Llywodraeth Cymru
Welsh Government

Draft Budget 2027–28
Budget Impact Statement

November 2026

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Foreword from the Cabinet Minister for Finance

This government has a new ambition for Wales. With a relentless focus on our priorities, set out in the Programme for Government, we will strengthen public services, grow our economy and improve people's lives. Using public money effectively is central to achieving that ambition and delivering better outcomes for people across Wales.

As an incoming government, we faced significant inherited spending pressures across many areas of our Budget this year, followed by a real-terms reduction funding next year. Our public services, and the communities that rely on them, are under significant strain from higher inflation. The UK Government Autumn Budget did not adequately respond to those pressures. As a result, we must take difficult decisions.

That is why this Budget Impact Statement is vital. It helps us understand the consequences of our spending choices, identify where impacts may fall most heavily, and consider how adverse impacts can be avoided or mitigated wherever possible. By bringing together evidence from across government, it also helps us understand how the effects of individual decisions can combine and where particular groups or communities may experience multiple impacts.

This Draft Budget presents a fresh opportunity for a new Welsh Government to begin resetting and redirecting spending towards our priorities. We are focused on protecting public services, supporting people facing cost-of-living pressures, tackling child poverty, investing in our economy and providing targeted support for businesses. We also want to move resources towards frontline delivery, drive greater efficiency and focus relentlessly on the outcomes our spending achieves.

This assessment has informed the choices we have made in developing the Draft Budget. It has helped us identify where potential impacts may be greatest, where proposals could be changed, and where additional investment could help avoid or mitigate adverse impacts. We have not been able to remove every impact, and this statement is transparent about where pressures and risks remain.

The fiscal reality we face means we cannot avoid every difficult choice or remove every adverse impact. But we can make those choices with a clear understanding of their consequences, take action to mitigate impacts wherever possible and be transparent about the decisions we have made. That is the approach we are taking as we reset public spending, focus on outcomes and deliver on our ambition for Wales.

Rt Hon Elin Jones MS

Cabinet Minister for Finance

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Introduction

A Budget is about more than the money we spend. It is about the difference those choices make to people's lives, communities and places across Wales. Understanding the impact of those choices has been central to the development of the 2027-28 to 2029-30 Draft Budget. The Budget Impact Statement brings together evidence from across government to help us understand how Budget choices may affect different people, communities and places across Wales, recognising that those impacts are not experienced in isolation, but can interact and accumulate across different areas of spending.

The Budget Impact Statement (BIS) replaces the previous Strategic Integrated Impact Assessment reflecting a clearer approach to assessing the impact of the Draft Budget. Whilst individual Integrated Impact Assessments play an important role in examining the detailed impacts of individual policies and spending decisions, this statement deliberately takes a different view: it steps back from individual decisions to consider the Budget as a whole. It looks at the cumulative impact of our major spending choices, where we have prioritised investment, where funding is more constrained, and what the resulting pattern of spending may mean for people, communities and places across Wales. Together, these assessments provide different but complementary perspectives: detailed consideration of individual policies and programmes through IIAs, alongside a broader understanding of the impact of how funding is prioritised and balanced across the major areas of government spending.

This assessment has been an important part of developing the Draft Budget. It has helped us look beyond individual spending decisions to understand their cumulative impact, including where several decisions could affect the same groups or outcomes. This has enabled Ministers to consider potential impacts alongside the government's ambitions to reprioritise spending, focus resources on outcomes and frontline delivery, and drive greater efficiency across government. Reprioritising spending means that in some cases existing spending must stop. And in some areas, the evidence gathered as part of the Budget Impact work has informed decisions to change proposed savings or provide additional investment to mitigate identified impacts.

This is particularly important as we reset spending for a new term of government. Our Programme for Government sets out the priorities and actions Ministers believe will make the greatest difference to people's lives, including improving health and care, supporting households with the cost-of-living, creating good jobs, raising standards in our schools and tackling child poverty. This Draft Budget begins the process of aligning our resources behind those priorities and the outcomes we want to achieve for Wales.

The multi-year nature of the Budget is important to that approach. Setting resource plans for two years and capital plans for three years provides a stronger foundation for longer-term planning, investment and delivery, and allows us to begin reshaping spending over the course of this government. However, whilst we have considered indicative spending plans for future years, this Budget Impact Statement focuses primarily on the spending decisions for 2027–28. At this stage, there is insufficient detail about how all funding will be allocated and delivered in later years to assess those impacts with the same degree of confidence. As future spending decisions are further developed and clarified, their impacts will continue to be considered.

Our approach embodies the ways of working established by the Well-being of Future Generations (Wales) Act 2015. Looking across the Budget helps us consider the connections between different decisions and outcomes, their longer-term effects and the importance of prevention. It sits alongside our consideration of equality and other statutory and policy responsibilities.

The assessment is iterative and develops alongside the Budget itself. This statement therefore reflects our assessment of the 2027–28 spending decisions at the time of publishing the Draft Budget. It provides a basis for further scrutiny and engagement, which will help us test our assessment, strengthen the evidence and consider whether further mitigation is required.

We will publish an updated Budget Impact Statement alongside the Final Budget, setting out how our assessment has developed and reflecting any changes to the Budget package.

Budget Strategy for 2027–28

This is a positive and ambitious Budget, developed against a difficult financial backdrop. With real terms cuts in both resource and capital funding, we have had to make difficult choices about where limited amounts of public money can make the greatest difference. In making those choices, we have sought to protect the services people rely on most and direct resources towards the people, communities and services facing greatest pressures.

