



# Response to Finance Committee's Scrutiny of the Welsh Government's Draft Budget 2026-27

## Cabinet Secretary for Finance and Welsh Language

The Welsh Government published its Outline Draft Budget 2026-27 on 14 October 2025 and the Detailed Draft Budget on 3 November 2025.

On 15 December, the Finance Committee published its report on the Draft Budget 2026-27, making 33 recommendations. 32 of these were for the Welsh Government with 1 for the Office for Budget Responsibility.

This document sets out the Welsh Government's response to those recommendations.

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## 1. Introduction

I thank the members of the Senedd Finance Committee for their work on scrutinising the Welsh Government's Draft Budget. I was pleased to attend meetings of the Committee on 16 October 2025, 3 December 2025 and 21 January 2026 to discuss the Draft Budget and Final Budget.

The report of the Committee, and those of other Senedd Committees, have informed the development of the Final Budget 2026-27 which was published on 20 January 2026-27. I am grateful for the careful and constructive scrutiny which has helped to secure a Final Budget which delivers for the people of Wales and means that we can make the best possible use of the funding available.

I have set out my response to the Report's individual recommendations below, building on the evidence I provided during the meetings. Furthermore, I have asked my officials to continue their engagement with the Clerk to the Finance Committee to ensure members are updated on progress related to these recommendations.

## 2. Budget Process and Engagement

**Recommendation 1.** The Committee believes that adherence to the two stage budget process this year has improved strategic scrutiny and early clarity, despite risks of late adjustments caused by a late UK Autumn Budget, and recommends that the Cabinet Secretary evaluates how this approach has worked from the Welsh Government's point of view and share any findings with the Committee shortly after the Final Budget debate in order to capture learning and to inform consideration of budget scrutiny and any changes to the Budget Process Protocol in the Seventh Senedd.

### Response: Accept

We were pleased to be able to return to a two-stage budget process, as outlined in the Budget Protocol, for the 2026-27 Draft Budget. This has not been possible in recent years due to the UK Government publishing our settlement late in the autumn term. We recognise that this early clarity has had a positive impact on the scrutiny process.

The UK Autumn Budget, published between our Draft and Final Budgets, has resulted in more changes than would have normally been needed, but that is something we anticipated and built into the process.

We will reflect on the process this year, in particular the two-stage element, as we consider the approach to next year's Budget.

### 3. Economic Context

**Recommendation 2.** The Committee recommends that the Cabinet Secretary attends the Committee in January 2026 to provide an update on how the additional £237 million received in light of the UK Autumn Budget and revised forecasts and the £380 million held as unallocated funds will be allocated for 2026-27, as well as the impact of the Budget Agreement announced on 9 December 2025.

**Response: Accept**

I was pleased to attend the Finance Committee on Wednesday 21 January 2026 to provide an update on the use of the additional funding and unallocated funds set out in the published Final Budget on 20 January,, and to discuss the impact of the Budget Agreement announced on 9 December 2025.

**Recommendation 3.** The Committee recommends that the Welsh Government considers timetabling a longer debate for the Final Budget debate given the anticipated significant differences in allocations between the Draft and Final Budget this year.

**Response: Accept**

The Welsh Government has agreed to extend the debate on the Final Budget from 60 to 90 minutes. This was reflected on the Business Statement published on 13 January 2026.

**Recommendation 4.** The Committee recommends that, as part of the consideration of how allocations are to be made at the Final Budget stage, the Cabinet Secretary conducts an assessment of the inflationary pressures being faced by different areas within the public sectors, as well as demand factors, and presents those findings alongside the Final Budget.

**Response: Accept**

We considered the issue raised during scrutiny about the likelihood of an increase in the forecast for inflation in 2026-27. The Office of Budget Responsibility's (OBR) updated forecasts, published in November, showed inflation increasing to 2.2% and wage growth increasing to 3.2%. This has been reflected in the Final Budget with increases to each MEG which covers the difference between the OBR's March and November forecasts. The pressures and

demand facing certain areas of public services, such as the NHS, social care and education, have been kept under review and the Final Budget includes additional funding for these areas, as well as targeted additional allocations in a small number of other areas.

