Dadansoddi Cyllid Cymru
Wales Fiscal Analysis

A Decade On: Reforming Wales' Fiscal Framework

WALES FISCAL ANALYSIS

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Preface

Declaration of funding

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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, including the impact of Brexit on the Welsh budget and local services, 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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A Decade On: Reforming Wales' Fiscal Framework

Executive Summary

Almost a decade after the Welsh and UK governments signed the Welsh Fiscal Framework Agreement, this report evaluates the impact of those reforms and recommends further ways to improve it. We find that the 2016 framework has delivered substantial budgetary gains but has not yet fully met the original goals of the Silk Commission, which saw tax devolution as central in enhancing the accountability and empowerment of the Welsh Government and Parliament. Such a review is now timely; not simply because almost a decade has now passed, but because the 2024 Labour Party General Manifesto argued that several aspects of the Fiscal Framework were "out of date" and required reform.

The Block Grant and Barnett Formula

Despite the devolution of major and minor taxes in the late 2010s, most of the Welsh Government's funding still comes from the block grant, with *changes* from year to year determined by the Barnett formula. Historically criticised for failing to reflect Wales' higher relative need, the formula was updated from 2018-19 to include a Needs-Based Factor (NBF) of 105%. This has successfully slowed convergence in relative funding levels (the so-called 'Barnett Squeeze') and delivered substantial additional funding for Wales; the budget in 2027-28 is set to be over £500 million larger because of the inclusion of the NBF. Relative Welsh funding per person currently stands at approximately 121% of England's level – above the estimate of relative need as calculated by the Holtham Commission (115%). However, the calculation of relative need is based on outdated assessments, and there is evidence that actual relative spending levels are lower than official estimates and lie closer to 117%.

Short of a broader, principles-based reform of devolved funding systems across the UK, **this report highlights the need for an updated, transparent re-evaluation of relative need and spending levels.** Longstanding procedural issues relating to the operation of the Barnett formula should be resolved, as HM Treasury remains 'judge, jury and executioner' when disputes arise (notably on the designation of HS2 as an England and Wales project, and the recent decision on how much to compensate the Welsh Government for the UK Government's increase in employer National Insurance Contributions). We also find that Wales' relative spending is substantially higher for devolved public services (such as health and education) than it is for services that remain reserved to the UK government (such as rail infrastructure and justice), where spending is below a population-based share. On this basis – **the more Barnett, the better**.

Devolved taxes and fiscal accountability

Tax devolution has also been an unheralded and unequivocal budgetary success. Devolved tax revenues have grown faster than their equivalent Block Grant Adjustments (BGAs), adding nearly £500 million to the Welsh budget in 2026-27. But devolved taxes still account for a relatively small proportion of total spending and UK government fiscal policy remains the dominant driver of the fiscal outlook.

To date, the Welsh Government has not used its income tax-varying powers, and the impact on public debate and electoral competition has been muted. The current level of tax devolution has fallen short of the original goal of boosting fiscal accountability and empowerment.

Given the budgetary success of tax devolution on the one hand and its limited impact on government accountability and public debate on the other, this report recommends the full devolution of both rate-setting and threshold-setting powers over income tax to the Welsh Government, including for savings and dividends incomes.

Budget Management Tools and resource borrowing

When the Wales Reserve was introduced in 2018, limits on its overall size and annual drawdowns were set in cash terms and have not been adjusted for inflation or the growth in the size of the Welsh budget. Their usefulness has therefore eroded significantly even though the Welsh budget has faced heightened fiscal uncertainty, frequent in-year funding fluctuations, and sizeable forecast errors and reconciliations.

This report recommends that limits on the size and use of the Wales Reserve should at least be updated to reflect inflation since 2018; indeed, there is a strong case for limits to be lifted entirely. **Moreover, the Welsh Government should be able to use its limited resource borrowing powers for planned day-to-day spending and not just for addressing tax revenue forecast errors**.

Capital borrowing powers

The Welsh Government's capital borrowing powers, with an annual cap of £150 million and overall cap of £1 billion, have also been substantially eroded in real terms. The Welsh Government could afford significantly greater levels of borrowing within the context of its overall resource budget and devolved tax revenues. **In this context, the**

overall cap on Welsh Government borrowing for capital spending should be increased significantly and linked to the share of the Welsh Government's resource budget devoted to servicing debt. For example, limiting debt servicing costs to 1% of day-to-day budget would imply an overall cap of £3.3 billion (which would be updated based on the cost of borrowing and the projected size of the Welsh Government budget).

Such an updating would offer transformative amounts of additional capital spending for one of the poorest parts of the UK, addressing historic underinvestment and the fact that Wales has lost out from large-scale infrastructure projects such as HS2. This would represent a substantial increase in the fiscal empowerment and accountability of the Welsh Government.

Conclusions

The 2016 Fiscal Framework Agreement has delivered considerable budgetary benefits to the Welsh Government, with spending next year set to be almost a £1 billion higher because of those reforms. Notwithstanding the need for updated assessments of relative funding and spending needs, **the core budgetary challenge for Welsh public services relates to *absolute* levels of funding, rather than funding *relative to England***. Given the vanishingly small likelihood of UK-wide reforms to the Barnett formula, reforms that would systematically disadvantage Scotland and Northern Ireland, if Welsh policymakers are unsatisfied with the amounts of funding available for devolved public services, this should prompt a conversation around whether the Welsh Government has appropriate fiscal levers to increase the size of the Welsh budget independent of UK fiscal policy decisions.

Although an unequivocal budgetary success, the reforms brought about by the 2014 and 2017 Wales Acts have fallen short of delivering the promised fiscal empowerment and accountability of Welsh devolved institutions. If this is still a goal for policymakers, expanding tax devolution, increasing budget management tools, and significantly enhancing borrowing powers would all be a means to this end.

1. Introduction

1.1 In December 2016, the Welsh and UK governments signed the Welsh Fiscal Framework agreement, which detailed how reforms to the Welsh Government's budget and taxing powers would be implemented following the 2014 and 2017 Wales Acts. The agreement outlined how the existing Block Grant would be adjusted downwards to reflect the devolution of taxes, and how this so-called Block Grant Adjustment (BGA) would grow going forward. It also led to the first significant reform of the Barnett formula since its inception in the late 1970s, with the introduction of the Needs-Based Factor. There were also some changes to the Welsh Government's borrowing powers and budget management tools.

1.2 Almost a decade later, the UK Labour manifesto at the 2024 UK General Election stated that the 'Welsh Fiscal Framework is out of date', and that the party was "committed to working in partnership between the two governments to ensure the framework delivers value for money, with two Labour governments committed to fiscal responsibility". This commitment did not however outline which specific reforms an incoming Labour government would pursue. The June 2025 Spending Review and the coinciding Statement of Funding Policy[1] – an opportune moment to enact reforms – was wholly silent on the Welsh Fiscal Framework. The Cabinet Secretary of State for Finance and Welsh Language, Mark Drakeford MS, has noted that the Welsh Government expect borrowing and reserve limits to be considered as part of the UK Autumn Budget.[2]

1.3 The reforms brought about by two Wales Acts and the Fiscal Framework have been a huge budgetary success – as outlined in this report, both tax devolution and the introduction of the Needs-Based Factor have led to more resources being available to the Welsh Government. The Welsh Government's budget for 2026-27 will be nearly a billion pounds higher as a result of the reforms contained in the 2016 Fiscal Framework Agreement. But to what extent have they achieved the initial aims of the Holtham and Silk Commissions of increasing the Welsh Government's financial empowerment and accountability? Which aspects of the 2016 agreement now look 'out of date'? Ahead of the Autumn Budget and the end of the current Senedd term, this Briefing Paper outlines some of the issues with the existing fiscal framework and proposes some reforms which need to be considered.

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[1] HM Treasury (2025) Statement of Funding Policy, June 2025. Available at: https://assets.publishing.service.gov.uk/media/684859e3d0ca5d7801e4e6f6/Statement_of_Funding_Policy.pdf

[2] For example, see Finance Committee transcript for 26 June 2025: https://record.assembly.wales/Committee/15130#C690741

1.4 The paper proceeds as follows. **Section 2** considers the block grant and the Barnett Formula. **Section 3** analyses devolved taxes and the block grant adjustments. **Section 4** analyses the Welsh Government's resource borrowing powers and budget management tools, while **Section 5** considers its capital borrowing powers. **Section 6** concludes and makes recommendations.

