# The cumulative impact of tax and welfare reforms

## Executive summary

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Equality and Human Rights Commission

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# Introduction

In 2017, the Equality and Human Rights Commission ('the Commission') commissioned Aubergine Analysis and Landman Economics to work with the National Institute of Economic and Social Research (NIESR) to carry out a cumulative impact assessment (CIA) of the distributional impacts of tax and spending decisions on people sharing different protected characteristics. The assessment sought to answer: how much per year are individuals and households expected to lose as a result of tax and welfare reforms? How many households gain and lose from the reforms in total, and by how much? How many adults and children will fall below an adequate standard of living due to changes to taxes and social security? This report considers all these questions in detail.

This report develops our earlier work in the same area (EHRC, 2012; 2015) and by NIESR and Landman Economics on cumulative impact assessment (Reed and Portes, 2014). Our 2015 report, 'Future fair financial decision-making', made a number of recommendations for the UK Government's approach to future Spending Reviews (and tax and spending decisions more broadly) in the context of the Public Sector Equality Duty (PSED). A key focus of those recommendations was that HM Treasury (HMT) should extend its analysis of the aggregate distributional impacts of tax and spending decisions to analyse the aggregate impact of decisions on people sharing different protected characteristics – that is, carry out a CIA (EHRC, 2015). At the time of writing (February 2018), HMT had not acted on this recommendation.

The project forms part of our detailed programme of work on welfare reform, including a comprehensive literature review by NIESR on recent welfare reforms and welfare-to-work programmes (Hudson-Sharp *et al*., 2018).

# Methodology

This report provides in as much detail as possible (given data availability) an analysis of all policy changes made between May 2010 and January 2018, which will have been implemented by the financial year 2021–22 (the end of the current Parliament, if it runs to a full term). We model changes announced by the 2010–15 Conservative–Liberal Democrat Government, the 2015–17 Conservative majority Government, and the Conservative minority administration elected in June 2017, whether or not they had been implemented by January 2018. The research uses the tax-transfer model (TTM), a microsimulation model developed by the Institute for Public Policy Research, Landman Economics and the Resolution Foundation. The TTM uses data from two UK datasets, the Family Resources Survey (FRS) and the Living Costs and Food Survey (LCF).

We model reforms to the following parts of the tax and welfare systems:

- Income tax
- National Insurance Contributions (NICs)
- Indirect taxes (VAT and excise duties)
- Means-tested and non-means-tested social security benefits
- Tax credits
- Universal Credit (UC)
- National Living Wage (NLW) (this is not formally part of the tax–benefit system, but is modelled here).

While most results in this summary are for Great Britain as a whole, the analysis in the full report produces separate results for England, Scotland and Wales.

We produce results both at household level (as other analyses, such as that produced by HMT, usually do) and individual level (which many other analyses do not). The latter enables us, in particular, to focus in more detail on gendered impacts, although, importantly, results are in some cases sensitive to specific assumptions about how incomes are shared within households. We also examine the impact on the right to an adequate standard of living, as measured by relative poverty and the Minimum Income Standard measure published by the Joseph Rowntree Foundation (JRF) (2017).

# Key findings

Our analysis shows that, overall, changes to taxes, benefits, tax credits and UC announced since 2010 are regressive, however measured – that is, the largest impacts are felt by those with lower incomes. Those in the bottom two deciles will lose, on average, approximately 10% of net income, with much smaller losses for those higher up the income distribution.

Moreover, the analysis shows that the changes will have a disproportionately negative impact on several protected groups, including disabled people, certain ethnic minorities, and women:

- Negative impacts are particularly large for households with more disabled members, and more severely disabled individuals, as well as for lone parents on low incomes.
- For some family types, these losses represent an extremely large percentage of income. For example, for households with at least one disabled adult and a disabled child, average annual cash losses are just over £6,500 – over 13% of average net income.
- The impact of changes to direct taxes and benefits is to reduce the income of Bangladeshi households by around £4,400 per year on average.
- At an individual level, women lose on average considerably more from changes to direct taxes and benefits than men. Women lose about £400 per year on average, and men only £30, although these figures conceal very substantial variation within both genders.

Households with at least one disabled adult and a disabled child will

lose over

£6,500 a year

over **13%** of their annual income

- Lone parents in the bottom quintile (bottom fifth) of the household income distribution lose around 25% of their net income, or one pound in every four, on average.
- On average, disabled lone parents with at least one disabled child fare even worse, losing almost three out of every 10 pounds of their net income. In cash terms, their average losses are almost £10,000 per year.
- Around one and a half million more children are forecast to be living in households below the relative poverty line as a result of the reforms.

