



Llywodraeth Cymru
Welsh Government

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Welsh Government Draft Budget 2016–2017

Strategic Integrated Impact Assessment



December 2015

Ministerial Foreword

We are pleased to jointly present the Welsh Government's strategic and integrated impact assessment of the Draft Budget 2016-17.

This Draft Budget reflects our priorities, but is shaped by decisions of the UK Government. The Welsh Budget is £1.4 billion lower now than in 2010-11 with the settlement continuing to decrease in real terms by 3.6 per cent between 2015-16 and 2019-20. We knew our budget would be less in real terms, but not how much lower. What we have known is service demands and pressures do not, of course, reduce in response to austerity.

Against this backdrop, we have focused on aligning resources to our priorities and approached our decisions to ensure that short term responses do not have longer term detrimental impacts. In preparing for future financial restraints, we have sought to target investment in sustainable outcomes through protecting public services which benefit everyone, but particularly people with protected characteristics. We have done this by focusing our spending plans on our main priorities of: health and health services; growth and jobs; educational attainment; and supporting children, families and deprived communities. By taking an approach grounded in evidence and evaluation we have reflected the needs of protected characteristics in our spending decisions.

In line with our commitment to implementing the Well-being of Future Generations (Wales) Act and our Programme for Government commitment to sustainability and fairness, with sustainable development as our core principle, we have continued to improve the approach to assess impacts in an integrated way. Our Spending Plans for 2016-17 and this Statement of Strategic Impacts continue to reflect the emphasis we place on socio-economic disadvantage, children's rights, Welsh language, equality and sustainable development as now contained in the Well-being of Future Generations (Wales) Act. Our decisions are also underpinned by our commitment to tackle poverty and to drive a shift in spending towards prevention and early intervention.

However the positive steps taken by this Welsh Government to consider the impact of our spending decisions on protected groups cannot be assessed in isolation from the impact of the UK Government's tax and welfare reforms. We know hundreds of millions of pounds are being stripped out of our most disadvantaged communities, making life extremely difficult for families. We have routinely sought to mitigate the devastating impacts on families and use all of the levers at our disposal.

Reflecting the emphasis on collaboration embodied in the Well-being of Future Generations Act, we know we cannot meet these challenges alone. Through the Budget Tour of the Minister for Finance and Government Business we have drawn on the first-hand experience of our partners in Local Authorities, health, housing and the Third Sector, and the experiences of those who use our services, to learn what is working well and where there is

scope to drive further integration of services and greater collaboration between those responsible for providing sustainable services.

We would like to pay particular thanks to the continued work of the Budget Advisory Group for Equality (BAGE), their input has made a valuable contribution to the evidence base, providing a better understanding of the nature of inequality in Wales and shaping our decision making.

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1. Introduction

- 1.1. The outlook for public finances, as a result of the UK Government Spending Review, continues to be challenging. An initial assessment of the pressures and trends in relation to key services has identified the need to spend £1bn more over the next three years. However, our budget will be a little under £400m higher in revenue and £200m in capital by 2019-20. Our assessment of the impacts of our decisions is vital to ensure the promotion of equality of opportunity and the prevention of discrimination.
- 1.2. In line with feedback from the Budget Advisory Group for Equality (BAGE) and reflecting recommendations of the Finance Committee's Inquiry into Best Practice Budget Procedures we have again taken an integrated approach to our impact assessment. Despite the challenges presented by the late timing of the UK Spending Review we have focused on making informed strategic high level decisions based on our analysis of supporting evidence, particularly in relation to people with protected characteristics. This has enabled us to give full consideration to socio-economic disadvantage, children's rights, Welsh language and sustainable development, in addition to the focus on equality and tackling poverty.
- 1.3. We have considered the impacts on protected groups on a wider basis than in the past, looking at delivery areas rather than Ministerial portfolios. We have considered long-term impacts, assessed opportunities for prevention, taken an integrated and collaborative approach to understanding impacts; and committed to involving people in the decisions that affect them.

2. Well-being of Future Generations Act

- 2.1 We are committed to using the Well-being of Future Generations Act to improve how we make decisions about the social, economic, environmental and cultural well-being of Wales. Our budget proposals have been shaped against the new duties from the Act, reflecting our commitment to its full and successful implementation.
- 2.2 Using the sustainable development principle, central to the Act, has enabled us to plan effectively in the absence of early certainty about our budget settlement and helped us to publish these proposals within two weeks of the Spending Review outcome while considering impacts on protected groups. At the core of the Act are five ways of working which have informed our overall approach to setting budget allocation in the following ways:
 - We have taken account of the potential **long term** impacts of our decisions and balanced this against our short-term needs. This has enabled us to plan on the basis of recognising challenges before they

arise so that we are able to balance short-term pressures with long-term needs.

