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Welsh Government

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Annwyl Christine,

Diolch i chi am eich llythyr dyddiedig 29 Hydref yn gofyn am wybodaeth ychwanegol am nifer o faterion, yn ogystal â gwneud argymhelliad penodol, yn dilyn fy nhystiolaeth i'r Pwyllgor ar 24 Hydref.

Fel y gwyddoch, rydym wedi bod yn edrych ar ffyrdd, o flwyddyn i flwyddyn, o wella'r ffordd yr ydym yn ymdrin ag asesiadau effaith ein cynigion cyllidebol. Croesawaf y ffaith bod y Pwyllgor wedi cydnabod y gwelliannau yr ydym wedi'u gwneud eleni a bod yr Asesiad o'r Effaith ar Gydraddoldeb (EIA) yn ddogfen 'much improved'. Hoffwn achub y cyfle hwn i ddiolch i'r Pwyllgor am ei waith craffu adeiladol, sy'n rhan mor bwysig o helpu i wella'r broses hon.

Yn ystod sesiwn y Pwyllgor, trafodwyd rôl y Grŵp Cynghorol y Gyllideb ar Gydraddoldeb (y cyfeirir ato wedi hyn fel BAGE neu 'y Grŵp') o ran darparu cyngor a rhannu arbenigedd ac arferion gorau ar faterion cydraddoldeb. Trafodwyd hefyd y cyfraniad pwysig y mae eisoes wedi'i wneud o safbwynt EIA eleni.

Rydych wedi gofyn yn benodol am wybodaeth bellach am rôl y Grŵp ac rwyf yn ffyddiog y bydd BAGE yn parhau i wneud cyfraniad o bwys at ein gwaith o barhau i edrych ar gamau i wella EIA'r Gyllideb Ddrafft. Yn unol â hyn, mae BAGE wedi cytuno i gyfarfod yn chwarterol, er mwyn bwrw ymlaen â'r gwaith o ddatblygu'r broses EIA. Bydd blaenraglen waith BAGE yn cynnwys cyfres o weithdai, a fydd yn darparu ar gyfer trafodaeth fanwl ac ymgysylltiad ar feysydd strategol allweddol a blaenoriaethau'r gyllideb. Mae'r dull hwn yn adlewyrchu cydnabyddiaeth flaenorol y Grŵp bod modd rhoi ystyriaeth fwy ystyrlon i'r effeithiau ar gydraddoldeb ar lefel rhaglenni a pholisi, sy'n gallu llywio EIA strategol cyllideb Llywodraeth Cymru.

Yng nghyd-destun Cyllideb y flwyddyn nesaf, rwyf yn falch hefyd o ystyried sut y gallwn ddarparu manylion pellach y gwaith sydd wedi'i wneud gan BAGE.

Yn y cyfamser, cynigiais rannu'r papur cryno a ddarparwyd gan Caroline Joll, sy'n aelod academaidd o BAGE. Rwyf wedi amgáu copi o'r papur yn Atodiad A.

Yn ystod ein trafodaethau yn y Pwyllgor ar sut yr ydym wedi mynd ati i ystyried y Gymraeg, soniais y caiff prosiect penodol ei sefydlu er mwyn ystyried offer asesu posibl ac i edrych ar ffyrdd o gryfhau'r cysylltiadau â phrosesau eraill Llywodraeth Cymru. O safbwynt eich cais am wybodaeth bellach am y prosiect hwn, gallaf gadarnhau y bydd yn dechrau yn gynnar ym mis Rhagfyr. Bydd y prosiect yn adeiladu ar y camau yr ydym eisoes wedi'u cymryd a bydd yn ceisio sefydlu prosesau mewnol a fydd yn rhoi ystyriaeth fwy effeithiol i effaith polisïau a phenderfyniadau ariannu ar y Gymraeg. Bydd y prosesau newydd yn canolbwyntio ar wneud ystyriaeth yn rhan annatod o waith datblygu polisi a hynny ar y cychwyn cyntaf. Mae'r dull hwn yn cyd-fynd yn glir â'r ffordd yr ydym yn mynd ati i ystyried cydraddoldeb, datblygu cynaliadwy, anfantais gymdeithasol-economaidd a hawliau plant. Bydd y prosiect hwn yn cyd-fynd hefyd â'r gwaith, a fydd hefyd yn dechrau ym mis Rhagfyr, i edrych ar sut y bydd Llywodraeth Cymru'n sicrhau cydymffurfiaeth â'r Safonau Iaith Gymraeg arfaethedig.

