

SUMMER BUDGET 2015:

What it means for Wales

July 2015



1 INTRODUCTION

The Summer 2015 Budget is the first Conservative budget for 19 years, and brought forward at least some of the changes promised in the Conservative manifesto as well as some surprises.

Reaction to the Chancellor's announcements in Wales has been mixed, with a welcome for some measures being countered by concern about others. In all the debate, evidence about the possible impact on people in Wales has been conspicuous by its absence – a great deal of the discussion has been based on supposition about the effects of various changes. Added to this, there has been virtually no consideration of the issues raised by the budget for the Welsh Government, other public bodies, business and the third sector.

This briefing aims to provide a sound evidence base on the impact of the 2015 summer budget.¹ It also aims to stimulate discussion about how public policy should respond to the challenges and opportunities raised by the budget. It focuses on the Chancellor's announcements in respect of individual earnings, taxes and benefits, although it should not be forgotten that the Chancellor also announced other significant changes which affect Wales, such as further reductions in UK public spending, a reduction in corporation tax and the ending of tax relief on the generation of renewable energy.

There are also changes which, although they apply to England only, could nevertheless have very substantial knock-on consequences for Wales, such as the offer of 30 hours a week of free childcare, changing grants for low-income higher education students to loans and cuts in social housing rents. Whilst the Welsh Government could well decide that these are decisions it does not wish to mirror, the changes in England not only affect the allocation of funding to Wales, they also affect the context of other policy changes as well as cross-border issues.

The final section of the briefing pulls together the overall impact of the budget and highlights some areas which public policy needs to address.

The rest of this briefing looks at:

- Personal incomes and taxes
- Changes to welfare benefits
- Housing costs
- Spill-over from England
- Challenges and opportunities.

2 PERSONAL INCOMES AND TAXES

This section looks at changes in wage rates and personal income tax.

2.1 Minimum Wage Premium

- New National 'Living' Wage – effectively a premium on the National Minimum Wage - rises from £6.50 to £7.20 an hour for people aged 25 and older from April 2016.
- Minimum Wage premium will rise to at least £9 an hour (or 60% of median wage) for 25s and over by April 2020.

Estimated Impact on Wales

- We estimate that just over 200,000 workers in Wales in 2014 were paid less than the new minimum wage of £7.20 an hour – 18% of all workers.
- Approximately one in four of these low paid workers are aged under 25, so will not benefit – about 50,000 young people.
- We estimate that about 150,000 workers aged 25 and over in Wales will benefit from the National Minimum Wage premium.
- The likely impact on weekly earnings depends on the number of hours worked - someone working 24 hours a week would see their gross wages increase by £16.80 a week in April 2016.
- The likely impact on household incomes will be more limited, as not all low earners live in low-income families.
- Workers who earn more than the new National Minimum Wage premium rate could also benefit indirectly if employers maintain wage differentials.
- The new rate is not a 'Living Wage' as previously defined. It is lower, and does not take into account the cost of living or social norms about a basic, acceptable lifestyle.
- Within Wales, the areas with the highest proportion of low paid workers (at least 20% of the work force) and which will therefore benefit most are:
 - Denbighshire
 - Blaenau Gwent
 - Gwynedd
 - Newport.
 - Pembrokeshire

2.2 Limit on Public Sector Pay

- Public sector pay increases will be limited to 1% a year to 2020.

Estimated Impact on Wales

- In Wales, 28% of the working population (380,600 people) work in the public sector.
- There have already been five years of public sector pay restraint.

- Inflation is forecast to increase slowly to 2% a year by 2020. The effect is a real terms cut in public sector pay.
- The local authorities where more than three out of ten people are employed in the public sector are:
 - Swansea (32.8%)
 - Cardiff (31.5%)
 - Ceredigion (31.5%)
 - Denbighshire (30.2%)
 - Vale of Glamorgan (30.2%)
 - Bridgend (31.2%)

2.3 Income Tax Personal Allowance

- The personal income tax allowance will increase by £400 to £11,000 from April £2016, and to £12,500 by 2020.
- Once the personal allowance has reached £12,500, it will be set at least at the equivalent of 30 hours a week on the National Minimum Wage.
- The threshold for the higher rate of income tax will increase by £615 to £43,000 in 2016-17, and to £50,000 by 2020.

Estimated Impact on Wales

- In Wales 1.3 million people paying the standard rate of tax will see their after-tax income increase as a result of the raised allowance. It is estimated that the increase is approximately £40 a year (less than £1 a week) in 2016-17 compared with the previous year.²
- A further 140,000 people paying the higher rate of tax will see their after-tax income increase by approximately £70 a year (£1.35 a week) in 2016-17 compared with the previous year.³
- An unknown number of people who earn between £10,600 and £12,500 will no longer pay any income tax.
- In total, the increased tax allowance raises personal after-tax incomes in Wales by approximately £60 million.

2.4 Round Up

- About 150,000 low paid workers benefit from the new National Minimum Wage.
- All income tax payers gain very slightly from the rise in personal allowances.
- An unknown number of tax payers will no longer pay income tax.
- Public sector workers will experience a real terms cut in earnings.
- In total, the increased income tax allowance raises personal after-tax incomes in Wales by approximately £60 million.

3 CHANGES TO WELFARE BENEFITS

The most significant changes announced in the budget were to welfare benefits, where a mix of changes, some highly technical, are planned to reduce spending on social security by £12 billion by 2020.

As context, the 2015/16 rates of the most commonly claimed benefits are:

- Job Seekers' Allowance (income based) aged 18-24: £57.90 p.w.
- Job Seekers' Allowance (income-based) aged 25+: £73.10 p.w. single person / £114.85 p.w. couple
- Employment and Support Allowance (work-related activity group): £102.15 p.w.
- Working Tax Credit (single male, no children, earning £210 p.w.): £12.74 p.w.
- Working Tax Credit and Child Tax Credit (couple, 1 child, one partner earns £210 p.w.): £85.97 p.w.