- The approach of **prevention** in acting to prevent problems from occurring or getting worse has continued to underpin our decision making. We are committed to exploring opportunities for investing in preventative spend.
- By taking an **integrated** approach grounded in evidence and evaluation we have developed a wider understanding of the cross-cutting pressures that exist across key service areas, in line with our key priorities, while targeting funding at those who need it most. This has enabled us to gain a broader understanding of the overall impact of spending decisions on key service provision through taking a holistic view of public service delivery in Wales.
- We have recognised that we cannot meet these challenges alone and through continued **collaboration** and engagement with the Budget Advisory Group for Equality their input has made a valuable contribution to our evidence base, providing a better understanding of the nature of inequality in Wales which has shaped our decision making.
- We are committed to engaging with and **involving** people in the decisions that affect them. Through the Budget Tour of the Minister for Finance and Government Business we have listened to experiences of those who use our services, to learn what is working well and where there is scope to drive further integration of services and greater collaboration between those responsible for providing sustainable services.

3. BAGE

- 3.1** The role of the Budget Advisory Group for Equality (BAGE) is to provide advice and to share expertise and best practice on equality issues to support the continual improvement of the Impact Assessment (IA) undertaken of the Welsh Government Budget. We work with BAGE throughout the year to improve our approach and shape our decisions.
- 3.2** A key focus of the Group's discussions and work to date has been to provide an understanding of the current economic environment, and how this might impact on our equality considerations. This has generated a strong focus on the importance of building a solid and robust evidence base so that the nature of the underlying equality issues can be identified and understood. A key conclusion has been the compromise that needs to be made in the face of budget cuts.
- 3.3** Through continued engagement their input has made a valuable contribution and has shaped our decision making. In particular the Group were asked to advise on priority areas for investment in advance of preparations for the Draft Budget 2016-17 and were consulted following the UK Government's Spending Review.

- 3.4** In response to BAGE identifying a need to focus on programmes specifically addressing inequality, we have focused on those key service areas which can have the greatest impacts. In protecting Social Care we have allocated money for frontline services and have protected programmes such as Flying Start, Communities First, Schools Challenge Cymru and Supporting People, while protecting funding such as the Pupil Deprivation Grant which specifically address inequality. This reflects our protection of impacts on equality well beyond a single Ministerial portfolio.
- 3.5** In relation to BAGE's priorities on Health and Social Care, our decision to increase funding to health reflected identified priorities in investing in areas such as prevention rather than acute care, primary rather than secondary care and maintaining a focus on service transformation and better integration between health and social care. Through our integrated approach and subsequent allocation to Social Care and increases to the Intermediate Care Fund, older people and mental health services we have recognised the role of carers, the value of mental health and wider social care in terms of their impacts on protected groups.
- 3.6** In recognition of the importance raised by BAGE that education delivers to addressing inequality in employment and skills we have increased schools funding, protected post 16 education and increased higher education student support funding, and through our 2014 Budget Agreement we are allocating £5m to enable continued support for around 2,500 apprenticeships. We have gone further and committed an additional £5m to fund a new cohort of 2,500 apprenticeships in recognition of the value of this work based learning as identified by BAGE.
- 3.7** BAGE identified a priority on impacts in rural areas. To address rural poverty we have used the levers at our disposal which have the greatest impacts. Through our decisions on infrastructure, social care and protecting Universal Benefits we have recognised how programmes such as Supporting People, Help to Buy and concessionary fares have particularly positive impacts on rural areas. Through the course of the current Spending Review period we have been able to provide some cushioning to local authorities from the impact of UK Government's reductions to our Budget. However, we have signalled the challenge we face in managing our priorities within reducing budgets. Despite these challenges we have continued our commitment to prioritise schools and social services. Continuing our commitment to protect schools funding at 1 per cent above changes to the Welsh block grant average, we are providing an additional £39.7 million in 2016-17, which is primarily focused towards frontline schools funding.
- 3.8** In addition BAGE has acknowledged that the equality impact of spending decisions depend on details of policy design and implementation. That is why the Group has focused on particular themes. Their programme for

BAGE meetings has included workshops considering and discussing the Well-being of Future Generations (Wales) Act, the Tackling Poverty Action Plan, the implications of Welfare Reform, the Wales Infrastructure Investment Plan, housing strategy, the Foundation Phase Evaluation report and the Education Improvement Grant.