Yn eich llythyr rydych hefyd wedi gofyn am fanylion pellach am rôl Hyrwyddwyr yr Iaith Gymraeg a natur y fframwaith gwerthuso sy'n cael ei ddefnyddio i edrych ar effaith dyraniadau ar y Gymraeg.

O safbwynt hyrwyddwyr yr Iaith Gymraeg, cafodd y rhain eu sefydlu i gefnogi Adrannau wrth sicrhau cydymffurfiaeth â Chynllun Iaith Gymraeg Llywodraeth Cymru, ac wrth oruchwylio'r gwelliannau a amlinellir yn y Rhaglen Wella ar gyfer y Gymraeg. Cafodd y Rhaglen Wella ei sefydlu fel cam cyntaf o ran sicrhau bod Llywodraeth Cymru'n dechrau ar ei gwaith paratoi mewnol i roi Safonau'r Iaith Gymraeg ar waith. Bydd y prosiect a amlinellir uchod yn symud y gwaith hwn ymlaen i gyfnod newydd o fis Rhagfyr ymlaen.

Bydd yr ymgynghoriad ar Safonau'r Iaith Gymraeg yn dechrau ym mis Ionawr 2014, a chyhoeddodd y Prif Weinidog Ddatganiad Ysgrifenedig ar 21 Hydref yn nodi'r amserlen ar gyfer y broses hon, a fydd yn sicrhau bod Rheoliadau'n cael eu sefydlu erbyn Tachwedd 2014. Mae Llywodraeth Cymru'n un o 26 o gyrff a fydd yn destun y set gyntaf o Safonau'r Iaith Gymraeg.

Cafodd y Fframwaith Gwerthuso ar gyfer Strategaeth y Gymraeg sef *Iaith Fyw: Iaith Byw* ei gyhoeddi yn Chwefror 2013. Y Fframwaith hwn yw sylfaen ymchwil, casglu data a gwaith dadansoddi yn y dyfodol i asesu effaith ac effeithiolrwydd y Strategaeth.

O safbwynt eich argymhelliad ein bod yn mynd ati mewn ffordd fwy systematig i sicrhau bod polisïau a phenderfyniadau ar y gyllideb yn cael eu sgrinio o ran eu heffaith ar y Gymraeg, rydym wedi ymrwymo i ymchwilio i ddewisiadau ar gyfer bwrw ymlaen â'r gwaith hwn yng nghyd-destun y prosiect a drafodwyd yn y Pwyllgor ac yr wyf wedi'i grybwyll uchod.

Rydym wedi ymrwymo hefyd i wella'r ffordd yr ydym yn ymdrin ag asesiadau effaith yn fwy cyffredinol, a byddwn yn gweithio tuag at ddull mwy integredig o ddeall effaith ein cynigion gwario yng nghyllidebau'r dyfodol, gan gynnwys integreiddio ystyriaethau mewn perthynas â'r Gymraeg, a hynny yng nghyd-destun Bil Cenedlaethau'r Dyfodol (Cymru) arfaethedig.

Yn olaf, yng nghyd-destun y trafodaethau am y Gymraeg, trafododd y Pwyllgor hefyd ariannu ar gyfer Cyngor Llyfrau Cymru ac a oedd hyn yn rhan o'r gostyngiadau yn y Cam Gweithredu "Dysgu Cymraeg" yn y MEG Addysg a Sgiliau. Ymrwymais i gynnig eglurhad ar y mater hwn a gallaf gadarnhau nad yw'r gostyngiad mewn arian ar gyfer Cyngor Llyfrau Cymru yn rhan o'r gostyngiad o £750k a ddangosir yn y Cam Gweithredu "Dysgu Cymraeg" yn y MEG Addysg a Sgiliau. Mae arian ar gyfer Cyngor Llyfrau Cymru'n perthyn i Gam Gweithredu "Y Cyfryngau a Chyhoeddi" yn y MEG Diwylliant a Chwaraeon .