3.1 Benefit Cap

- The cap on the total amount of certain benefits that can be claimed by out-of-work households will be reduced from £26,000 to £20,000 (£385 a week) from April 2017.
- Some households, including those with someone receiving Employment and Support Allowance (Support Group) or Disability Living Allowance will be exempt from the cap.
- Households where someone is in employment are also exempt from the Benefit Cap.

Estimated Impact on Wales

- The previous cap on benefits of £26,000 a year affected just over 1,700 households in Wales between April 2013 and February 2015, with the majority of households (998) losing less than £50 per week.⁴
- It is not clear how many households in Wales will be affected by the reduction in the Benefit Cap to £20,000. Community Housing Cymru estimates that around 7,000 families in Wales could be affected⁵ – the Welsh Government estimate is slightly lower at 5,000.⁶
- Community Housing Cymru estimates that an out-of-work family of two adults and three children will lose an average of £3,200 per year (£61.50 a week).⁷
- The cap is likely to affect more people living in private rented accommodation, especially in high rent areas, than people in social housing. For example the Local Housing Allowance (which is the maximum rent for which Housing Benefit can be claimed) for a family renting a 3 bedroom property in Cardiff is £150.19 a week⁸ (£7,810 a year) – more than a third of the sum a family can claim, leaving £234.62 a week for all other household needs.

- People in high rent areas might relocate to cheaper areas – the Local Housing Allowance in Blaenau Gwent, for example, is £85.85 a week compared with £150.19 a week in Cardiff, potentially saving a family at risk of having their benefit capped £60 a week. However evidence on claimants' responses to the current benefit cap suggests that very few households have moved house.⁹
- Households with additional needs, for example in which someone receives Carer's Allowance or Maternity Allowance, will also be within the scope of the Benefit Cap.
- Some households may be incentivised to find employment as a result of the Benefit Cap, although evidence on the impact of the £26,000 cap suggests that the numbers are small.¹⁰

3.2 Uprating of benefits

- The main working-age benefits, including Job Seekers' Allowance, Employment and Support Allowance (work-related group), Working and Child Tax Credits, will be frozen from 2016-17 to 2019-20.
- Some benefits will continue to be uprated annually:
 - Disability Living Allowance, Employment and Support Allowance (Support Group) and some other benefits will be uprated by the Consumer Price Index.
 - State pensions will be uprated by whichever is the highest of the Consumer Price Index, average earnings growth or 2.5% (the so-called triple lock).

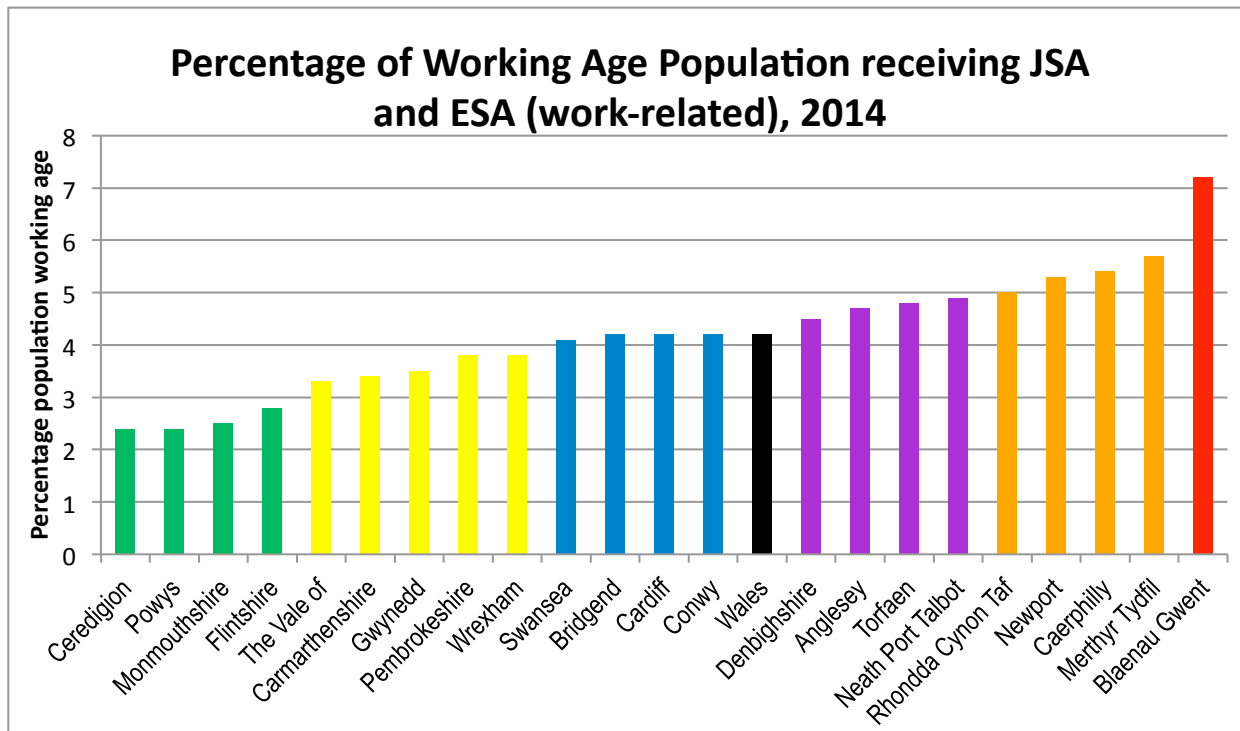
Estimated Impact

- Overall, there are 243,000 people in Wales who receive one or more out-of-work benefits and 120,000 households who receive in-work tax credits, and will see their incomes fall by an average of 4.8% by 2020 (equivalent to £260 per family per year or £5.00 per week).¹¹
- This is on top of the below-inflation uprating of benefit rates since 2012 – the previous and most recent changes to uprating mean that the value of benefits will fall by 8% between 2012 and 2020.