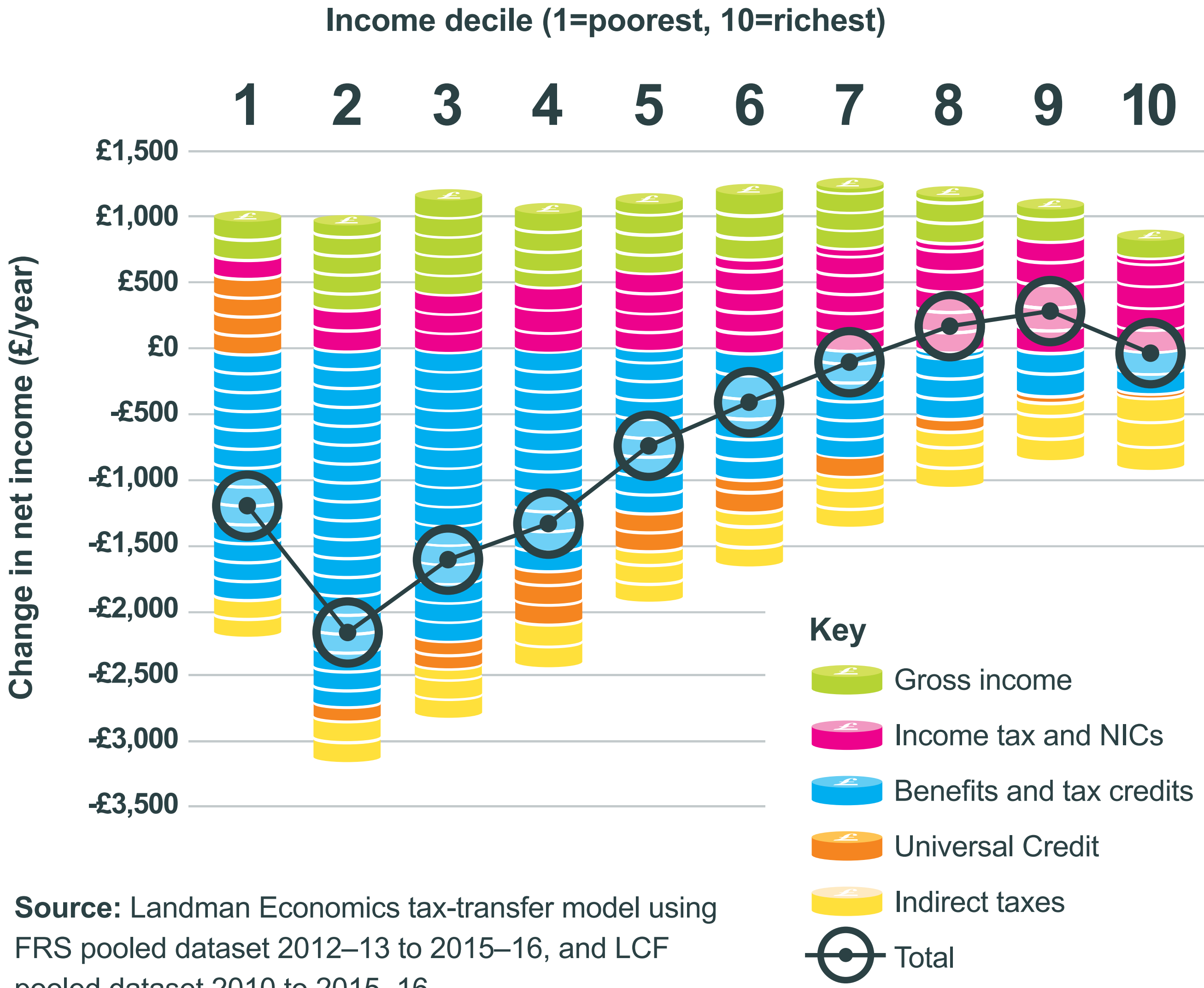
These negative impacts are largely driven by changes to the benefit system, in particular the freeze in working-age benefit rates, changes to disability benefits and reductions in UC rates. The changes are also likely to lead to significant increases in the number of children (in particular) below a minimum acceptable standard of living.

Our review of progress since our 2015 report also suggests that considerable work still needs to be done to ensure that equality considerations are fully incorporated into decision-making by HMT, and more broadly across the UK Government.

# Distributional effects of tax and welfare changes by household income decile

We first examine the impacts of changes to taxes and benefits by household income. Figure 1 shows the impact of reforms by household income decile in cash terms (changes in annual disposable income).