4. Approach to the Draft Budget and Strategic Integrated Impact Assessment 2016-17

- 4.1** As a result of the decisions of the UK Government, the Welsh Budget has been cut by £1.4 billion in real terms between 2010-11 and 2015-16 and following the UK Government Spending Review we continue to face a challenging financial settlement.
- 4.2** Despite the uncertainties presented by the late timing of the UK Spending Review, in preparing for this budget we are resolute in our commitment to protecting the disadvantaged within our society and remained focused on our key priorities.
- 4.3** We reviewed current trends and future projections and their potential impacts in the short, medium and longer term. We did this to ensure that short term responses do not have longer term detrimental impacts. Predicted demographic, social, environmental and economic trends suggest that key priority areas, such as schools, health and social services will bear the greatest degree of increased future demand and are of particular importance to people with protected characteristics.
- 4.4** We then explored how the Welsh Government approaches policy and funding for education, health and social care services, infrastructure and Universal Benefits. We considered how those approaches influence public services on the ground, what their needs are in the future and what that tells us about how we should approach budget allocations.
- 4.5** This enabled us to make an assessment of total need while focusing on those priority areas which have disproportionately positive impacts, while considering the interplay between these services areas.
- 4.6** As the Welsh settlement goes down in real terms by 3.6 per cent between 2015-16 and 2019-20 and demand for services continues to rise, we identified significant and real delivery challenges. As a consequence of the UK Government's approach to austerity and Welfare Reform and with rising demand it is not possible to fully meet growing pressures in priority areas and maintain current levels of funding.
- 4.7** With the need to target funding effectively being more important than ever we used evidence of impacts on protected groups balanced against pressures, to prioritise funding on areas with identified positive impacts. We did so in the knowledge that concentrating our efforts around priorities has implications for other areas. In these cases we have sought to mitigate negative impacts wherever possible.

4.8 In summary, we have based our spending decisions on an analysis of demands and needs in key public service areas which are of particular importance to those who need it most. In the challenging financial climate we have sought to focus resources on priorities based on an assessment of greatest positive impact and mitigate the effects of austerity where its impact is unavoidable.

5. Strategic Decisions

5.1 We have targeted our investment in sustainable outcomes through protecting the public services on which we all depend while maintaining the focus of our spending plans on our main priorities of: health and health services; growth and jobs; educational attainment; and supporting children, families and deprived communities.

5.2 With trends indicating rising demand in the number being treated for illness, unscheduled care and social care, while at the same time recognising the significant positive impacts on protected groups, we have taken an integrated approach to allocating funding to Health and Social Care.

5.3 Our decision to allocate additional funding of £293m for health in 2016-17 recognises that providing a sufficient and sustainable health settlement is a vital consideration not just for society as a whole, but also recognises the disproportionately positive impacts on protected groups. This funding will be used to maintain access to quality acute services when these are needed, promote the continued development of primary and community services closer to home and increase funding available for mental health services and older people. As we stated last year, research suggests that spending on public services such as health and education reduces inequality by benefitting low-income households more than rich ones. The total equalising effect, and that of different spending programmes, can be quantified and programmes can be ranked from most pro-poor to most pro-rich. Per head, the NHS spends more on older people and on young children, and households containing both these individuals are concentrated in below-average income groups.

5.4 Our decision to allocate an additional £21m through the Revenue Support Grant for social services recognises the important contribution of social services. We have recognised the pressures on service delivery, the strong link between poor health and deprivation and the important impacts which social care has on the most disadvantaged, whether through reasons of old age, disability or the need to safeguard children.

5.5 In line with this commitment we are protecting the Supporting People Programme which provides housing-related support for some of Wales' most vulnerable and socially excluded.

- 5.6** Our decision to allocate an additional £39.7m to schools, which is primarily focused towards frontline schools funding, is in recognition of the importance of education in raising educational attainment and skills at all levels set against the notable pressures on our schools. We have made allocations to Education which acknowledges its significant impacts in contributing to breaking the cycle of disadvantage and inequality and nurturing the future of a thriving Welsh language.
- 5.7** Through our decision to provide a cash flat settlement for post 16 education, we have recognised the significant pressures faced by this sector and the impacts and benefits in line with our desire to see as many learners as possible able to get the skills they need for the workplace. In particular we have recognised the benefits to Wales delivered through apprenticeships and the impacts this has on tackling poverty and socio-economic disadvantage.
- 5.8** We have allocated an additional £10m to Higher Education student support. This will offset pressures from increased demand, and acknowledges the continued success of our Welsh universities and the impacts they have in improving life chances for young people no matter their background.
- 5.9** One of the core areas where equality has been considered throughout the financial planning process has been our response to the UK Government's Welfare reform. At every stage of the budget process we have sought to mitigate the devastating impacts to families and use all of the levers at our disposal. In line with our commitment to tackling poverty we are protecting funding for Communities First.
- 5.10** We are continuing our support for Universal Benefits through maintaining a 1 per cent protection above changes to the Welsh Budget overall. This means continuing with the provision of free prescriptions, free school breakfasts and school milk, free swimming and concessionary fares. These initiatives support the most vulnerable in society and also those who narrowly miss out on means tested support, and contribute to the creation of a more equal society. In line with our focus on prevention, they also have the potential to reduce future demand on services by helping to create a healthier, more active and independent population.
- 5.11** Despite the unprecedented reductions to the capital budget over the last five years, through our Wales Infrastructure Investment Plan we have continued to focus on maximising the opportunities and benefits that Welsh infrastructure investments provide through enabling sustained economic growth and creating new jobs.

