh Election 2021: Fiscal outlook and challenges for the next Welsh Government', Wales Governance Centre. Available at: https://www.cardiff.ac.uk/__data/assets/pdf_file/0009/2514834/election_outlook_2021_FINAL_19042021.pdf

spending – which includes equipment, supplies and agency staff – grew by £338 million more than pay over the period in real terms. This highlights that underlying pressures in the health care system are not confined to workforce costs, rather they appear to be broad-based across the core inputs required to deliver services.

Figure 11

Real terms trends in Health sector pay and procurement, indexed to 2019-20 = 100

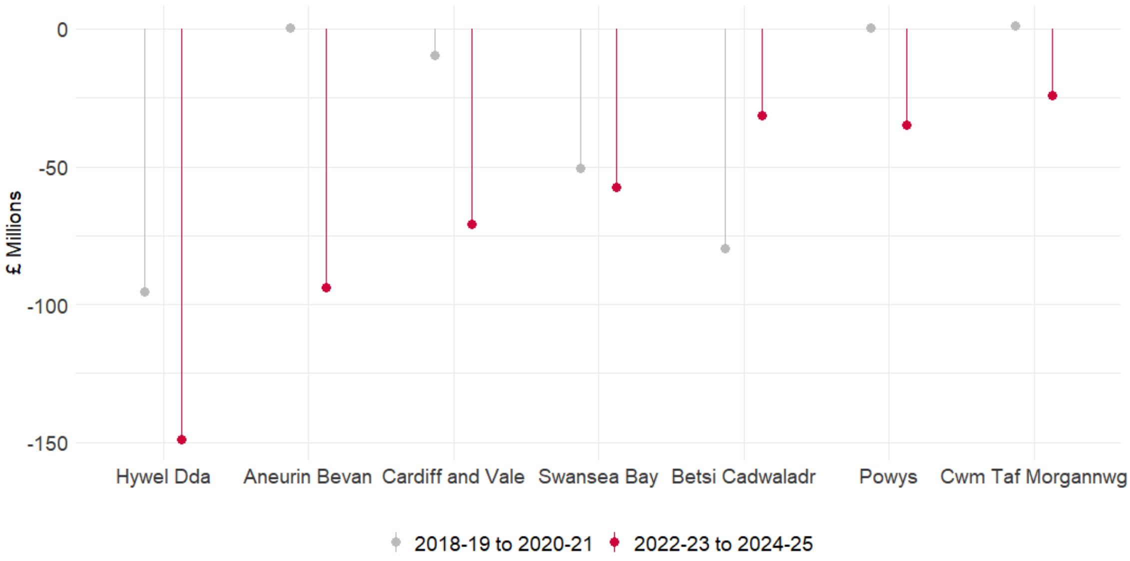


Source: Source: Authors' calculations based on OSCAR II data, HM Treasury

Despite this sustained increase in real resource spending, the financial position of health boards has deteriorated markedly. As shown in **Figure 12**, all health boards have reported cumulative three-year deficits in recent years, with the scale of shortfalls increasing over time. In practice, the statutory duty to break even has been managed through brokerage (repayable support) and non-recurrent allocations. While this preserves formal compliance, it does not resolve underlying cost pressures. The increase in resource allocations has not translated into restored financial balance.