**Figure 1** **Cash impact of tax and welfare reforms by household net income decile, 2021–22 tax year: Great Britain**




**Source:** Landman Economics tax-transfer model using FRS pooled dataset 2012–13 to 2015–16, and LCF pooled dataset 2010 to 2015–16.

Overall, the second decile – those households just above the bottom of the distribution – lose most on average from the reforms. Cash losses are smaller higher up the distribution. The eighth and ninth decile gain on average from the reforms, while the top decile sees very small average losses (approximately £20 per year). The losses therefore fall almost entirely on the bottom six deciles (lower and middle income households). Cash losses for the bottom decile are smaller than for the second decile mainly due to the impact of UC, which is projected to have a higher take-up rate than the tax credits and benefits it replaces, in turn leading to gains for some of the poorest households.

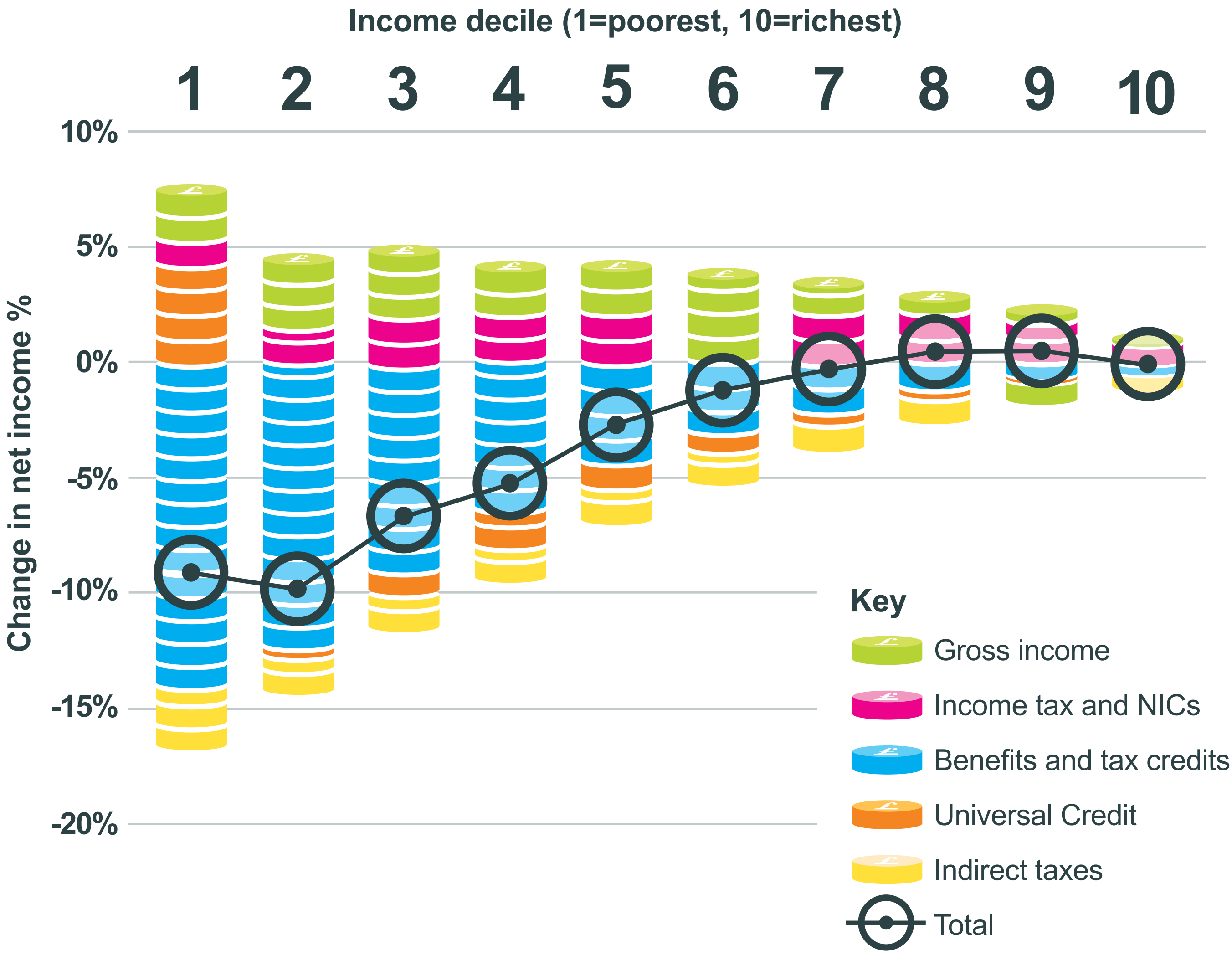
The overall pattern of average gains and losses by type of reform is:

- Substantial losses on average from cuts to benefits and tax credits
- Further losses from the introduction of UC to replace tax credits and means-tested benefits (except for the bottom decile)
- Gains from changes to income tax and NICs (largely due to the real-term increase in the tax-free personal allowance since 2010)
- Gains from the introduction of the NLW
- Losses from changes to indirect taxes (largely due to the increase in VAT to 20% in 2011).