2. The Block Grant and the Barnett Formula

2.1 Most funding for the Welsh Government budget continues to derive from block grants from the UK government. These block grants consist of the prior year's funding carried forward, plus a change calculated by the Barnett formula. The aim of the formula is to provide a population-based change in funding for the devolved governments as spending on comparable public services in England increases or decreases. Specifically, changes in UK government departmental spending are multiplied by a 'Comparability factor' (which captures the degree to which the spending is in an area devolved to Wales) and a population proportion (Wales as a share of England).

2.2 The Barnett formula contains an inbuilt quirk in its operation. Because of Wales' initially higher level of spending deriving from the late 1970s, any given *pounds-per-person increase in spending in England* represents a *smaller percentage increase in spending in Wales*. As a mathematical (and intended) consequence of this, over time the Barnett formula tends to lead to convergence in spending levels in the devolved countries down towards English levels – the so-called 'Barnett squeeze'. In practice, the extent of convergence in relative funding will be influenced by factors other than simply this mathematical convergence. For example, if the Welsh population grows relatively slowly, then the rate of convergence decreases; while annual changes may reflect updated population shares, the previous year's funding carried forward is not updated to reflect a relatively smaller population. Higher spending growth increases the rate of convergence in relative funding, while lower spending growth reduces the rate of convergence. Changes in devolved functions or departmental profiles of spending can also influence calculations of relative spending levels.

2.3 This multi-decade path dependency means that relative spending levels in each of the three countries where public spending changes are determined by the Barnett formula – Scotland, Wales, and Northern Ireland – are primarily a historical accident rather than any reflection of each country's ability to provide a given standard of public services to its citizens. In Wales, the most substantive and longstanding criticism of the Barnett formula was that a population-based share of additional funding failed to reflect different levels of relative needs per person. Accounting for demographic, deprivation and cost indicators, two Holtham Commission reports (2009-2010) estimated Wales' relative spending needs of between 114% and 117% of England's level. Relative funding levels at the time was approximately 113% of England's level and was likely to fall further below this level in subsequent years.[3]

2.4 In the immediate years after the Holtham Commission reported, two factors unexpectedly caused a *divergence* in relative funding levels for Wales compared with England, ***actually reversing*** the previous Barnett squeeze effect observed in the 1990s and 2000s. First, Wales' population started growing at a much slower rate: from 2009 to 2024, the Welsh population has grown by 5%, while England's population has increased by 12%. While annual changes to the block grant will reflect this smaller population, this essentially means that Wales' existing block grant has to be shared between fewer people, resulting in increasing relative funding per person in Wales. Second, UK government austerity policies cut spending, which caused a reversion in the Barnett squeeze effect – the same pounds-per-person cut in Wales and England now became a smaller *percentage cut* for Wales. Through accident rather than design, Wales' funding per person *relative to England* actually grew again during the 2010s, even though *absolute* levels of funding sharply reduced in real terms.

2.5 But quite correctly, reforming the Barnett formula and restricting future underfunding remained a priority for the Welsh Government and the political parties in Wales. The Fiscal Framework Agreement of 2016 introduced an additional element to the Barnett Formula as applied to Wales – the Needs-Based Factor – which means increments to the Welsh block grant are higher than a population-based share (as shown below). This Needs-Based Factor was set at 115%, a number which reflected the Holtham Commission's funding floor recommendation. However, since estimated relative funding per person for the Welsh Government was above 115%, a factor of 105% was agreed for a 'transitional period', a period which would continue until funding had again converged down to 115% of English per capita spending.

The Barnett formula for Wales since the 2016 Fiscal Framework Agreement

A: Change to Planned UK Govt spending X **B: Comparability factor** X **C: Wales' population as a % of England** X **D: Needs Based Factor (105%)**

2.6 Internationally, a number of decentralised fiscal systems use relative spending needs to determine substate grant allocations. However, unlike such systems which set the *total level* of substate block grants, the Barnett formula only affects *annual changes* in the Welsh block. This means that relative funding per person in Wales is still influenced by a

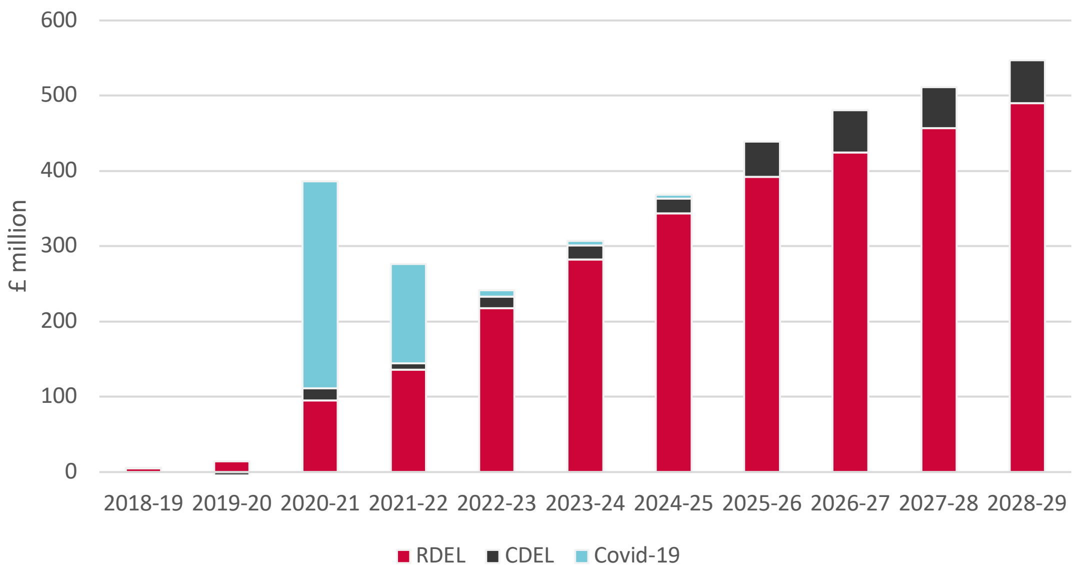
[3] Independent Commission on Funding and Finance for Wales (2010) Fairness and accountability: a new funding settlement for Wales, Final report, July 2010. Available at: https://www.gov.wales/sites/default/files/publications/2018-10/fairness-and-accountability.pdf

mix of historical accident, trends in relative population growth, and the rate of growth in spending in England. Thanks to the Needs-Based Factor, however, there is now inbuilt protection against further convergence and future underfunding.

2.7 By multiplying additional funding by 105%, the Needs-Based Factor has led to significant sums of additional funding for the Welsh Government budget. Based on the recently published Block Grant Transparency data, we estimate that the Needs-Based Factor has resulted in over £2 billion of additional funding for the Welsh Government between 2018-19 and 2025-26. The 2027-28 budget alone is set to be over £500 million larger because of the Needs-Based Factor (**Figure 1**).