**Recommendation 5.** The Committee recommends that the Welsh Government assesses the impact of higher-than-forecast wage growth and inflation on the public sector pay assumptions underpinning the Draft Budget, sets out options for mitigating these pressures, and presents those findings alongside the Final Budget.

**Response: Accept**

We have considered the increase in forecasts for wage growth and inflation in 2026-27 and have allocated additional funding to all departments to mitigate these pressures as part of the Final Budget.

**Recommendation 6.** The Committee recommends that the Cabinet Secretary continues to pursue reform to the Barnett Formula through the Finance: Interministerial Standing Committee and provides an update to the Committee on progress by the time the Second Supplementary Budget is laid on 24 February 2026.

**Response: Accept.**

The Welsh Government has long made the case for fundamental reform of the Barnett system. Any replacement of the Barnett formula would be a significant change that would also require the consent of all four nations and a new fiscal agreement overseen and operated by a body independent of the UK Government.

There is a willingness to make the current system work better to improve transparency and legitimacy. Officials across the four nations are working collectively to identify and agree a series of practical measures that could be taken to improve the operation of the Barnett system. A paper will be prepared for UK Finance Ministers at the next Finance: Interministerial Standing Committee. An update will be made available to the Committee.

## 4. Fiscal Levers

**Recommendation 7.** The Committee recommends that the Office for Budget Responsibility continues to produce and develop outputs that help foster understanding of the impact of devolved taxation on the Welsh Government's budgets, such as the analysis of changes in the Welsh net tax position published as part of this year's devolved tax and spending forecasts.

**Response:** The Office for Budget Responsibility will respond directly to the Finance Committee on this matter.

**Recommendation 8.** The Committee recommends that the Cabinet Secretary engages with the UK Government on details within the UK Finance Bill relating to the introduction of property income tax in Wales, including associated timescales to enable consideration by the Senedd, as soon as practicable.

**Response: Accept**

The Cabinet Secretary for Finance and Welsh Language met with the Exchequer Secretary to the Treasury on 15 December 2025 and this meeting included discussions on the changes to the taxation of property income. A Legislative Consent Memorandum for the Finance (No.2) Bill was laid in the Senedd on 16 December 2025 and the Senedd will debate a Legislative Consent Motion for this Bill on 3 February 2026.

The Finance (No.2) Bill makes amendments to the rates of tax applicable to property income from 6 April 2027. If the Senedd approves the LCM, the ability to set different Welsh Rates in relation to property income could be exercised for the tax year beginning 6 April 2027 at the earliest.

**Recommendation 9.** The Committee recommends that the Cabinet Secretary provides clear details about the specific measures in the Draft Budget to support the leisure and hospitality sectors and an assessment of the extent to which these will mitigate the impact of retail, hospitality and leisure Non-Domestic Rates relief, which ends in March 2026, by the time the Final Budget is laid.

**Response: Accept**

Many businesses in the hospitality and leisure sectors benefit from our permanent non-domestic rates reliefs, currently worth £250m annually and fully funded by the Welsh Government, which continue. Almost half of all ratepayers, including small businesses across Wales, benefit from full relief. Sector

representatives have estimated that around two thirds of hospitality properties in Wales attract full relief, due to their low rateable values.

Others will benefit from a standard multiplier for 2026-27 which is 12% lower than the current multiplier, as a consequence of the 2026 revaluation. This follows substantial allocations of the Welsh Government's budget to cap the multiplier throughout this Senedd term. Our decisions to freeze or limit inflationary growth in the multiplier, from 2021-22 to 2025-26, have a recurring cost which has already accumulated to over £500m and will continue to grow in future years.