Out-of-work benefits

- Freezing rates will affect 43,900 Job Seekers' Allowance (JSA) claimants and 36,500 Employment and Support Allowance (ESA) (work-related group) claimants. They will get £73.10 JSA a week or £102.15 a week in 2019-20 – the same as today.
- The local authorities most affected by the freezing of Job Seekers' Allowance and ESA (work-related group) benefits are:

○ Blaenau Gwent	○ Newport
○ Merthyr Tydfil	○ Rhondda Cynon Taf
○ Caerphilly	



In some communities in Wales the impact of changes will be even greater because a high proportion of residents receive out-of-work benefits. In eight wards in Wales more than 30% of the working age population receive an out-of-work benefit:

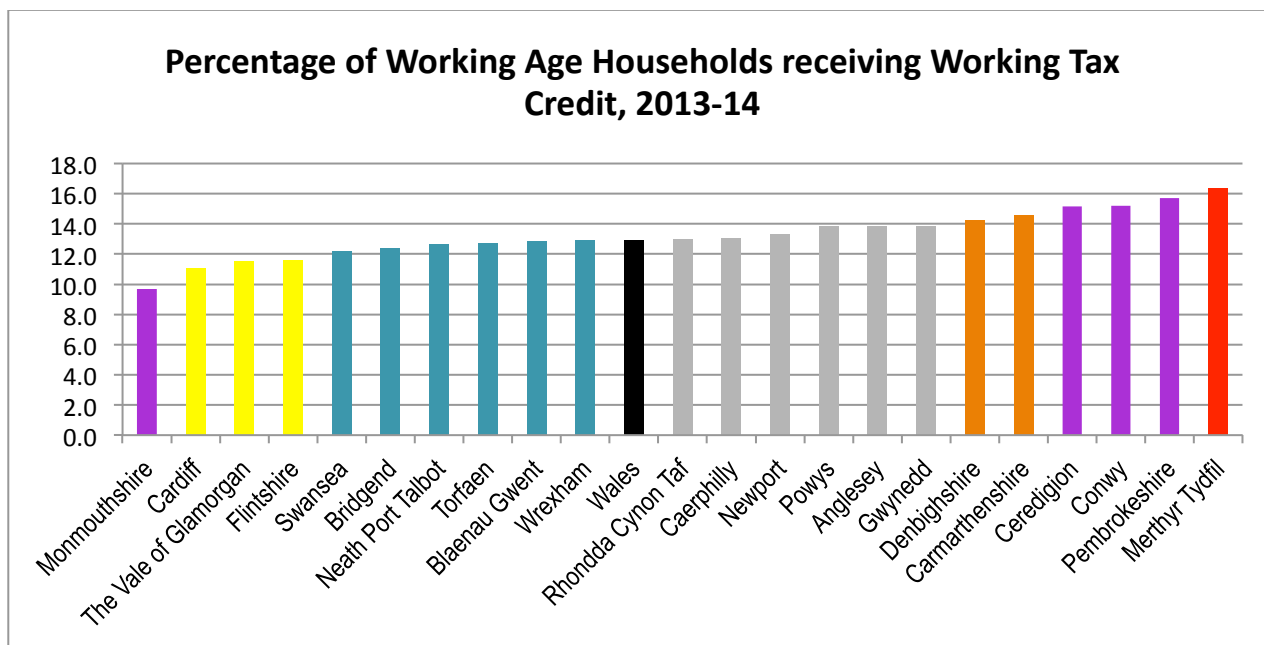
○ Rhyl West, Denbighshire	46.6%	○ Holywell Central, Flintshire	30.9%
○ Plas Madoc, Wrexham	33.7%	○ Maerdy, Rhondda Cynon Taf	30.4%
○ Gurnos, Merthyr Tydfil	32.2%	○ Tylorstown, Rhondda Cynon Taf	30.3%
○ Penywaun, Rhondda Cynon Taf	31.5%	○ Queensway, Wrexham	30.1%

- A further 24 wards have more than 25% of the working age population receiving an out-of-work benefit.

In-work benefits

- 120,000 working families in Wales receive Working Tax Credit and will be affected by the freeze in rates.
- The local authorities most affected by the freezing of Working Tax Credits are:

- Merthyr Tydfil
- Conwy
- Pembrokeshire
- Ceredigion



Disability benefits

- Wales' 232,000 claimants of Disability Living Allowance will see their benefit uprated by the Consumer Price Index.
- Wales' 68,5000 claimants of Employment and Support Allowance (Support Group) will see their benefit uprated by the Consumer Price Index.

State Pension

- Wales' 653,000 pensioners will benefit from the 'triple lock' which will see their state pensions rise by at least 2.5% a year. The increase could be even higher if the Consumer Price Index or average earnings exceed 2.5% growth.

3.3 Reduction of Employment & Support Allowance (Work-related Activity Group)

- The 'premium' of £29.50 a week currently received by people claiming Employment & Support Allowance in the Work-related Activity Group will be withdrawn, so that ESA is the same as Job Seekers' Allowance. Claimants will also be offered additional support to find work.
- People in this group are assessed as having limited capability for work, for example because they are unable to walk more than 50 metres without stopping or cannot

cross the road without assistance because of a sensory impairment, but are capable of doing some work-related activity.

- The change will apply to new claimants only, from April 2017.

