The cumulative impact on living standards of public spending changes

Executive summary

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Introduction and methodology

This report shows the projected distributional impact of changes in public spending on various protected groups in England, Scotland and Wales up to the tax year 2021/22. It also shows the combined impact of these changes and of tax and welfare reforms on the ‘final income’ of these groups (measured as net income plus the value of public services used by households). It accompanies our earlier report, ‘The cumulative impact of tax and welfare reforms’, which presented a cumulative impact assessment (CIA) of the changes to the tax and welfare (social security) systems since May 2010, including planned reforms (Reed and Portes, 2018, referred to as ‘the previous CIA study’ below).

Like the previous CIA study, this research uses the Landman Economics public spending microsimulation model. This combines data on trends in aggregate public spending, including published plans for future spending, with survey micro-data on the usage of public services by households. This enables us to estimate the distributional impacts of changes in public spending up to 2021/22 and to combine them with the tax and welfare results from the previous CIA study to produce an overall analysis of the impact of all reforms on final income. Changes in spending per head on each public service are compared with a baseline scenario where spending on services grows in line with inflation. The model therefore measures the distributional impact of increases or cuts in spending against that baseline.
Overall public spending per head is forecast to fall by around 18% (just over £900) in England between 2010/11 and 2021/22, 5.5% (just under £300) in Wales and just over 1% (around £100) in Scotland. By 2021/22, overall spending per head will be 36% higher in Scotland than in England and 17% higher in Wales than in England.

The differences between the countries are particularly acute for households with lower incomes. Cash losses for lower deciles are larger in England than Wales or Scotland due to the overall scale of cuts in spending being far greater in England.

In England, losses are smallest (at around £900) for households with the highest incomes. Cuts to schools, transport and housing spending have the largest impact for poorer households.

In Scotland, the largest losses from cuts (just over £450 per year) fall on some of the lowest income households (but not the lowest), but richer households have slightly larger losses than poorer ones. Cuts to schools, and to higher education (HE) and further education (FE) spending, are the main reasons for losses.

In Wales, the impact of spending cuts fluctuates more by household income decile than in England or Scotland. Cuts to HE and FE spending have the largest impact of any single spending category.
• Differences between spending trends in the three countries are due to faster population growth in England compared with Scotland and Wales; different Scottish and Welsh Government spending priorities; and more generous funding in Scotland due to Scotland-specific income tax rises.

• The largest cuts are to HE and FE spending (in England and Wales) and social housing spending (England) (which will have fallen by around 80% by 2021/22). Early years funding (England and Wales), transport and police funding (England) and HE/FE spending (Scotland), are all cut by between 30 and 50%. The largest spending increases in percentage terms are for early years and social housing (both in Scotland).

Impact by protected characteristic and household demographic type

• In both England and Scotland, Black households experience the largest overall spending cuts in cash terms, while White households (and Mixed ethnicity households in England) lose less than other ethnic groups. In Wales (and for Mixed ethnicity households in Scotland), the number of households containing ethnic minority adults in the data is too small for us to be able to analyse patterns of cuts by ethnicity.

• In England, households with more disabilities (measured by the number of functional disabilities recorded across all household members) suffer much larger losses (over £2,900 per year) than those with fewer disabilities, largely because of social care cuts. In Wales, the ‘disability gradient’ is much shallower, while in Scotland households with more disabilities fare slightly better than non-disabled households, due to increased spending on social care, health and social housing.

• Households where adults are aged under 55 on average experience larger losses from spending changes than older households. Households where adults are aged 18-24 on average experience the largest losses from tax, welfare and public spending changes as a percentage of final income.

• In England and Scotland, households with children suffer larger losses than those without children, mainly due to cuts to school spending. In England, multiple benefit unit (MBU) households¹ with children, couples with children, and lone parents, all lose between £5,500 and £3,600 depending on gender and household type. In Wales, losses for couples with children and lone parent households are smaller, due to boosts to school spending per household.

• In England, the overall impacts of spending changes for same-sex couples (whether male or female) were similar to those for mixed-sex couples without children. In Scotland and Wales, the number of same-sex couples in the data was too small to produce a reliable analysis.

¹ A benefit unit is defined by the Department for Work and Pensions as a single adult or an adult couple. MBU households are those where more than one benefit unit lives at the same address.
• In Scotland, couples and MBU households with children fare worse than other groups. Lone parents experience much smaller average losses than other types of household with children, due to increases in social care, housing and early years spending. Households without children gain slightly on average.

• In England and Wales, single pensioners fare better on average than any other group.