This Budget marks the start of a reset in government spending. The underlying strategy is to begin the work of realigning budgets to deliver the Programme for Government. For that reason, we are not simply carrying forward established patterns of expenditure. We are taking a deliberate approach to how public money is used. We want to reduce duplication and unnecessary administration, improve efficiency and productivity, and move resources towards frontline services. Above all, we will focus relentlessly on outcomes and on whether our spending is improving people's lives.

Our NHS is central to that approach. We have deliberately sought to shield health services from the worst of the financial pressures, recognising the scale of demand facing the NHS and the importance of being able to access care when patients need it. We also recognise that additional funding alone will not address all the challenges the NHS faces. Investment must go alongside reform, greater productivity and a stronger focus on prevention if we are to build sustainable services for the future.

We know that decisions about public spending have real consequences for people and communities. We have considered not only individual spending decisions, but how their effects can combine, including where several decisions could affect the same people or communities. This has helped us identify where impacts could be particularly significant and has informed decisions to change some proposals, protect areas of spending and target additional investment.

That approach matters because difficult choices do not affect everyone equally. As we have reprioritised spending, we have paid particular attention to where public investment can have the greatest effect. This includes considering impacts on people experiencing poverty, children and young people, women, disabled people, older people, rural communities and others who may face particular barriers or disadvantage. Our aim has been to make choices that support our priorities while, as far as possible, avoiding or reducing disproportionate impacts.

This is the beginning of change, not the end. The multi-year Budget gives us the opportunity to lay the foundations for the government's programme and progressively reshape spending over the coming years. We will continue to challenge how money is spent, invest in what works and focus resources on the outcomes we want to achieve for Wales.

This is also a Draft Budget. The period between Draft and Final Budget provides an important opportunity for scrutiny, engagement and challenge. We will listen to the evidence presented through that process, remaining open to changes where there is a strong case for doing things differently and we will continue to work constructively across the Senedd to secure support for a Budget that delivers for people and communities across Wales.

Underpinning Evidence

Evidence is an important part of how we make budget decisions. It helps us understand the circumstances in which people and communities are living, where inequalities already exist, and where changes in public spending may have different or disproportionate effects.

For this Draft Budget, we have drawn on official statistics, administrative data, research and analysis, including evidence from the National Survey for Wales, the Census, the Welsh Index of Multiple Deprivation, and data on poverty, education, employment, housing and health. We have also worked closely with our Equality, Race and Disability Evidence Units, drawing on their expertise to strengthen our understanding of inequalities and the experiences of different groups across Wales.

We have supplemented this with evidence from external organisations, including the Office for Budget Responsibility (OBR), Institute for Fiscal Studies (IFS) and Chartered Institute of Public Finance and Accountancy (CIPFA). Further external evidence is used throughout this Statement and in our case studies to test and strengthen our assessment of spending decisions. Together, these organisations provide important evidence on fiscal and demographic pressures, public spending, productivity, efficiency and the delivery of public services.

The Welsh Spending Review has provided an important additional source of evidence and analysis. Its thematic work on health, housing, inclusive learning, transport and the economy has taken a longer-term, cross-government view of some of the most significant challenges facing Wales. It has helped us consider prevention and longer-term sustainability, including how spending in one area can influence outcomes and demand elsewhere. Research commissioned from the Wales Centre for Public Policy on longer-term approaches to fiscal and budget decision-making has also contributed to our evidence base.

A particular focus this year has been on considering equality evidence alongside wider social, economic and environmental evidence, rather than as a separate part of the budget process. We recognise that people's experiences do not fit neatly into individual categories. Different characteristics and circumstances can interact and compound the barriers or disadvantages people experience, so our evidence base places an important emphasis on understanding these intersectional impacts.

Using evidence throughout the Budget process

Evidence has informed development of the Budget from the outset. Over the summer, as a new government, we began reviewing existing spending and developing our priorities for 2027–28 and future years. Evidence was used to understand pressures facing people, communities and public services and inform initial spending choices.

As proposals for savings, reprioritisation and investment developed, we brought together evidence about their potential impacts across government. For the first time, we developed a cumulative impacts matrix to consider how decisions across different areas of spending could affect the same people, communities and outcomes. This helped identify where impacts could combine or compound existing disadvantage.

The assessment was updated as the Budget developed to reflect changes, mitigation and additional investment. The matrix is a live working tool and will continue to evolve through to the Final Budget. We intend to publish the matrix alongside the Final Budget in a form that reflects the final decisions taken, providing greater transparency about our assessment of cumulative impacts and how it has informed the final investment pattern.

This approach has ensured that evidence has not simply been used to describe impacts after decisions were taken. It has formed part of decision-making, helping Ministers understand the choices and trade-offs involved and consider where adverse impacts could be avoided or mitigated.

Trends in the Evidence

Much of the evidence underpinning this Statement remains consistent with last year, and many of the outcomes it identifies have persisted for considerably longer. Their persistence demonstrates the scale and complexity of the challenge we face. Successive Budgets have invested significant resources in public services and in tackling inequality, yet too many people and communities in Wales continue to experience poorer outcomes.

This reinforces an important principle: the level of investment matters, but investment alone does not guarantee better outcomes. We have therefore sought to look beyond an assumption that additional spending will always have a positive impact, or that reducing expenditure will inevitably have a negative one. Our assessment also considers how resources are used, whether existing approaches are delivering the outcomes intended, and where doing things differently could deliver greater impact.