Estimated Impact

- 36,530 people in Wales are currently in the ESA work-related activity group – they will NOT be affected by the changes unless they make a new claim after April 2017.
- It is unclear if the change will encourage current ESA claimants to seek employment, as they have limited capability for work.
- There could be unexpected effects:
 - IFS suggest that the ‘incentive’ to claim ESA in the Work-Related Activity Group will decrease but the ‘incentive’ to be placed in the support group will increase.¹²
 - Existing claimants could be reluctant to try out a job as they would be worse off if they have to make a new claim.

3.4 Two child limit

- Support from Tax Credits and Universal Credits will be limited to two children per family, for children born after April 2017 and for new claimants.
- The allowance for children (the Family Element in Tax Credits and the First Child Premium in Universal Credit) will be withdrawn for children born after April 2017.
- The premium paid for a disabled child in Tax Credits and Universal Credit will continue to be paid to all children with a disability.

Estimated Impact

- In Wales in 2013/14, 17,000 out of 74,000 out-of-work families have three or more children. As existing claimants these families would not be affected unless they have another child after April 2017 or make a new claim.
- The number of children in in-work families receiving tax credits is not known.
- In 2015/16 the child element of Child Tax Credit impact on families is £2,780 (£53.46 a week). Families which might have expected to receive this amount for an additional child born after April 2017 will not now receive it.

3.5 Abolition of Family Element of Tax Credits

- The £545 Family Element of Tax Credits and the First Child Premium of Universal Credit (worth £10.48 a week) are abolished for those starting a family or making a new claim after April 2017.

Estimated Impact

- In 2013/14, 208,000 families in Wales received the Family Element. They will continue to do so unless they make a new claim after April 2017.
- The typical number of new claims each year is not known.

3.6 Earnings disregard & taper

- From April 2016, the amount a household can earn before tax credits / Universal Credit begins to be withdrawn will fall from £6,420 to £3,850.
- The rate at which benefits are reduced will increase from 41p in the pound to 48p – a marginal tax rate of about 80% for those affected.

Estimated impact

- In Wales in 2013/14, 34,000 households receive in-work tax credits and earn less than £6,420. Many of these will now see their earnings taken into account in assessing their tax credits, with the amount they receive being reduced.
- In addition, 31,000 working households receive in-work tax credits and earn between £6,420 and £9,999, and a further 66,000 earn between £10,000 and £19,000. For these, an additional £2,570 of their earnings will now be taken into account, and at a higher rate than at present.
- On average, households receiving tax credits are forecast to be around £1,000 a year (approximately £20 a week) worse off as a result of the changes.¹³

3.7 Increased Conditionality

- Lone parents of children aged 3 and over will be expected to actively seek work.
- A new Youth Obligation for 18 to 21 year olds receiving benefit will participate in an intensive regime of support from day 1 of their benefit claim, and after 6 months they will be expected to apply for an apprenticeship or traineeship, gain work-based skills, or go on a mandatory work placement, from April 2017.

Estimated impact

- An unknown number of lone parents with a child aged between 3 and 5 years old will now have to seek employment. There is already a shortage of affordable childcare in Wales.
- At the end of 2013, about 55,000 19-24 year olds were not in education, employment or training as were a further 11,000 16-18 year olds,¹⁴ suggesting that roughly 35,000 18-21 year olds will be subject to the Youth Obligation.

3.8 Round Up

- The impact of benefit changes is cumulative, because many households receive more than one benefit, and some are also in-work and tax payers.
- The impact also varies substantially according to people's household circumstances and hours of work.
- On average, the freezing of most working-age benefits loses a household £5 a week.
- Changes to tax credits on average loses an in-work, low paid household £20 a week.
- For some families the impact is much greater:
 - A single parent with one child who works 22 hours a week and does not rent their home is £43 a week worse off by 2020.¹⁵
 - A single parent with one child who rents their home is about £15 a week worse off, no matter how many hours are worked.¹⁶
 - A family currently receiving £24,000 a year in benefits will lose nearly £76 a week when the benefit cap is reduced to £20,000 a year.
- Those claiming or having a third child after April 2017 will be worse off than current claimants.
- Work incentives for lone parents and second earners in low income families have been significantly reduced.¹⁷
- A conservative and very rough estimate of the impact of the changes overall is:
 - At least £98 million extra into the Welsh economy because of the minimum 2.5% increase in state pension.¹⁸
 - Approximately £10 million extra into the Welsh economy because of the uprating of Disability Living Allowance / Personal Independence Payment by the CPI.¹⁹
 - Loss of roughly £183 million from the Welsh economy from working-age claimants of in- and out-of-work benefits.²⁰
 - Making a net loss to the Welsh economy from benefit changes in the region of £75 million a year.

4 HOUSING

This section looks at the changes to help with housing costs available to people on low incomes.

4.1 Housing Benefit – young people

- 18-21 year olds who are out of work will no longer be automatically entitled to make a new claim Housing Benefit from April 2017.
- Vulnerable young people and those who may not be able to return home to live with their parents will be exempt.
- Young people who have been in work for 6 months prior to making a claim will be able to receive housing support for up to 6 months while they look for work.

Estimated impact

- The Welsh Government estimates that 1,200 claimants will be affected by the loss of eligibility.²¹
- A great deal depends on the definition and interpretation of ‘vulnerability’ and those who are ‘unable to return home to live with their parents’.
- There is an increased risk of homelessness amongst young people who are not able to claim help with their housing costs and who have no other accommodation.

4.2 Other Changes to Housing Benefit

- Local Housing Allowance (which limits the amount that can be claimed for help with housing costs) will be frozen to 2020.
- The family premium is removed in the assessment of household income for new claims from April 2016.
- The allowance for more than two children is removed in the assessment of household income for new claims or children born after April 2017.
- Additional funding for Discretionary Housing Payments to be made available.