Figure 1

Estimated additional Welsh Government consequentials resulting from the Needs-Based Factor



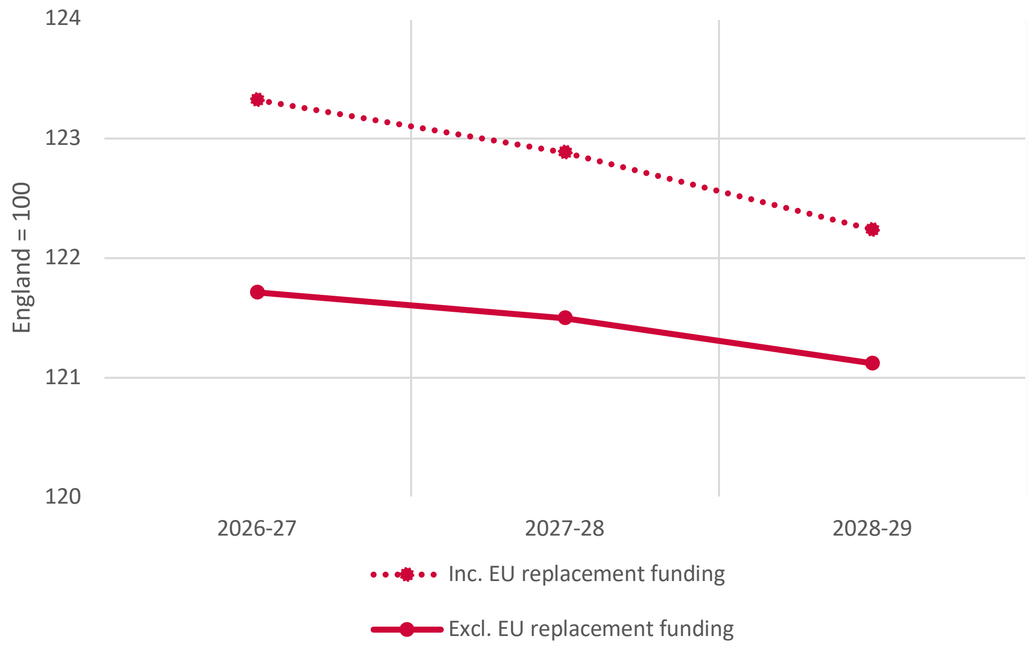
Source: Authors' calculations based on HM Treasury (2025) Block Grant Transparency data October 2025

2.8 The UK government has not published an estimate of relative spending levels in Wales since December 2021, when it noted that relative funding per person for Wales would average 120% of England's level across the Spending Review 2021 period (2022-23 to 2024-25). Using the Spending Review 2025 spending plans, we follow the methodology as outlined by the 2016 Fiscal Framework Agreement, to provide an updated estimate of relative funding levels for Wales. We make an adjustment to the methodology by excluding EU replacement funding for farm payments and fisheries, which were not included in the Holtham Commission's estimate of relative need (see full methodology in Annex A). We estimate that relative funding per person will average 121% of England's level during the Spending Review 2025 period (2026-27 to 2028-29).

2.9 As it was expressly designed to do so, the additional funding provided by the 105% Needs-Based Factor has slowed the 'Barnett squeeze' effect over recent years. We estimate that in the absence of this additional funding, relative funding would be at 119% over the same period. Another factor holding Wales' relative funding up has been its continued slower growth in population.

Figure 2

Estimated relative funding per person for Wales (England = 100), 2026-27 to 2028-29



Source: See Annex A1

2.10 Although the issue of the Barnett squeeze and per-person underfunding relative to England (currently and in future) has been addressed (through a mix of historical accident and reforms), there are several important matters which should now be addressed in a review of the Fiscal Framework.

2.11 Both governments should agree and publish a transparent update of estimated relative funding per person levels, agreeing instances where certain funding distorts the picture of relative funding levels. In the public sector financial data there is a great deal of uncertainty in determining comparable spending in England on devolved services, since there are no separate English departmental budgets. The methodology estimates this by multiplying departmental spending totals with the relevant Comparability Factor for each department. However, these Comparability Factors change at each Spending Review and can result in peculiar effects on estimated relative spending levels. For example, the inclusion of the HS2 project as an England and Wales project has greatly reduced the comparability factor for the Department for Transport. This has therefore *reduced* estimated comparable spending levels in England and *increased* relative spending levels in Wales – a frankly perverse outcome that does not reflect the on-the-ground reality of HS2 funding that does not actually benefit Wales.

2.12 An alternative method for estimating Welsh relative spending levels relative to England is to use HM Treasury's Country and Regional Analysis outturn data (most recently available for 2023–24). By disaggregating this data by organisation (i.e. UK departments, the Welsh Government, and local governments) and sub-functions, it is possible to identify areas of expenditure that are largely devolved and to compare per-person spending in these areas with that in England. Although this compares different concepts than the estimate in paragraph 2.8 (total expenditure on services rather than departmental expenditure limits), it is a useful illustration of actual relative spending levels in Wales compared with England. The full reasoning and methodology for this analysis are provided in Annex A.

2.13 Total identifiable spending for Wales in 2023-24 was £45.6 billion, or £14,400 per person – 114% of England's level per person. If we exclude UK government social protection spending (e.g. pensions and benefits), relative spending on all other areas was 112% of England's level. Isolating expenditure in areas which are wholly or largely devolved to the Welsh Government,[4] we can analyse £24.4 billion of spending, which amounts to 97% of all spending by Welsh and local governments in the data.[5] Relative spending per person on these functions is still only 117% of England's level. For overall devolved and local spending to be close to the 120% figure, this suggests that the residual 3% of devolved spending is around 8 times higher per person in Wales than in England. This is impossible to be the case.

2.14 The analysis in paragraphs 2.12 and 2.13 has three important implications. First, it suggests that the agreed methodology of calculating relative funding may well overstate relative spending per person in Wales compared to England. Second, even on an alternative methodology, relative spending levels in Wales still appears closer to, but still

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[4] These include health, personal social services, education, local public transport and roads, social housing, all other local government spending, general public services, agriculture, food and fisheries, environment protection, community development, recreational and sporting services, cultural services, and recreation, culture and religion.
[5] This excludes spending delivered by Welsh/local government but primarily financed by non-devolved funding, namely: policing; housing benefit; and market support under CAP.

above, the estimate of relative need of 115%. Third, this analysis suggests that Wales currently receives substantially less per person on *reserved* services compared with England. If non-social protection spending per person is 112% of England's level, and relative spending per person on mostly devolved areas is 117%, this means that relative spending per person on all other services is 91% of England's level. In other words, Wales does substantially better on devolved public services compared to what is reserved to the UK government. This raises the prospect of Wales being fiscally better off with further devolution of currently reserved functions such as policing, justice, rail infrastructure, and some social security benefits.[6]

2.15 It is also important to note that the estimate of relative need for Wales compared with England is now very out of date. Wales' fiscal framework is again slightly unusual from an international perspective in that no arrangements have been made for reassessing relative need in future. By the end of this Spending Review period, the estimate of relative need which is the basis for the fiscal framework will be nearly two decades old, with some indicators based on ***2001*** Census data. There have also been significant changes in the composition of devolved spending, Welsh Government responsibilities and the Welsh block grant since the estimate was published.

2.16 There are also long-standing procedural issues surrounding the operation of the Barnett formula which should be resolved. The Statement of Funding Policy remains a wholly UK-government-owned document, rather than reflecting intergovernmental dialogue. The Treasury remains 'judge, jury and executioner' when deciding on what is devolved or not and when the Barnett formula is applied. The most obvious example concerns the designation of HS2 as an England and Wales project. We estimate that the local loss in consequentials from this decision between 2016-17 and 2029-30 already stands at £845 million.[7] There was also the recent case of the employer National Insurance Contributions increase; the consequentials deriving from the Barnett formula (105% of a population's share) did not cover the increased costs facing Welsh public sector employers. This essentially reduced the spending power of the Welsh Government by £70 million as a result, without an explicit reason given. Although the Finance: Inter-ministerial Standing Committee (FISC) provides a forum for discussion, unlike other

[6] See: Ifan, G. (2019) Fiscal implications of devolving justice, Wales Governance Centre. Available at: https://www.cardiff.ac.uk/__data/assets/pdf_file/0010/1699219/Fiscal-implications-report-FINAL.pdf; Ifan, G. Nicholas, L. and E.G. Poole (2021) Railway Infrastructure in Wales, Wales Governance Centre. Available at: https://www.cardiff.ac.uk/__data/assets/pdf_file/0009/2508372/WFA_evidence_rail2.pdf; Ifan, G. and C. Siôn (2019) Devolving Welfare: How well would Wales fare?, Wales Governance Centre. Available at: https://www.cardiff.ac.uk/__data/assets/pdf_file/0010/1476352/devolving_welfare_final2.pdf
[7] Wales Fiscal Analysis (2025) Immediate response to rail funding announcement for Wales. Thinking Wales blog. Available at: https://blogs.cardiff.ac.uk/thinking-wales/wales-fiscal-analysis-immediate-response-to-rail-funding-announcement-for-wales/

policy fields HM Treasury decision-making on funding is excluded from third-party dispute arbitration.