Gobeithio bod yr ymateb hwn o gymorth i chi.

Yn Gywir

Jane Hutt AC / AM
Y Gweinidog Cyllid
Minister for Finance .

Cc. Jocelyn Davies AC, Cadeirydd y Pwyllgor Cyllid

How does government spending on public services affect inequality? A summary of the available evidence and implications for budget priorities in Wales.

Summary

1. Research suggests that spending on public services such as health and education reduces inequality by benefiting 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. However it is important to recognise the limitations attached to these results.
2. In order to estimate the benefit which public services deliver to different groups it is necessary to know the characteristics of service users and also to be able to value the benefits derived by individual users in money terms.
3. Results invariably use expenditure on a given service (in aggregate or per head) to estimate benefit. This assumption is necessary but hard to justify.
4. Moreover, these results are of limited use in predicting the effect which alternative changes in spending would have on equality, because a given percentage cut in, say, spending on transport could be achieved in any number of different ways, all of which would have different impacts on richer versus poorer households.
5. Therefore, it is not possible to base budget decisions on firm evidence about the equality impact if alternative choices.

The question

6. Equality is a core objective for the Welsh government, which in 2013-14 will spend approximately £15 billion on devolved services. These services are likely to have a significant impact on equality.
7. The budget for Wales in 2014-15 is expected to be £1.7 billion lower in real terms than that for 2010-11. In this climate of fiscal austerity, the question of how limited resources should best be used to protect and improve equality becomes urgent.
8. In making hard choices about which programmes to expand and where savings can least painfully be made, it would be helpful to draw on evidence concerning the equality-promoting characteristics of different areas of expenditure, e.g. to be able to say which programmes are the most 'pro-poor'.
9. This note summarises very briefly the available research evidence about the distributive impact of public spending in the areas of spending devolved to Wales: health, education, housing, transport, social services, police and sports.
10. The literature provides some reasonable estimates, based on important assumptions, of how total spending on certain public services affects income inequality. Some programmes are found, again with caveats, to be more pro-poor than others.
11. However, the existing research does not deliver a satisfactory evidence-based answer to the question of how alternative *changes* in spending would affect inequality between rich and poor, for reasons discussed below. There is still less information about the impact on groups with protected characteristics.

How does research into this question reach its answers?

12. In order to measure the effect which public spending on services has on income inequality it is necessary to know, by income level, who actually uses different services, and to be able to quantify the benefit derived by different users in money terms. This would make it possible to say that service A, which benefits a group of deprived households, is better for equality than service B which uses resources to the

benefit of all households, or favours richer ones. This sounds simple enough – but it isn't.

13. We can measure *expenditure* on different services (how much they cost). However, the assumption that expenditure equals benefit, which is convenient and underlies the research discussed here, simply assumes away a lot of the problem under investigation. It is not in general true that the sum a good or service is worth to the consumer is equal to its cost of production, and this applies to public as to other services.

14. *If* this assumption is made, then the total value of public services is known. But how should this total sum be chopped up among recipients? To measure the benefit to individuals or households it is necessary to have information on usage made of the service by income level and also to be able to value different users' benefit in money terms.

15. What do we know about the usage made by poorer vs richer individuals or households of schools, GP services, public transport? Information on these questions is relatively scarce. Research by Sefton (2002), looking at the effect on inequality of changing spending on public services between 1993/4 and 2000/1, is unusual in that he incorporates data on actual usage of health services by income level.

16. However, in order to estimate the health benefit delivered to different income groups in £, Sefton has to make a final assumption that everyone who accesses a given NHS service (e.g. GP visit or outpatient appointment) derives the same benefit in £ – so no allowance is made for more or less expensive specialities or illnesses, or for higher or lower quality of care or any link between these and income.