6. Priority Areas

Health and Health Services

Overview

6.1 With trends indicating rising demand in the number being treated for illness, unscheduled care and social care, while at the same time recognising the significant positive impacts on protected groups, we have taken an integrated approach to allocating funding to Health and Social Care.

Key Decisions

- Health - additional funding for Health of £293m;
- Primary and Community based care – Through the additional funding for health £30m is being allocated to increase funding for the Intermediate Care Fund to £50 million in 2016-17;
- Mental Health Services and Older People – of the additional £293m allocated £30m to increase funding available for mental health services and services for older people;
- Social Services - allocated an additional £21m to the Revenue Support Grant;
- Preventative interventions in wider Social Care - Protecting the Supporting People programme; and
- Public Health– we are protecting investment in programmes to improve public health.

Health

6.2 During this ongoing period of austerity and the UK Government's cuts to public services and in light of overwhelming evidence about increasing demand linked to the needs of our increasing and aging population, our policy is to move away from focusing on ill health and over-dependence on hospital based treatment. Instead we are moving towards primary care and wider integrated interventions. As the NHS is free at the point of use, the additional funding of £293m will contribute to positive impacts on poverty and equality.

6.3 Our approach is to help people take responsibility for their health and well-being through the co-production approach, as well as developing a preventative, primary and community care-led NHS. This requires a sustained shift through collaboration in financial and workforce resources to deliver more healthcare in the community.

6.4 The Nuffield report concluded that the NHS in Wales will continue to be affordable in future if it continues to reform and reshape services. In order to provide a sustainable NHS we need to make the necessary improvements in productivity and service delivery, and the additional

investment of £293m is our commitment to supporting the achievement of these improvements.

- 6.5** The overwhelming majority of healthcare in Wales is delivered in the community, close to patients' homes. The Intermediate Care Fund has enabled health boards and local authorities to address equalities by developing services to help older people and those with chronic conditions maintain their independence in the community and to support early discharges from hospital. Therefore through the additional funding for health £30m is being allocated to increase funding for the Intermediate Care Fund to £50 million in 2016-17.
- 6.6** As a Government we continue to recognise the important role of mental health services in improving patient outcomes. We have therefore allocated £30m of the £293m to increase funding available for mental health services as well as funding for older people. In line with our integrated approach to health and social care, we remain committed to this promise so as to help make further improvements in a number of key areas, including child and adolescent mental health services and dementia care to benefit key groups.
- 6.7** With an ageing population it is vital we work with people to help protect their health as they get older. By protecting our investment in public health we are committed to providing greater control over health and well-being and faster access to advice and services for those who need it most.

Social Services

- 6.8** Younger, older and disabled people are more likely to depend upon the social care which public services provide. In this context projections show increases in the number of older people, pressures on care costs are likely to arise from increases in poverty and social exclusion alongside increases in the occurrence of specific conditions more common in the elderly, such as dementia. At the same time these same trends suggest that under the right circumstances preventative measures can save public money and improve well-being over the longer term. This analysis supports our decision to place social services amongst the key considerations for this Draft Budget.
- 6.9** Our decision to allocate an additional £21m to the Revenue Support Grant for social services recognises the importance of focusing on supporting and accelerating transformational change across the health and social care system in order to address these challenges, with a particular focus on frontline delivery.
- 6.10** Our key priorities for social services are embodied in the Sustainable Social Services for Wales programme and implementation of the Social Services and Well-being (Wales) Act. These place emphasis on the well-being of people who need care and support and carers who need

support alongside ensuring people have a much stronger voice and greater control over the services they receive; simplifying the way services are delivered, and improving the well-being of all people living in Wales.

6.11 By protecting vital programmes such as the Supporting People programme we have recognised the important contribution that social care has on the most vulnerable, whether through reasons of old age, disability or the need to safeguard children. This programme not only provides housing-related support for some of Wales' most vulnerable and socially excluded it also helps individuals and families who are homeless or at risk of becoming homeless to find and keep their home and live independently, as well as making a key contribution to our Tackling Poverty agenda. The programme is an example of action which can be taken to prevent or reduce the need for more costly interventions by the NHS and/or social care. It helps individuals and families and, in some cases, supports people who fall into the criminal justice system.

Educational Attainment

Overview

6.12 We have taken a holistic approach to education funding. With a projected growth in young people over the medium term we have recognised the importance of education in raising educational attainment and skills at all levels as being fundamental in contributing to breaking the cycle of disadvantage and inequality and nurturing the future of a thriving Welsh language. We have also recognised that changes to the population coupled with technological and sectoral change requires us to also consider the important role of education in the context of supporting the future of the Welsh economy.