Figure 12

Cumulative three-year surplus (deficit) of Health boards



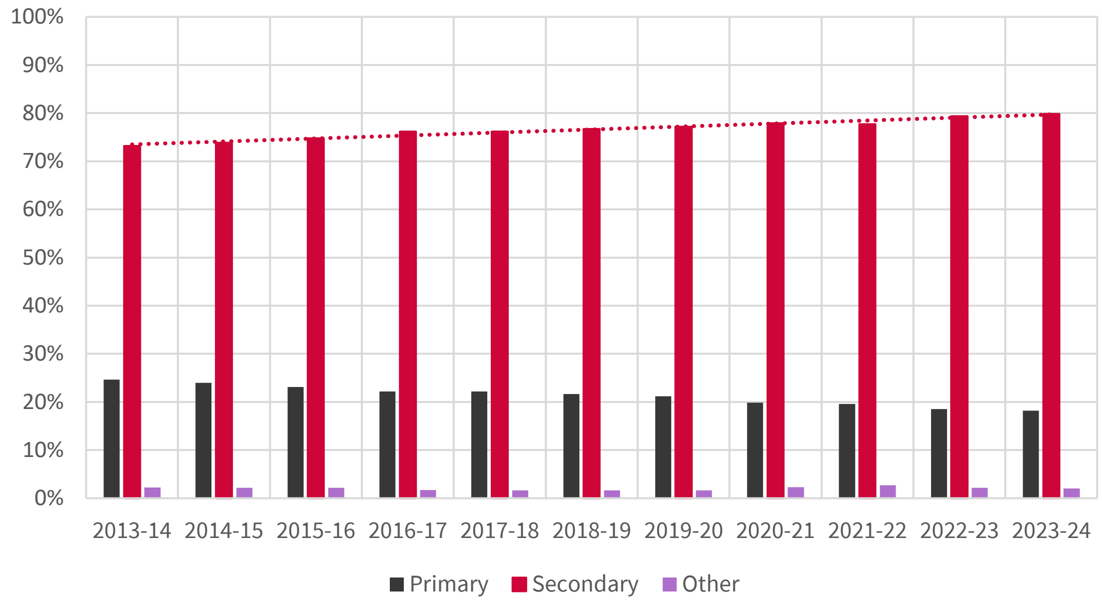
Source: NHS Wales Finances Data Tool; Audit Wales.

Such a combination of a deteriorating financial position across health bodies, rising expenditure, and persistent public dissatisfaction with performance suggests that the current situation is far from sustainable. This picture is consistent with the broader spending trends identified in Section 3: sustained real-terms increases in NHS allocations have not been sufficient to absorb the structural cost pressures bearing down on the service, and the gap between available funding and underlying demand has continued to widen.

As a means of alleviating these pressures, the Welsh Government has long stated an ambition to shift the balance of care towards primary and community settings. However, **Figure 13** shows that up to 2023-24, expenditure has remained concentrated in hospital and acute services, indicating a lack of progress in rebalancing the model of care. This gap between stated ambition and observed spending patterns is one of the most significant structural challenges facing the NHS in Wales, and will require explicit attention from the incoming government.

Figure 13

Share (%) of NHS expenditure by level of care



Source: Authors' calculations based on Stats Wales data.

We next turn to another policy area that will command attention from any incoming government – the higher education system in Wales.

6. Higher Education Spending in Wales

Higher Education (HE) institutions are key actors in the Welsh economy: generating output, supporting local employment, and training the future workforce. In addition to their economic benefits, universities play an important role in minimising socio-economic barriers through the provision of high-quality tertiary education.

But as in other areas of the UK, the financial model underpinning higher education in Wales has become a challenge of very significant scale. Although the political parties may wish to avoid confronting the financial challenges in the HE sector during the campaign, the financial underpinnings of HE policy are now frayed to breaking point, and both the structural instabilities of individual institutions and the sector as a whole are almost certain to become come a major issue for any new government's in-tray.

A series of recent work has documented the scale of the challenge, particularly a January 2026 Welsh Government consultation document *'The Future of Tertiary Education in Wales: Five Challenges and Call for Submission*',[31] which lays bare the scale of the problem.