17. If researchers collect appropriate data and make the assumptions necessary to calculate the monetary benefit delivered by public spending programmes to individuals (or households or small areas) differentiated by income level, how can the equality impact of different programmes be measured and presented?

18. The simplest approach is to report the benefit from public services in £. Any programme which delivers a higher benefit in £ to lower than to higher income groups can be described as 'pro-poor'.

19. Alternatively, the benefit from public services can be presented as a percentage of income. A programme which makes up a higher percentage of the total income of lower than of higher income groups can be called 'progressive'.

20. Both pro-poor and progressive forms of expenditure as defined above reduce income inequality, so the distribution of income after receiving the benefit is more equal than income without the benefit.

21. However, all pro-poor programmes are progressive, but not all progressive programmes are pro-poor as defined here. This is because of the huge gap between the incomes of the rich and the poor. A benefit which is worth, say £40 on average to the poorest 20% and £100 on average to the richest 20% is pro-rich but may still be progressive. If the average income of the rich group is £40,000 while that of the poor group is only £10,000 then this public service adds 0.4% (40/10,000) to the poor and only 0.25% (100/40,0000) to the rich.

Results

22. The results discussed here are drawn from three main pieces of quantitative research. Official figures for the impact of public services on household incomes are published annually by the Office of National Statistics. The latest data (Tonkin 2013) relate to 2011/12. The ONS divides up total spending on health and education to individual households on the basis of average expenditure per head.

23. Sefton (2002) looks at public spending over the period 1993/4 to 2000/01, so is able to consider the effect of *changes* in public expenditure. He also compares results using ONS and alternative methods. Both these studies are at aggregate UK level.

24. In contrast, the third piece (Bramley 2005) uses a local, case-study approach and measures the effect of a wider range of public spending (including social security, not devolved to Wales) on equality between wards in six local authorities (five in England and one in Scotland) between 1995/6 and 2000/1.

25. Research carried out at the IFS in recent years (O'Dea and Preston 2010, 2011, 2012) surveys a wide range of studies, but performs no original calculations and is mainly concerned to point out the limitations attached to all estimates and to urge extreme caution in using the results.

26. Browne (2011), also at the IFS, examines the impact of recent tax and benefit changes by gender. He concludes, because we don't know how incomes are shared within households, that a full gender impact assessment is impossible and that while the impact of cuts to public services could be at least as important this is even harder to estimate. Therefore, due to lack of evidence concerning the impact of public services on equality groups including gender, the research discussed here looks only at effects by income level.

27. The quantitative results obtained by these three pieces of work are summarised below, by spending programme, with a brief discussion of the main limitations.

Health

28. Tonkin (2013 and earlier ONS editions) invariably finds that health expenditures are pro-poor. For 2011/12 the average annual value of NHS expenditure derived by a household varied from £4,075 for households in the lowest 20% by income to £3,427 for the top 20%.

29. ONS methodology estimates a household's benefit from health spending as equal to the sum of average NHS expenditure per head by age and gender for all household members. The main reason for the pro-poor effect is the demographic make-up of households at different levels of income. Per head, the NHS spends most on older people and on young children, and households containing both these individuals are concentrated in below-average income groups. No allowance is made for any relationship between income and health.

30. By contrast, Sefton (2002) used Family Resources Survey data to measure actual NHS usage by people in different income quintiles in 2000/1. He found that, because they are less healthy, individuals in the bottom quintile make more use of the NHS than richer people of the same age and gender. Therefore his results indicate a more strongly pro-poor effect of health spending than those of the ONS.

31. Bramley (2005) using a very different methodology found a 'clear pro-deprived nature' to health spending at ward level, having corrected for the age composition of ward populations.

Education

32. Tonkin (2013 and earlier ONS editions) invariably finds that education spending is pro-poor. For 2011/12 the average annual value of education spending derived by a household varied from £3,306 for households in the lowest 20% by income to £1,536 for the top 20%.

33. ONS methodology assumes that each household with a child in, say, state-funded primary education derives the same benefit, assumed equal to average expenditure per

primary school pupil. High-income families are differentially likely to choose private education and therefore derive no benefit from public spending on education.