Businesses which do not attract full relief have been transitioning back to their normal statutory liabilities over several years, as the level of temporary additional support has been gradually reduced. Full relief was provided during the years affected by pandemic restrictions, when eligible businesses were forced to close or limit their operations. Relief was set at 75% three years ago, when very high inflation created a difficult context for ongoing recovery, and 40% for the most recent two years.

Since 2020-21, we have allocated more than £1bn across six successive years of temporary relief for retail, leisure and hospitality businesses, recognising the economic pressures they have faced. This considerable additional support does not exist by default and was never intended to continue indefinitely. The statement on the Draft Budget for 2025-26 confirmed this would be the final year of temporary relief, so that businesses could prepare to resume their normal statutory obligations to pay non-domestic rates.

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

**Recommendation 10.** The Committee recommends the Cabinet Secretary share with the Committee data gathered to assess the effectiveness of the new differential multiplier for retail premises and the assessment of whether it is appropriate to extend this to the leisure and hospitality sector and provide a progress update on these measures by the time the Second Supplementary Budget 2025-26 is laid on 24 February.

**Response: Reject**

As the new retail multiplier will not take effect until 1 April 2026, there will be no evidence with which to assess its effectiveness available during the current Senedd term. It would not be appropriate for the current Welsh Government to make any future commitment beyond the routine post-implementation monitoring arrangements reflected in the impact assessments related to this policy. Any policy changes in relation to differential multipliers will be a matter for the next Welsh Government.

**Recommendation 11.** The Committee recommends that the Cabinet Secretary works with the Office for National Statistics and other stakeholders to ensure that data is available at a Welsh level to ensure that economic performance and the impact of key policies can be measured and monitored, and provides a progress report on this issue by the time the Second Supplementary Budget 2025-26 is laid on 24 February 2026.

**Response: Accept**

Welsh Government officials work closely with ONS to ensure that the quality of statistics for Wales is a key consideration in the ONS Economic Statistics and Survey Improvement Plans, recognising the risk of gaps in Welsh-level data. Welsh Government analysts have set out our critical priority requirements, including: improved sample design and coverage for business surveys, safeguarding quality and enhancing subnational outputs, particularly for the Annual Population Survey (APS), which is vital for labour market, population characteristics and Welsh language data, and for monitoring statutory national wellbeing indicators.

These priorities will continue to be regularly discussed through established governance and engagement channels including with senior ONS officials and at senior cross-UK statistical forums. To reinforce these points, the Permanent Secretary wrote to the Permanent Secretary of the ONS in December 2025 welcoming the work that ONS is doing through their Economic Statistics and Survey Improvement plans whilst stressing the importance of the APS and the need for full consideration of devolved requirements as ONS prioritises its work.

A progress update can be provided by the time of the Second Supplementary Budget.

**Recommendation 12.** The Committee recommends that the Cabinet Secretary clarifies with the UK Government how a 10 per cent increase was applied to increases in overall and annual limits for capital borrowing and the Wales Reserve, and provides a progress report by the time the Second Supplementary Budget 2025-26 is laid on 24 February 2026.

**Response: Accept**

The Welsh Government has long sought enhancement of its fiscal flexibilities. The UK Autumn Budget in November 2025 delivered some modest improvements.

In 2026-27, the Welsh Government's annual and cumulative capital borrowing limits, overall Wales Reserve limit and annual RDEL and CDEL drawdown limits will all be increased by 10%. From 2027-28, each of those limits will be uprated annually in line with inflation to maintain the real value of the limits over time. There will also be a temporary waiver of the Reserve drawdown limits in 2026-27.

The HMT decision to increase limits by 10% followed by annual uprating brings the increases broadly into line with the approach agreed for the Scottish Government, where limits have been increased with inflation since 2023-24.

We will continue to work with the UK Government to secure further improvements in our fiscal flexibilities, including permanent access to the full Wales Reserve.