2.17 If the UK government wants to address the ways in which the Welsh fiscal framework is 'out of date', then a move towards a more rational system based on agreed principles would be beneficial. This would involve a UK-wide exercise of determining relative spending levels and relative need for public spending in each country. However, it should be noted that it cannot be guaranteed (or even assumed) that Wales would necessarily receive more resources under such a system. Given the trends in spending on public services since 2010 – with non-NHS spending still below pre-austerity levels – and the planned slow growth in spending over future years, it is the ***absolute level of public spending which is the biggest problem for devolved public services, rather than its relative level compared with England.***

3. Devolved taxes and the Block Grant Adjustments

3.1 From the start of devolution in 1999, Wales' fiscal framework displayed a high degree of vertical fiscal imbalance. Devolved and local governments were responsible for over half of all public expenditure for Wales, but only 5% of revenues raised in Wales (namely, Council Tax). Following the recommendations of the Holtham and Silk Commissions, tax devolution aimed to empower the Welsh Government and increase its financial accountability. This led to the full devolution of Non-Domestic (Business) Rates from 2015-16, Stamp Duty Land Tax and Landfill Tax from 2018-19, and the partial devolution of income tax from 2019-20.

3.2 In the aftermath of the political decision to devolve these taxes, a key question for the Welsh Government was how the newly devolved taxes would interact with the existing block grant system. In the first year, this was simple: an initial Block Grant Adjustment (BGA) would be made, equal to the amount of revenues foregone by the UK government at the point of devolution. Since the initial BGA reflected the amount of revenue raised in Wales in that year, there was effectively full equalisation of Wales' initial lower tax capacity. Thereafter, the BGA would grow in line with changes to equivalent UK government tax revenues in the rest of the UK. Specifically, the 'Comparable model' was used, where the comparability factor outlined below would reflect tax per head in Wales as a proportion of the corresponding UK government tax per head at the point of devolution. Since this comparability factor remains fixed, the level of equalisation would not be updated to reflect changes to Wales' tax capacity. This was somewhat unusual from an international perspective; most systems have some form of ongoing, responsive equalisation of tax capacity in place. This system would result in the Welsh Government reaping all the rewards of *relatively* faster growth in the Welsh tax base, and being financially penalised for *relatively* slower growth in the tax base relative to England and Northern Ireland (the tax system in Scotland had already been partially devolved).

How the Welsh Block Grant is adjusted for the performance of devolved taxes

A: Change in equivalent UK Government tax	X	B: Comparability factor	X	C: Wales' population as a % of England	=	Change in Welsh Block Grant Adjustment

3.3 From the beginning of tax devolution, revenues from devolved taxes have outgrown comparable UK government revenues and the corresponding BGAs. In turn, this relative faster growth in devolved revenues has boosted the Welsh Government budget. This positive net effect of tax devolution is set to reach **£486 million** for the 2026-27 budget (including a £100 million reconciliation in relation to forecast errors in previous years) and more than **£500 million** in 2027-28.

3.4 Perhaps contrary to initial expectations, and from a budgetary perspective at least, tax devolution has therefore been an astounding success. However, the original purpose of tax devolution was to increase the financial empowerment and accountability of the Welsh Government. In recommending a package of taxes to be devolved, the Holtham Commission stated their objective was to "identify taxes that would, if devolved, have a beneficial impact on the accountability of the Assembly Government to its citizens". The Silk Commission argued the Welsh Government was "not accountable to the Welsh electorate for how revenue is raised in the same way that they are for how it is spent".

3.5 In the sixth year of partial income tax devolution, we argue there has self-evidently not been a step change in fiscal accountability. UK government fiscal policy remains an overwhelmingly important determinant of overall public spending in Wales. Debates over total public sector **spending** in Wales (both devolved and reserved) remain largely divorced from considerations about Welsh **tax receipts**, four-fifths of which are still collected and pooled at the UK level. The Welsh Government remains a 'policy taker' when it comes to fiscal policy, and its tax powers have not been used to meaningfully change the budget outlook. Large-scale swings in the budget outlook – driven by the rapidly changing fiscal policy decisions of successive UK governments – has arguably stifled debate around the use of devolved tax levers. The fact that income tax powers have not been used during "tough" budget rounds raises questions around their usability: if not then, when?[8]

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[8] For example, see this discussion of the 2024-25 budget round: https://nation.cymru/news/first-minister-warns-wales-is-facing-toughest-financial-situation-since-devolution/

3.6 It is also questionable whether the tax powers have had any meaningful impact on the dynamic of Welsh politics or Senedd elections. The Silk Commission argued that "the impact of decisions on taxation made by the sub-national government should be clear to taxpayers, and taxation and spending choices should be offered to the electorate in sub-national government elections". At the 2021 Senedd election, income tax policies were either opaque or non-existent in party manifestos. There was also a substantial lack of detail on fiscal plans across the board.[9]

3.7 If increasing the financial accountability and empowerment of the Welsh Government remains an aim for our institutions of government, there is a strong case for further tax devolution. The Scottish Government's income tax powers offer a potential model to follow. Powers over income tax bands and thresholds would provide far greater flexibility for the Welsh Government. The Scottish Government has made extensive use of its income tax powers, introducing new bands to protect lower earners from tax rises – a key argument used by Welsh ministers for not increasing income tax rates in recent years.[10] Powers over the personal allowance could also be devolved to provide maximum scope for Welsh Government tax policies that better reflect the different labour market and tax base of Wales.

3.8 As pointed out by the Independent Fiscal Commission for Northern Ireland, there is also now scope to go even further than the Scottish model and devolve income tax on Savings and Dividends income.[11] After April 2016, UK financial institutions no longer deduct tax on interest on savings at source, which means the main practical and administrative impediment to the devolution of tax powers over savings and dividends income at the time of the Calman and Silk Commissions no longer exists. This would remove a potential distortionary behavioural effect from any change in devolved income tax policy. This suggests that powers over all income tax could be devolved in their entirety.

3.9 Increased powers over the entire income tax base would of course come with additional risks. At the time of the Silk Commission and its immediate aftermath, the tax devolution debate often focused on the downside budgetary risks. Since then, however, the experience has been extremely positive. This may be another area where the arguments

[9] Wales Fiscal Analysis (2021) Senedd Election Briefing 2021. Wales Governance Centre, Cardiff University. Available at:
https://www.cardiff.ac.uk/__data/assets/pdf_file/0020/2516114/senedd_briefing_27Apr21_online.pdf
[10] https://www.bbc.co.uk/news/articles/c3wpxjlvg90o
[11] Independent Fiscal Commission for Northern Ireland (2022) More fiscal devolution for Northern Ireland?, Final Report, May 2022. Available at:
https://www.fiscalcommissionni.org/files/fiscalcommissionni/documents/2022-05/web-version-final-report-may-2022-accessible.pdf

and appetite for greater fiscal devolution have materially changed since taxes were originally devolved.

3.10 A final area which could be addressed is the process for agreeing the devolution of new tax powers, a provision in the Wales Act 2014 that requires Whitehall and Westminster scrutiny and approval of any newly proposed Wales-only taxes. The Welsh Government has been seeking the power to introduce a Vacant Land Tax since 2018, formally requesting devolution in March 2020. The Welsh Government has described the experience as "protracted and challenging" with the Treasury requesting detailed information on the operation of the proposed tax rather than related to devolving competence. As was predicted at the time,[12] just like the cumbersome and discredited Legislative Competence Orders (LCO) system of Measure-making powers that preceded the 2011 referendum, this farcical 'mechanism' in the Wales Act 2014 is entirely unfit for purpose and requires replacing. Recall that the Welsh Government has had no progress in introducing a relatively small new tax which is clearly closely related to devolved competence. Instead of this failed LCO-like 'mechanism' which is preventing the use of a competence clearly delineated in the Wales Act 2014, the Welsh Government and Senedd should themselves be accountable for the introduction of new taxes at Welsh elections.

4. Resource borrowing and budget management tools

4.1 The 2016 Fiscal Framework Agreement led to new borrowing and budget management tools for the Welsh Government to reflect the changing composition of its budget. The Wales Reserve was created with no annual limit on payments into the Reserve and an overall cap at £350 million, but with annual drawdowns limited to £125 million of resource spending and £50 million for capital spending.