34. However, the main reason for the pro-poor finding is again the demographic make-up of households at different levels of income distribution. Education spending mainly benefits children, and there are twice as many young children in the bottom 20% of households by income as in the top 20%.

35. The equalising impact of education spending declines with age, as shown by Sefton (2002) who divides total education spending into three age-groups. He finds spending on schools to age 16 to be the biggest and most pro-poor category, while spending on post-compulsory schooling and FE is 'moderately' pro-poor.

36. The impact of the third category of education spending, HE, depends on whether the benefit is assumed to accrue to the student herself (who during term-time usually lives in a low-income student household) or to the parental family (typically higher income). The ONS makes the former assumption, Sefton the second and finds spending on HE to be pro-rich. This is explained by both demographic forces (parents of university age children are disproportionately in higher income groups) and the well-known tendency for children of better-off families to stay on at school and acquire the qualifications needed for HE. Sefton's results apply to in 2000/01; subsequent changes in student finance, particularly in England, (higher fees, bigger loans, changed repayment conditions, more means-testing), will have affected this result.

37. Bramley (2005) looked at public spending across wards with similar results: total education expenditure was higher in the most deprived wards, and this was more true for expenditure on primary education, while HE spending was higher in the more affluent wards.

Housing

38. Tonkin (2013 and earlier ONS editions) estimates the impact of housing subsidies which keep social rents below market levels. The total amount of public spending allocated is small (worth £24 per household on average in 2011/12), but very pro-poor. In 2011/12 the average annual value varied from £37 for households in the lowest 20% by income to only £4 for the top 20%.

39. Sefton (2002) reaches a much higher value than the ONS for the total value of housing subsidies (because he estimates a higher value for social housing and therefore a bigger gap between market and actual rents), but also finds housing expenditure to be pro-poor, in fact the most pro-poor of the major services.

40. Bramley (2005) includes a wider range of housing expenditures and finds a strong positive association between social housing investment and deprivation at ward level. Although total spending on housing identified by this study is low, Bramley found this to be the most pro-poor public spending programme (out of 12, see below).

Transport

41. Tonkin (2013 and earlier ONS editions) estimate only the benefit from subsidies to rail and bus transport. The former was found to be pro-rich: in 2011/12 the average annual value varied from £41 for households in the lowest 20% by income to £191 for the top 20%. The benefit from bus subsidies is relatively equally spread across the income distribution. The average benefit per household ranges only from a low of £79 (for the richest 20%) and a high of £107 (the 40% of households above the poorest 20%) with the poorest 20% deriving an average benefit of £90.

42. Bramley (2005) set out to examine the allocation of bus subsidies and also of concessionary fares, but found it difficult to obtain consistent data across the six case

study areas. The figures available suggest that the distributive impact varies considerably. Bus subsidies favoured deprived wards in Liverpool but not in Nottingham; concessionary fares tended to favour less deprived wards in England and were more pro-poor in Scotland.

Social Services

43. Sefton (2002) values expenditure on non-residential social services, the smallest component of included public spending. He finds that those in the middle of the income distribution benefit most. To some extent this is due to the position of older and disabled people within the income distribution. However, Sefton finds that the distribution is less pro-poor, and more biased towards middle-income groups than would be expected from the demographic make-up of different income groups.

44. Bramley (2005) finds higher expenditure on social services in more deprived wards than in areas of lower deprivation, and that this pro-poor pattern is stronger for children's services than for expenditure on the elderly.

Others (police, sports)

45. Bramley (2005) collects data on expenditure on police activity across wards in all six case study areas, finding a clear pro-deprived slant to this spending, explained by the fact that higher levels of crime in deprived wards means that more police activity takes place there.

46. The same study analyses public spending on swimming pools and sports centres and usage data across wards in Liverpool Nottingham and Bradford. Their figures suggest that the relationship between income and both expenditure and usage is non-uniform across areas. They infer that pro-poor expenditure patterns (e.g. locating sports facilities in deprived areas) can raise rates of participation in sports by the under-privileged.

Conclusion on the equality impact of devolved public services as a whole

47. There is solid evidence for the conclusion that, on the usual assumptions concerning the value and allocation of benefits, public spending overall, and on most but not all of the services funded by the Welsh government, reduces inequality.