Key Decisions

- Schools - allocated an additional £39.7m to schools, which is primarily focused towards frontline schools funding;
- Early Years – protecting the Flying Start Programme.
- Pupil Deprivation Grant – we have allocated an additional £7.2m to raise funding from £1,050 per eligible pupil in 2015-16 to £1,150 in 2016-17;
- Schools Challenge Cymru – extend the scheme to 2016-17 with £15m available next year;
- Post 16 - provided a cash flat settlement for post 16 education;
- Apprenticeships – allocated £5m to continue support for around 2,500 apprenticeships and a further £5m to fund a new cohort of 2,500 apprenticeships;
- Higher Education student support - allocated an additional £10m to Higher Education; and
- Welsh language - allocated £1.2m to cushion the impact of reductions on Welsh language funding.

Schools and Early Years

- 6.13** With a projected growth in young people over the medium term we have recognised the importance of education in raising educational attainment and skills, its contribution to breaking the cycle of disadvantage and inequality and nurturing the future of a thriving Welsh language.
- 6.14** Our decision to allocate an additional £39.7m to schools, which is primarily focused towards frontline schools funding, has a disproportionately positive impact on young people overall and is important under Article 28 of the United Nations Convention on the Rights of the Child, that children have a right to an education. This decision will also have a positive impact in tackling poverty and socio-economic disadvantage in benefitting protected groups and have significant positive impacts on the Welsh language.
- 6.15** We remain focussed on raising the standards of education and training provision, attainment and infrastructure across Wales and increased front line school funding to ensure every child is given the opportunity to reach their potential.
- 6.16** In recognition of established international evidence that intensive interventions, as early as possible, in the lives of those most at risk are needed to break the cycle of disadvantage, we have protected the Flying Start Programme. Flying Start is the Welsh Government's flagship early years programme, and works to give children the best start in life, putting them in the best position for school. Evidence to date shows Flying Start is beginning to have a real positive impact on children, and that when starting school Flying Start children are ready to learn and more confident in mixing with other children.
- 6.17** In line with the 2014 Budget Agreement, we are providing an extra £7.2m in 2016-17 to increase the Pupil Deprivation Grant (PDG) from £1,050 per eligible pupil in 2015-16 to £1,150 in 2016-17. This builds on the existing programme which is an important response to breaking the link between poverty and educational attainment. This programme particularly focuses on ensuring that the most disadvantaged children have access to high quality education in their early years.
- 6.18** We have also extended our Schools Challenge Cymru scheme to 2016-17 with £15m available next year, which will support the programme to accelerate and concentrate our school's improvement efforts, focusing on secondary and primary schools in Wales that face the largest challenge in terms of circumstance and stage of development.
- 6.19** In recognising the important role that schools play in securing a thriving future for the Welsh language we have allocated additional funding to schools, which is primarily focused towards frontline schools funding and will impact equally on Welsh medium, English medium and bilingual schools. In particular there have been encouraging increases in primary

school pupils being assessed in Welsh first language. We remain committed to our Welsh Language Strategy “Iaith Fyw” and Welsh-medium education strategy. However, austerity will mean that difficult choices will need to be made and we will seek to minimise impacts to the future of the Welsh language and Welsh speaking communities. In line with this commitment and in recognition of pressures faced in protecting the future and heritage of the Welsh language we have allocated £1.2m in 2016-17 as a step to cushion the impact of reductions to funding.

Post 16 Education

- 6.20** Through our decision to provide a cash flat settlement for post 16 education, we have recognised the impacts on tackling poverty and socio-economic disadvantage and committed to realising our ambition of seeing as many learners as possible able to get the skills they need for the workplace. We have also sought to mitigate the significant pressures faced by this sector.
- 6.21** We are supporting the programmes that deliver a skilled workforce with high quality opportunities for all learners, contributing to the creation of growth and jobs. Post 16 education makes a significant contribution to tackling poverty by increasing the skill levels of the Welsh workforce.
- 6.22** It is important that we strike a balance between provision of post 16 education and the opportunity for access to higher education. Certain black and minority ethnic (BME) young people and disadvantaged young people are more likely to end up in poverty if they are not in employment, education or training (NEET). Post 16 education and training such as apprenticeships are important in meeting the challenge of reducing NEETS, and reducing the number of NEETs is central to our Tackling Poverty Action Plan. In order to ensure further education opportunities or ensure the ability to get the skills needed for the workplace we are protecting our Post 16 Education budget and through our 2014 Budget Agreement we are allocating £5m to enable continued support for around 2,500 apprenticeships. We have gone further and committed an additional £5m to fund a new cohort of 2,500 apprenticeships in recognition of the value of this work based learning.
- 6.23** In recognition of the role of carers and barriers to education we have provided funding to establish a targeted further education childcare pilot scheme to remove the barriers to education and tackle intergenerational deprivation. This is intended to provide an opportunity for those with caring responsibilities to be able to access further education without having to worry about the costs of childcare. In particular this pilot is intended to focus on positively impacting protected groups who would potentially see the greatest benefits, particularly on gender.