Figure 2 shows changes in net income by household decile as a percentage of average net income for each decile, rather than in cash terms. Overall, the reforms are regressive across most of the income distribution, with the bottom two deciles losing 9–10% of net income on average, and relatively small impacts at the top of the income distribution. The distributional results by household income decile for Scotland and Wales show somewhat less negative overall impacts in the bottom half of the income distribution than the analysis for England.

Our analysis differs from similar Treasury analyses (see, for example, HM Treasury, 2017), for a number of reasons. In particular, we do not include the distributional impacts of benefits-in-kind from public services; we include reforms introduced between 2010–11 and 2014–15, and we exclude some reforms which HMT models (and vice-versa).

**Figure 2** **Percentage impact of tax and welfare reforms by household net income decile, 2021–22 tax year: Great Britain**




**Source:** Landman Economics tax-transfer model using FRS pooled dataset 2012–13 to 2015–16, and LCF pooled dataset 2010 to 2015–16.

## Bangladeshi households

will lose around **£4,400** a year

## Pakistani households

will lose around **£2,700** a year

Lone parents will lose an average of

# £5,250 a year

almost one-fifth of their annual income

# Distributional effects by protected characteristics

Analysis of the impact of reforms to taxes and transfer payments by protected characteristic produces the following key findings:

- Analysis by ethnicity of adults in the household shows that Bangladeshi households have average losses of around £4,400, and Pakistani households have average losses of around £2,700. Chinese households are the only ethnic group to experience average net gains.
- Analysis by disability status of adults and children in each household shows that households with at least one adult defined in the FRS as 'core disabled'[1] and at least one disabled child lose around £6,500 per year on average from the reforms (excluding reforms to indirect taxes). This amount is equivalent to one-seventh of their total net income.
- Breaking down the impact of the reforms by household disability 'score'[2] reveals average losses of around £3,150 per year for households with a score of six or more. In general, households with greater numbers of disabilities lose more on average than households with fewer disabilities.
- Breaking down the results by demographic type reveals that households with children are the largest average losers from the reforms. In particular, lone parents lose an average of £5,250 – almost one-fifth of their total net income. Couples with children lose £3,000 per year on average.
- Households with three or more children see particularly large losses (around £5,600).
- Analysing the results by the average age of adults in the household reveals that the largest losses are for households with adults of average age 35–44, and the smallest for average age 65–74. However, the differences by average age are not as large as for other protected characteristics.

Overall, groups with particularly large losses from the reforms tend to be those who are most reliant on means-tested transfer payments – benefits, tax credits and (where rolled out) UC. Groups who gain tend to be those who are less reliant on means-tested transfers and who benefit from the cuts to income tax (notably the increase in the tax-free personal allowance) and the introduction of the NLW for employees aged 25 and over.

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[1] The FRS uses a nine-way classification of disability that enables a 'core' and a 'wider' group of disabled people to be identified.

[2] The disability 'score' is a measure based on the number of functional disabilities experienced by adults and children in FRS households. Functional disabilities cover difficulties with vision, learning, dexterity and memory (for the full list, see Section 3.4 of our full report).

# Intersectional impacts of reforms

Researchers and policymakers are increasingly interested in the intersectional impact of policies, looking across more than one characteristic (including Equality Act 2010 protected characteristics) at once. An example of intersectional analysis is simultaneous analysis of household disability status and household demographic type. These 'two-way' analyses are very important for looking at multiple disadvantages which households and/or individuals might face due to the combination of two or more sets of protected characteristics.

Our intersectional analysis of distributional impacts shows in particular that:

- Lone parents in the bottom quintile of the household income distribution suffer particularly large average losses from the reforms – equivalent to approximately 25% of their net income, or one pound in every four.
- Lone parents who are FRS core disabled with at least one disabled child fare even worse on average, losing almost three out of every 10 pounds of their net income. In cash terms, their average losses are almost £10,000 per year.
- Couples with children in a similar position (at least one FRS core disabled adult, and at least one disabled child) also experience substantial average losses: slightly under one in every five pounds of net income – an average cash loss of almost £8,000 per year.
- Lone parents with six or more functional disabilities (see note 2) lose over £11,000 on average from the reforms, which is slightly more than 30% of their net income.
- Taken across the whole income distribution, women lose an average of around £400 from the reforms, compared with £30 for men.
- For couples, the assumption about which partner receives UC (when rolled out) is crucial for the pattern of results. If we assume that UC is paid to the partner with the highest weekly earnings in every couple, women's losses average around £3,650 in the bottom decile of the income distribution and £3,850 in decile 2. If we assume a 50/50 split of UC between partners, the equivalent figures are that women lose around £1,450 in decile 1 and £2,100 in decile 2.