Estimated impact

- The freezing of Local Housing Allowance means that Housing Benefit is no longer able to respond to changes in local rental markets. Tenants could be forced to move away from areas with rapidly rising rents. Equally, the rental market may respond with falling rents.
- The changes to calculating eligibility for help with housing costs will reduce the amount of Housing Benefit that families making a new claim or on the birth of a third

child will receive. For a family with three children, nearly £64 a week of earnings will be taken into account that previously were not.

4.3 Support for Mortgage Interest

- Help with the costs of their mortgage for people unable to work (Support for Mortgage Interest) will switch to a loan.

Estimated impact

- The estimated impact of the change in Wales is not known.

4.4 Round Up

- The shortage of affordable housing is likely to be exacerbated as the link between benefits and housing costs is broken.
- There could be significant issues for young unemployed people who lose their entitlement to help with housing costs.
- How people and markets respond to the changes remains to be seen.

5 SPILL-OVER EFFECTS

Some of the changes announced in the budget applied to England only. However it is likely that some of these will have knock-on effects on Wales, in terms of public spending and other impacts.

5.1 Social Housing Rents

- In England, social landlords will be required to reduce their rents by 1% p.a. each year to 2020.
- In England, social housing tenants with household incomes of £30,000 and above (£40,000 in London) will be required to pay a market or near market rent.

Estimated impact

- There is no direct impact as social housing rents are devolved.
- There may be a consequential effect of reduced spending in England on the Welsh block grant. This could make it difficult for the Welsh Government to pursue a different approach if it wished.
- If social housing rents in Wales were reduced:
 - Social housing tenants not receiving Housing Benefit would gain as their rents would decrease.
 - Social landlords would experience a drop in income. This could affect services such as maintenance and tenant support.

5.2 Free Childcare

- Working parents of three and four year olds will be entitled to 30 hours a week of free childcare, from September 2017 (and 2016 in some areas).
- The average hourly rate received by childcare providers will be increased.

Estimated impact

- The provision of childcare is devolved, and there will be no direct impact from the decision.
- There may be a consequential effect of increased spending in England on the Welsh block grant.
- Fewer hours of free childcare are currently offered in Wales than in England.
- In Wales free childcare is available to all children not just those of working parents.
- Changes to several benefits, such as the requirement for lone parents to seek work once their child is three years old, assume that free childcare is available. The work incentives in other benefits also encourage parents to seek employment.

5.3 Apprenticeships

- The number of apprenticeships in England will increase to 3 million starts by 2020.
- Apprenticeships will be funded by a levy on large employers.

Estimated impact

- The provision of apprenticeships is devolved. In theory there will be no direct impact from the decision.
- If the employer levy and provision of training operate outside public spending, there will be no consequential effect of increased spending in England on the Welsh block grant.
- The assumption in the 'Youth Obligation' affecting 18-21 year old job seekers and the associated changes in Housing Benefit is that apprenticeships or training will be available. If young people in Wales do not have sufficient opportunities they will lose their benefits.

5.4 Higher Education

- Student maintenance grants will be replaced with maintenance loans for new students from England from academic year 2016-17.
- Loans are paid back when graduate earnings exceed £21,000 a year.
- Universities offering high quality teaching will be allowed to increase their tuition fees in line with inflation from 2017-18.

Estimated impact

- Higher education is devolved, and there will be no direct impact from the decision.
- There may be a consequential effect of reduced spending in England on the Welsh block grant. This could make it difficult for the Welsh Government to pursue a different approach if it wished.
- Welsh higher education institutions will need to take into account how the 'market' for students is affected by changes in fees.

5.5 Round Up

- Although several budget announcements were specific to England, their relationship with the UK-wide benefit system and HE market mean that there are significant spill-over effects.
- There may be, as yet unknown, consequential changes to Welsh funding as a result.

6 CHALLENGES AND OPPORTUNITIES

The summer 2015 budget inevitably has winners and losers. On a positive note, it should not be forgotten that for many of Wales' 1.4 million tax payers the budget was broadly neutral. In addition, about 150,000 people will gain from the premium on the National Minimum Wage; around 650,000 pensioners will see their state pension rise by at least 2.5% a year as a result of the triple lock, and many disabled people will see their disability benefits (if not other benefits) keep pace with inflation. These 'give-aways' are worth very roughly about £168 million a year to the Welsh economy.

However a substantial minority of people will see their incomes fall in real and / or cash terms, from numerous changes to the benefit system as well as public sector pay restraint. The 'take-away' from benefit changes alone is equivalent to approximately £183 million loss a year from the Welsh economy.