Understanding efficiency and outcomes

A stronger focus on efficiency and productivity is also an important part of our approach. Over time, we want to improve our understanding of not only how much we spend, but what that spending delivers, including the relationship between resources, activity and outcomes.

We recognise that the evidence is not yet sufficiently developed to do this consistently across all areas of government. Measuring public sector productivity is complex, particularly where the quality and outcomes of services matter as much as the volume of activity delivered. Independent analysis from the Institute for Fiscal Studies (IFS) similarly highlights both the potential benefits and challenges of improving productivity. We will continue to improve the use of financial, performance and outcomes data so future decisions can be increasingly informed by evidence of effectiveness and efficiency.

Understanding the limitations

No evidence base is complete. Some population groups and experiences are better represented in available data than others, and national statistics cannot always capture differences within communities or the combined effect of different forms of disadvantage. A lack of evidence has not been taken to mean there is no potential impact.

Our assessment therefore considers both the latest available evidence and the longer-term direction of travel. The following section sets out some of the most important things the evidence tells us about people, communities and inequalities across Wales, and why these matter when we make spending decisions.

What the Evidence Told Us

Health

- *The proportion of people reporting very good health declines with age.*
- *Although women live longer, they spend less time in good health than men.*
- *Suicide rates remain more than three times higher for men.*

Jobs and Income

- *People who are female, disabled or from ethnic minority communities are less likely to be in employment.*
- *The gender pay gap has narrowed.*

Homes

- *Disabled people are more likely to live in social housing and overcrowded conditions.*
- *People from White backgrounds are more likely to own their homes.*
- *People from Black backgrounds are more likely to live in social rented housing.*

Education

- *Girls continue to achieve better educational outcomes at GCSE than boys.*
- *Black, Asian and Minority Ethnic pupils achieved better GCSE outcomes than White British pupils.*
- *Pupils from Gypsy, Roma and traveller communities had the poorest educational outcomes at GCSE level.*

Transport

- *Those from ethnic minorities are more likely to be bus users.*
- *People who are Lesbian, Gay, Bisexual or another minority sexual orientation were less likely to report feeling safe at home, in their local area and travelling.*

Disability

- *Disabled people are more likely to be in income poverty, unemployed, and materially deprived.*
- *Disabled people whose condition limits them a lot were among the most likely to report their financial situation negatively impacting their mental and physical health.*
- *Disabled people are more likely to report feeling lonely and less likely to feel safe at home, in their local area and travelling, and are more likely to experience domestic abuse.*

Ethnicity

- *There continues to be notable ethnicity and disability pay gaps.*
- *Despite narrowing, there is still an employment rate gap for those from ethnic minorities.*

Gender

- *Material deprivation levels between women and men are not significantly different.*
- *Women were less likely to report feeling safe at home, in their local area or whilst travelling than men.*

LGBTQ+ Communities

- *Health outcomes vary, but straight people were slightly less likely to report bad or very bad health.*
- *People whose gender identity differs from their sex registered at birth were more likely to report bad or very bad health.*

Religion

- *People who identify as Hindu or as having no religion were more likely to be employed than people from other religious groups.*
- *People who identify as Christians are most likely to own their homes, while Muslims are most likely to live in rented housing and overcrowded households.*

Impacts of Key Decisions

The Draft Budget brings together decisions to invest, protect, reprioritise and reduce spending across government. Their impacts cannot always be understood in isolation. Decisions in areas such as housing, health, childcare, transport and education can affect the same people and communities and can contribute to several different outcomes.

The sections below set out some of the most significant impacts of those decisions, recognising both the positive effects of new investment and the pressures and residual impacts that remain.

Prioritising health, care and prevention

Health and Care receives the largest additional resource allocation in the Draft Budget. The government is providing an additional £500m for the NHS in 2027–28 and £700m in 2028–29, alongside £2bn of capital investment over three years in health facilities and programmes. This reflects the scale of pressure on NHS services and the priority the government places on reducing waiting times and improving access to care.

There are strong equality reasons for prioritising health. Evidence shows that health outcomes vary across the population. The proportion of people reporting very good health declines with age. Women live longer than men but spend less time in good health, while the evidence also identifies differences associated with disability, ethnicity and sexual orientation.

This means that strengthening health services has the potential to benefit the whole population, while being particularly important to people who experience poorer health or rely more heavily on public services.

We have also listened directly to women's organisations. In engagement ahead of this Budget, the Wales Women's Budget Group highlighted cost-of-living pressures, NHS waiting lists and women's health as priorities, and emphasised the importance of considering the cumulative impact of Budget decisions on women.

This illustrates why our assessment does not treat gender as a standalone issue. A woman may experience the Budget as a parent using childcare, an NHS or social care worker, a carer, a public transport user and through her own household finances at the same time. Understanding those connections is fundamental to assessing the Budget fairly.

The evidence considered for this Budget also shows that NHS investment alone cannot deliver better health outcomes. The Welsh Spending Review found that widening inequalities and increasing complexity of need are creating unsustainable pressures on NHS services and Budgets. Health and social care already accounted for 55% of Welsh Government resource spending in 2026–27, and a 'do nothing' approach to prevention is not sustainable.

This longer-term challenge is also reflected in independent analysis from the Office for Budget Responsibility (OBR), which identifies demographic change and increasing demands on health and other public services as significant pressures on public spending over the longer term. That evidence has influenced how we have looked across the Budget. Investment in

housing, childcare, education, culture and sport can all contribute to health and wellbeing, while interventions that prevent homelessness, support healthier living or enable people to remain independent can help reduce future pressure on more intensive services.