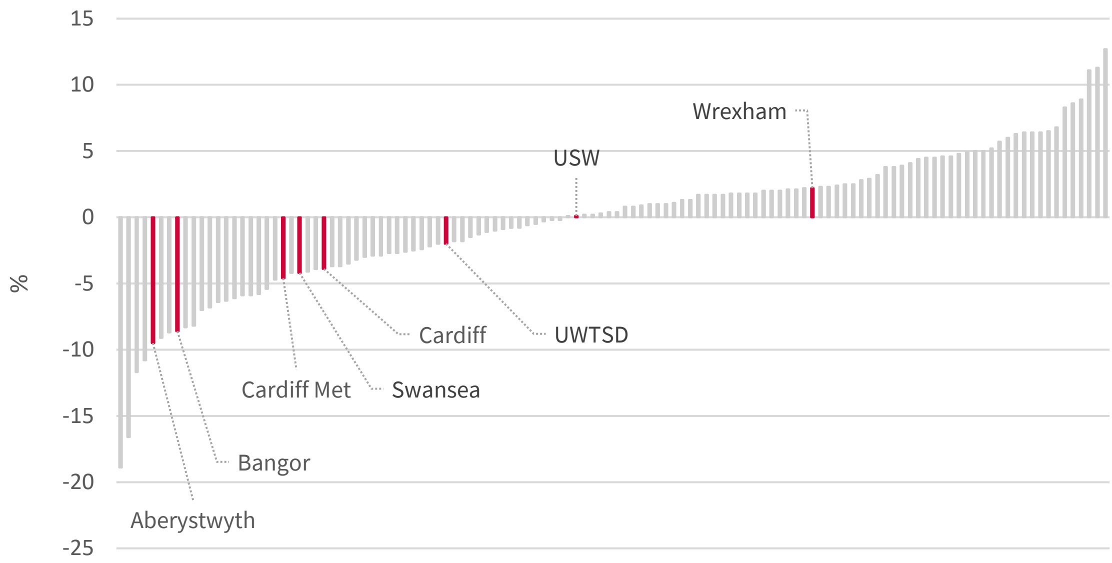
The Welsh Government spends more than a billion pounds a year on tertiary education: £1.116 billion in 2025-26 (approximately 5.2% of its total budget), plus a student loan outlay that has risen from £819m in 2020-21 to over £1 billion in 2025-26 (Welsh Government 2026: 40). Since the 2016 Diamond Review, which provided higher maintenance support, more non-repayable grants, and more favourable loan repayment terms than in England, Wales spends 71% more per student from the public purse than England – £4,860 versus £2,840 (London Economics 2025, see **Table 7** below). However, because the majority of Welsh public investment flows to students via maintenance grants (£3,710 per student, the highest in the UK) than to institutions via teaching grants, Welsh universities receive less income per student. In essence, Wales has chosen to support students' living costs over direct institutional funding – producing a system that is comparatively progressive for students but leaves universities comparatively income-poor.

This has left Welsh universities in an even more precarious financial position than comparable institutions elsewhere in the UK. Higher Education Statistics Authority (HESA) data indicate that six out the eight higher education institutions in Wales reported an underlying deficit in 2023/24, including a deficit of £33.4 million at Cardiff University, £39.9 million at Swansea University, and £18 million at Bangor University. The collective financial shortfall of £94 million across all eight Welsh universities compared with £71 million in the previous year. Surpluses (deficits) as a percentage of total income in 2023-34 are shown in **Figure 14**.

[31] Welsh Government, 21 January 2026 The future of tertiary education in Wales: five challenges and calls for submission | GOV.WALES

Figure 14

Surplus/(deficit) as a % of total income, 2023-24



Source: Authors' calculations based on HESA data. Excludes higher education institutions not included in the classification system developed by (Boliver 2015).

