

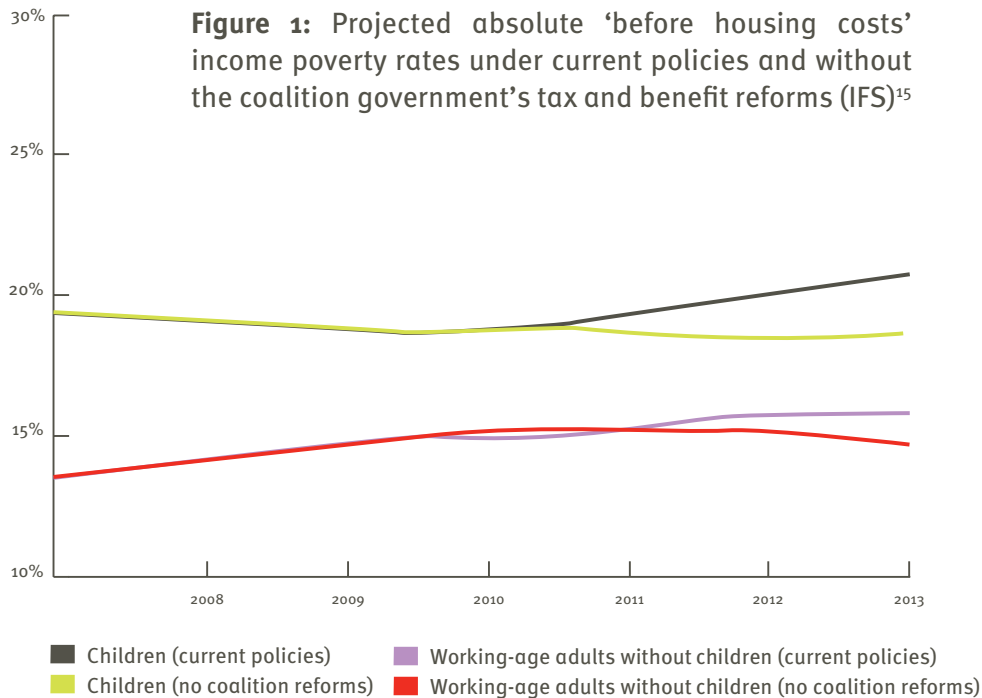
The end of the beginning?

The broader economic context – literature review written by the Social Market Foundation

This time last year, the announcement that child benefit would be removed from higher-rate tax payers was met with media frenzy. If anything, this diverted attention away from those who have not been affected by this specific reform but have been by many others: lower-income families with children. By 2014/15, benefit and tax credit payments are set to be cut by some £18 billion and about twice this sum taken out of public services.¹³ So how are these changes likely to affect low-income families? First, let's look at the impact of benefit and tax credit reforms.

Despite the severity of cuts, it's not all doom and gloom on the tax credits front. By 2014/15 the child element of the Child Tax Credit will be £2½ billion more generous. But this is very much the exception to the rule of deep benefit cuts. Other changes to tax and benefits – particularly measures such as the cuts in childcare support and other changes to the Working Tax Credit – are set to have an ongoing

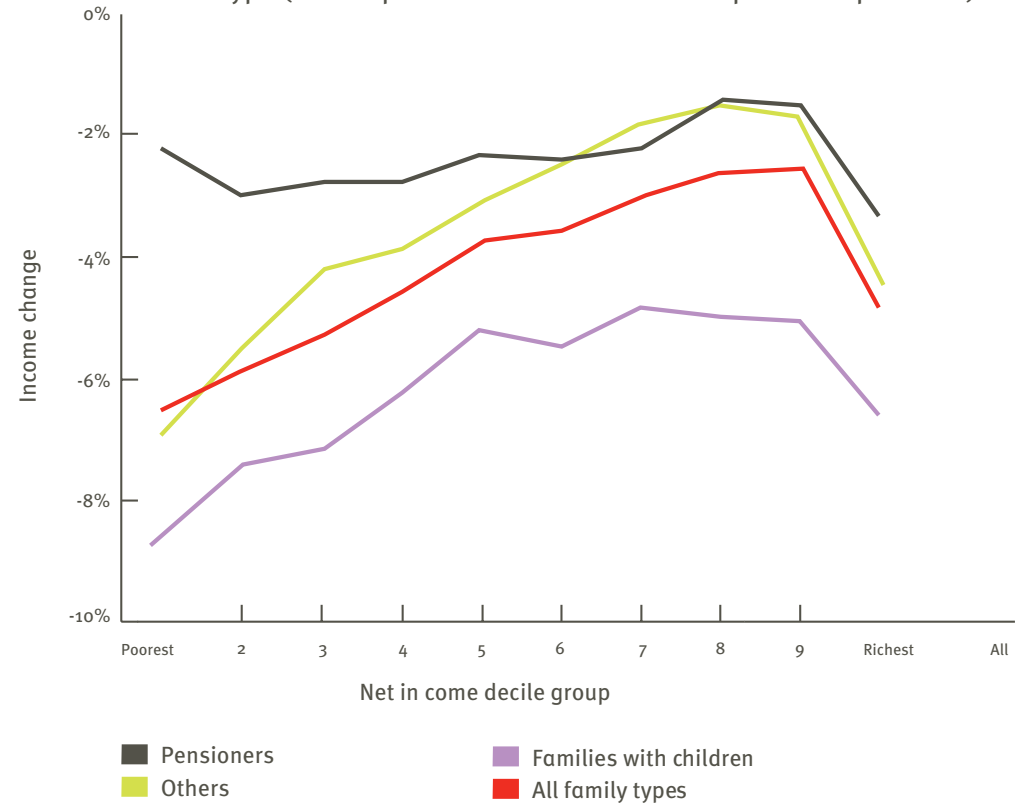
detrimental impact on low-income families. The consequences, measured in terms of absolute income poverty among children, are already being predicted. Research by the Institute for Fiscal Studies (IFS) shows that while initially there will be little impact from changes announced in 2010, by 2013 absolute poverty will be rising at an alarming rate.¹⁴