- Women aged 35–44 lose over £2,200 per year from the reforms on average, compared with less than £550 for men.
- The pattern of losses for FRS core disabled men and women across the income distribution is similar, with larger losses for men and women in the bottom third (approximately £1,700).
- An intersectional analysis by disability and ethnicity shows that the greatest losers from the reforms are disabled women of ‘Mixed ethnicity’ (with average losses of almost £2,300 per year) and disabled women of ‘Other’ ethnic groups not elsewhere specified in the categorisation (with average losses of £2,350 per year).
- Analysis of the reforms by individual disability ‘score’ and age group shows that average losses from the reforms are greater for disabled adults in the 18–44 age group than for older adults; over-75s with a disability score of 6 or more lose slightly over £600 on average from the reforms, compared with almost £5,400 for under-25s in the same group.

# Distributional impact of specific reforms

We also present distributional results for a range of specific policies, specifically:

- The **two-child limit** on payments of Housing Benefit, tax credits and UC for new claimants and new children of existing claimants from 2017 onwards.
- The transfer of Disability Living Allowance (DLA) claimants to Personal Independence Payment (PIP).
- The **freeze in the rates of most working-age benefits, tax credits and UC for four years from 2016–17 onwards** (that is, the rates of these payments are not being uprated in line with inflation for four years).
- The **removal of the spare room subsidy ('bedroom tax')** – reductions in Housing Benefit for households in social housing deemed to have 'spare' bedrooms.
- **Reductions in the work allowances in UC** – the amounts that UC claimants can earn before their UC starts to be tapered away at 63% for every £1 increase in gross earnings.
- **A package of reforms soon to be introduced in Scotland**, including changes to income tax rates, increased Carer's Allowance and the Best Start Grant for low-income mothers.

Our key findings regarding the impact of these policies are:

- In England and Wales, four of the five policies analysed – the post-2015 uprating freeze on transfer payments; the cuts to work allowances in UC; the two-child limit on Housing Benefit, tax credits and UC; and the removal of the spare room subsidy ('bedroom tax') – have their largest impacts at or near the bottom of the income distribution. Overall, households in England in decile 2 of the income distribution lose around £1,100 per year on average from the reforms. This is equivalent to over 5% of their net income.

- The uprating freeze, the two-child limit, and the cuts to UC work allowances have an especially large impact on Pakistani and Bangladeshi households in England, with Bangladeshi households losing an average of almost £2,150 from the reforms, and Pakistani households losing almost £1,900 on average.
- Households with a disability score of 6 or more in England lose an average of £520 per year from the DLA–PIP reassessment process, and around £1,200 from the five reforms modelled here.
- The cuts to UC work allowances have the largest negative impact for households with children. Lone parents suffer particularly badly from this policy, with average losses of slightly over £500 per year.
- Households in Wales and England with three or more children lose at least £900 per year on average by 2021/22 from the two-child limit on most benefits, tax credits and UC introduced in 2017.
- The impact of the package of Scotland-specific reforms is much more progressive than any of the other reforms featured here, with households in the top decile losing over £1,000 per year on average, compared with less than £50 on average in deciles 1 to 4.
- Couples and Multiple Benefit Unit households are the largest average losers by household demographic type from the package of Scottish reforms, with average losses of between £300 and £400 per year.

The uprating freeze, the two-child limit, and the cuts to UC work allowances have an especially large impact on Pakistani and Bangladeshi households in England

# Impact of reforms on the number of adults and children in households below an adequate standard of living

The report estimates the number of households, adults and children who fall below an adequate standard of living as a result of the reforms to taxes and transfer payments. The right to an adequate standard of living is a key consideration for evaluating the human rights of the tax and welfare reforms in Britain since 2010.

This report uses two measures of an adequate standard of living, defined as follows:

- The UK Government's relative poverty line, as used in its 'Households Below Average Income' (HBAI) publication (DWP, 2017). We use the After Housing Costs (AHC) definition of income in this summary: a household is defined as being in poverty if its disposable income (adjusted to take account of household size) is below 60% of median AHC household incomes.
- The Minimum Income Standard (MIS): a measure of income adequacy developed by researchers at the University of Loughborough for the Joseph Rowntree Foundation (JRF, 2017).