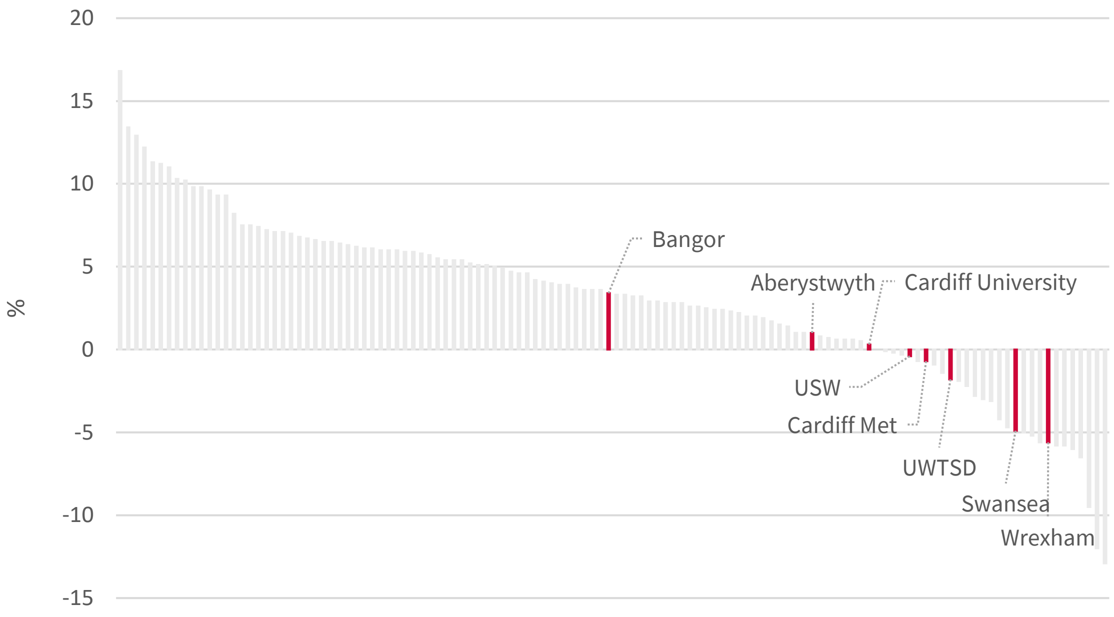
A second financial indicator used by HESA measures net cash inflow from operating activities as a proportion of total income.[5] Unlike the traditional surplus or deficit metric, this measure excludes elements of non-cash expenditure (such as adjustments for pension liabilities). Crudely put, in the absence of large reserves, an institution that has a net cash inflow of less than 5% is likely to face 'significant operational challenges in the medium term' (Halterbeck et al. 2020, 6).[32] This is especially true if the institution already has high debt servicing costs.

On this measure, seven of the eight higher education institutions in Wales ranked in the bottom half of UK institutions in 2023–24, and most Welsh universities were in the lowest quartile (**Figure 15**). The relatively weaker financial position of Welsh universities before the crisis raises concerns that they may be less able to adapt and respond to the challenges that are buffeting the entire sector and briefly discussed below, including the balance of student support and institutional support in Wales, declining international and domestic student numbers, and hits to research income.

[32] *Halterbeck, Maike, Gavan Conlon, Rhys Williams, and Joscelyn Miller (2020). Impact of the Covid-19 pandemic on University finances. London Economics.* https://londoneconomics.co.uk/blog/publication/impact-of-the-covid-19-pandemic-on-university-finances-april-2020/

Figure 15

Net cash flow from operating activities as % of total income, 2023-24



Source: Authors' calculations based on HESA data. Excludes higher education institutions not included in the classification system developed by (Boliver 2015).

The poor institutional financial positions starkly illustrated above is not a one-off, but rather the product of several compounding pressures that have accumulated over the past decade.

The Balance of Student Support versus Institutional Support in Wales

The Welsh Government's Diamond Review, which reported on reforms to the student support system in 2016, was deliberately generous – intending for higher maintenance support, more non-repayable grants, and more favourable repayment terms than for students domiciled in England (Dickinson 2026).[33] Since 2018 when the new system came into effect, however, frozen grant thresholds mean fewer students now qualify for the most generous support as household incomes rise with inflation. Between 2020-21 and 2024–25, not only has the grant-to-loan ratio for student support fallen from 32:68 to 23:77, but the average annual maintenance loan for a full-time undergraduate student from Wales grew by 59 percent, from £5,110 to £8,150 (Welsh Government, 2026: 45). Despite the best intentions of the Diamond grant-heavy system, average annual loans for Welsh students now exceed the average for students from England (London Economics, 2025 as reported in Dickinson, 2026).

[33] Dickinson, J, 22 January 2026, Welsh higher education is running out of wriggle room | Wonkhe

Successive Hits to Sector Income: International and Domestic Fees

Although HE is an area of devolved responsibility, and one in which the Welsh Government has exercised its discretion to chart a different course on student finance than in England and Scotland, reserved policy over the parameters of student loan policy and over visas and immigration have enormous consequences for the sustainability of the financial model in HE.