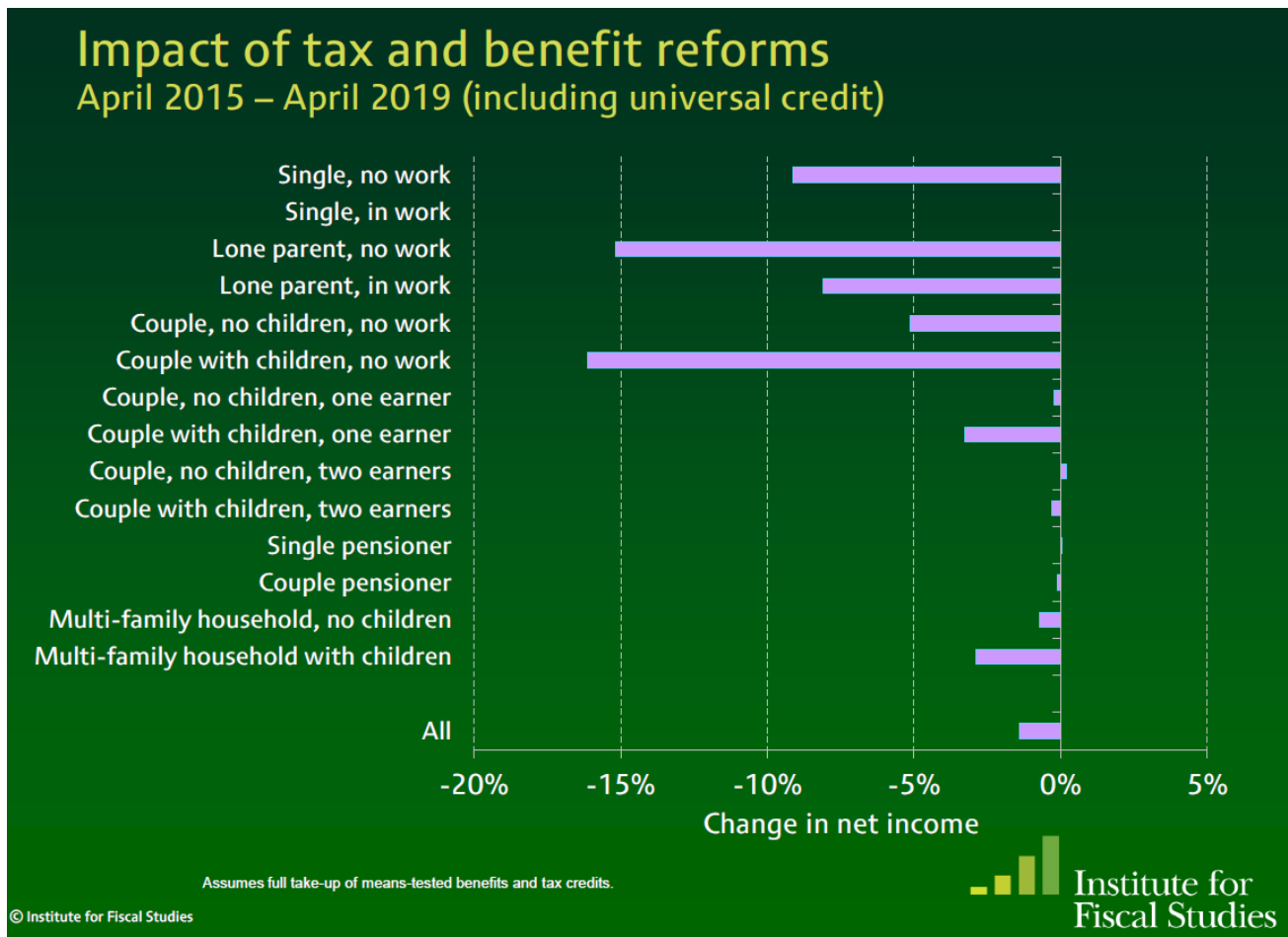
The gains and losses cannot be set against each other because there are two significant unknowns: the value of the cash gain by the 150,000 people whose pay rises as a result of new National Living Wage, as the number of hours of work are not known, and the cash foregone because of the 1% limit on public sector pay.

The overall impact of the tax and benefit changes is highly uneven. The Institute for Fiscal Studies calculate that the least well off third of households will see their incomes fall by at least 5% by 2020, equivalent to an average drop of £1,000 a year.²²

The Institute for Fiscal Studies also shows that the impact is uneven in terms of the type of household (see graph overleaf).²³ While the budget is broadly neutral in effect for pensioners and dual-earner couples (whether or not they have children), some households will experience substantial percentage decrease in their income. The worst affected are:

- Workless lone parents and couples with children (more than 15% drop in income)
- Workless single adults (approx. 9% drop in income)
- Working lone parents (approx. 8% drop in income).

These losses are on top of already low incomes for most of these groups of people, and bring the prospect of severe hardship for some. That most of the changes will occur by 'stealth' i.e. by incomes falling below inflation rather than actual cash take-aways makes the losses less visible but no less real. And for some, such as those affected by the benefit cap or by the changes in calculation of tax credits, there will be actual cash losses as well.



Source: Hood, A. (2015) Benefit Changes and Distributional Analysis. Institute for Fiscal Studies, http://www.ifs.org.uk/uploads/publications/budgets/Budgets%202015/Summer/Hood_distributional_analysis.pdf

Challenges and opportunities

The long-term challenge of creating an economy in Wales that provides enough jobs at a decent rate of pay to everyone who wants one, and creating a workforce with the right qualifications and skills remains.

There are in addition specific challenges arising from the Summer 2015 budget that need to be addressed – these are set out for debate below.

- **Youth employment and training**

The budget effectively forces young people aged 18-21 to participate in education, training or employment through the withdrawal of housing benefit, low rates of Job Seekers' Allowance and increased conditionality (with the consequences of non-compliance being the withdrawal of benefits). Unless young people are able to find a suitable job, training or learning opportunity they risk homelessness, participation in illegal activities or destitution.

In England, apprenticeships are being increased through the employers' levy, providing at least one option for young people, although it remains to be seen if the number of places will be sufficient and the provision suitable.

There is an urgent need in Wales to develop a coherent youth training and employment programme. It needs to be of sufficient scale to provide an opportunity to all 18-21 year olds who are not in education, employment or training – about 35,000 young people. It also needs to offer a wide range of opportunities and support, and offer a stepping stone into life post-21. The involvement of the private and third sectors in such a programme is crucial.

- **Supporting working parents**

While some families may be worse off than they would have been without the budget changes, most families are nevertheless better off in work than on benefits. The budget has reduced work incentives for both working and non-working parents, but it is likely that both will come under pressure from the benefits system to increase the amount of paid work that they do.