48. The key assumption is the identification of benefit derived from a service with the cost of providing it. This assumption is easy to challenge, since no attempt is made to measure the value to service recipients and this could well be either much more or much less than the service costs, but hard to replace. Economists have clear ideas about what 'benefit' means – the monetary value of the gain derived from consuming the public service. However, this theoretical concept is hard, and sometimes impossible, to put into practice. Therefore the IFS (O'Dea and Preston 2010b) describe the standard assumption as 'questionable, but probably the only starting point'.

49. On this assumption, how progressive are public services? Here we look at the overall results from the three pieces of evidence discussed already. Table 1 includes figures from Tonkin (2013) and Sefton (2002). It shows the absolute values of total spending in £, and (in the final column) a summary measure of pro-poorness given by the ratio of estimated benefit received by poorest 20% to that received by the richest 20%.

50. Table 1 shows that spending on public services is pro-poor. The monetary values are bigger in the left-hand, lower-income columns than further right, and the ratio in the final column is considerably above 1.
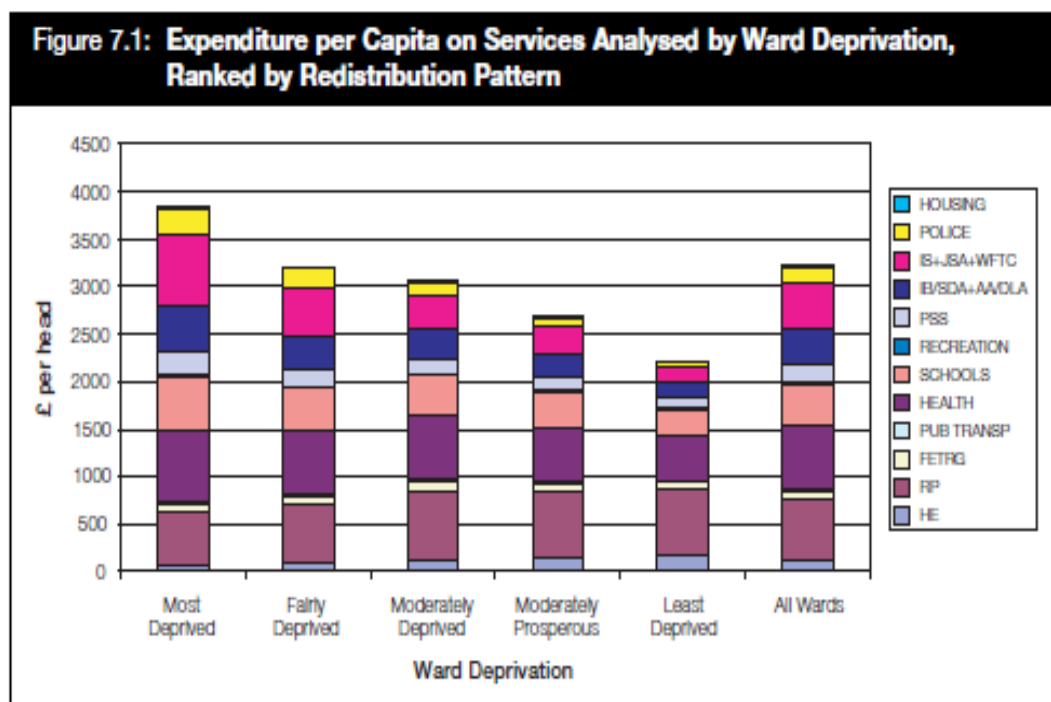
51. Table 1 shows that spending on public services is pro-poor. The monetary values are bigger in the left-hand, lower-income columns than further right, and the ratio in the final column is considerably above 1.

52. ONS and Sefton's results give the same broad picture, although the figures are not fully comparable (ONS figures are per household, Sefton's per person, the years and prices differ and, as already indicated, Sefton departs from ONS methodology in various ways).