There is nevertheless an important tension. Some reductions remain in public health and preventative activity. The benefits of additional NHS investment therefore need to be considered alongside the risk that reducing some forms of early intervention could increase demand elsewhere. The Draft Budget strengthens the NHS significantly, but our assessment recognises that sustainable health services will also depend on prevention and action across government.

Supporting local government and the services people rely on

Local authorities deliver many of the services people experience most directly, including education, social care, homelessness services and support within communities. They enter this Budget facing significant financial pressures from pay and price inflation, growing demand for services and the cumulative effect of pressures across a range of specific grants and programmes.

Against the backdrop of real terms reductions in the Welsh Government's funding, we have prioritised local government and provided an above-inflation increase in 2027–28, alongside a funding floor to provide additional protection to authorities that would otherwise receive the lowest increases. This provides important support, but it does not remove the need for councils to manage significant pressures across their services.

These pressures are reflected in wider evidence from the Chartered Institute of Public Finance and Accountability (CIPFA), which identifies rising demand for statutory services, particularly social care, homelessness and children's services, as important drivers of financial pressure on local government.

There are also pressures within individual services which are important to the overall impact. Evidence from the housing and homelessness sector illustrates this. The 2026 Home Matters report found that if Housing Support Grant and Homelessness Prevention Grant funding were held cash-flat, 70% of providers responding expected to reduce service capacity. This demonstrates the potential effect of financial pressures on these services and the organisations delivering them.

The equality impacts are significant. The Wales Women's Budget Group has highlighted women's greater reliance on public services and their significant representation within the health and social care workforce. Pressures on social care therefore have the potential to affect women both as users of services and as workers. Older and disabled people can be particularly affected by pressures on social care and community support, while children and families depend on locally delivered education and preventative services.

We also recognise that pressures on local government can have consequences for prevention. Constraints on available funding mean that implementation of some new measures, including aspects of homelessness, social housing allocation and building safety reform, will take longer than originally intended. This risks delaying some of the preventative benefits and potential future savings those reforms are intended to deliver.

The additional local government funding therefore provides meaningful mitigation in a very difficult financial context, but it should not be seen as removing the pressures facing councils.

Going further would require additional funding to be taken from other areas of the Budget, with potentially greater negative impacts on the people and services that rely on them. In this context, we consider the funding provided strikes the best balance we can achieve within the resources available.

Investing in childcare for children, families and childcare

Children, babies and young people have been an important consideration throughout the Budget.

Evidence shows that children are the population group most likely to be in relative income poverty. Children living in workless households and children living in families where someone is disabled face an even greater risk.

This matters because financial pressures on families interact with other outcomes. Decisions about childcare, education, housing, transport, food and emergency financial support can all affect the same child or household.

The government has therefore prioritised consolidating funding for existing provision and providing a clear trajectory of funding for the further expansion of our childcare offer. In addition to baselining full year costs of expansion announced at the Second Supplementary Budget, the Draft Budget provides a further £75m resource funding in 2027–28 and £186m resource in 2028–29 for the government's childcare policy. We will also provide £120m of capital investment over three years in childcare and early years, to improve facilities and capacity.

This has the potential to deliver several positive impacts. Affordable and accessible childcare can reduce costs for families, support children's development and enable parents to take up work, training or additional working hours. Welsh Government analysis of the cost-of-living measures within the Budget similarly identifies childcare as supporting household finances, parental employment and action to tackle child poverty.

The childcare decision is also important when considering the Budget's impact on women. Evidence shows that women continue to have a lower employment rate than men and that gender differences remain in pay and employment outcomes.

External evidence also reinforces this connection. The Wales Women's Budget Group and Women's Equality Network Wales have identified the lack of affordable and accessible childcare as a key barrier to gender equality, particularly for mothers, and have highlighted women's disproportionate share of caring responsibilities.

There are also difficult choices for lower-income families. Reductions in emergency financial assistance and a move towards more targeted support in some areas remain part of the package. These need to be considered alongside childcare and other positive interventions rather than assumed to be offset by them.

Funding education, skills and opportunities for young people

The majority of funding for schools goes through local authorities. Despite the challenging fiscal context, we are providing an above inflation increase of 2.8% to local government, helping local authorities maintain and improve education services that support schools, learners and teachers.

The Draft Budget also protects the funding which goes from the Education department directly to schools and local authorities. We are providing £418.3m resource funding directly to schools and local authorities each year to raise attainment, improve literacy and numeracy outcomes and drive continuous school improvement. In addition, £1.2bn of capital investment over three years will improve the education estate, from childcare to tertiary education, with the goal of raising standards through providing the best conditions for learning. Our evidence demonstrates why both educational investment and the distribution of that investment matter.

Evidence identifies differences in educational attainment between groups. Girls continue to achieve better outcomes than boys at GCSE. Outcomes also vary between ethnic groups, while the evidence highlights a different concern later in the transition to adulthood. Provisional 2024 data showed females aged 16–24 were more likely than males to be not in employment, education or training.

Socio-economic disadvantage is another important factor in educational outcomes. That means investment in schools cannot be considered separately from household income, food, housing and support available to families.

The potential impacts on students, young people and lower-income households of changes to different education funding programmes has been considered as part of this Budget process. In light of that consideration, Ministers have decided to protect funding for student maintenance support and for Medr.

There remain pressures affecting some education, youth and skills programmes. The balance is therefore nuanced, the final package offers substantially more protection for children and young people's opportunities than some other options would, while not removing every impact.