Higher Education

- 6.24** Welsh universities have seen significant change over the past four years, supported by our strategy of fewer, stronger institutions, better able to compete in the global higher education market.
- 6.25** At the same time we have remained committed to our key goal of fairness for all, ensuring an individual's financial situation is less of a factor in deciding whether to pursue a university education than it would otherwise have been. We have been very clear that our tuition fee policy is an investment in the young person and that the choice of institution and course should be driven by individual circumstances not by the cost of fees. This will impact positively on people no matter their ethnicity, gender or background, providing a route out of poverty.
- 6.26** We have therefore allocated an additional £10m to Higher Education student support. This is both to protect the impacts our tuition fee policy has on improving life chances for young people no matter their background and meet pressures from increasing demand.
- 6.27** In Wales Higher Education also makes a significant contribution to our economy and wider society. Specifically the impact they have on local economies and communities, with some, such as Aberystwyth and Bangor, playing a major part. As an employer Higher Education Institutions also create a large number of jobs at all skill levels which will of course benefit those people it employs.
- 6.28** However, austerity will result in difficult choices. Through choosing to fund student support we recognise there will be pressures elsewhere within Higher Education. We will seek a collaborative approach to mitigate consequences and are also making significant additional investments in the research capacity of HE sector through Sêr Cymru, making use of EU programme and structural funds. This recognises the role of science in innovation and technology development linked to economic growth and creating jobs.

Supporting Children, Families and Deprived Communities

Overview

- 6.29** Through taking an approach grounded in evidence and evaluation we have focused on those key service areas which deliver the greatest impacts for our children, families and deprived communities.
- 6.30** However at the same time, as a result of the UK Government's approach to fiscal austerity and in particular welfare reform has required us to make difficult decisions. At every stage of the budget process we have sought to mitigate the devastating impacts to families and use all of the levers at our disposal.

Key Decisions

- Mitigating Impacts of UK Welfare Reform – maintain the 1 per cent protection for Universal Benefits into 2016-17;
- Tackling Poverty – providing a cash flat protection to the Communities First programme; and
- Maintaining quality public services - Allocated £3m to limit reductions to inspectorates.

Universal Benefits

6.31 In response to the UK Government's welfare reform we are continuing our support for Universal Benefits, by maintaining the 1 per cent protection, which contributes to the creation of a more equal society. These initiatives support the most vulnerable in society and also those who narrowly miss out on means tested support, and contribute to the creation of a more equal society. In line with our focus on prevention, they also have the potential to reduce future demand on services by helping to create a healthier, more active and independent population.

6.32 We have therefore maintained our commitments to provide:

- I. **Concessionary Fares** – supporting older people and disabled people to remain independent. A key purpose of this scheme is to increase bus use as a means to reducing social exclusion and to ensure access to travel for groups of people who are likely to be on limited incomes and improve access to education and jobs. Particularly, we have allocated £9.75m to the Young Persons' Discounted Bus Travel Scheme, as a result of the Budget Agreement with the Welsh Liberal Democrats, which has a positive impact on young people. This enables them to access opportunities for work, education, training and apprenticeships and will be of particular benefit to people from low income households and help to tackle poverty.
- II. **Free School Breakfasts and School Milk** –provide vital nutrition to children during the school day. A recent study using data from our free breakfast scheme showed the association between a healthy breakfast and educational performance as well as improving health outcomes. This is in line with research suggesting that foods releasing energy slowly throughout the morning may have a positive impact on outcomes such as cognitive functioning, attendance and attainment. This study also suggests that with further research it might be possible to identify whether a universal as opposed to targeted free breakfast programmes could play an important role in reducing health and educational inequalities. Additionally, one of the benefits of the free breakfast scheme is 'childcare' opportunities for working parents, with particular impacts for tackling barriers to women's participation in the labour market.

- III. **Free Prescriptions** – ensuring that those on low incomes are not deterred from taking regular medication, removing barriers to treatment for people with long-term conditions and addressing a source of health inequality, particularly amongst older and disabled people. This protection benefits an estimated 1 million people and protects against the negative consequences to their personal well-being and the significant consequences to the health and social care system.
- IV. **Free Swimming** – encouraging the people of Wales to take up exercise and healthy lifestyles. While it is identified that take up for those aged over 60 is increasing, that for those aged under 16 is reducing. Additionally, there is evidence that children in socio-economically deprived areas are more likely to fail to learn to swim by the age of 11. The scheme has therefore been refocused so that local authorities receive funding in direct relationship to the number of children in socio-economically deprived areas within their catchment.

