|  |
| --- |
| Landman Economics note on distributional impacts of service cuts |
|  |
|  |
| **Commissioned by the TUC** |
|  |

**5 July 2015**

### The distributional impact of service cuts

This note models the impact the spending cuts which took place over the 2010-15 Parliament. This analysis updates previous Landman Economics analyses of the impact of spending cuts[[1]](#footnote-1) which were based on planned reductions in departmental spending. The analysis presented here is more accurate than the previously published research because it is based on actual information on changes in government spending, broken down into different services using internationally agreed service definitions. The distributional effect of the spending cuts is shown across the income distribution and by household type (distinguishing between one and two adult families, families with and without children, and working age and pensioner households). The results for the distributional impact of spending cuts are also combined with existing evidence on the distributional impact of tax and social security measures over the 2010-15 Parliament[[2]](#footnote-2) to show the overall effect of the Coalition Government's fiscal programme on living standards. The final part of Chapter 5 models the potential distributional effect of additional spending cuts under the current (2015-20) Parliament on the assumption that the new cuts fall in similar areas of spending to the cuts in the last Parliament.

Figure 1 shows the distributional impact of spending cuts (excluding social security measures) expressed in annual cash-equivalent terms, across the distribution of net income (by household income decile).

The black line on the figure shows that the total impact of spending cuts is largest in cash terms for the 4th and 5th deciles – just below the middle of the income distribution.

Cuts to health care and school-level education follow this pattern, being largest in the middle of the distribution.

For transport, by contrast, the cuts are largest at the top end of the distribution (mainly because rail and road users tend to be particularly well off).

Social care and social housing cuts have the largest cash impact in the lower-to-middle reaches of the income distribution.

Higher and further education cuts are fairly even across the distribution but slightly smaller at the top end.

Changes in early years spending actually result in *increased* expenditure in the second and third deciles (due to the impact of the Early Intervention Grant in particular), but cuts further up the distribution.

Spending cuts in the 'other' category (including police and cultural spending) are fairly even in cash terms across the distribution.

The overall cash-equivalent impact of cuts ranges from around £1,300 to £2,000 per household per year across the distribution, with an overall average of £1,630 across all households.

**Figure 1. Distributional impacts of cuts to spending on public services (excluding social security) over the 2010-15 Parliament: annual cash equivalent, by income decile**

Figure 2 shows the same information on cuts by service category, but as a proportion of total household living standards (defined as household disposable income after taxes and social security payments, *plus* the value of in-kind public services).

As a proportion of total living standards, the spending cuts are regressive; the lowest income decile experiences an average reduction in living standards of around 7.5 percent, while the 2nd, 3rd and 4th deciles experience reductions of around 5.5 percent.

Meanwhile, average losses for the top decile are only around 1.5 percent of living standards, and for the 9th decile only 2.5 percent of living standards.

Spending cuts have a very regressive impact by income decile for all of the spending categories except for early years spending and transport spending where spending choices are progressive.

**Figure 2. Distributional impacts of cuts to spending on public services (excluding social security) over the 2010-15 Parliament: as percentage of net income plus value of services received, by income decile**

### Impact by household type

It is also useful to look at the impact of spending cuts by household type, distinguishing between the following types of households:

* single adults without children;
* couples without children;
* lone parents;
* couples with children;
* single pensioners;
* couple pensioners;
* households with more than one family type in them (for example, a couple with children living with a pensioner).

Figure 3 shows the cash-equivalent impacts by household type.

The largest cash impacts are for couples with children, multiple household types and lone parents. This result is mainly driven by school-level education; the cuts to the schools budget has especially large impacts for couples with children.

The impacts of cuts to the health budget are largest for single and couple pensioners.

Cuts to social care have the largest impact for pensioners (especially single pensioners), multiple family type households, and lone parents.

Housing cuts have the largest impact for lone parents and single pensioners.

Transport cuts have a particularly large impact for couples (with and without children) and multiple family-type households.

HE and FE cuts have the largest impact for multiple family-type households (which are more likely to contain HE and FE students than other family types) and for single adult households.

**Figure 3. Distributional impacts of cuts to spending on public services (excluding social security) over the 2010-15 Parliament: annual cash equivalent, by income decile**

Figure 4 shows the impact of cuts by household type as a percentage of total living standards.

The pattern here is different to the cash-equivalent impacts shown above; in percentage terms the cuts are most severe for single pensioners, which is an interesting finding which goes against the prevailing narrative that pensioners have been relatively insulated from the effects of austerity.

Social care cuts and cuts to the health budget both have a particularly large impact on pensioner living standards, with social housing cuts also having a substantial impact.

Overall, single pensioner living standards fall by almost 6 percent on average due to the cuts.

Couples with children are the next most affected group, with average losses of around 5 percent, largely as a result of cuts to the schools budget.

Lone parent families also suffer large average losses of around 4.5 percent, mainly due to education, social care and housing cuts; these are partly offset by increases in early years spending.

Couples with no children are the least affected group, with average losses of only just over 2 percent, mainly as a result of cuts to transport spending and the 'other' category.

**Figure 4. Distributional impacts of cuts to spending on public services (excluding social security) over the 2010-15 Parliament: as percentage of net income plus value of services received, by household type**

### Combined impact of tax/benefit measures and cuts to other public services

It is instructive to combine the results on the impact of service cuts shown above with distributional analysis of the impact of tax, benefit and tax credit reforms produced using the Landman Economics tax-benefit model, which uses data from the Family Resources Survey and Living Costs and Food Survey to model the impact of these reforms on household disposable incomes.