Combined impact of tax and welfare reforms and other public spending changes on final income

The poorest **fifth** of people in England have been hit the worst by cuts to welfare and to public spending

• Poorer households lose more overall as a proportion of final income (i.e. net income plus the value of public services received) than richer ones. This regressive pattern is particularly pronounced for England, where the poorest two deciles suffer average losses of over 11%. This is compared with little or no impact in the top two deciles. In Scotland, the decile pattern is still regressive, but the differences between richer and poorer households are smaller, while Wales falls somewhere between the two.

• In England, Black and ‘Other’ ethnicity households experience average losses of around 9% to 9.5% of final income – around three times higher than those for White households and households where adults are from different ethnic groups. In Scotland, the largest losses are for Black households (around 6.5%), while White households lose just under 1%.

• In all three countries, households with more disabilities have larger losses as a percentage of final income. The impact is greater in England, where the households with the most disabilities suffer losses of 10.5% of final income, than in Scotland or Wales (4.5% to 5%).

• Households where adults are aged 18-24 on average experience a worse outcome than any other age group in all three countries.

• Lone parent households (who are predominantly female) lose more than any other demographic type in terms of final income in all three countries. In England, their losses are 18.7%, compared with 10.5% in Wales and 7.6% in Scotland. In England and Scotland, female lone parent households experience greater losses than male lone parent households.
Lone parent households lose more than any other demographic type in terms of final income in all three countries.

In England, their losses are 18.7%, compared with 10.5% in Wales and 7.6% in Scotland.

- In all three countries, households with three or more children experience greater losses than those with fewer or no children, largely because of social care cuts and also the two-child limits to Housing Benefit, tax credits and Universal Credit introduced in 2017. The impact on this group is greatest in England.
Policy recommendations

Mitigating the negative impacts of public spending changes

We recommend that the UK, Scottish and Welsh Governments:

• Significantly mitigate the disproportionate negative impacts on poorer households and protected groups of changes to the tax and welfare system and cuts to spending on public services. This could be done (for example) by increasing the rates of means-tested benefits, tax credits and Universal Credit, and by increasing spending on in-kind public services such as health, social care, education and public housing.

• Take into account in the next UK Government’s Spending Review and the spending plans of the Scottish and Welsh Governments, the likely impact on protected groups and the impacts for poorer households of further changes in spending.

• Require that the next UK Government’s Spending Review, and the spending plans of the Scottish and Welsh Governments, are accompanied by an equality impact assessment. These should incorporate a CIA of the impact on protected groups, showing how distributional impacts vary across groups; analyse and explain any major disparities in outcomes that adversely impact protected groups; and take into account the impacts for poorer households of further changes in spending.

• Publish a detailed explanation of the process by which they will ensure that the Spending Review and spending plans are fully compliant with the Public Sector Equality Duty; demonstrate that regressive measures are temporary, necessary, proportionate and non-discriminatory and do not undercut a core minimum level of protection; and put in place any mitigating measures required to safeguard people’s rights.

• Ensure that these analyses by each government are publicly accessible and subject to meaningful scrutiny by Parliament, the public and protected groups that may be adversely affected by the decisions.

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**Improving data for impact assessments of public spending changes**

In order to improve the quality of data for CIAs on public spending, we recommend that the UK, Scottish and Welsh Governments:

- Make available more national, regional and local information on the usage of various public services, including on social care services; legal aid services; publicly funded recreational facilities (for example, museums and galleries, parks, etc.); and fire services.

- Improve the quality of data on children’s usage of health services in the Health Survey for England, Scottish Health Survey and Welsh Health Survey.

- Publish more detailed analysis where data are collected on protected characteristics and take steps to redress this omission where they are not. Where data are lacking for particular groups, e.g. people from ethnic minorities in Wales, increase, boost or pool samples as necessary.
Conclusions

These public spending changes took place against a background of a clear and overarching UK Government commitment to deficit reduction. Cuts in spending on public services, alongside reductions in benefits and tax credit spending, were a key component of the deficit reduction strategy, and would have been necessary to achieve deficit reduction in the absence of tax increases and/or greatly improved economic growth.

The different pattern of distributional impacts of spending cuts seen in Wales and Scotland, compared with England, shows that neither the overall scale of spending cuts in England, nor their precise impact on protected groups, was inevitable.

As our analysis of social security reforms in the previous CIA study showed, the UK Government’s published impact assessments do not, in themselves, indicate that its obligations under international human rights treaties have been taken into account; nor do they indicate that the Government has paid sufficient regard to the Public Sector Equality Duty and the impact of reforms on disadvantaged groups.