Housing, homelessness and independent living

Housing demonstrates particularly clearly how a spending decision in one part of government can affect outcomes elsewhere.

Evidence developed through the Welsh Spending Review shows that good-quality and secure housing can contribute to health, independence and wider wellbeing. The Housing Support Grant, homelessness prevention, housing retrofit, social housing and building safety can also play a preventative role by reducing homelessness, unsafe housing, delayed hospital discharge and future health and social care pressures.

That evidence has informed the decisions made in this Budget. We are protecting the Housing Support Grant which is particularly important for people who are already vulnerable to poverty, insecure housing or homelessness. However, we also recognised the need to focus on investment that would prevent more people from reaching the point where these services are needed. Therefore, our capital investment prioritises housing to

support the delivery of more affordable homes and make substantial progress towards delivering 20,000 additional social homes. The multi-year investment provides greater certainty for the housing sector, supporting longer-term planning and delivery. Alongside this, investment in housing retrofit will improve the quality and energy efficiency of existing homes and contribute to our wider decarbonisation objectives.

Our assessment is therefore not simply that greater housing investment produces a positive impact. The overall direction is strongly positive, but the distribution of those benefits and the effect of remaining reductions also matter, particularly for older people, disabled people and people already at risk of homelessness.

Recognising the importance of culture, sport and wellbeing

The impact of spending on culture and sport extends beyond access to individual activities. Evidence considered across the Budget identifies culture and sport as part of a wider preventative landscape. Participation can support physical and mental wellbeing, social connection and confidence. School swimming, arts and wellbeing activity and local cultural participation are among the activities identified as contributing to prevention and community wellbeing. We have considered those wider benefits in reaching Budget decisions.

The Draft Budget provides additional resource funding for culture as well as funding for the continued roll-out of school swimming. The Budget provides an additional £2m for Culture and Sport in 2027–28, increasing to £4m in 2028–29, and an additional £1.7m for swimming in 2027–28, increasing to £3m the following year.

This is complemented by significant capital investment. which will support investment in museums, archives, libraries, arts venues, historic sites and community cultural facilities, alongside sports facilities and assets supported through Sport Wales. Capital grants will enable organisations to improve existing buildings, develop new facilities and create more welcoming and accessible spaces for audiences, participants and communities. The programme will also support the development of Celf, work towards a National Archive and selected Cadw visitor and community projects.

Taken together, these decisions have positive implications for children and young people, through access to swimming, sport and cultural opportunities, and for physical and mental wellbeing more broadly. They also support cultural and sporting organisations to further help the communities they serve.

There is an important equality dimension. Cost, accessibility and the availability of facilities can determine who is able to participate in cultural and sporting opportunities. Investment in more accessible facilities has the potential to widen participation for people who may otherwise experience barriers to taking part. This can be particularly important for lower-income households and people who experience other barriers to participation.

The picture is not wholly positive. To allow funding to be reprioritised, some savings have been made in parts of the culture and events landscape and in some activity supporting participation and equality. The overall package provides substantial resource and capital investment in culture and sport, but we recognise that this does not remove the impact of every individual reduction.

Employment, skills and economic opportunity

The government's ambition to grow Wales's economy also has an important equality dimension. Evidence shows that employment outcomes are not equal across the population. Women and disabled people have lower employment rates, while differences also exist between ethnic groups.

These outcomes are connected with other factors considered elsewhere in this assessment. Affordable childcare can affect parents' ability to work. Transport determines whether people can reach employment and training. Skills affect progression and earnings. Disability and caring responsibilities can create additional barriers.

We are committing more than £20m resource funding to establish the new business-led National Development Agency, alongside investment in education and childcare. The Budget strategy expressly seeks to redirect investment towards these new priorities.

This sits within a wider challenge around productivity and the sustainability of public spending. The IFS has highlighted the importance of productivity in enabling governments to deliver more or better public services from a given level of spending, while cautioning that achieving sustained improvements is challenging when compared with historical performance.

Nevertheless, some reductions remain within employability, skills and business support programmes, which will potentially have a disproportionate short-term impact on SMEs which make up a significant proportion of the Welsh economy.

The scale and complexity of the challenge of young people not in education, employment or training requires a broader approach than employability support alone. To mitigate the potential impacts we will ensure a level of support for those facing the greatest barriers to work. We will also be rebalancing our focus onto measures that strengthen the demand side of the labour market, and which create sustainable employment opportunities. We will be testing new approaches which will create jobs and better connect people to those new jobs. Simply doing more of the same will not deliver the change that young people deserve or provide the life chances, security and dignity that come with purposeful and rewarding work.

Assessing the overall impact therefore requires us to look not only at the total allocation but at how new investment is targeted. This is one of the areas where the final effect will depend particularly heavily on delivery. An improved settlement provides the opportunity to mitigate pressures, but benefits will depend on whether support reaches people and businesses facing the greatest barriers.

Cross cutting impacts

Tackling poverty and helping with the cost-of-living

The impact of the Budget on people experiencing poverty cuts across almost every portfolio.

The evidence shows that children are particularly exposed to relative income poverty, with risks increasing further in workless households and families where someone is disabled.

Cost-of-living evidence considered for the Budget identifies childcare, free school meals, advice services, the Discretionary Assistance Fund, Cynnal and the Council Tax Reduction Scheme among the interventions that can support household finances.