In particular, varying rules over student visas have triggered a boom-and-bust cycle in international student recruitment. Successive liberalisation of student visa rules triggered a 48% growth in non-UK enrolments in Wales between 2015-16 and 2023-24, such that international fees accounted for around a third of all tuition fee income in Wales by 2023-24 (Dickinson 2026). Tighter visa rules over dependents in 2023–24 have reduced international student enrolment 25% - at one institution, the University of South Wales, international enrolment fell by 2,000 in a single year and fee income fell from £56 million to £38 million. (Jones-Evans 2026).[34]

Historically, domestic fee revenues may have countered this loss. Particularly after the removal of undergraduate student caps under the Conservative-Liberal Democrat UK coalition government, higher-tariff universities compensated for tuition fees that remained fixed by aggressively expanding recruitment among students who otherwise would have attended teaching-intensive institutions. Between 2016 and 2025, acceptances to higher-tariff universities grew by 25%, while lower-tariff institutions saw a 22% decline (Welsh Government 2026). Wales is disproportionately exposed because it has relatively few higher-tariff institutions. Despite UK-wide undergraduate numbers growing, Welsh universities saw domestic undergraduate numbers contract between 2015/16 and 2023/24, with decreases ranging from 3% to as much as 34%, and with a further 4.2% decline reported for the 2025 entry cycle (Welsh Government 2026).

Not only are institutions struggling from contracting international and domestic fee receipts. Recall that as a result of the Diamond Review, the Welsh Government focused the balance of its tertiary sector spending on student support rather than direct institutional support – which in practice means lower Teaching Grants. Recent London Economics data,[35] replicated in **Table 7**, show that teaching grant income per student from the Welsh Government is lower than anywhere else in the UK: just £520 per student in Wales, compared with £1,070 in England, £5,420 in Northern Ireland and £6,020 in Scotland. The combination of falling student

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[34] Jones-Evans, Dylan. *Do universities in Wales face financial meltdown? Wales' eight institutions report an aggregate deficit of roughly £116m for 2024-25.* Western Mail**,** February 11, 2026.

[35] Conlon, Gavan (2025) *What can we learn from elsewhere in the UK? A comparison of Higher Education fees and funding systems across the UK. London Economics, Presentation to the Royal Society of Edinburgh, 28 May 2025.* https://londoneconomics.co.uk/wp-content/uploads/2025/05/London-Economics-RSE-Conference-Presentation-28-05-2025.pdf

numbers, frozen-in-real-terms fees, and declining grant funding has steadily hollowed out per-student income.

Table 7

£ per full-time 'home' student per year in 2024-25

	English in England	Scottish in Scotland	Welsh in Wales	NI in NI
Net Exchequer cost per student:				
Maintenance grants	—	£590	£3,710	£1,020
Maintenance loans	£760	£1,380	£290	£580
Tuition fee grants	—	£1,790	—	—
Tuition fee loans	£1,010	—	£340	£590
Teaching grants	£1,070	£6,020	£520	£5,420
Total	**£2,840**	**£9,760**	**£4,860**	**£7,610**
Net HEI Income per student:				
Gross fee income	£9,250	£1,790	£9,250	£4,750
Teaching grant income	£1,070	£6,020	£520	£5,420
Cost of bursaries	(£90)	—	(£200)	(£110)
Total	**£10,230**	**£7,800**	**£9,570**	**£10,060**

Source: What can we learn from elsewhere in the UK? A comparison of Higher Education fees and funding systems across the UK. Gavan Conlon, London Economics, Presentation to the Royal Society of Edinburgh, 28 May 2025. Replicated with permission.

The London Economics data is stark in its implications. Wales spends 71% more per student from the public purse than England — £4,860 versus £2,840 — yet Welsh universities receive less income per student. And while the choice to support students' living costs over direct institutional funding intended to produce a system that would be comparatively progressive for students, the average loan per student is now higher in Wales than in England.

Successive Hits to Sector Income: Research Income and R&D spending

The loss of EU structural funds following Brexit has been a serious blow: total research income fell by £32m between 2022/23 and 2023/24, primarily driven by this decline (Welsh Government 2026: 43). UKRI grant income has grown — up 42% between 2019/20 and 2023/24 — but Wales remains structurally disadvantaged in competitive bidding, receiving only 3% of UKRI grants despite having 4% of research-active staff (Welsh Government 2026: 54).