4.2 These limits on budget management tools were fixed in cash terms in the Fiscal Framework. Since they came into force in 2018-19, years of high inflation have substantially eroded their real terms value while the overall size of the Welsh budget and devolved revenues have grown significantly. This means that the Welsh Government's ability to manage its budget has become much more limited since the Fiscal Framework was originally agreed.

4.3 **Figure 3** presents the current limits on budget management tools and borrowing, as a share of the relevant portion of the Welsh Government budget in 2018-19 and 2026-27. It

[12] https://blogs.lse.ac.uk/politicsandpolicy/history-repeats-itself-first-as-tragedy-then-as-tax-welsh-incremental-devolution-from-lco-to-fco/

also shows how the limits would have changed had they grown in line with inflation, devolved taxes and the size of the Welsh Government budget over those years.

Figure 3

Welsh Government borrowing and budget management tools – current levels and under alternative scenarios

		As a share of Welsh Government Budget[1]:		Grown in line with (2018-19 to 2026-27):		
	Current level	2018-19	2026-27	Inflation (GDP deflator)	Devolved taxes	Welsh Government Budget[1]
	£m	*%*	*%*	*£m*	*£m*	*£m*
Budget management tools						
Aggregate Wales Reserve Limit	350	2.1%	1.3%	461	576	592
Drawdown Limit for Resource Spending	125	0.9%	0.5%	165	206	206
Drawdown Limit for Capital Spending	50	2.7%	1.4%	66	82	101
Resource borrowing						
Overall limit	500	3.5%	2.1%	658	823	825
Annual limit	200	1.4%	0.8%	263	329	330
Capital Borrowing						
Overall limit	1,000	54.9%	27.1%	1,316	1,645	2,024
Annual limit	150	8.2%	4.1%	197	247	304

Source: Wales Fiscal Analysis calculations. Notes: 1 – Growth in Welsh Government compares Welsh Government budgets in 2018-19 and 2026-27 at Draft Budget stage. Growth in resource budget used for 'Drawdown Limit for Resource spending' and 'Resource borrowing' calculations; growth in capital budget used for 'Drawdown Limit for Capital spending' and 'Capital Borrowing' calculations; growth in total budget used for 'Aggregate Wales Reserve Limit' calculations.

4.4 As shown in the first row of **Figure 3**, the total amount of funding that the Welsh Government can carry forward in the Wales Reserve (£350 million) has fallen from 2.1% of the budget in 2018-19 to 1.3% in 2026-27. Had this limit grown in line with inflation, the limit would now stand at £461 million; had it grown in line with the overall size of the budget, it would stand at £592 million. The annual drawdown limit now stands at 0.5% for resource spending and 1.4% for capital spending. In practice therefore, the Wales Reserve system now provides less flexibility than the cash reserve and Budget Exchange facility which operated prior to tax devolution. The Northern Ireland Executive, for instance, can carry forward 0.75% of its resource funding and 1.75% of capital funding (in line with rules for UK government departments). With the Welsh Government having less budgetary flexibility than the Department for Culture, Media and Sport, the current limits are not fit for purpose. Greater flexibilities are required to manage ongoing volatilities arising from tax devolution, not to mention pre-existing uncertainties relating to over- or under- spending faced by all UK ministerial departments and devolved governments.

4.5 Perhaps recognising this problem, in recent years the UK government has provided temporary waivers for these highly restrictive budget management limits. HM Treasury provided funding guarantees to the devolved governments during the Covid-19 crisis (2020-21 and 2021-22) and allowed in-year consequentials to be carried over to following years. In 2023-24, the Welsh Government was allowed to carry forward £43 million of resource funding to 2024-25 outside of the Wales Reserve,[13] and in 2025-26 the drawdown limits for the Wales Reserve have been waived.[14] Although such flexibilities suggest official recognition of the inadequacies of the budget management tools, these waivers are currently offered on an ad-hoc basis, at HM Treasury's discretion and are no substitute for a more permanent and rational system.

4.6 Beyond the Covid-19 pandemic, the sheer scale of fiscal policy fluctuation and uncertainty has increased significantly since the 2016 agreement. This has resulted in huge swings in the outlook for the Welsh Government's budget (for example, at the 2021 Spending Review and the 2024 Autumn Budget). The level of in-year funding changes to the Welsh Government's budget has increased markedly, leading to a much greater amount of spending being allocated at Supplementary Budgets. While an average of £110 million of consequential funding was allocated at Supplementary Budgets between 2016-17 and 2018-19, this average in-year change has jumped to £499 million per year between 2022-23 and 2025-26. There has also been significant increases in budget changes at outturn: underspends of fiscal resource budgets averaged £146 million over 2022-23 and 2023-24 budgets compared with just £18 million over 2016-17 and 2017-18 budgets.[15] Such increases are on top of forecast errors in the devolved taxes, which have averaged £38 million per year between 2020-21 and 2023-24. Finally, reconciliations relating to income tax forecasts (and corresponding BGAs) have also been sizeable. The net effect of these reconciliations averaged £83 million per year between 2020-21 to 2023-24 and reached £124 million in the most recent year. There is a strong case for the

[13] https://www.gov.wales/sites/default/files/publications/2024-02/2nd-supplementary-budget-2023-2024-note-v1.pdf
[14] https://business.senedd.wales/documents/s161808/Letter%20from%20the%20Cabinet%20Secretary%20for%20Finance%20and%20Welsh%20Language%20Funding%20flexibilities%20for%20the%20Wels.pdf
[15] Taken from Welsh Government Report on Outturn documents for those years.

Welsh Government being able to smooth the impact of these reconciliations over several budget years.

4.7 Given trends in inflation, the growth in the size of the budget, and the heightened fiscal uncertainty, we conclude that the limits on the Welsh Government's budget management tools are wholly inadequate. At a bare minimum, limits on budget management tools need to be updated to restore their real terms value at the point of their introduction in 2018-19. In line with the renegotiated Scottish Fiscal Framework of 2023, such a limit should then grow in line with inflation in subsequent years. They should also be updated periodically to reflect a growing size of the total budget over time. Alternatively, the restrictions on the overall size of, and drawdowns from, the Wales Reserve could be lifted entirely. While this would mean the Treasury ceding some control of the UK's fiscal aggregates, the Welsh Government is highly unlikely to make such extensive use of the Wales Reserve that it would influence the UK's overall public finances in any meaningful way.

4.8 Other powers enumerated in the 2016 Fiscal Framework Agreement have not been used to date, likely because of the extremely restrictive circumstances in which their use is authorised. The Welsh Government's resource borrowing powers remain unchanged from the Wales Act 2014 – the Welsh Government can borrow £200 million each year, up to an overall limit of £500 million and only if tax revenues are lower than forecast. Any such resource borrowing needs to be repaid within four years.

4.9 But there is also a strong case for providing at least some further resource borrowing powers that go beyond managing forecast errors. For example, the Welsh Government could decide to respond to a foreseen asymmetric shock that temporarily depresses revenues or increases devolved spending relative to revenues and spending in the rest of the UK. Some discretionary borrowing powers would also address some of the constant uncertainty around how much, if any, additional UK government funding will be allocated in-year, allowing the Welsh Government to proactively announce policy interventions. A small amount of discretionary resource borrowing powers for the Welsh Government – for example, an amount equal to 1% of the day-to-day spending budget – would have no material impact on total UK fiscal borrowing or the likelihood of meeting overall UK fiscal rules. Concerns of overborrowing by the Welsh Government could be mitigated by overall caps or time-limited repayment requirements.

5. Capital borrowing

4.10 The 2016 Fiscal Framework Agreement increased the Welsh Government's statutory limit for capital borrowing to £1 billion, with an annual limit of £150 million. Since then, however, as a share of the Welsh Government's capital budget this annual limit has halved, from 8.2% in 2018-19 to 4.1% (**Figure 3**). The overall capital borrowing limit has not been indexed to account for inflation or changes to the size of the Welsh resource budget (from which repayments are made). Had the Welsh capital borrowing limit grown in line with inflation since 2018-19, it would stand at £1.3 billion in 2026-27, and had it grown in line with the Welsh resource budget, it would now stand at close to £1.7 billion. The lack of indexation of the overall limit means that the effective annual amount of borrowing which would keep total debt below the cap for several years is substantially below £150 million. At a bare minimum, there is a strong argument for restoring the real terms value of the Welsh Government's borrowing limit, with indexation to inflation thereafter.