Table 1 shows the number and proportions of children and adults living in households, as well as the number and proportions of households, below the AHC relative poverty line, before and after the reforms. The results forecast that child poverty will increase substantially by 2021/22 as a result of the tax and welfare reforms between 2010 and 2017, resulting in around 1.5 million extra children being in poverty (an increase of over 10 percentage points). While the number of adults in poverty and the overall household poverty rate also rise, these increases are far smaller – around 700,000 (1.4 percentage points) for adults and 400,000 (1.4 percentage points) for households. This reflects the fact that the cuts to benefits and tax credits, and the adverse impacts of UC, are felt disproportionately by households with children.

Around **1.5 million** extra children will be in poverty by 2021/22

The forecast increases in child poverty for Wales and Scotland (around 8 percentage points for both countries) are smaller than for England (just under 11 percentage points).

These forecasts are consistent with other analyses, for example those by Hood and Waters (2017) for the UK, and Reed and Stark (2018) for Scotland.

### Table 1 - Estimated AHC relative poverty rates for households, children and adults before and after reforms, 2012-22: England, Scotland and Wales

| Poverty measure | Numbers (millions) | | | Percentage of group | | |
|---|---|---|---|---|---|---|
| | Baseline | Reform | Change | Baseline | Reform | Change (pp) |
| **England** | | | | | | |
| **Households** | 4.49 | 4.90 | +0.41 | 18.4% | 20.1% | +1.7 |
| **Children** | 4.01 | 5.37 | +1.36 | 31.4% | 42.1% | +10.7 |
| **Adults** | 9.09 | 9.77 | +0.68 | 20.3% | 21.8% | +1.5 |
| **Scotland** | | | | | | |
| **Households** | 0.39 | 0.41 | +0.02 | 15.9% | 16.8% | +0.8 |
| **Children** | 0.24 | 0.32 | +0.08 | 25.1% | 33.1% | +8.0 |
| **Adults** | 0.67 | 0.70 | +0.03 | 16.1% | 16.9% | +0.8 |
| **Wales** | | | | | | |
| **Households** | 0.25 | 0.27 | +0.02 | 17.6% | 18.6% | +1.0 |
| **Children** | 0.20 | 0.25 | +0.05 | 29.6% | 37.4% | +7.7 |
| **Adults** | 0.46 | 0.49 | +0.03 | 18.3% | 19.3 % | +1.0 |
| **Great Britain** | | | | | | |
| **Households** | 5.14 | 5.59 | +0.45 | 18.2% | 19.7% | +1.6 |
| **Children** | 4.44 | 5.94 | +1.49 | 30.9% | 41.3% | +10.4 |
| **Adults** | 10.22 | 10.96 | +0.74 | 19.9% | 21.3% | +1.4 |

**Note:** The reason that the change figure does not always match the difference between the baseline and reform percentages is due to rounding.

**Source:** Landman Economics tax-transfer model analysis using FRS pooled dataset 2012–13 to 2015–16.

Other key findings from our analysis of the impact of tax and welfare reforms from 2010 to 2018 on the rate of poverty forecast for 2021/22 are as follows:

- The child poverty rate for children in lone-parent households in Great Britain is forecast to increase from slightly over 37% to slightly over 62% as a result of the reforms – an increase of almost 25 percentage points.
- By household ethnic group, the largest percentage point increases in child poverty are forecast to be for Pakistani households (over 19 percentage points), Black households (slightly under 14 percentage points), Bangladeshi households (slightly under 14 percentage points) and 'Other' Asian households (12.5 percentage points).[3]
- Child poverty for households containing disabled children is forecast to increase by 18.5 percentage points.
- The increase in the rate of child poverty is forecast to be much higher for households with three or more children (16.5 percentage points) than for households with two or fewer children.

The child poverty rate for children in lone parent households will increase from

37% to 62%

[3] Household ethnic groups are defined in terms of the ethnicity or ethnicities of the adults in the household. So, for example, a 'Black' household is one where all the adults in the household are Black.

# Winners and losers from reforms

As well as estimating the average distributional impact of the tax and welfare reforms by decile and protected group, we also calculate the proportion of winners and losers from the overall reform package. The analysis shows nearly half (47.3%) of households in Great Britain lose from the changes to direct taxes, benefits, tax credits, UC and the NLW (calculated using data from the FRS).