This hit to research and development spending risks further hampering Wales’ economic prospects. On a per capita basis, total spending on R&D is already substantially below the UK and English average. In 2023, business enterprise R&D expenditure (BERD) in Wales was just

1.7% of the UK total, well below Wales' roughly 5% share of the UK population, and per person government spending on R&D in 2021 totalled £534, 46% below the UK average of £987 per person (House of Commons Library 2023).[36] In our previous work on the Welsh economy, we have argued that this is one of the reasons behind the country's relatively worse fiscal position (Ifan, Siôn, and Poole 2019: 48, 2020: 20).[37]

An Unsustainable Funding Model

These pressures point to a model approaching the limits of sustainability on multiple fronts simultaneously. Six of eight Welsh universities ran deficits in the most recent year. Welsh Government policy led Wales to invest more heavily in students' living costs than in institutional funding, designed to produce a more progressive system for students but leaving universities income-poor, and now negated with the average student loan amount now higher in Wales than in England.

Difficult trade-offs lie ahead: between student support and institutional funding, widening participation and research excellence, short-term stability and structural reform. Although parties are unlikely to wish to confront these challenges during an election campaign, they will await the in-tray of the next government. After the Senedd elections the next government will have to decide what to do about the re-evaluation of Diamond review that is due this Spring. That government will face hard questions with no easy solution: whether to reform student support, how to stabilise university finances, how to reduce dependence on volatile international income, and how to negotiate greater resilience within a UK-wide system that Wales cannot unilaterally reshape.

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[36] House of Commons Library, Abbas Panjwani, 11 September 2023, *Research & Development Spending* https://researchbriefings.files.parliament.uk/documents/SN04223/SN04223.pdf

[37] Ifan, Guto, Cian Siôn, and Ed Gareth Poole (2019). Government Expenditure and Revenue Wales 2019. Cardiff: Wales Fiscal Analysis.
https://www.cardiff.ac.uk/__data/assets/pdf_file/0009/1542474/full_gerw_print.pdf
Ifan, Guto, Cian Siôn, and Ed Gareth Poole (2020). Wales' Fiscal Future. Cardiff: Wales Fiscal Analysis.
https://www.cardiff.ac.uk/__data/assets/pdf_file/0004/1767424/Wales_Fiscal_Future_FINAL.pdf

7. Other Key Pledges to Watch Out for

Childcare Offer

Childcare provision represents one of the most significant areas of policy divergence between the parties contesting the May 2026 Senedd election, and one in which Wales has demonstrably fallen behind other UK nations.

Childcare support for parents in Wales is split across several schemes from both the Welsh and UK governments, with support dependent on the child's age, location and parent's work status. From the term after a child turns 3, all children receive 10 hours per week of early years education during term time. In more deprived areas (covered by Flying Start), two and three-year-olds can receive 12.5 hours of funded childcare per week. This provision is currently being expanded toward universal coverage, with this already achieved in Merthyr Tydfil, Swansea and Newport. The Childcare Offer for Wales provides working parents with children aged 3-4 with 20 hours of childcare per week for 48 weeks. The Bevan Foundation has highlighted key issues around affordability, accessibility and gaps in provision in the Welsh system.[38] Average childcare costs for parents of children aged 2 and under are now significantly higher in Wales than in England and Scotland.[39]

This divergence in cost has come as spending in England has increased significantly since 2023-24.[40] At the 2023 Spring Budget, the UK government announced new expanded entitlements; since September 2025, working families are offered up to 30 hours a week for children aged 9 months to 2 years. Alongside increasing the funding rate for providers and implementing supply side reforms, as well as a further top-up at the 2025 Spending Review, this will have increased funding for childcare by roughly £5.9 billion by 2028. Although it is not possible to directly track the funding consequentials that this will have triggered for the Welsh Government in the Block Grant Transparency Data[41], this will have increased the Welsh Government's budget by approximately £330 million by 2028-29 (relative to a scenario where the additional spending in England hadn't taken place). Spending on expanded entitlements has already increased by roughly £4 billion by 2025-26, which would have led to consequentials of over £200 million this year.