4.11 Any increase in the Welsh Government's capital borrowing powers and their use would of course have implications for the Welsh budget for day-to-day spending. To illustrate these implications, we estimate annual repayment costs should the Welsh Government 'max out' its capital borrowing powers in the coming years. We first assume that the Welsh Government borrows up to the maximum of £150 million a year (to the overall limit of £1 billion) with a repayment period of 25 years and at an interest rate of 5.26%, as outlined in the Outline Draft Budget for 2026-27.[16] We also assume that the resource budget after 2028-29 grows by 3.7% per year (roughly in line with GDP growth), and that devolved revenues after 2029-30 grow in line with the average growth recorded since 2018-19.

4.12 Under these assumptions, the Welsh Government would reach its overall borrowing cap of £1 billion by 2029-30. Debt repayments (principal and interest) would total £87 million in 2030-31; an amount equalling 0.32% of the Welsh Government's resource budget or 1.7% of devolved revenues. In purely financial terms, the Welsh Government could easily accommodate a much higher level of borrowing if it wished to do so. As pointed out by the Silk Commission, a key consideration for the affordability of higher borrowing for the Welsh Government is Wales' relatively low exposure to Private Finance Initiatives (PFI) project costs. Welsh Government unitary charge payments for PFI projects in 2023-24 amounted to £101 million and £39.5 million a year in 2031-32. This is substantially less than the Scottish Government's unitary charge payments of £1.1 billion in 2023-24 and £759 million per year in 2031-32. Capital borrowing through the bond (gilt) markets will also likely be cheaper than financing capital projects through the Welsh Government's Mutual Investment Model.

4.13 Professor Gerald Holtham previously suggested that the Welsh Government's capital borrowing limits should be linked to the share of the Welsh Government's budget which is devoted to servicing the debt.[17] As illustrated in **Figure 4**, if the Welsh Government were

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[16] In modelling repayments, we assume loans are repaid by means of Equal Instalments of Principal.
[17] https://senedd.wales/media/oyen04yt/cr-ld12846-e.pdf

permitted to allocate 1% of its resource budget towards repaying capital borrowing, we estimate this would allow total borrowing of £3.3 billion (with an annual limit of £489 million, or 15% of the total, from 2026-27 onwards). A 2% limit would allow total borrowing of approximately £6.7 billion (with an annual limit of £1.0 billion from 2026-27 onwards). For context, local authorities in Wales devote around 5% of their gross revenue expenditure towards debt financing costs.[18]

4.14 The devolution of capital borrowing powers to the Welsh Government was initially linked to the "independent revenue stream" coming from newly devolved taxes which would support capital borrowing – a consideration in line with international best practice.[19] An alternative system could therefore link Welsh Government repayments to devolved tax revenues. As part of the (now abandoned) fiscal rules laid out in the December 2019 Queen's Speech, the UK government stipulated that it would reassess its fiscal plans if its debt interest payments exceeded 6% of government revenues. Applying a similar limit in the Welsh Government's case, we estimate this would allow total borrowing of £4.3 billion (assuming a £645 million annual cap from 2026-27).

4.15 Any one of these options outlined above would represent a significant increase in the ability of the Welsh Government to borrow for capital spending. A benefit of linking the Welsh Government's borrowing powers to the cost of repayment as a share of resources is that it would automatically adjust to reflect changing economic circumstances, such as a change in interest rates (as shown in **Figure 4**). Higher borrowing limits would also facilitate longer-term planning of capital spending by increasing the share of the capital budget which is independent of UK government spending decisions in England. Such budgetary certainty would be transformative: the Welsh Government has typically known the size of its capital block grant only a year or two in advance, and last minute in-year consequentials from the UK government have also factored into the Welsh Government's underutilisation of capital borrowing powers.

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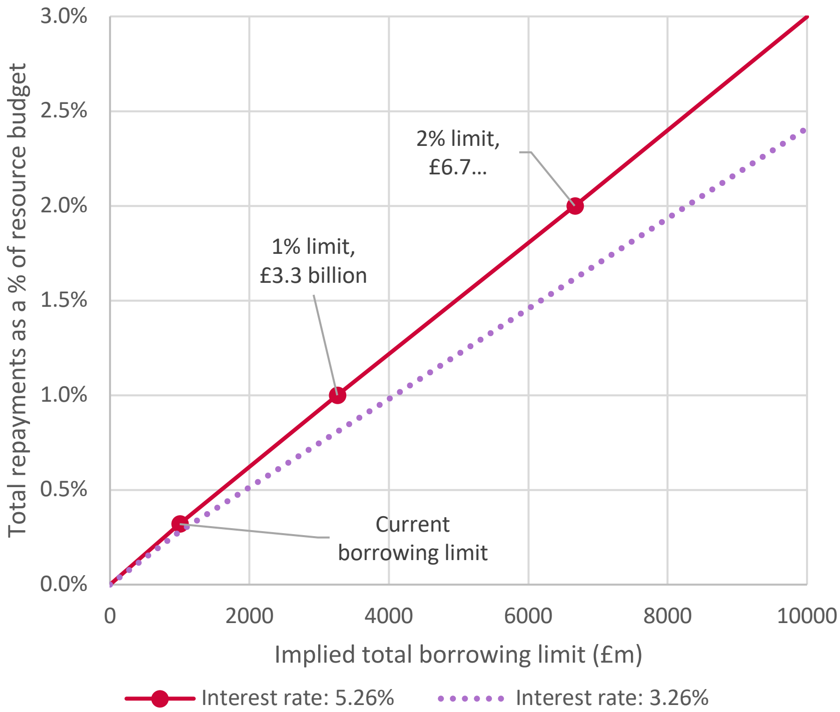
[18] Ifan and Sion (2019) Cut to the Bone? An analysis of Local Government finances in Wales, 2009-10 to 2017-18 and the outlook to 2023-24
[19] See, for example, the Wales Bill 2014 Command Paper available here: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/294470/Wales_Bill_Command_Paper_-_English.pdf

Figure 4

Welsh Government borrowing and estimated repayments as % of resource (day-to-day spending) budget



Source: Authors' calculations.

4.16 Under such a system, it would be up to a Welsh Government to decide whether to fully utilise such a significant increase in its borrowing capacity, balancing the need for additional public investments today against higher costs for future resource budgets. This would represent a substantial increase in the fiscal empowerment and accountability of the Welsh Government, on a par with that of tax devolution.[20]

4.17 UK government objections to increased borrowing by the Welsh Government would likely be based on two factors – control over fiscal aggregates, and equity concerns.[21]

[20] Armstrong, A. and M. Ebell (2014) Real Devolution: The Power to Borrow, 437, National Institute of Economic and Social Research. Available at: https://niesr.ac.uk/publications/real-devolution-power-borrow?type=discussion-papers

[21] As discussed by Bell, Eiser and Phillips (2021) Options for reforming the devolved fiscal frameworks post-pandemic, Institute for Fiscal Studies. Available at: https://ifs.org.uk/sites/default/files/output_url_files/R207-Reforming-the-devolved-fiscal-frameworks.pdf

4.18 First, because Welsh Government borrowing would count towards UK government borrowing and fiscal targets, the Treasury would lose an element of its near-universal control over the UK's fiscal aggregates. However, even a very substantial increase in the Welsh Government's borrowing powers is unlikely to materially change UK-wide aggregates. Even under the option with the highest level of borrowing outlined above (of £1.0 billion a year), Welsh Government borrowing would amount to 0.03% of UK GDP, an insignificant share in the context of overall UK fiscal targets.