There are important positive decisions within the package. The childcare expansion can reduce costs for families and support employment. Protecting student support avoids additional pressure on some households. Investment in housing, retrofit to reduce energy bills, and public services also provides wider support.

But there are difficult choices too. Reductions to the Discretionary Assistance Fund and changes to other forms of support mean that some households experiencing acute financial hardship may receive less support than under existing arrangements.

Investment that helps families over the longer term does not necessarily remove the immediate impact of reducing crisis support for a household that cannot afford essentials today. The Budget needs to be transparent about both.

Rural communities, connectivity and the Welsh language

Where people live can significantly affect how Budget decisions are experienced. Access to jobs, education, health services and other opportunities can depend on transport and digital connectivity. These issues can be particularly pertinent in rural communities, where distances are greater and alternative services may be more limited.

The government has made choices to support connectivity, including providing full year funding for our new North-South coach service. Additional funding for Rural Resilience and Sustainability also provides greater capacity to support rural, agricultural and environmental priorities.

However, rural impacts need to be considered across portfolios. Changes in transport, business support, housing, culture and public services can combine within the same community. The same is true for the Welsh language, where the sustainability of Welsh-speaking communities can be influenced by access to housing, employment, education, culture and local services as well as spending directly targeted at the language.

Our assessment therefore treats rurality and the Welsh language as cross-government considerations rather than impacts belonging to one portfolio alone.

Climate, nature and future generations

Climate and nature are also cross-government considerations. The choices made in this Budget can affect emissions, biodiversity, the resilience of communities and Wales's ability to respond to longer-term environmental change. Housing,

transport, infrastructure, agriculture and economic development all have a role.

The capital budget includes targeted investment in decarbonisation, circular economy and nature recovery, alongside £10m of new investment additional in electric-vehicle charging infrastructure each year for the next three years. Investment in housing retrofit also has the potential to improve homes while reducing the cost-of-living and emissions.

We are also establishing a Climate Resilience Fund to protect and prioritise the funding needed to strengthen Wales's resilience to the effects of climate change, redirecting funding into frontline delivery on climate and nature-based solutions. This will provide a clearer focus for investment in resilience and help ensure that resources are directed towards the areas where action is needed to prepare for and respond to a changing climate.

These are positive long-term investments. But there are also reductions affecting some environmental, biodiversity and climate-related programmes. The stronger overall settlement for Rural Resilience and Sustainability provides greater capacity to manage some of those pressures, without allowing us to conclude at this stage that every programme-level impact has been removed.

This is why our assessment considers both the direct environmental effects of spending decisions and their cumulative impact over time, consistent with the longer-term approach required by the Well-being of Future Generations framework.

A balanced assessment

Taken together, the Draft Budget makes substantial investments in public services and the government's priorities. Health, local government, childcare, education, housing, culture and longer-term capital investment all offer important opportunities to improve outcomes. The evidence also shows why those benefits will not be distributed evenly and why additional investment in one area cannot simply be set against a reduction somewhere else.

For a family struggling with childcare costs, the expansion of funded childcare could be significant. For an older disabled person relying on adaptations to remain independent, a reduction in preventative housing support may matter more. A young person may benefit from protected student support while experiencing changes to transport or skills provision. A woman may benefit from childcare expansion while also being affected as a worker, carer or user of health and social care services.

Those different experiences are not contradictions. They are precisely why an assessment of the Budget needs to look across decisions and across government.

Our assessment is therefore that the changes made as the Budget has developed, together with new investment in key priorities, have improved the overall impact of the package. But important residual impacts remain, as should be expected within a settlement to the Welsh Government of real terms funding reductions. Being transparent about those impacts is an important part of evidence-based budget making. They will continue to inform detailed policy decisions and implementation as the Budget moves forward.

Spending Decisions with Identified Negative or Disproportionate Impacts

The difficult financial context means that it has not been possible to protect every area of spending. While we have reconsidered a number of proposed reductions and provided additional investment in priority areas, some decisions in the Draft Budget will have negative impacts or may affect some groups more than others.

We have considered these impacts alongside the wider evidence and the benefits of the Budget package. Additional investment elsewhere can help to reduce some pressures, but we have not assumed that it removes the impact of an individual reduction where the people affected, the nature of the support or the timing of the impact are different.

The following are some of the areas where we have identified particular risks.

Discretionary Assistance Fund

We know that households with children, single person households, disabled people and households whose main income earner is from an ethnic minority community are disproportionately affected by poverty and are therefore more likely to find themselves in financial crisis with no other means of support.

The wider Budget does contain measures intended to begin our rewiring of investment towards preventative measures. There are investments which will improve household financial resilience, including expanded childcare, free school meals, Cynnal, the Single Advice Fund and the Council Tax Reduction Scheme.

However, the Draft Budget reduces funding for the Discretionary Assistance Fund by £5m and removes its contingency funding. The reduction means less funding will be available for emergency assistance and reduces the flexibility available to respond if demand increases during the year.

We recognise that this decision could have a disproportionate impact on people already experiencing financial hardship. This is particularly important when considered alongside the evidence, which shows that children and families including a disabled person are among those at greater risk of relative income poverty.

Employability support

Changes to employability provision also have the potential to affect some groups disproportionately.

People who rely on employability support include young people who are not in education, employment or training, people who are economically inactive or long-term unemployed, disabled people, carers, people facing redundancy and people living on low incomes. Changes to the availability or nature of this support could therefore affect employment opportunities, skills, household income and financial security, particularly for people who already face greater barriers to entering or remaining in work.