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[38] Evans, S. (2025) 'Tackling poverty by improving access to childcare', Bevan Foundation. Available at: https://www.bevanfoundation.org/wp-content/uploads/2025/07/Manifesto-briefing-English.pdf
[39] Evans, S. (2025) 'Are parents in Wales facing a childcare premium?'. Bevan Foundation. Available at: https://www.bevanfoundation.org/views/childcare-premium-wales/
[40] Faruharson, C. et al. (2026) 'Annual report on education spending in England: 2025-26', Institute for Fiscal Studies. Available at: https://ifs.org.uk/sites/default/files/2026-01/IFS-annual-report-on-education-spending-in-England-2025%E2%80%9326.pdf
[41] This is because some of the increased funding will have been 'baselined' into the Welsh Block Grant at the 2024 and 2025 Spending Reviews and therefore cannot be disaggregated.

Unfortunately, it is not possible to directly track the amount of the Welsh Government budget that goes towards funding childcare, which makes it difficult to make like-for-like comparisons, assess the true cost of the existing offer, and to evaluate opposition parties' competing proposals before the election. Funding is split between two Budget Expenditure Lines – 'Support for Childcare and Play' and the 'Children and Communities Grant' – which also includes funding for other areas and programmes.[42] Since 2023-24, budget allocations to these two lines have increased by approximately £60 million from 2023-24 to 2026-27.[43] The Draft Budget for 2025-26 included an additional £20 million to increase the hourly rate paid to childcare providers, while the budget agreement with the Liberal Democrats to pass the Final Budget for 2025-26 included £30 million for delivery of the Flying Start programme expansion. No additional allocations have been made for the 2026-27 budget, meaning funding is set to fall in real terms next year. Spending has increased over the course of the Sixth Senedd as the Flying Start provision has expanded. However, spending growth has fallen substantially behind the increases seen in England, and per person spending is now likely substantially below English levels.

Political parties have so far set out distinct positions on childcare. Plaid Cymru proposes a universal entitlement of 20 hours per week for all children aged nine months to four years, available for 48 weeks per year and not conditional on parental employment status; the party estimates this would represent a saving of over £30,000 to a family over the first four years of a child's life.[44] The Welsh Conservatives propose extending 30 funded hours per week to working parents of children from nine months to four years, alongside a Grandparent Childcare Payment of £200 per child per month for eligible grandparents nominated as the primary childcare provider, with the total additional cost estimated at £98 million, to be met from Barnett consequential funding arising from childcare expansion in England.[45] Welsh Labour have not committed to matching either the English expansion or the opposition proposals, and the Reform UK manifesto published on 5 March 2026 did not contain any proposals for childcare policy.

Public sector productivity and efficiency

Given the tight fiscal outlook, political parties should be considering plans and targets for increasing public sector productivity and efficiency over the course of the next Senedd term. This will be a key part of meeting spending pressures across public services and improving outcomes amid relatively tight budgets.

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[42] https://www.gov.wales/children-and-communities-grant-ccg
[43] This compares allocations at 2nd Supplementary Budget for 2023-24 with Final Budget allocations for 2026-27.
[44] Plaid Cymru Childcare Offer, 10 October 2025 https://www.partyof.wales/childcare_offer
[45] Welsh Conservatives Childcare Offer, 29 January 2026 Policy Announcement: Grandparent Payments To Form Part Of New Welsh Conservative Childcare Offer | The Welsh Conservative Party

The Welsh Government has to our knowledge not publicly committed to specific targets for public sector productivity growth. At the 2025 Spending Review, the UK government set out plans to deliver at least 5% 'savings and efficiencies' by 2028-29 (outside of local services, schools and aid). This includes making almost £14 billion of efficiency gains in the delivery of public services by 2028-29 (including £9 in the NHS budget) and cutting central administration budgets by another £2 billion. The Scottish Government's Medium Term Financial Strategy aims to achieve increases in public sector efficiency and productivity, reforms, and revenue raising to save from £0.6 billion to £1.5 billion per annum over the five years.