In England, the offer of 30 hours a week of free childcare for children aged 3 and 4 whose parents work underpins the expectations of parents' employment. In Wales the free childcare offer is for fewer hours, is focused on early years learning rather than childcare, and is rarely compatible with paid work.

There needs to be a step-change in the provision of childcare for working parents in Wales to avoid some being penalised by their inability to take up employment, and to maximise their household incomes.

- **Supporting employment for disabled people**

The loss of the ESA 'premium', the on-going re-assessment of eligibility for Personal Independence Payment and changes to other benefits that disabled people might receive (e.g. Housing Benefit and benefits for the children of disabled parents) mean that some disabled people, especially those with mild to moderate impairments, are likely to experience falls in their income.

Many disabled people would like to work. In a tough labour market, it is difficult for someone with an impairment or health condition to compete and the stigma facing people with mental health conditions is an additional issue. As a result, the employment rate of disabled people is about half that of non-disabled people. There is some support for disabled people through the Work Programme, but it only reaches a limited number of disabled people. **Additional action is needed to support disabled people to find and sustain paid work, including people with mental health conditions.**

- **Reducing deep poverty**

A small but significant number of households will experience a substantial drop in already low household incomes. The drop is such that some families are very likely to be unable to afford the basics of life such as food, heating, warm clothing and shelter. The lack of essentials is the result of a long-term loss of income not a one-off emergency. Support from the Discretionary Assistance Fund and charitable activities like food banks can address emergency needs but are not designed to help with a long-term shortfall of income relative to needs. That the households experiencing the greatest drop in income are those that include children makes the need for intervention all the greater.

Urgent consideration needs to be given to ways of ensuring the basic needs of those in deep poverty are met.

- **Reducing cost burdens**

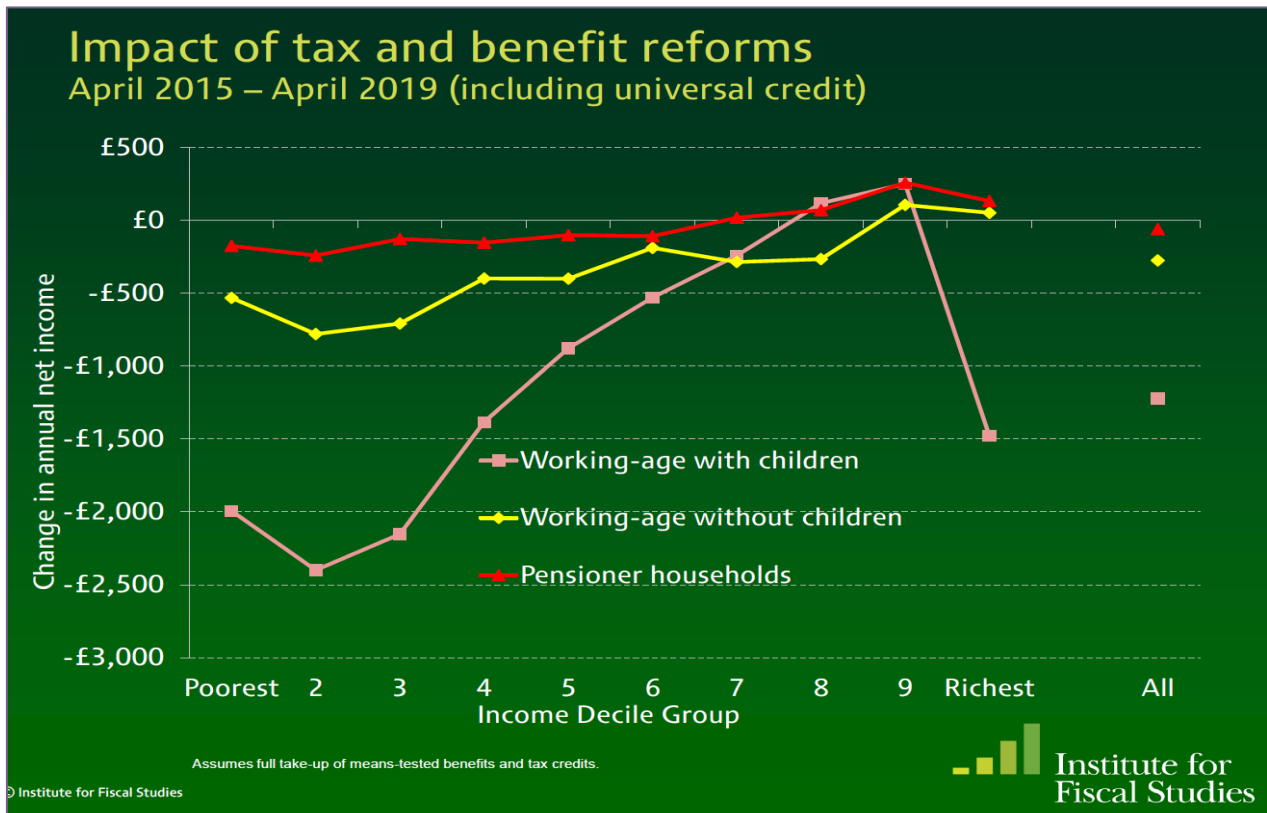
The least well-off one third of households in Wales is forecast to see a reduction in their income of between £800 and £1,200 a year (£15 - £20 a week) by 2020, with the second and third least well-off tenth being most affected. It is inevitable that most of these families will face financial strain if not hardship, struggling to pay bills and unable to afford more than the absolute essentials.

Public policy needs to consider how to increase the financial resilience of these households and help to eliminate non-essential cost burdens. For example, this could be through reducing the requirement for high cost school uniforms, enabling small, regular payments of public sector bills without a premium, or increasing the entitlement for free school meals, to name just a few possibilities.