Table 1 The impact of overall spending on public services on inequality in the UK

source	Data year	Total benefit derived from public services in £ by income level						Ratio (poorest to richest)
		Poorest 20%	Second 20%	Middle 20%	Fourth 20%	Richest 20%	Average over all households	
Tonkin (2013)	2011/12	7674	7386	7380	6260	5238	6787	1.5
Sefton (2002)	1996/7	1840	1950	1610	1270	960	1530	1.9
Sefton (2002)	2000/01	2100	2170	1730	1400	1010	1680	2.1

Sources: ONS Statistical Bulletin 2013 page 9, Sefton (2002) table 2

53. Bramley (2005) presents his results on the overall impact of public services in the form of a bar chart, Figure 7.1, reproduced below.

Figure 7.1: Expenditure per Capita on Services Analysed by Ward Deprivation, Ranked by Redistribution Pattern

Source: Bramley et al (2005), Figure 7.1

54. This shows total allocated expenditure per head in £, overall (on the far right) and by ward deprivation level (arranged in 20% groups, left to right from most to least deprived). Here the pro-poorness of total spending is exhibited by the downward-

sloping gradient from most to least deprived 20% of wards, and the figures in Figure 7.1 yield a 'pro-poorness ratio' of approximately 1.7.

55. So, there is evidence from all three sources that public services promote equality, subject to the important caveat that these figures have been derived by assuming that the benefits derived by recipients equal the cost of provision. The same result, pro-poor on the underlying assumption, applies to public spending on each of the big spending programmes devolved to Wales.

56. For example, health spending benefits low-income individuals most due both to the relationship between age, income and NHS spending and to the concentration of ill-health among less advantaged groups (Sefton 2002). Research has been carried out, with conflicting results, into whether better-off individuals succeed in getting better treatment (e.g. longer consultations or quicker referrals) for the same illness than the less advantaged, a possibility ignored in the research discussed here. However, it would be necessary for high-income groups to receive on average much better quality medical services than poorer people with the same condition to reverse the finding that overall health spending is pro-poor.

Policy implications for budget decisions in Wales

57. Faced with decisions about budget priorities, the results above are of limited use. To be able to estimate the impact on equality of alternative decisions about which programmes to expand or contract, it is necessary to disaggregate public spending and address two questions:
   (i) Which services are the most and which are the least pro-poor?
   (ii) How much impact do changes in public spending have on equality?

58. The most detailed quantitative answers to these questions have been provided by Bramley (2005). Therefore Bramley's results are presented here, followed by comparison where possible with the results of Sefton (2002), O'Dea and Preston (2010, 2011, 2012) and Tonkin (2013).

59. Table 2 below provides a set of answers to question (i). Bramley's identification of housing as a very pro-poor public spending programme is echoed by Sefton (2002) and easily understandable as the criteria for receipt of housing subsidies are strongly linked to low income and high deprivation. Targeting expenditures by area deprivation or low income is one mechanism for achieving maximum progressivity or redistribution from a budget.

60. On the other hand, the high degree of pro-poorness attached to police expenditures arises directly from the standard assumption that benefit equals cost. Deprived neighbourhoods exhibit high crime rates, and therefore see higher levels of police activity and expenditure, but does this mean that police expenditure is really 'pro-poor'?

Table 2 <u>Spending programmes (devolved to Wales) ranked by equality impact</u>

Strongly pro-poor	Quite pro-poor	Moderately pro-poor	Slightly pro-poor	Neutral	Slightly pro-rich	Strongly pro-rich
RSL housing investment	Children's social services	Hospitals (both in- and out-patient)	Primary health care	Refuse and cleaning	FE	HE
Police	Elderly social services	Secondary schools				
	Special education	Work-based training				
	Primary schools	Bus subsidies				
		Recreation				

Source: Bramley et al (2005), abridged from Table 7.1

61. ONS figures quoted above broadly support Table 2's placing of different programmes into categories, but the figures published by the ONS are at a higher level of aggregation (e.g. health, education). They also identify housing as very pro-poor and rail subsidies as regressive (see above). O'Dea and Preston (2012) conclude that the most 'clearly regressive' categories include cultural spending and certain transport subsides, noting that these are relatively small items of expenditure.