There is scope to target similar improvements in public service productivity in Wales. Many public services are less productive than they were before the pandemic; for example, hospital activity in Wales has not increased in line with spending increases. This also matters for economy-wide growth in Wales, of which the public sector is a significant part.

In the context of campaign pledges, however, claims around productivity and efficiency should be treated with caution. First, the UK government plans for this Spending Review period are ambitious: it would entail average growth of around 1% per year in input productivity, whereas the average historical growth since 1997 is 0.2%.[46] If eventual productivity improvements fall short, then intended public service outcomes may worsen. Second, the degree to which productivity gains "free-up" resources for new spending commitments or tax cuts can be questioned. Increased productivity and efficiency will be needed to simply meet *existing* spending pressures, not to mention ambitions to drive improvements in public service performance in general.

Beyond public services, cutting the Welsh Government's Central Administration budget could lead to efficiency savings. However, administration is a small part of what the Welsh Government spends its money on; the budget for Welsh Government staff costs and running costs comes to £341 million in 2026-27, just 1.4% of day-to-day spending. There is a risk that cutting this budget further could be counterproductive, especially in light of concerns raised around current capacity.[47] The Welsh Government's Full Time Equivalent (FTE) employment level has increased by 8% from 2016 to 2025 (from 5,160 to 5,555). This growth is significantly lower than at a UK-wide level, where FTE employment has increased by 34% over the same period.

Political parties are right to consider how public services could be delivered more efficiently in Wales, but they should also be upfront about the wider trade-offs that their fiscal plans imply.

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[46] Harvey-Rich, O. and M. Warner (2025) 'The outlook for public sector productivity', Institute for Fiscal Studies. Available at: https://ifs.org.uk/sites/default/files/2025-09/The-outlook-for-public-sector-productivity-Green-Budget-2025.pdf

[47] Waters, L. (2025) 'Cathays Conversations', Cardiff University. Available at: https://www.cardiff.ac.uk/__data/assets/pdf_file/0010/2888677/Cathays-Conversations-Lee-Waters-2025-01-14.pdf

8. Conclusion

The Sixth Senedd has been characterised by a degree of unprecedented fiscal turbulence. The Welsh Government has navigated wild swings in both economic conditions and UK government fiscal policy, with the real value of agreed spending settlements fluctuating substantially *within* a financial year, not even than simply between them. The eventual outturn — a real-terms increase in available resource funding of around 3.4% per year over the Senedd term, including the effect of tax devolution — is significantly stronger than was anticipated in 2021. Yet this aggregate picture conceals considerable fragility in specific areas of public provision, and a notably tighter fiscal outlook from 2027-28 onwards.

The overriding pattern in Welsh Government spending over this period has been the sustained prioritisation of health and local government. Spending outside health and local government fell by approximately 6% in real terms between 2022-23 and 2024-25, and remains below 2022-23 levels in real terms in 2026-27. While this reflects rational responses to unavoidable demand and cost pressures within the NHS, the cumulative effect on other areas — education, housing, economic development, environmental programmes — deserves serious attention in the next Senedd term. Notwithstanding increased spending in the health service, the financial position of the health boards across Wales have meanwhile continued to deteriorate.

Higher education represents one of the most acute policy challenge awaiting the incoming government. The combination of falling domestic and international enrolments, frozen teaching grants, declining research income, and a student support model that now produces average loan levels higher than in England has brought the sector to a point of structural instability. These challenges will demand difficult policy choices that parties may be reluctant to confront during the campaign.

Looking ahead, three questions merit particular attention from parties and the incoming government. First, how will they manage the tight fiscal environment from 2027-28 onwards, when the core block grant is currently projected increase only slowly? Second, what structural reforms — to NHS service delivery, higher education funding, childcare provision, and Council Tax — are needed to improve outcomes and long-term sustainability, rather than simply managing immediate spending pressures? Third, if the past instability in the UK fiscal outlook continues, will the Welsh Government be willing to pull the fiscal levers available to them – namely devolved income taxes – to avoid service cuts or continued use of Council Tax increases to maintain local services? Honest engagement with these questions, and with the scale of the trade-offs involved, will be essential for any programme of government taking office after the May 2026 elections.

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