**Recommendation 13.** The Committee recommends that the Cabinet Secretary provides an update on work that has been completed, is underway or planned to be completed this Senedd term to support assessment of usage of the Welsh Government's budget management tools, including plans for collecting data to support this work, and provides a progress report on this issue by the time the Second Supplementary Budget 2025-26 is laid on 24 February 2026.

**Response: Accept in principle**

The changes announced as part of the Autumn Budget in respect of annual and cumulative capital borrowing limits, the overall limit for the Wales Reserve and annual revenue and capital drawdown limits are a step in the right direction for the Welsh Government. However, I remain concerned that the fiscal levers currently available to the Welsh Government are insufficient effectively to manage the level of uncertainty around in year budget management.

The lifting of the drawdown limits on the Wales Reserve this year have been particularly beneficial, and I welcome the removal of limits on access to the

Reserve for a further year in 2026-27 which will support planning. However, I would like to see this flexibility agreed on a permanent basis.

Many of the decisions involved in managing our in year financial position are taken right up to the financial year end, therefore a full report would not be possible ahead of laying the 2025-26 Second Supplementary Budget.

In the meantime, information on the 2024-25 outturn which includes use of the Wales Reserve can be found in [here](#).

## 5. Budget Presentation and Measuring Impact

**Recommendation 14.** In light of this Budget being presented as “politically neutral”, the Committee recommends that the Cabinet Secretary reframes this view in its Final Budget Explainer to improve transparency and ensure stakeholders clearly understand the rationale behind these budgetary choices.

### Response: Accept

The Draft Budget was the first stage of the process. It presented minimal budgetary changes with no new policies and a pot of unallocated funding. It was an open and transparent approach to allow constructive discussions with other political parties to agree a path to a Budget which could be agreed by the Senedd.

A Budget agreement with Plaid Cymru was announced on 9 December, allocating around £300m additional resource funding. The additional funding will go to health and social care and to local government which were two of the main pressure areas identified during the scrutiny process and during engagement with stakeholder. This political agreement and the funding being allocated as a result is clearly set out in our Final Budget documentation. The details around how and why the decisions in the Final Budget were taken are set out in the Strategic Integrated Impact Assessment (SIIA) along with their associated impacts and longer term considerations.

**Recommendation 15.** The Committee recommends that the Welsh Government confirms how it will demonstrate the application of the five ways of working in its budget-setting process, and works with the Future Generations Commissioner on the best approach to assess and present this, and provides a progress update by the time the Second Supplementary Budget 2025-26 is laid on 24 February 2026.

### Response: Accept in Principle

The Well-being of Future Generations (Wales) Act 2015 continues to be a foundation for the Welsh Government’s Budget Strategy.

Before any spending decisions are considered at Draft Budget, the five ways of working are considered as part of the Integrated Impact Assessment process, undertaken by Cabinet Secretaries at an early stage as policies and programmes are being developed.

Following a review of the SIIA in 2025, opportunities for further assessments of the application of the five ways of working have been built into a more collaborative

and iterative SIIA process, which will be set out in the final SIIA, published alongside the Final Budget.

The Welsh Government would welcome the opportunity to work with the Future Generations Commissioner to reflect on changes that could be made to further improve the process. We intend this to form part of our preparations for the 2027-28 Budget to allow sufficient time to reflect and build on the improvements that have been made for the 2026-27 Budget.

**Recommendation 16.** The Committee recommends that the Welsh Government develops a consistent approach to tracking and publishing its delivery and performance against the seven well-being goals set out in the Well-being of Future Generations (Wales) Act 2015.

**Response: Accept**

The Welsh Government has established a consistent approach to tracking and reporting on progress against the seven well-being goals.