62. Figure 7.1 also answers question (i). In Figure 7.1 total spending is sub-divided into twelve different expenditure programmes (n.b. grouped differently from Table 2, and including social security expenditures not devolved to Wales), and the 12 programmes are stacked in order of pro-poorness, from housing and police at the top to HE at the bottom. Figure 7.1, unlike table 2, also shows clearly which are the big and which the relatively small items of public spending.

63. Bramley's results indicate that cutting the programmes which appear on the left of Table 2 and at the top end of the bars in Figure 7.1 will be more detrimental to equality than cutting those on the right and at the bottom, but how much more? To get a useful idea of the power of the public spending policy lever in promoting equality it is necessary to tackle question (ii) and come up with some figures.

64. Bramley (2005) is the only study which goes as far as estimating the quantitative impact of alternative budgetary choices. He illustrates the potential impact of budgetary changes on equality by calculating how much different groups of wards would gain from alternative budgetary changes (expansions not cuts, but in principle the effect is symmetrical).

65. Bramley conducts the following 'thought experiment'. A choice is to be made between equality-enhancing programme A which involves spending an extra £100 per head by putting an extra £20 into the 5 *most* pro-poor programmes identified (personal social services, housing, police, and 2 different benefit types) and less redistributive choice B which spends the same amount in total, but puts an extra £20 per head into the 5 *least* pro-poor programmes (HE, pensions, FE and training, public transport and health).

66. The results of this exercise show, as would be expected from Table 2 and Figure 7.1 above, that A and B have quite different impacts on equality. Under equality-enhancing programme A, the additional expenditure received by the most deprived

20% of wards amounts to £145 per head, *four times* as much as the average of £36 per head delivered to the least deprived 20%. This contrasts with a much smaller differential under less redistributive choice B. In this case the additional expenditure received by the most deprived 20% of wards amounts to £94 per head, barely more than the average of £80 per head delivered to the least deprived 20%.

67. Moreover, in the more redistributive case additional expenditure generated declines consistently from most to least deprived, while in the other scenario it is the middle 20% of wards who benefit the most (by £105 on average).

68. Bramley also generates a third set of results, described as more realistic, meaning chosen to mimic the typical spending changes of the early 2000s. At this time spending was increasing in real terms, and the total sum allocated is £400 per head, four times as much as in the hypothetical choices. As would be expected, the impact on equality is between those achieved by choices A and B. The additional expenditure received by the most deprived 20% of wards amounts to £470 per head, 1.67 times the average of £280 per head delivered to the least deprived 20%. In this case, as with hypothetical programme A, the additional expenditure declines consistently from most to least deprived.

69. Sefton (2002) looks at the equality impact of actual changes in spending on public services between 1996/7 and 2000/1 and, as Table 1 indicates, finds that these changes led to a small increase in pro-poor bias, without going into any detail about how this was achieved.

70. So, where have we got to in answering the two questions raised in paragraph 57? There is broad agreement in the literature about the ranking of spending programmes as shown in Table 2 and Figure 7.1, subject once again to the reminders that these results relate to the sets of spending programmes studied and rest on a set of assumptions.

71. The answer to question (ii), about the impact of changes in spending, has to be even more guarded. Bramley's figures show that budget decisions can provide an effective policy lever for protecting equality but also that the size and even the direction of the impact is specific to a given set of choices.

72. It is not in general valid to infer from the finding that health expenditures are, overall, pro-poor that any cut in health spending would hit low income groups hardest. We do not have the detailed data about beneficiaries from or expenditure on specific health programmes needed to find out which items of health expenditure are (the most) pro-poor. A 2% cut in spending in real terms could be achieved in any number of different ways with a wide range of equality impacts.

73. As O'Dea and Preston (2012) put it: "The devil will be in the detail; the precise composition and manner of implementation of the package of impending spending cuts will crucially determine the extent to which they are progressive or regressive".

74. Finally, none of the research which generated the evidence discussed here relates specifically to Wales and most of it was carried out some time ago, so applies to a past level and programme of expenditures. Therefore, these results should only be applied to the budgetary choices currently facing the Welsh government with great caution.

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