This is particularly relevant because employment disadvantage already falls unevenly. The equality evidence considered as part

of the Budget shows existing differences in employment outcomes associated with disability, sex and ethnicity.

The government is investing in its economic priorities and wider support for enterprise, alongside investment in childcare and education that can help people participate in work. However, new economic investment will not automatically replace the individual support provided by existing employability programmes. There is therefore a risk of reduced or changing support during the transition to new arrangements, particularly for people who already face barriers to entering or remaining in employment. How future provision is designed and targeted will be important in mitigating that impact.

Climate, nature and environmental programmes

Some of the choices required by the Draft Budget also create risks for progress on climate change, nature and biodiversity. There are reductions within environmental and climate-related activity. There is therefore a risk that progress in some areas could be slowed, even while the overall Budget makes substantial investments in the transition to a lower-carbon and more resilient Wales.

The evidence highlights the long-term economic as well as environmental consequences of climate change. Analysis drawing on Climate Change Committee evidence points to the costs of inaction and the importance of making effective choices about where public intervention is needed to support decarbonisation.

This needs to be considered against a particularly difficult capital position. The government nevertheless makes positive investments in the Draft Budget. Almost £300m will be invested over three years to contribute to nature recover & resilience, decarbonisation and circular economy. £30m has also been allocated for the Strategic National Programme on Electric Vehicles across three years. Housing capital will also support decarbonisation through retrofit and building new social homes to high energy efficiency standards.

Case Studies

Housing - Providing certainty and investing for the long term

Decision

We have prioritised housing as one of the major investments in this Budget, recognising both the need to increase housing supply and the value of preventing homelessness. The Draft Budget provides an additional £228m of capital over three years towards delivering 20,000 new social homes and decarbonising the existing housing stock. Housing is also prioritised in the allocations of Financial Transactions Capital in the later years of the spending period, creating an increasing investment trajectory and greater certainty for the sector.

Alongside this capital investment, we are allocating £15m of resource funding in 2028–29 for homelessness, specifically to help facilitate the emphasis on a more preventative approach. This recognises the importance of intervening earlier to help prevent homelessness and reduce the need for crisis intervention.

This approach is deliberately multi-year. Housing programmes require sustained pipelines of land, planning, construction capacity and finance. Providing a clearer trajectory over three years can help delivery partners plan ahead and give the sector greater confidence to invest.

What the evidence told us

The Welsh Spending Review identified housing as a critical enabler of good health and social care outcomes. It found that poor housing and homelessness can increase health risks, hinder independent living and increase demand for health and social care. Conversely, secure and suitable housing can support independence, prevention and wider wellbeing.

The evidence also highlights the importance of early intervention. Preventing homelessness can avoid both the significant impact on individuals and families and the need for more intensive and costly crisis intervention later. Secure housing can reduce demand across public services, including emergency healthcare and social care, while housing stability can support children's engagement with education. Stable accommodation can also support people leaving prison or involved with the justice system.

This evidence has informed our approach to homelessness funding, including protecting preventative support through the Housing Support Grant and allocating additional £15m in 2028–29 to help facilitate the emphasis on a more preventative approach.

External evidence reinforces the importance of housing costs for lower-income households. The Resolution Foundation found that households in the bottom half of the income distribution spend around 22% of their budgets on housing, compared with 13% for households in the top half.

Why we invested

The evidence supported prioritising housing despite a very constrained settlement. The case for investment is not only about providing more homes, but also about intervening earlier to prevent homelessness. The additional £15m resource funding

for homelessness in 2028–29 will support the move towards this preventative approach, recognising that earlier intervention can improve outcomes for people while reducing the need for more costly crisis responses. Housing investment and preventative support can also contribute to health, independent living, decarbonisation, employment and community stability.

With a limited amount of capital funding available overall to the Welsh Government, it is not possible to meet every ambition with General Capital. Financial Transactions Capital provides another mechanism for supporting investment where repayable finance is appropriate, complementing conventional capital investment and helping us make the best use of all the resources available.

Expected positive impacts

- People at risk of homelessness - preventative support can help people maintain stable accommodation and reduce the need for crisis intervention.
- People needing affordable homes - increasing the supply of social and affordable housing.
- Older and disabled people - suitable housing can support independence and reduce reliance on care.
- Health and social care - preventing homelessness and improving housing can reduce demand for crisis services, support prevention and contribute to timely hospital discharge.
- Children and families – greater housing stability can support wellbeing and engagement with education.
- Households and the environment - retrofit can improve energy efficiency while contributing to decarbonisation.
- Construction and local economies - a clearer multi-year investment pipeline provides greater certainty for delivery partners, businesses and supply chains.

Childcare - A step change in investment

Decision

Childcare represents one of the largest new commitments in the Draft Budget and a significant reprioritisation towards the new government's Programme for Government. It required choices to be made in other areas of the Budget to provide the funding to prioritise this programme.

The Draft Budget provides a further £75m resource in 2027–28 and £186m resource in 2028–29 to continue the expansion of the government's childcare policy.

This builds on investment already made in the second supplementary budget and is intended both to sustain existing provision and enable further expansion. The scale and pace of delivery will need to take account of participation, local authority readiness, provider capacity and the childcare workforce.

What the evidence told us

The Bevan Foundation identifies high-quality, affordable childcare as an important tool for tackling poverty and inequality. It can support children's outcomes while helping parents increase their household income through employment. Its research nevertheless identifies continuing challenges for families in Wales in finding childcare that is affordable and accessible.