4.19 Second, the UK government may object on the basis of 'unfairness' to England. Bell, Eiser and Phillips (2021) point out that when the UK government borrows for English spending, that triggers additional consequentials for the devolved countries as well, meaning it would be unfair to England if it were itself unable to benefit from additional borrowing. However, if the costs of Welsh Government borrowing come exclusively from its own resource spending or devolved revenues, then these equity concerns are reduced. The principle of devolved capital borrowing has also been conceded by the current borrowing powers. Moreover, issues around the overall fairness and coherence of devolved (and of English) funding arrangements would be better addressed by wider pan-UK discussions. For example, the emerging architecture of elected mayors and combined mayoral authorities in England could be a vehicle for growth-enhancing investment via borrowing. Large additional capital borrowing powers for the Welsh Government could potentially provide game-changing amounts of additional capital spending for one of the poorest parts of the UK, addressing historic underinvestment and the fact that Wales has lost out from large-scale infrastructure projects in England (such as HS2).

4.20 Considering the real consequences of these restrictions on Welsh Government borrowing, a 2022 report by the Institute of Welsh Affairs raised the issue of the Welsh Government's lack of 'fiscal firepower' in undertaking large-scale projects, arguing that Wales' current fiscal framework restricts Wales from implementing different policies from the rest of the UK.[22] The report recommended a prudential borrowing model, as advocated by the Welsh Government itself. This would represent the greatest amount of freedom for the Welsh Government to determine its own borrowing in discussion with the Senedd. It would also represent a large increase in political and fiscal accountability for the Welsh Government. However, as discussed in the report, the UK government would likely raise specific concerns around the potential moral hazard issues arising from non-capped Welsh Government borrowing. Since the UK government would still dominate tax and spending, it would not be able to credibly commit to withholding

[22] Thompson, H. (2022) Fiscal Firepower: Effective Policy-Making in Wales, Institute of Welsh Affairs. Available at: https://www.iwa.wales/wp-content/media/IWA_-Fiscal-Firepower-and-Effective-Policy-Making.pdf

bailouts in event of overborrowing by devolved governments.[23] In such a framing, the Welsh Government would have weak incentives for fiscal discipline. In contexts where both central and regional governments are jointly responsible for adhering to national fiscal rules, the central government may be no less profligate than the regions (see for example the Flemish Government's higher credit rating than the Belgian Government). In the absence of wider pan-UK fiscal reforms, some centrally determined limits on Welsh Government borrowing could be argued to be prudent. However, as argued above, these limits could go much further than the limits currently in place, and should better reflect Welsh Government resources for repayment and decision-making.

6. Conclusion and recommendations

6.1 This report has assessed the various aspects of Wales' Fiscal Framework, noting its budgetary benefit to Wales and arguing where reforms are needed. Controversially perhaps in the Welsh political debate since devolution, we show that the long-standing complaint of Welsh underfunding through the Barnett formula – relative to England, at least – has largely been solved. The introduction of the Needs-Based Factor from 2018-19 has led to a significant amount of additional funding for the Welsh Government and limited the extent of convergence down to English levels of spending. Tax devolution has also provided a major boost for the Welsh Government budget. This means that relative spending levels are above the (admittedly dated) estimate of relative need.

6.2 This has significant implications for public debate. First, any underperformance of Welsh public services cannot be wholly explained by relative underfunding, as is sometimes claimed. Second, if Welsh policymakers are unsatisfied with the amounts of funding available for devolved public services, it is *absolute* – and not *relative* – levels of funding which is the core issue. This should prompt a conversation around whether the Welsh Government has appropriate fiscal levers to increase the size of the Welsh budget, independent of UK fiscal policy decisions. Third, and perhaps most importantly, it cautions against anxiety about devolving additional functions to Wales: relative spending is much healthier in Wales when a service is devolved than when it is reserved.

6.3 While the reforms agreed in 2016 have been a huge budgetary success for Wales, the impact on Welsh Government fiscal empowerment and accountability has been disappointing. This budgetary success has not been mirrored in wider public awareness of devolved fiscal issues or the matters at stake at devolved elections. In this context, the

[23] For a further discussion, see Rodden, J. (2006) Hamilton's paradox: the promise and peril of fiscal federalism, Cambridge: Cambridge University Press.

2024 UK Labour manifesto promised to address an 'out of date' fiscal framework and implied that a series of reforms to it were needed.

6.4 It is worth noting that funding arrangements across the countries of the UK are increasingly asymmetric, reflecting the ad-hoc way in which devolved public finances are being reformed. There are significant differences in the scale and composition of devolved and reserved taxes across each country, in how changes to each block grant are determined (including the different Needs Based Factors applied to the Barnett formula in Wales and Northern Ireland), and in the borrowing and budget management capacity of each government.

6.5 This basic asymmetry reflects the Treasury's preference for bilateralism rather than multilateralism. Any move towards a more rational, principle-based system is overdue. This would involve a UK-wide exercise of determining relative spending levels and relative need for public spending in each country; expanding fiscal devolution in Wales and Northern Ireland; as well as expanding borrowing and budget management tools available to the devolved governments.

6.6 Since any such multilateral, UK-wide process is vanishingly unlikely, we therefore make the following recommendations for the UK and Welsh governments to consider:

Recommendation 1: The UK and Welsh governments should produce an updated estimate of relative funding (revising the 2016 methodology as needed), and should update the estimate of relative needs using the most recent data.

Recommendation 2: To boost the fiscal accountability and empowerment of the Welsh Government, powers over income tax rates and thresholds should be devolved in full to the Welsh Government, along the lines of the Scottish Government's powers. Additionally, given changes in tax administration since the Calman and Silk Commissions, income tax paid on savings and dividends should also be devolved.

Recommendation 3: The limits placed on the overall size and drawdowns from the Wales Reserve should at least be updated to reflect inflation and the growth in the Welsh Government's budget since they were introduced in 2018-19. There is also a strong case for abolishing these limits entirely.

Recommendation 4: Currently, the Welsh Government can only borrow for resource spending in response to forecast errors in devolved taxes. This specific restriction should be lifted to allow the Welsh Government to borrow within uprated limits for planned resource spending.

Recommendation 5: The overall cap on Welsh Government borrowing for capital spending should be increased significantly and linked to the share of the Welsh Government's resource budget devoted to servicing debt. For example, limiting debt servicing costs to 1% of day-to-day budget would imply an overall cap of £3.3 billion (which would be updated based on the cost of borrowing), and limiting debt service to 2% would imply a cap of £6.7 billion.

Appendix

A.1 Estimating relative funding levels in Wales

The estimate of relative funding levels discussed in paragraphs 2.8 broadly follows the methodology outlined in Annex A of the 2016 Fiscal Framework Agreement.[24] The first step is to calculate equivalent UK government funding for England, by multiplying each department's total Departmental Expenditure Limit (DEL) by the relevant comparability factor used in the Barnett Formula (where the comparability factor reflects the proportion of each department's spending on areas that are devolved to Wales). The comparability factors used are those published in the June 2025 Statement of Funding Policy.

This is compared with the total DEL for Wales, as published in Spending Review 2025 in June 2025.

We next adjust these totals to reflect Non-Domestic (Business) Rates in Wales and England, simply because the Holtham Commission estimate of relative needs was made before the full devolution of Non-Domestic Rates. For England, we add in 'Business Rates retained by local authorities' (which are not counted in DELs),[25] as well as a portion of English Business Rates which was taken out of DELs and reclassified as Annually Managed Expenditure in March 2024.[26]

To remove the effects of divergent NDR policies since devolution in 2015-16, we assume that NDR revenues in Wales would have grown at the same rate per head as in England in the absence of devolution.[27]

We also take some further steps compared to the agreed methodology from 2016. Namely, we remove replacement EU funding from the Welsh DEL (£340 million in 2025-26) and comparable spending in England (£1.9 billion), and assume these grow in line with total DEFRA DEL for future years (when they are a non-ringfenced part of block grant funding). We also remove non-Barnett funding – such as City and Growth Deals and Coal Tips remediation funding – as specified in the October 2025 Block Grant Transparency data.[28]

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[24] Available at: https://www.gov.wales/sites/default/files/publications/2018-11/agreement-on-welsh-government-fiscal-framework.pdf
[25] This is taken from Table 4.14 in the Office for Budget Responsibility's March 2025 Economic and Fiscal Outlook.
[26] This is taken from Table 4.6 in the Office for Budget Responsibility's March 2024 Economic and Fiscal Outlook.
[27] In practice this assumption makes little difference to the overall calculation (compared to using actual Welsh NDR revenues).
[28] This follows the approach recently agreed for calculating relative spending in Northern Ireland: https://www.gov.uk/government/publications/northern-ireland-interim-fiscal-framework-implementation-update-relative-funding-methodology

Figures are change to a per person basis using the Office for National Statistics 2022-based principal population projections.