In part, this reflects the cumulative nature of the cuts made. The impact of many tax and benefit reforms – Working Tax Credit and child benefit have been frozen, and the uprating of benefits by CPI rather than RPI will mean real terms benefit cuts of around £6billion by 2014/15 – will grow each year. Overall, taking into account both those policies announced by the Labour government to take effect in April 2011 and those

brought in by the coalition, low-income families with children will be hit hard by benefit and tax credit cuts by 2015. IFS modelling indicates that families with children in the lowest four income deciles will see their income reduced by six percent or more.

Figure 2: institute for Fiscal Studies: Distributional impact of modelled tax and benefit reforms implemented between January 2011 and April 2014 in the UK, by income and family type (as compared to fiscal measures in place in April 2010)¹⁶



Set against the bleak picture on benefits is a complex one on services. It's clear that two core services got away comparatively unscathed. The schools operating budget has been maintained (including a £2½billion pupil premium for

disadvantaged children), as has health spending. In addition, more disadvantaged families will benefit from the extension of the free childcare entitlement for two year olds. Here again, however, the bad news on services outweighs the good.

Local government services are being hit hard with grant reductions of 28 per cent on average, with grave consequences for local services. Sure Start and other services targeted at children and young people are not only seeing significant real-terms cuts (11%),¹⁷ but are now having to compete with a whole host of other local priorities as ring-fences are removed. In many cases, they may not win out. Services for low-income families will therefore be at the mercy of the dreaded 'postcode lottery'.

And the local picture is varied. A recent survey shows that, for 45 per cent of councils, children's services are being largely protected from cuts, while in 39 per cent of cases they are making a substantial contribution to local cuts.¹⁸ More detailed analysis indicates that while children's social care, schools support and support for those with special educational needs are significantly protected, early years and youth services are vulnerable. When finance directors predicted where

proportionately larger savings would come from among front-line services, 'services for young people' featured top, 'libraries, cultural services and community learning' came second and 'early years' third. This can be read in part as the result of children's services featuring low down the priority list of elected representatives: there is far more interest in universal services such as street cleaning and parks than in support services for young people, early years or special educational needs.¹⁹

The Local Government Association has estimated that councils face a funding gap of £6.5 billion in 2011/12.²⁰ However, as in benefits and taxation, so in public services: the cuts will have a cumulative impact. In 2011/12 councils have had to deal with approximately a third of the cuts, leaving two-thirds to be resolved between 2012/13 and 2014/15. Major demand pressures – such as growth in demand for adult social care of approximately four per cent per annum – set alongside new cost burdens

– such as the cut in central funding for council tax benefit, to be administered by local authorities from 2013/14 – will compound the budget problem.²¹ All these will heighten the competition for resources.

So, with a few exceptions, the fiscal consolidation will hit low-income families hard across benefits and many services. Since 77 per cent of the fiscal pain is set to come from public spending cuts

rather than tax rises, it was all but inevitable that the major beneficiaries would bear much of the burden.²² Regrettably, families on low-incomes are a major part of this group. There is little chance of ameliorating action by government. Indeed, if economic growth does not resume as hoped, it could be that further cuts to services and benefits will be sought. We are at the end of the beginning of the cuts, but the journey to 2015 will be a tough one.

13 Mike Brewer, *The fiscal crisis and welfare benefit in the UK: big cuts and radical reforms* (IFS, July 2011)

14 IFS, *Child and Working-Age Poverty from 2010 to 2013* (December 2010)

15 *Ibid.*, p. 30

16 Robert Joyce and Luke Sibieta, 'Country case study – UK' in Stephen P. Jenkins et al, *The Great Recession and the Distribution of Household Income* (LSE, September 2011), pp. 7–29

17 Written ministerial statement by the Secretary of State for Education on schools financial settlement – education spending (13 December 2010)

18 PwC, *Local Government Financial Challenges Survey* (2011)

19 LGA, *Report of the Council Budgets, Spending and Saving Survey 2011* (April 2011)

20 LGA, *Budget 2011* (March 2011)

21 LGA, *Provisional Local Government Finance Settlement 14 December 2010* (December 2010)

22 House of Commons Treasury Select Committee, *Spending Review 2010* (2010), pp. 37–38