EXPLANATORY MEMORANDUM TO

THE GOVERNMENT OF WALES ACT 2006 (INCREASE OF CAPITAL BORROWING LIMITS) ORDER 2026

[Year] No. [XXXX]

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Wales Office and is laid before the House of Commons by Command of His Majesty.

1.2 This memorandum contains information for the Select Committee on Statutory Instruments.

2. Declaration

2.1 The Rt Hon Jo Stevens MP, Secretary of State for Wales at the Wales Office confirms that this Explanatory Memorandum meets the required standard.

2.2 Huw Bryer, Deputy Director, Constitution, Domestic Affairs and Regional Growth, at the Wales Office confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 David Harries at the Wales Office can be contacted by email at the following address with any queries regarding the instrument: David.Harries@ukgovwales.gov.uk. Alternatively, the department can be contacted by telephone: 07840 009179.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 This Order amends the Government of Wales Act 2006 ("the 2006 Act") so as to increase the capital borrowing limits in section 122A of that Act from £1,000 million to £1,100 million.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is the United Kingdom.

5. Policy Context

What is being done and why?

5.1 The Autumn Budget on 26 November 2025 announced some fiscal flexibilities for the Welsh Government's budget, including changes to its borrowing limits. It included commitments to increase the Welsh Government's annual and cumulative capital borrowing limits, overall Wales Reserve limit and annual RDEL and CDEL drawdown limits by 10% in 2026-27. Only the cumulative capital borrowing limit has a legislative basis. Article 2 of this Order therefore increases the capital borrowing limit to £1,100 million.

What was the previous policy, how is this different?

5.2 Section 121 of the 2006 Act sets out the borrowing powers of the Welsh Ministers. This includes, by virtue of section 121(1A) the ability, with the approval of HM Treasury, to borrow by way of loan or by the issue of bonds, any amount it appears to them to be required for the purposes of meeting capital expenditure. Section 122A sets the cumulative limits for this capital borrowing power. The current limit is set at £1,000 million. This Order increases the limit by 10% in line with the announcement at Autumn Budget to £1,100 million.

6. Legislative and Legal Context

How has the law changed?

6.1 The Wales Act 2014 amended the 2006 Act so as to provide capital borrowing powers for Welsh Ministers and set an initial limit to those powers at £500 million. As part of the Welsh Government's Fiscal Framework in 2016 it was agreed that the limit would be increased to £1,000 million. This increase was implemented through the Wales Act 2017.

Why was this approach taken to change the law?

6.2 Section 122A(2) of the 2006 Act enables the Secretary of State to vary the Welsh Government's cumulative capital borrowing limit as set out in section 122A(1) of that Act. This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 A public consultation was not carried out before the making of this Order as it delivers a commitment made at Autumn Budget 2025. The UK Government has however engaged with the Welsh Government in preparation of this Order.

8. Applicable Guidance

8.1 This instrument does not include applicable guidance.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument because the increases to the Welsh Government's capital borrowing limits do not involve additional costs or other substantial impacts to the public.

Impact on businesses, charities and voluntary bodies

9.2 There is no, or no significant, impact on business, charities or voluntary bodies because this instrument increases the Welsh Government's borrowing limits.

9.3 The legislation does not impact small or micro businesses.

9.4 There is no, or no significant, impact on the public sector because this instrument increases the Welsh Government's borrowing limits.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation is set out in the Welsh Government's Fiscal Framework.

10.2 The instrument does not include a statutory review clause.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 This Order amends the 2006 Act in line with the processes set out in that Act.

12. European Convention on Human Rights

12.1 The Secretary of State for Wales has made the following statement regarding Human Rights:
"In my view the provisions of the Government of Wales Act 2006 (Increase of Capital Borrowing Limits) Order 2026 are compatible with the Convention rights."

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").