Overall, just over half of households in Great Britain (52.2%) gain from the announced reforms to direct taxes, transfer payments and the increases in the NLW (the remainder neither gain nor lose). However, the proportion of winners and losers differs considerably within particular groups:

- Poorer households are far more likely than richer households to lose from the reforms. More than seven in 10 households from the bottom fifth of the net income distribution lose from the reforms. Meanwhile, four in five households in the ninth decile gain from them.
- Almost four in five couples with no children gain from the reforms, but less than one in seven lone parents, and less than one in six single pensioners, gain from the reforms.
- The majority of households with no children gain from the reforms, whereas more than three-quarters of household with three children lose.
- The majority of White people gain from the reforms, but three-quarters of Pakistani households lose from them.
- Three-fifths of households with a household disability 'score' of zero gain from the reforms, whereas seven out of 10 households with a score of six or more lose.

The report also analyses the size distribution of gains and losses from the reforms. Key findings are as follows:

- The size distribution of gains and losses reveals that more than three-fifths of lone parent households lose at least 10% of their net incomes from the reforms, and almost two-fifths lose more than 20% of their net incomes.
- Over two-fifths of households with three or more children lose at least 10% of net income from the reforms, while over a fifth lose more than 20%.

# Impact of the reforms on work incentives

In this report, we do not attempt to quantify the impact of changes to financial incentives resulting from the reforms on employment rates. However, our analysis of trends in employment rates for different household types suggests that it is highly implausible that improvements in the financial incentives to work are the main driver of differences in employment rates between different demographic sub-groups. To a large extent, the increase in employment since 2010 has been ‘a rising tide which lifts all boats’, that is, all groups have benefited, regardless of demographic characteristics.

Our analysis of the impact of tax and welfare reforms according to the work status of adults in different households shows substantial reductions to in-work support to families with children on average. This does not improve financial incentives to work, and has also been one of the factors driving substantial increases in in-work poverty for households with children in recent years (Hick and Lanau, 2017).

Finally, regardless of which factors actually drove the increase in measured employment, over a third of lone parents (a group that has seen large cuts to means-tested transfer payments) were still not in employment in 2017. The lack of evidence that these cuts have significantly increased employment rates, and the fact that employment rate increases appear to have largely been driven by other factors, make the cuts hard to justify.

Substantial reductions to in-work support to families do not improve financial incentives to work and have been one of the drivers of increased in-work poverty

# Implications of our findings

Our analysis shows that the changes to taxes and transfer payments (benefits, tax credits and the introduction of UC) announced since 2010 are, overall, regressive, however the changes are measured. Consequently, the largest impacts are felt by those with lower incomes. This is true even when increases in gross earnings from the NLW are taken into consideration.

Moreover, the reforms will have a disproportionately negative impact on several protected groups, including disabled people, certain ethnic minorities, and women, and particularly negative impacts on intersectional groups who experience multiple disadvantages (for example, lone parents with disabled children).

These reforms took place against a background of a clear and overarching UK Government commitment to deficit reduction; changes to taxes and benefits are obviously an inevitable consequence of this. However, the precise mix of reforms implemented was not inevitable, nor was the impact on vulnerable protected groups that emerged.

The UK is a State Party to the International Covenant on Economic, Social and Cultural Rights (ICESCR), which includes the right to social security. The UN Committee on Economic, Social and Cultural Rights has observed that benefits must be ‘adequate in amount and duration’ to ensure an adequate standard of living; moreover, any reductions (driven, for example, by wider economic policy considerations) should be temporary, necessary and proportionate (Office of the High Commissioner for Human Rights, 2016). The UK Government’s published impact assessments alone do not indicate that these obligations have been taken into account; nor do they indicate that the Government paid due regard to the Public Sector Equality Duty (PSED) and the impact of reforms on vulnerable groups.

Our report 'Future fair financial decision-making' (EHRC, 2015) made a number of recommendations including that:

- Improvements were needed to the quality of data used for impact assessment
- HMT should extend its existing analysis of the aggregate distributional impacts of tax and spending decisions to analyse the aggregate/cumulative impact of decisions on people sharing different protected characteristics
- The coverage and evidence in HMT's assessment of the impact of the Spending Review on equalities (published alongside each main Spending Review) should be improved
- Spending Review measures should be monitored to understand their impact on protected groups more fully.

The UK Government's response to our report has been disappointing. We do not question the good faith, commitment and hard work of officials in HMT and elsewhere in the UK Government on these issues. However, despite high-level commitments to ensuring that equality considerations are properly taken into account in financial decisions, and some indication that progress has been made internally on data quality and availability issues, there is little concrete evidence that the specific recommendations have been properly considered or acted upon. The published Impact on Equalities Analysis and the distributional analysis to accompany the 2015 Spending Review do not appear to represent any significant progress from comparable documents produced in 2010.