A.2 Alternative estimates of relative spending using HM Treasury Country and Regional Analysis data

This annex discusses comparable public spending data for Wales and England and analyses relative spending per person levels using a different methodology, as discussed in paragraph 2.12-2.14.

The most comprehensive data that we can use to compare public spending in Wales and in England is HM Treasury's Country and Regional Analysis dataset.[29] Published annually, this contains a breakdown of identifiable spending which is for the benefit of each UK Country and Region, by department and government function.

Total identifiable spending for Wales in 2023-24 was £45.6 billion, or £14,400 per person. Overall, this was 114% of England's level per person. £16.5 billion of this was for social protection spending (excluding devolved social services) – this was 119% of England's level per person.

This number means that all other (non-social protection) public spending for Wales was only 112% of England's level in 2023-24. This presents a puzzle: this relative spending figure (containing both devolved and reserved functions) is significantly below estimated relative funding for devolved public services in that year (120% of England's level).

From the data, we find that devolved and local government spending in 2023-24 amounted to £27.5 billion. Some of this funding is largely financed by non-devolved funding but delivered by devolved or local government and can be removed from our consideration, namely: policing (£997 million);[30] housing benefit (£1.1 billion); and market support under CAP (£252 million). This leaves £25.2 billion of devolved and local government spending which is financed by funding from the UK government and devolved sources.

Unfortunately, we are unable to directly compare this to an equivalent 'devolved' spending figure for England.

What we are able to do is to isolate areas of spending 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: Health; Personal social services; Education; Local public transport and

[29] The latest data, published in November 2024, is available here: https://www.gov.uk/government/statistics/country-and-regional-analysis-2024

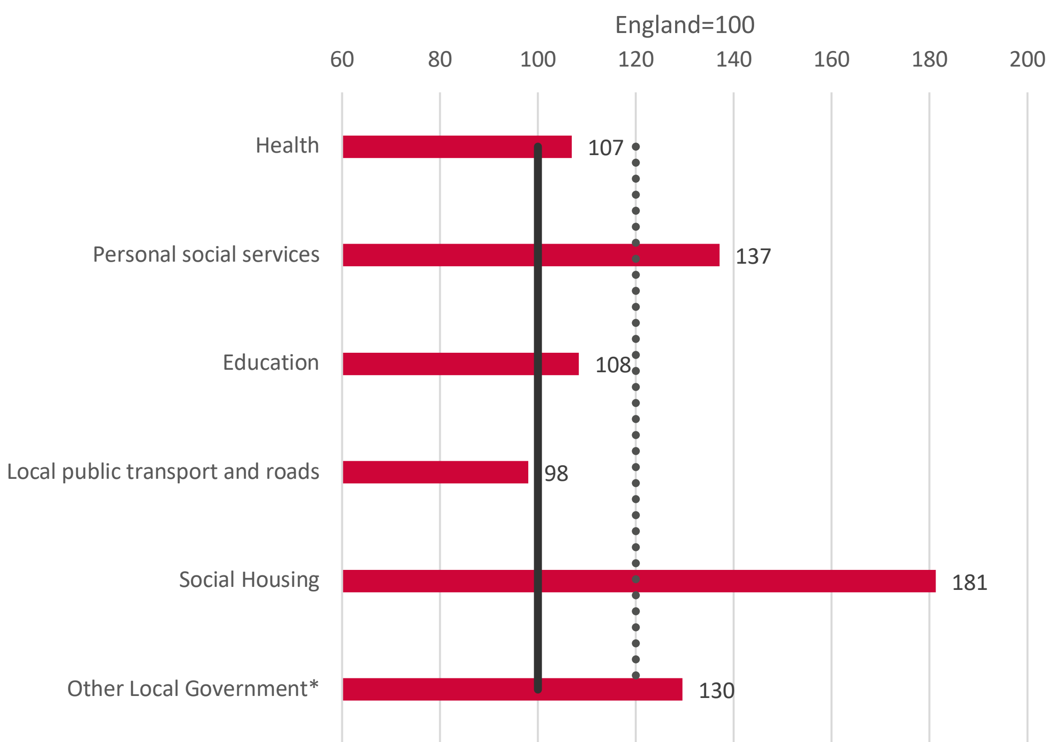
[30] Policing spending is removed entirely for simplicity, but is complicated by significant funding under devolved control (e.g. a share of Council Tax revenues).

roads; Social Housing; and Other Local Government. Together spending on these areas amount to £23.4 billion, or 93% of total devolved and local spending.

Figure A.1 shows relative spending per person levels on these services compared with spending in England. Spending on personal social services, social housing and other local government services was above 120% of England's level in 2023-24. The largest areas of devolved spending, health and education, was at 107% and 108% of England's level, respectively. Taken together, relative spending per person on these areas are 114% of England's level – again significantly below the overall estimate of relative funding for 2023-24 of 120%.

Figure A.1

Relative spending per person in Wales on the largest devolved areas of responsibility, 2023-24 (England=100)



*Source: Authors' calculations based on HM Treasury (2024) Country and Regional Analysis. Notes: * excludes policing and housing benefit spending.*

This suggests that there are smaller categories of spending where relative spending levels in Wales are much higher. **Figure A.2** provides a further breakdown of spending by smaller subfunctions, for which most spending in the data is undertaken by Welsh Government. Relative spending levels on these functions are significantly higher per person compared to England.

Adding together all the spending areas outlined in **Figure A.2**, we arrive at £24.4 billion, or 97% of all devolved and local spending. But relative spending per person on these functions compared to England is still only 117% of England's level.

For overall devolved and local spending to be close to 120% figure, this suggests that the residual 3% of spending – some £767 million in 2023-24 – is around 8 times higher per person in Wales than in England. This is impossible to be the case. Most of this spending by the Welsh Government comes under railways (£501 million) and 'General economic, commercial and labour affairs' (£132 million). Spending on these areas for Wales are a mix of reserved and devolved spending, but relative funding in these areas amount to 86% and 71% of England's level, respectively.

Figure A.2

Relative spending per person in Wales by HM Treasury on devolved functions and subfunctions

	£m	% of devolved spending	Spending per person: Difference with England (£ per person)	Spending per person: England = 100
Large devolved areas				
Health	10,899	43.3%	223	107
Personal social services	3,058	12.1%	261	137
Education	5,548	22.0%	136	108
Local public transport and roads	765	3.0%	-5	98
Social Housing	2,026	8.0%	152	181
Other Local Government*	1,071	4.3%	146	130
Smaller (mostly) devolved sub-functions				
1.1 Executive and legislative organs, financial and fiscal affairs, external affairs	259	1.0%	64	
1.6 General public services n.e.c.	40	0.2%	5	
4.2 of which: other agriculture, food and fisheries policy	279	1.1%	61	
5.6 Environment protection n.e.c.	236	0.9%	46	
6.2 Community development	35	0.1%	2	
8.1 Recreational and sporting services	28	0.1%	0	
8.2 Cultural services	128	0.5%	10	
8.6 Recreation, culture and religion n.e.c.	49	0.2%	14	
Total from these included categories	**24,421**	**97.0%**	**1115**	**117**

*Source: Authors' calculations based on HM Treasury (2024) Country and Regional Analysis. Notes: * excludes policing and housing benefit spending.*

There are three important implications from this analysis.

First, it suggests that the agreed methodology of calculating relative funding outlined may overstate relative spending per person in Wales compared to England.

Second, even on an alternative methodology, relative spending levels in Wales still appears closer to, but still above, the estimate of relative need of 115%.

Third, this analysis suggests that Wales currently receives substantially less per person on *reserved* services compared with England. If non-social protection spending per person is 112% of England's level, and relative spending per person on the mostly devolved areas outlined in **Figure A.2** is 117%, this means that relative spending per person on all other services is 91% of England's level. If we assume that the Welsh Government 'overspends' on devolved areas not included in **Figure A.2** (which we know is true in the case of railway spending), then the shortfall in relative reserved spending per person is even greater.

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