- **Prioritising Children**

Of all the groups of people affected by the budget, as the graph overleaf shows, children are consistent losers unless they live in a dual earner family. Yet of all groups in society, children are the least able to do anything to change their circumstances – even many pensioners are able to continue working and / or have assets.

The impact on children suggests that **children should be prioritised in public policy**, whether it is meeting their basic needs for warmth, shelter and food; changing the eligibility criteria for certain schemes such as energy conservation measures, or offering free or low cost services to children such as bus travel, school meals or leisure.



Source: Hood, A. (2015) Benefit Changes and Distributional Analysis. Institute for Fiscal Studies, http://www.ifs.org.uk/uploads/publications/budgets/Budgets%202015/Summer/Hood_distributional_analysis.pdf

- **Changes to the safety net**

Last but by no means least is the long-term impact of the shrinkage of in the 'safety net' and the emergence of 'holes' in the system. This budget and previous changes have reshaped the benefits system radically: shifts in eligibility for state help, reduced the value of benefits, a weaker link with need, increased sanctions and changes in payment methods all mean that the social security – or welfare – system offers a great deal less than it did if people fall on hard times.

Redundancy, long-term illness, divorce or bereavement are risks that everyone faces, but the welfare system now offers only the most limited support. For households with few or no savings, limited assets and weak job prospects the shrinking safety net is a very real issue even if they are not currently claimants. Public policy in Wales needs to explore how best people can reduce the need for help from the benefits system, and find innovative ways to fill the inevitable gaps through which some people may fall.

END NOTES

¹ The statistical sources throughout this report are:

- Earnings: Annual Survey of Hours and Earnings 2014, Office for National Statistics and NOMIS
- Personal Tax and Tax Credits – HMRC statistics.
- Job Seekers' Allowance, Employment and Support Allowance, Housing Benefit, State Pension and all other out of work benefits – Department for Work and Pensions, accessed via its Tabulation Tool or StatXplore, or via NOMIS.

² Adam, S. (2015) Summer Budget: Tax Measures. Institute for Fiscal Studies.
http://www.ifs.org.uk/uploads/publications/budgets/Budgets%202015/Summer/Adam_tax_.pdf

³ Adam, S. (2015) Summer Budget: Tax Measures. Institute for Fiscal Studies.
http://www.ifs.org.uk/uploads/publications/budgets/Budgets%202015/Summer/Adam_tax_.pdf

⁴ Department for Work and Pensions (2015) Benefit Cap: Number of Households Capped to February 2015.
<https://www.gov.uk/government/statistics/benefit-cap-number-of-households-capped-to-february-2015>

⁵ Ropke, S. (2015) **What will the Summer 2015 Budget mean for social housing tenants?** Exchange, 2.

⁶ Hutt, J. (2014) Jane Hutt responds to UK Government budget. Welsh Government news release, 8th July.
<http://gov.wales/newsroom/finance1/2015/150708-uk-budget/?lang=en>

⁷ Ropke, S. (2015) **What will the Summer 2015 Budget mean for social housing tenants?** Exchange, 2.

⁸ UK Government, Local Housing Allowance Rates. <https://lha-direct.voa.gov.uk/search.aspx>

⁹ Emerson, C. and Joyce, R (2014) Coping with the Cap? Institute for Fiscal Studies, <http://www.ifs.org.uk/publications/7482>

¹⁰ Emerson, C. and Joyce, R (2014) Coping with the Cap? Institute for Fiscal Studies, <http://www.ifs.org.uk/publications/7482>

¹¹ Hood, A. (2015) Benefit Changes and Distributional Analysis. Institute for Fiscal Studies,
http://www.ifs.org.uk/uploads/publications/budgets/Budgets%202015/Summer/Hood_distributional_analysis.pdf

¹² Hood, A. (2015) Benefit Changes and Distributional Analysis. Institute for Fiscal Studies,
http://www.ifs.org.uk/uploads/publications/budgets/Budgets%202015/Summer/Hood_distributional_analysis.pdf

¹³ Hood, A. (2015) Benefit Changes and Distributional Analysis. Institute for Fiscal Studies,
http://www.ifs.org.uk/uploads/publications/budgets/Budgets%202015/Summer/Hood_distributional_analysis.pdf

¹⁴ Welsh Government (2015) Young People not in education, employment or training (NEET). <http://gov.wales/statistics-and-research/young-people-not-education-employment-training/?lang=en>

¹⁵ Finch, D. (2015) A budget for workers? Resolution Foundation. <http://www.resolutionfoundation.org/publications/a-budget-for-workers-the-impact-of-the-summer-budget-on-work-incentives/>

¹⁶ op. cit.

¹⁷ op. cit.

¹⁸ Calculated as: 653,000 pensioners receiving an increase of 2.5% x 115.95 per week = increase of £150 p.a..

¹⁹ Calculated as: 232,000 DLA / PIP claimants receiving an increase of 1.1% (the forecast inflation rate for 2016) on the standard daily living component of £55.10 per week and the standard mobility component of £21.80 per week.

²⁰ Calculated as: 243,000 out-of-work claimants lose an average of £260 p.a. from freezing benefits = £63 million. 120,000 in-work tax credit claimants lose an average of £1,000 from changes to earnings = £120 million. No provision made for changes to Housing Benefit, benefit cap or changes that apply to new claimants.

²¹ Hutt, J. (2014) Jane Hutt responds to UK Government budget. Welsh Government news release, 8th July.
<http://gov.wales/newsroom/finance1/2015/150708-uk-budget/?lang=en>

²² Hood, A. (2015) Benefit Changes and Distributional Analysis. Institute for Fiscal Studies,
http://www.ifs.org.uk/uploads/publications/budgets/Budgets%202015/Summer/Hood_distributional_analysis.pdf

²³ op. cit.

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