The Well-being of Wales report is an annual publication required under the Well-being of Future Generations Act. It provides a national-level overview of progress toward the seven well-being goals. It is not an assessment of individual public bodies but a reflection of collective progress across Wales. To support this, the Act also requires Welsh Ministers to publish a set of national indicators. These indicators are used to measure progress toward the well-being goals and are the primary evidence base for the Well-being of Wales report. The Act's indicators are being used to inform budget decisions and develop key policies and strategies across Government.

In addition, Welsh Ministers set and publish well-being objectives that are designed to maximise the Welsh Government's contribution to achieving each of the seven well-being goals. Through the Programme for Government Annual Report, progress towards the well-being objectives is reviewed and reported on annually.

**Recommendation 17.** The Committee recommends that the Welsh Government continues to evaluate the documents it produces alongside the Draft Budget to assess their impact and to make it as straightforward as possible for stakeholders to identify how budgetary decisions align with the Welsh Government's aims and priorities.

**Response: Accept**

The Welsh Government has worked diligently with successive Finance Committees to improve the way in which we present budgetary information in the most appropriate and transparent way. This work has led to the production of the comprehensive suite of documents we publish as part of the Draft Budget and ensures we provide a detailed account of the Welsh Government's decisions and how they align with our aims and our ambitions.

The suite of documents and their focus changes as appropriate to reflect comments made by the Senedd Committees and our stakeholders. For instance, the 2026-27 Draft Budget saw the development of the Draft Budget Reports being published at both outline and detailed stages, presenting an explanation of budgetary decisions at both stages. There has also been further refining of the tables published to support our spending plans, and to the BEL tables, to make them as straightforward as possible.

These changes build on earlier additions to documents that are now a regular feature of our Budget package. Documents added to the standard documentation in recent years include the Budget Improvement Plan, the Welsh Tax Policy Report, the Wales Economic and Fiscal Report and its accompanying 5 essential insights report, the Distributional Analysis of Devolved Public Spending in Wales and the decision to revert to publishing plans at BEL level rather than at the less detailed Budget Action level.

**Recommendation 18.** The Committee recommends that the Welsh Government reviews the work of the Budget Impact Improvement Advisory Group and evaluates its role and effectiveness in the wider budget decision-making process and considers any necessary actions to improve its ways of working.

**Response: Accept**

The Welsh Government has committed to undertake several reviews of current practices and advisory groups ahead of the end of the Senedd term, including reviewing the Budget Impact and Improvement Advisory Group. The review will present options for the future of the group for consideration by the incoming Government. The review will consider the group's membership and its effectiveness, influence and impact in terms of meeting its remit, which is to: 'provide advice, feedback and evidence from an equalities and inclusion perspective to Welsh Government, to ensure that budget and tax processes improve over the longer term to better align funding to outcomes'.

## 6. Prevention and Cost of Living Support

**Recommendation 19.** The Committee recommends that the Welsh Government provides further information to explain how it has approached investment in preventative spend in the Draft Budget, outlines how the Cabinet Secretary for Finance and Welsh Language is driving a preventative culture through budget allocations, and includes a progress update alongside the Final Budget.

### Response: Accept in principle

The Welsh Government recognises the value of preventative spending as a means of improving long-term outcomes and reducing future demand on public services. Recognition of the value of preventative spend is embedded within our budget process and reflected in the evidence presented in the Draft Budget documentation and the Strategic Integrated Impact Assessment (SIIA).

The SIIA sets out how budget decisions align with the five ways of working under the Well-being of Future Generations (Wales) Act, including prevention and long-term thinking. It highlights examples where allocations are designed to avoid future costs and improve resilience, such as investment in social care, childcare, education reforms, and climate action.

Similarly, the Budget Report explains how stability and targeted investment support preventative approaches across portfolios.

We will continue to build on this work and provided further clarity in the Final Budget. This includes a progress update on how preventative principles have informed allocations and how we are driving a preventative culture through our budget strategy.

**Recommendation 20.** The Committee recommends that the Welsh Government provides an update on its work to map preventative spend within governmental departments and to provide a progress update alongside the Final Budget.

