



Llywodraeth Cymru  
Welsh Government

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## **WRITTEN STATEMENT BY THE WELSH GOVERNMENT**

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**TITLE**      **Analysing the impact of the UK Government's welfare reforms in Wales – Stage 2**

**DATE**        **18 February 2013**

**BY**            **Leighton Andrews, Minister for Education and Skills**

This statement updates Members on the current position regarding our research findings on the impact of the UK Government's welfare reforms in Wales.

The Ministerial Task and Finish Group on Welfare Reform, which I chair, has commissioned a three-stage programme of research to assess the impact of the welfare reforms in Wales. Following publication of the key findings from the Stage 1 analysis, which I outlined in an Oral Statement in February 2012, the Stage 2 research has also now been completed. The findings from this stage of the research are published today and can be accessed via:

<http://wales.gov.uk/topics/educationandskills/publications/reports/analysingreforms/?lang=en>

The research has been undertaken via a combination of internal and external work. The internal work has estimated the direct effects of the main welfare reforms on household incomes in Wales, and provides an assessment of the wider economic and social impacts of welfare reform and potential implications for devolved public services in Wales. The external work, undertaken by the Institute for Fiscal Studies, has focused on analysing the impact of the welfare reforms on labour supply in Wales. The key findings from the Stage 2 research reports are outlined below.

The welfare cuts that are estimated to lead to the largest annual income losses in Wales are:

- the switch to up-rating most benefits by the Consumer Price Index rather than the Retail Price Index;
- the 1 per cent cap on most working-age benefits, certain elements of tax credits, and Child Benefit;
- loss of entitlement to Disability Living Allowance; and,
- the time-limiting policy for contributory Employment and Support Allowance.

Hundreds of thousands of benefit claimants and tax credit recipients in Wales have already been hit by the cuts to welfare spending with some affected by multiple policy changes. Income losses per claimant could be over £80 per week on average (or over £4,000 per annum) for those affected by the reforms to Disability Living Allowance and contributory Employment and Support Allowance alone. Combined with the impact of changes to other benefits, losses could be even higher.

The UK Government's welfare reforms announced prior to December's Autumn Statement are estimated to reduce total benefit and tax credit entitlements in Wales by around £590 million in 2014–15. Additional cuts announced in December's Autumn Statement mean losses will be even higher than this. Furthermore, those hit by the cuts in welfare payments are likely to reduce their spending on goods and services, leading to an additional negative impact on the economy in Wales.

Not all types of households will be hit equally hard: those with children and, at least until Universal Credit is substantially rolled out, those towards the bottom of the income distribution, will be hardest hit by the income losses from the reforms. These groups are already more likely to rely on public services and reductions in income may increase the importance of such services to them. Although reform of welfare benefits is a non-devolved matter, many measures will impact on devolved services that are delivered by the Welsh Government and local authorities. Such impacts are likely to be wide-ranging, with potential to affect all of the public service areas considered, including: health, social care, housing, education and training, economic development, communities and social justice, and local government.

One of the UK Government's main aims is for the welfare reforms to get more people into work. However, the impact of the changes in financial work incentives on employment and hours of work is predicted to be, at best, very modest. The central estimate is for employment in Wales to increase by around 5,000 or 0.3 percentage points, and this is dependent on wider economic conditions.

However, there remains significant uncertainty about the precise impact of the reforms in aggregate on employment, hours of work and earnings in Wales because there are several aspects which are difficult to model. These include changes in non-financial work incentives such as the simplification associated with Universal Credit and the extension of work search requirements to more benefit recipients. It is also possible that weak labour demand will be an important influence on outcomes, particularly in the short-term.

What is clear is that the UK Government's welfare reforms will have a huge and damaging effect on Wales as a whole. The research findings outlined above confirm our worst fears about the reforms, and will now be used by the Ministerial Task & Finish Group to identify how best to protect the most vulnerable and mitigate, where possible, any negative impacts.

I recently met the UK Government's Minister for Welfare Reform, Lord Freud, to explore possible flexibilities for Wales regarding the introduction of Universal Credit. I raised concerns about the impact of the reforms, especially on low income families. I also raised

the impact of the welfare reforms in Wales on passported benefits and housing, and access to online services under Universal Credit. I am now looking for the UK Government to offer constructive proposals to address these issues, which arise as a consequence of its welfare reforms.

I intend to issue a further statement on Welfare Reform in July once further analysis has been carried out.