Local Services

- 6.33 As detailed throughout this Strategic Integrated Impact Assessment, at every stage of the budget process we have sought to mitigate the devastating impacts to families of UK austerity and welfare reform by using all of the levers at our disposal.
- 6.34 In line with our commitment to Tackling Poverty, we have protected funding for the Communities First programme. This programme makes an important contribution to deliver improvements in health, education and economic outcomes within the 10 per cent most deprived areas in Wales with the long term aim of contributing to alleviating persistent poverty. In line with our principle of prevention this programme focuses on raising Educational Attainment, improving Health and Well-being, and increasing prosperity and employment, with a particular emphasis on reducing youth unemployment.
- 6.35 However, the positive steps taken by this Welsh Government to consider the impact of our spending decisions on people in protected groups cannot be assessed in isolation from the impact of the UK Government's approach to austerity including tax and welfare reforms. Indeed, our Ministerial Task and Finish Group for Welfare Reform recently commissioned the Institute for Fiscal Studies (IFS) to estimate the impact of such reforms in Wales. We outline these impacts later.
- 6.36 As a consequence of austerity, we have had to be realistic in the decisions we have taken. Our focus on those areas which deliver the greatest benefits requires difficult decisions with impacts on other areas of delivery. In particular by choosing to focus on those areas with the greatest positive impact, we have not been able to maintain funding in other areas, which will have negative impacts on other local services.

- 6.37** To mitigate these negative impacts we have attempted to target our investment at protected groups which will be impacted. To offset the impacts to communities, we have invested in frontline education and social services delivery through the Revenue Support Grant, used our levers on infrastructure and innovative finance and protected those programmes aimed at equality, community regeneration, sustainability and climate change.
- 6.38** Further, through allocating £3m to limit reductions to inspectorates we are seeking to protect the important role our inspectorates play in ensuring the quality and safety of services upon which our protected groups depend.
- 6.39** However, we know that tough decisions will need to be made about local services that benefit the people of Wales. To provide sustainable local services such as libraries, leisure centres and waste services for future generations will require a collaborative approach which seeks alternate delivery models and moves beyond solely focusing on efficiencies.
- 6.40** Where possible we have sought to give local authorities the financial flexibility to make these decisions through focusing investment on frontline services through use of the Revenue Support Grant, to mitigate the impact on vulnerable groups.
- 6.41** National Museum, Archives, Libraries, Arts, Culture and Sports contribute to tackling inequality, provide education of our culture to young people, while at the same time supporting tourism and improving our international reputation. We continue to work collaboratively with our partners to minimise the impact on protected groups.

Growth and Jobs

Overview

- 6.42** Throughout this Assembly term, the Welsh Government has focused on achieving balanced and sustainable growth, driving forward the economic recovery by supporting business, attracting inward investment and increasing employment.
- 6.43** As a result of our approach we have seen strong signs that our economic interventions are having an impact. Gross Value Added (GVA) has continued to increase, we continue to see growing levels of inward investment into Wales, employment has continued to increase with unemployment falling and we have seen some positive increases in aspects of Tourism across Wales.
- 6.44** However, as fiscal austerity puts further pressures on our resources we have had to take a prudent approach through re-focusing on those levers which have the greatest impact. We have sought to protect and

mitigate the negative impacts for those people disproportionately affected by the negative impacts of austerity.

Key Decisions

- Infrastructure - investing in capital expenditure; and
- Supporting Business – Extend Small Business Rates Relief Scheme for 12 months.

Infrastructure

- 6.45** Despite the considerable constraint on our capital budget, we have continued to focus on maximising the opportunities and benefits that Welsh infrastructure investments provide through investing in economic development, transport, environment, energy, housing, regeneration, education and health.
- 6.46** Since its launch in 2012, our Wales Infrastructure Investment Plan (WIIP) has successfully prioritised a mix of additional capital allocations and innovative finance schemes. This provides greater clarity of activity to our delivery partners and the people of Wales through our pipeline of infrastructure investments. We are also working to maximise the use of the pipeline in delivering our wider policy and community benefits.
- 6.47** Housing makes a significant contribution to the quality of life and economic well-being of families, contributing to tackling poverty. Availability of quality affordable housing remains a challenge in many areas. We are also continuing towards meeting the Welsh Housing Quality Standard target.
- 6.48** Our investment in our road and rail networks acknowledges the important role transport plays in supporting growth and jobs, as well as in enabling people from protected groups to access services. Rail services provide important connectivity in rural areas and maintaining services recognises the social and economic community benefits supported by rail services, especially for community cohesion and tourism.
- 6.49** We have sought to protect our natural resources from the impacts of austerity noting the important benefits to the people of Wales with particular benefits for protected groups. We are committed to protecting and valuing our natural resources to make them sustainable for future generations.
- 6.50** We have focused on protecting the environment through maximising the impacts of investment in infrastructure on the environment, energy and housing. Through these investments we are seeking to provide energy efficient sustainable housing which benefits our most vulnerable. By investing in green energy, recycling and flood prevention and coastal

erosion we are seeking to improve the resilience of Wales to protect communities.

6.51 However, reducing resources will impact on the way we manage and maintain our woodlands, protect nature, develop our landscape and the support we are able to provide to those bodies that carry out these vital roles. We have sought to focus our resources where they may have the greatest benefit and will work with delivery bodies to minimise negative impacts.

Economic Support

6.52 Throughout this Assembly term, our focus on achieving balanced and sustainable growth, driving forward the economic recovery by supporting business, attracting inward investment and increasing employment has seen positive results across Wales.