### Response: Accept in principle

The Welsh Government recognises the potential benefits of understanding and mapping preventative spend as part of our commitment to long-term thinking and the five ways of working under the Well-being of Future Generations (Wales) Act. Our current approach embeds preventative principles within the budget process and the Strategic Integrated Impact Assessment (SIIA), which sets out how allocations contribute to prevention and resilience.

While work has been undertaken to strengthen the evidence base and highlight preventative measures within the Draft Budget and SIIA, mapping preventative spend in a consistent and comprehensive way across all departments is complex and evolving. We will continue to explore options for improving transparency and reporting in this area.

It will be for a future Government to determine how best to continue this work, building on the foundations we have set and ensuring that this work aligns with wider priorities and fiscal frameworks.

**Recommendation 21.** The Committee recommends that the Welsh Government continues to work with the Future Generations Commissioner to strengthen understanding of how the definition of preventative spending is applied to future Budgets.

**Response: Accept**

The Welsh Government is working closely with the Future Generations Commissioner to strengthen shared understanding of how preventative spending is defined and applied within the budget process. This collaboration is an important part of embedding the five ways of working under the Well-being of Future Generations (Wales) Act and ensuring that our approach to prevention is clear, consistent and aligned with long-term outcomes.

We will maintain this engagement as we develop future Budgets, and our ongoing approach to longer term fiscal matters, through the Welsh Spending Review, building on the constructive dialogue and advice received to date, and ensuring that the definition of preventative spend supports transparency and informs decision-making across government.

**Recommendation 22.** The Committee recommends that the Cabinet Secretary provides further information on the approach to benchmarking preventative spending across portfolios, including how this work is being implemented and how outcomes are to be measured, and makes this information available by the Final Budget.

**Response: Accept in principle**

Work to benchmark preventative spend meaningfully and in a way which adds value would be complex and require careful consideration to ensure that definitions, measurement frameworks and reporting mechanisms are robust and meaningful.

Preventative principles are already embedded within the budget process and reflected in the Strategic Integrated Impact Assessment (SIIA), which sets out how allocations contribute to prevention and long-term outcomes.

However, benchmarking preventative spend across all portfolios is an evolving area and will require further development over time.

We will not be able to provide an update alongside the Final Budget. This is an area that would need to be taken forward in a phased way, and it will be for a future Government to determine whether and how to implement a systematic approach to benchmarking and measuring related outcomes. We remain committed to exploring options and continuing dialogue with stakeholders, including the Future Generations Commissioner, as this work progresses.

**Recommendation 23.** The Committee recommends that the Welsh Government conducts a gender analysis assessment regarding the impact of the Discretionary Assistance Fund on gender poverty disparity and provides a progress update at the Final Budget stage.

**Response:** Responsibility for gender poverty disparity falls to the Cabinet Secretary for Social Justice, Trefnydd and Chief Whip. I have brought this recommendation to her attention for consideration.

**Recommendation 24.** The Committee recommends that the Welsh Government:

- provides an update on the roll out and effectiveness of Phase 3 of the Flying Start programme;
- undertakes an evaluation of the eligibility criteria for the Childcare Offer and Flying Start programmes to ensure the schemes remain accessible to women returning to work; and provides a progress update at the Final Budget stage.

**Response:** Responsibility for the Childcare Offer and Flying Start programmes falls to the Minister for Children and Social Care. I have brought this recommendation to her attention for consideration.

**Recommendation 25.** The Committee recommends that the Welsh Government works in collaboration with the Women's Equality Network Wales and the Wales Women's Budget Group to embedding gender budgeting across the Welsh Government and provides a progress update by the time the Second Supplementary Budget 2025-26 is laid on 24 February 2026.