There is also an important gender dimension. Evidence shows continuing differences between women and men in employment and earnings. The Wales Women's Budget Group and Women's Equality Network Wales have identified the availability and affordability of childcare as a key barrier to gender equality, reflecting the disproportionate share of caring responsibilities undertaken by women.

Research by the Resolution Foundation also identifies childcare as one of the barriers affecting parents' ability to increase employment and earnings. Its analysis suggests that tackling child poverty through employment requires action across childcare, transport and skills rather than any single intervention in isolation.

Why we invested

Childcare illustrates the government's decision to redirect resources towards a new priority, rather than simply carry forward inherited patterns of spending.

The scale of the investment reflects the ambition for a step change in childcare provision. It recognises that childcare can contribute simultaneously to outcomes for children, household finances, employment and the wider economy.

Expected positive impacts

- Children and babies - greater access to early learning, development and social opportunities.
- Families experiencing cost pressures - reduced childcare costs can increase disposable household income.
- Women - improved childcare availability can reduce one of the barriers to employment and increased working hours.
- Parents and carers - greater flexibility to work, train or progress in employment.
- The economy - increased labour market participation can support workforce availability and economic activity.
- Childcare providers and workers - expanded provision creates opportunities but also increases the importance of maintaining sufficient workforce and provider capacity.

Transforming public services

Decision

The Draft Budget establishes a £25m resource transformation fund, including £5m to support transformation within the Welsh Government civil service and £20m for wider public service transformation.

This is a different type of investment from many of the allocations described elsewhere in this statement. Its purpose is to invest now in changes that can improve productivity, modernise services and reduce spending pressures in future years.

What the evidence told us

The evidence suggests that responding to financial pressure through successive rounds of short-term savings will not, on its own, put public services on a sustainable footing. Improving productivity requires organisations to consider how services are designed and delivered, including opportunities to work across organisational boundaries, reduce duplication and make better use of data and technology.

CIPFA's work on public sector transformation highlights the opportunities from digital transformation, automation and redesigned operating models, particularly where organisations are under pressure to increase productivity and efficiency. It also stresses the importance of clear business cases, effective management of risk and demonstrating that the expected benefits of transformation are actually delivered.

CIPFA's work on local public services similarly emphasises collaboration, common strategies and high-quality financial and operational data as ways of delivering services more economically, efficiently and effectively.

The Office for Budget Responsibility also cautions that the economic benefits of public investment can take time to materialise and are inherently uncertain. That reinforces the importance of measuring whether transformation investment is producing genuine improvements in productivity and outcomes.

Why we invested

Our ambition is to move resources towards frontline delivery and improve outcomes without assuming that every financial pressure must be met through permanent increases in spending.

Transformation often requires investment before savings or improvements can be realised. A dedicated fund gives public bodies scope to develop and implement changes rather than expecting transformation to be financed entirely from already pressured services.

The fund will therefore need to demonstrate measurable improvements in productivity, service quality or outcomes. Transformation should not simply shift costs elsewhere or make services harder to access.

Expected positive impacts

- People who use public services - redesigned services have the potential to be simpler, more accessible and better focused on people's needs.
- Frontline services - reducing unnecessary administration and duplication can create greater scope to protect delivery.
- Public sector workforce - better processes and technology can reduce inefficient activity and enable people to focus on higher-value work.
- Taxpayers -productivity improvements can help public money achieve more and reduce future spending pressures.
- Future budgets - successful transformation could create greater fiscal resilience and resources for priorities.

Next Steps

This Budget Impact Statement reflects our assessment at the point the Draft Budget is published. It is not the end of the assessment process – just as the Draft Budget is not the end of the work to improve the way money is spent in Wales. The evidence base and our understanding of the potential impacts will continue to develop as the Draft Budget is scrutinised and as further evidence becomes available.

Publication of the Draft Budget begins an important period of Senedd scrutiny. Committees will examine spending plans across government and take evidence from stakeholders, organisations and communities across Wales. We will consider the evidence and recommendations arising from that scrutiny as we review the Budget package ahead of the Final Budget.

As part of that work, we will continue to examine the cumulative effects of spending decisions across government. We will give particular attention to areas where our assessment has identified pressures or where the longer-term consequences of decisions need further consideration. Our areas of focus will include poverty and the cost-of-living, prevention, climate change and nature, and the impact of our approach to productivity and transformation. We will also continue to consider how decisions affect particular groups, including children and young people, women, older and disabled people, and communities experiencing socio-economic disadvantage.

We will use the period between Draft and Final Budget to further develop the evidence underpinning this assessment and test the conclusions set out in this statement. This will include considering whether changes to spending plans create new impacts, reduce those already identified or require further mitigation.

This assessment will form part of the evidence considered by Ministers when taking final budgetary decisions. It will sit alongside the financial, strategic, legal and delivery considerations that inform those decisions. Where the evidence indicates a significant or disproportionate impact, Ministers will be able to consider whether further action is appropriate before the Final Budget is agreed. This reflects the wider approach already established for the 2027–28 Budget, in which impact considerations sit alongside the government's statutory obligations and wider Budget decisions.

We also want to increase transparency about the cumulative assessment itself. The cumulative impacts matrix developed for this Budget is a new and evolving tool. We will continue to refine it over the coming months so that people can see more clearly how impacts across different areas of spending have been considered together.

We will publish an updated Budget Impact Statement alongside the Final Budget. It will explain how our assessment has developed, reflect changes made since the Draft Budget and set out our latest understanding of the benefits, trade-offs and residual impacts of the Budget as a whole.