6.53 For example, through successes of our flagship programmes and investments of millions of pounds in creating apprenticeship places, we have demonstrated our commitment to ensuring that as many people as possible have the opportunity to gain meaningful employment and contribute to economic growth.

6.54 However, in response to the challenges of the UK Government's fiscal austerity, we have had to focus our resources on those activities that have the greatest impact in delivering support in line with our commitments. Through a cross-cutting approach based on evidence and evaluation we have gained a broader understanding of the pressures and impact of spending decisions.

6.55 To create the conditions for long-term economic growth and sustained employment we have invested in the Welsh economy's infrastructure.

6.56 We will continue to invest in making our transport network sustainable into the longer term, not only as a means of stimulating and supporting economic growth, but as a means of creating accessibility to employment opportunities, creating the conditions for tackling poverty by removing barriers for deprived communities.

6.57 To support this we have protected concessionary fares and committed £9.75m to the Young Persons' Discounted Bus Travel Scheme. These actions will help to create access to opportunities for work, education, training and apprenticeships and for people from low income households.

6.58 We are supporting the economy by investing in skills. By investing in schools we are looking to the long term needs of the economy while tackling inequality and poverty. By protecting post 16 education and investing in apprenticeships we have taken a holistic approach to skills,

balancing short and long term needs while considering the impacts to different groups.

- 6.59** Employment offers a high level of protection against poverty. Therefore to develop economic capacity, budgets have been protected by maximising the opportunities to lever in additional funding such as European Funding. Business development, entrepreneurship, science and innovation activity support future employment opportunities for all groups. Investment in strategic sites, good communications, tourism and major events make Wales an attractive destination for business and leisure in the long term.
- 6.60** To demonstrate our commitment to supporting business in Wales and their impacts through supporting the Welsh economy and providing vital employment we are making an early decision to extend the current Small Business Rates Relief Scheme for a further 12 months. This decision will reduce overall Non Domestic Rates payments by small businesses in Wales by around £90m in 2016-17.
- 6.61** Transport decisions have been made with the intention of mitigating the negative impacts on protected groups with service continuity and remaining responsive to the need of local communities. The concessionary fares scheme ensures that services continue to support older and disabled people. Affordable bus and rail services are particularly important in rural communities for social inclusion as well as providing links to employment and education. The Young Persons' Discounted Bus Travel Scheme assists young people living in disadvantaged communities to meet the cost of bus travel and so improve access to employment and educational centres.

7. Impacts of UK Welfare Reform

- 7.1** The positive steps taken by this Welsh Government to consider the impact of our spending decisions on people in protected groups cannot be assessed in isolation from the impact of the UK Government's tax and welfare reforms. Indeed, as part of a research programme commissioned by the Welsh Government's Ministerial Task and Finish Group on Welfare Reform, we have recently published two reports that consider the impact in Wales of such reforms, as well as the National Living Wage.
- 7.2** Our latest report (produced by the Institute for Fiscal Studies, IFS) was published on 19 November 2015 and covers the UK Government's tax and benefit changes announced up to and including the July Budget, to be introduced between 2015–16 and 2019–20. Since this report was published, the Autumn Statement announced further changes including a reversal of the main cuts to tax credits, which were due to be implemented from April 2016.

- 7.3** However, this protection will only provide short-term relief because tax credits will be phased out by 2018 and the planned cuts to Universal Credit were not reversed. This means the longer term impact remains broadly the same. Therefore, the findings from our latest analysis are still valid and provide an indication of the long run impact in Wales once all changes including Universal Credit are fully in place.
- 7.4** The research shows household incomes in Wales will reduce by around £600m a year in total. Households in Wales lose 1.6 per cent of their net income on average (or £459 a year) compared to 1.3 per cent or £455 a year in the UK. This loss will add to the significant amount of income already lost as a result of earlier welfare cuts.
- 7.5** Lower-income households, particularly those with children will lose considerably more on average (around 12 per cent). By employment status, low-income non-working households lose significantly more than low-income working households on average. Out-of-work lone parents, most of whom are female, are particularly hard hit. While better-off households and pensioners will be less affected or will even gain from these changes.
- 7.6** On average, households containing a disabled person lose significantly more than those without (£618 or 2.4 per cent versus £272 or 0.9 per cent a year), and younger households lose more than older households (e.g. £841 or 4.1 per cent where the oldest person is aged under 30 versus £58 or 0.3 per cent where the oldest person is aged 70 or over). Large families lose a huge amount (£7,750 or around 20 per cent on average) in the long run from the restriction of the child element in tax credits and Universal Credit to two children.
- 7.7** The average gains from the National Living Wage are significantly smaller than the losses for lower income households from the tax and benefit changes. Overall in Wales, the gains from the National Living Wage only offset 27 per cent of the losses from the tax and benefit changes, and this amount is even less for lower income households.