### **Response: Accept**

The Welsh Government is committed to embedding gender budgeting as part of our wider equality and impact assessment work. Throughout this Senedd term, we have worked extensively with the Wales Women's Budget Group (WWBG) as a key member of the Budget Improvement and Impact Advisory Group (BIIAG). Their expertise has informed the development of our Strategic Integrated Impact Assessment (SIIA) and supported improvements in how equality considerations are integrated into budget decisions. In addition, we have reached out to the Women's Equality Network Wales (WEN) to strengthen engagement and ensure that gender perspectives are reflected in our approach.

This collaboration has helped us to build capacity and understanding across government and to align our work with the principles of the Well-being of Future Generations (Wales) Act.

We will continue this constructive engagement with WWBG and WEN as we develop future budgets, ensuring that gender budgeting becomes an embedded part of our process and contributes to greater transparency and fairness in resource allocation.

**Recommendation 26.** The Committee recommends that the Welsh Government continues to utilise Financial Transactions Capital within the rules, along with other capital sources, to invest in social housing to boost the housing supply in Wales.

### **Response: Accept**

The Welsh Government remains committed to deploying Financial Transactions Capital, in line with the relevant rules and guidelines, alongside other capital funding streams to support investment in housing. We recognise the vital role interventions funded using Financial Transactions Capital can play in increasing housing supply in Wales and in 2026-27 we will continue to maximise all available resources to help meet housing need.

Responsibility for social housing falls to the Cabinet Secretary for Housing and Local Government. I have brought this recommendation to her attention for consideration.

## 7. Productivity

**Recommendation 27.** The Committee recommends that the Cabinet Secretary includes a high-level commitment to productivity growth in the Final Budget and develops a national productivity plan to support proactive Welsh Government action in this area.

**Response: Accept in principle**

Responsibility for improving productivity is shared widely across the Welsh Government, in recognition of the importance of productivity growth to improving living standards and to improving and increasing the delivery of public services in a more sustainable way. Our Economic Mission already fully recognises the importance of productivity growth.

**Recommendation 28.** The Committee recommends that the Cabinet Secretary uses the six core recommendations set out in the insight paper on productivity, published by the Productivity Institute in January 2025, as the basis for a future national productivity plan to underpin productivity growth in Wales.

**Response: Accept in principle**

The Welsh Government is already pursuing many actions consistent with the recommendations from the Productivity Institute's paper from January 2025. We will continue to use and refer to the report as we continue to work to improve productivity in Wales.

**Recommendation 29.** The Committee recommends that the Cabinet Secretary clarifies the statistics cited in his evidence in relation to productivity performance in Wales between 2009 and 2023, including information on the measures used and the data sources.

**Response: Accept**

The Welsh Government Wales Economic and Fiscal Report 2025 published on 14 October 2025 provided details of productivity performance in Wales.

With regard to the information I provided in my oral evidence to the Committee, I can confirm that the annual growth of labour productivity (measured by GVA per hour worked) in Wales between 2022 and 2023 was the second highest out of Wales, Scotland, Northern Ireland and the nine English regions; and that between 2009 and 2023, Welsh productivity (measured as GVA per hour worked) grew by 14.1%, compared with 10.5% for the UK.

These statistics are taken from the link below:

[Regional and subregional labour productivity, UK - Office for National Statistics](#)

**Recommendation 30.** The Committee recommends that the Cabinet Secretary:

- provides clear information on the Welsh Government's productivity targets,
- outlines how they are measured and assessed, including details of any data sources used to monitor and evaluate progress, and
- explains why it has not developed its own fiscal sustainability plan in line with the approaches adopted by the UK and Scottish governments.

**Response: Accept in principle.**

The Welsh Government does not have an overall productivity target. However, overall productivity is assessed and measured as part of the Well-being indicators. Productivity performance is also well documented in the annual Wales Economic and Fiscal Report as well as the Well-Being of Wales Report.