The analysis of the impact of tax and social security measures in this report is adapted from previous research for the Equality and Human Rights Commission published by Reed and Portes (2014) and models changes to the following parts of the tax and benefit system over the 2010-15 Parliament:

* income tax;
* National Insurance Contributions (employee, employer and self-employed);
* VAT and Insurance Premium Tax;
* excise duties (e.g. fuel, alcoholic drinks, tobacco);
* means-tested and non-means-tested benefits;
* tax credits.

The analysis excludes Universal Credit as it is meant to be a snapshot of the distributional impacts of reforms taking affect by April 2015, and Universal Credit had still only been rolled out to a very limited number of households at this point. The analysis also excludes changes to taxes which are not directly incident on household incomes (such as Inheritance Tax, Capital Gains Tax and Stamp Duty) and changes to corporate taxation.

Figure 5 shows the overall distributional impact of the cuts to spending on public services analysed earlier in this chapter (the "services" column) combined with the changes to taxes and transfer payments (the "tax & transfers" column), by household income decile, as a percentage of overall household living standards.

The overall impact of all modelled fiscal measures is regressive.

The average reduction in living standards as a result of all the modelled tax, transfer and public spending measures is 14 percent for the bottom decile and between 8 and 10 percent for the second, third and fourth decile. Meanwhile, for the top three deciles average losses in living standards are around 4 per cent.

**Figure 5. Combined impact of tax/benefit measures and cuts to other public services, by income decile**

Figure 6 shows the overall impacts of public spending cuts and tax and transfer payment measures by household type.

The largest average negative impacts are for lone parents, couples with children and single pensioners; each of these groups loses more than 8 percent on average.

The smallest impacts are for couples with children (a reduction of around 4 percent in total living standards) and couple pensioners (a reduction of just over 5 percent).

**Figure 6. Combined impact of tax/benefit measures and cuts to other public services, by household type**

## The potential impact of further spending cuts in the 2015-20 Parliament

The newly elected Conservative Government plans further spending cuts for at least the first three years of the new Parliament.

The Resolution Foundation has calculated that, relative to a situation in which public expenditure grew in line with the GDP deflator, the Government is planning £35 billion of cuts (at 2015 prices).

George Osborne has stated that reductions to benefits and tax credits will account for £12 billion of these cuts, leaving £23 billion of cuts to other public services. Using an RPI deflator for consistency with the analysis earlier in this chapter, and restricting the analysis to public services which are included in the Landman Economics model, implies total additional cuts of around £32 billion by 2018-19.

Figures 7 and 8 below show the additional distributional effect of these cuts on top of the cuts already made in the current parliament, in cash terms and as a percentage of services received.

Figure 7 shows that total average cash-equivalent losses in the 4th through the 7th deciles exceed £3,000 per household, with average losses across the whole distribution between 2010 and 2018 totalling almost £2,800 per year.

Figure 8 shows that the poorest decile experiences average losses equivalent to 13 per cent of living standards on average, with losses of around 9 per cent of living standards in the second, third and fourth deciles.

The losses in the top decile are less than 3 per cent of total living standards on average.

Overall, the public spending cuts across the two parliaments are set to have a devastatingly regressive impact on households.

**Figure 7. Total impact of cuts to spending on public services (excluding social security) from 2010-2018: annual cash equivalent, by income decile**

**Figure 8. Total impact of cuts to spending on public services (excluding social security) from 2010-2018: as percentage of total living standards, by income decile**

Figures 9 and 10 present the corresponding distributional analysis of spending cuts across the two Parliaments by household type.

 Figure 9 shows average cash losses for couples with children of over £4,500 per year by 2018-19, and just under £4,000 for multiple family type households. Lone parent households lose just under £3,000 per year on average.

Figure 10 shows that in percentage terms, the reduction in living standards is highest for single pensioner households (at around 10 per cent), followed by couples with children (around 8.5 per cent), lone parents (just under 8 per cent) and single adult households with no children (just over 7 per cent).

Couples with children experience the smallest average losses by 2018-19, at just under 4 per cent.

**Figure 9. Total impact of cuts to spending on public services (excluding social security) from 2010-2018: annual cash equivalent, by household type**

**Figure 10. Total impact of cuts to spending on public services (excluding social security) from 2010-2018: as percentage of total living standards, by household type**

Because the precise pattern of cuts by government department through to 2018-19 will not become clear until the autumn 2015 Spending Review, the analysis of potential distributional impact of additional cuts in Figures 7 through 10 should be taken as indicative only.

However, given that the Government has indicated that the departments which are protected in this parliament will be broadly the same as the last one (primarily health and the schools part of the education budget), it is likely that the shape of the distributional effects of the new cuts will be similar to that of the existing cuts.

In any case, it looks certain that the regressive impacts of the Coalition Government's austerity measures will be compounded and accentuated by new measures introduced by the current Conservative Government.

1. The spending model was first developed for Horton, T and Reed, H (2010) *Where the Money Goes: How We Benefit From Public Services*. https://www.tuc.org.uk/sites/default/files/extras/wherethemoneygoes.pdf More recent results from the model were presented in Chapter 7 of Reed, H and Portes, J (2015) *Cumulative Impact Assessment*, Equality and Human Rights Commission Research Report 94. http://www.equalityhumanrights.com/sites/default/files/publication\_pdf/Cumulative%20Impact%20Assessment%20full%20report%2030-07-14.pdf [↑](#footnote-ref-1)
2. See Portes and Reed (2014) for more details of the effects of tax and social security measures over the 2010-15 Parliament. [↑](#footnote-ref-2)