The continuing lack of evidence of an assessment of the cumulative impact on protected groups does not appear consistent with the PSED. However, the recent Race Disparity Audit, while not directly related, shows that the analytical capacity required to address equality issues is available within the UK Government. Going forwards, the principles underlying the Audit need also to be applied to policymaking.

# Policy recommendations

## Mitigating the negative impacts of reforms

There is a clear need for the UK Government to consider how to mitigate these large negative impacts, particularly given the disproportionate impacts for some protected groups, and the lack of evidence that these impacts, and possible mitigations, have been considered by HMT. **We therefore recommend that, as a matter of urgency, the UK Government reviews the level of welfare benefits to ensure that they provide an adequate standard of living for households who rely partially or wholly on transfer payments.**

Specific reforms that have a particularly adverse impact on living standards for particular groups include, but are not limited to, many of the specific reforms analysed in Chapter 6.

These include:

- The four-year uprating freeze on most benefits, tax credits and UC parameters for working age adults and families from 2016–17 onwards, which has a disproportionate impact on lone-parent families with low incomes.
- The two-child limit for Housing Benefit, tax credits and UC which came into force in April 2017. This has, by design, a particularly large impact on households with more than two children, but also has a disproportionate impact on some ethnic minorities.
- Reductions to work allowances in UC.
- The spare room subsidy (‘bedroom tax’) for social sector housing tenants deemed to have excess bedrooms.
- The reassessment of the caseload of DLA payments for PIP (we note, however, that these impacts will be substantially mitigated as a result of the recent High Court judgment against the UK Government). This has a disproportionate impact on disabled people, especially the most severely disabled.

We therefore recommend that the UK Government reviews these specific measures, with a view to mitigating their impact overall and, in particular, on protected groups.

## Improving the transparency of decision-making

We make the following recommendations to HMT:

- In advance of the next Spending Review, HMT should publish a detailed explanation of the process by which it will ensure that the Spending Review process is fully compliant with the PSED.
- HMT should convene an independent advisory group, based on the model of the 2010 Independent Challenge Group, to advise on the equality impact of the next Spending Review. The Independent Challenge Group provided internal advice on the likely impacts of the Spending Review and had both internal and external representation.
- All fiscal events (Budgets and Spending Reviews) should be accompanied by an equality impact assessment (EIA). This should incorporate a CIA of the impact on protected groups, showing how distributional impacts vary across groups. In addition, the EIA should discuss and explain any major disparities in outcomes that adversely impact protected groups.
- HMT should prepare a CIA for each fiscal event, as well as analyse the impact of key individual tax or social security measures. These analyses should be conducted, where possible, both at the individual level and for households and families, showing clearly the assumptions made. The analyses should incorporate intersectional analysis, which should disaggregate groups by combinations of different protected characteristics, recognising that this will be constrained by the sample size of the data being used to conduct the assessment.

The Scottish and Welsh Governments should also publish EIAs of the key individual tax and social security measures that they plan to introduce.

## Improving data for cumulative impact assessments

We make the following recommendations to improve the quality of data for CIAs:

- We were unable to provide impact assessments for some protected characteristics (for example, sexual orientation), due to non-availability of data to End User Licence researchers. The UK Government should therefore assess what steps could be taken to make such data available.
- The FRS questionnaire should be revised to enable impact assessment of at least some of the welfare reforms which cannot currently be modelled due to data limitations. In particular, information about which benefit claimants have been sanctioned and why (and also about sanctions under UC) should be included in the FRS dataset.
- Where sample size constraints are a barrier to accurate impact assessment (for example, for the LCF, and for some of the intersectional analysis using the FRS), the UK Government should consider allocating more resources to data collection. This would increase the sample size of these datasets to high-enough levels for robust analysis.
- The Welsh Government should allocate additional resources to enable a boost sample for the FRS and LCF in Wales. The current sample size of the FRS and LCF is too small to allow robust analysis of some of the protected characteristics (in particular, ethnicity).
- The LCF questionnaire should be amended to include a disability question or questions similar to those in the FRS. This would enable the impact of changes to indirect taxes on households to be assessed according to household disability status.
- Increases in sample size, and the addition of a disability question to the LCF, could be accomplished more easily as part of the forthcoming changes to the LCF data collection protocol (through which the LCF is being merged into the Household Finances Survey (HFS) from 2017-18). Expanding the sample size of the LCF expenditure sub-sample within the HFS, and including a disability question or questions in the content of the core HFS data module, will make LCF more fit for purpose for future CIA work.

# Contacts

This publication and related equality and human rights resources are available from the Commission's website: **www.equalityhumanrights.com**.

Questions and comments regarding this publication may be addressed to: **correspondence@equalityhumanrights.com.** The Commission welcomes your feedback.

# Alternative formats

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