While improving productivity is a clear and explicit aim of the Welsh Government, and policies that aim to improve productivity are likely to be some of the most effective for improving living standards in Wales over the long term, setting specific targets (for the economy and in the public sector) is unlikely to be directly helpful in achieving this. The Wales Economic and Fiscal Report includes long term funding scenarios and a section on long term fiscal sustainability. That section discusses the implications of projected demographic trends in Wales and how they compare with trends in England.

**Recommendation 31.** The Committee recommends that the Cabinet Secretary provides information on how the Welsh Government is improving public sector productivity through its budget allocations, including details about specific investments, the outcomes achieved, and the evaluation mechanisms in place to support the transformation of service delivery.

**Response: Accept.**

Our approach is to embed productivity improvements across policy areas, recognising that productivity is influenced by deep structural factors such as skills, infrastructure and investment patterns, which evolve over the long term. Productivity improvements are key to delivering NHS services and we have recently seen productivity and efficiency targets in planned care being developed following the report of the NHS Wales Ministerial Advisory Group.

Skills and workforce development are a core determinant of productivity, and the additional allocation of £5m at the Final Budget for apprenticeship programmes will further increase provision to improve skills for young people and support them to find work.

A dedicated Infrastructure Finance Plan accompanies the Draft Budget indicating strategic commitments to more efficient housing, schools, and cultural buildings, as well as prioritising digital connectivity and transport links which underpin productivity growth. An extra £20m capital funding was announced at the Final Budget to accelerate our successful Sustainable Communities for Learning Programme which is delivering modern, fit for purpose buildings with lower operating costs.

**Recommendation 32.** The Committee recommends that the Cabinet Secretary:

- sets out how the budget supports public sector adoption of Artificial Intelligence and automation to improve productivity, including how these allocations reflect the Welsh Government's new plan to embed the benefits of technology across Wales; and
- encourages the development of an overall IT strategy for the public sector in Wales alongside this.

**Response: Accept in Principle**

The Digital Strategy for Wales set out a vision of improving the lives of everyone in Wales through collaboration and innovation, leading to the delivery of better public services. The AI Plan for Wales supports this through a commitment to harness the transformative power of AI to unlock economic growth, enhance public services in both English and Welsh, and equip people in Wales with the skills to thrive in our fast-changing world.

In the Draft Budget, funding of £7.075 million was allocated to the Digital Strategy for Wales Budget Expenditure Line (BEL) to support the work of the Centre for Digital Public Services on cross-sectoral leadership, digital service standards, capability and service improvement, the Office for AI and a series of initiatives to support the responsible implementation of AI across Welsh public services.

AI is rapidly reshaping the modern world and presents challenges across sectors and for society as a whole. In the Welsh Government, responsibility for digital, AI and data-driven technologies are cross-cutting and embedded in every Ministerial portfolio. To boost public service productivity and efficiency, all portfolios will embed digital and AI considerations in their policy development,

investment decisions and delivery activities. It is the responsibility of the next Welsh Government to determine the priorities and associated investment going forward.

The Welsh Government agrees that there could be merit in an IT framework for investment in the Welsh public sector to help set strategic direction and expectations based on emerging technology trends, support consistent standards and deliver value for money through effective procurement. All public sector organisations in Wales should already have their own IT strategies which align technology needs with overall business objectives, covering everything from infrastructure and software to cybersecurity and digital transformation. This will help drive productivity and efficiency, act as a roadmap for technology investments, implementation, and enable innovation.

**Recommendation 33.** The Committee recommends that the Welsh Government takes steps to improve productivity literacy within government and across the private sector in Wales, to strengthen understanding of productivity and to drive long-term economic growth.

**Response: Accept in Principle**

The Welsh Government has taken several steps around institutional engagement and the analytical frameworks it produces to improve productivity literacy within government and across the private sector in Wales. This includes meeting with external stakeholders, convening with experts and publishing a number of reports which explains the importance of productivity, how it is faring in Wales and what can be done to improve it.