The impact of austerity on vulnerable families should be an area of major concern for the government

Howard Reed *predicts that the number of families who are especially vulnerable in the UK will increase by 14 per cent between 2010 and 2015, with public spending cuts hitting them particularly hard.*

It is common knowledge that the combination of a slow and faltering recovery from the Great Recession of 2008-09 and the severe austerity measures currently being undertaken in a bid to eliminate the deficit in the public finances are making life difficult for many households in Britain. But what about the families who can least afford a deterioration in living standards from their present position – the most vulnerable families in society? Landman Economics was recently commissioned by Action for Children, the Children's Society and the NSPCC to undertake an analysis of the impact of austerity on Britain's most vulnerable families and children, which was published earlier this month in the report *In the Eye of the Storm: Britain's Forgotten Children and Families.* This blogpost explains some of the main findings of the project.

The research focused on families with children who were classified as "vulnerable" under at least one of seven different indicators developed by the UK Cabinet Office for its 2007 report *Families at Risk*. The Cabinet Office's research analysed a dataset of families with children in England, Scotland and Wales called the Families and Children Study (FACS). The indicators of vulnerability used were as follows:

1. **Worklessness** – no parent in the family is in work;
2. **Housing** – the family lives in poor quality and/or overcrowded housing;
3. **Qualifications** – no parent in the family has any academic or vocational qualifications;
4. **Mental health** – the mother in the family has mental health problems;
5. **Illness/disability** – at least one parent has a limiting long-standing illness, disability or infirmity;
6. **Low income** – the family has low income (below 60 percent of the median);
7. **Material deprivation** – the family cannot afford a number of food and clothing items.

The original Cabinet Office analysis 'scored' families according to how many of these seven vulnerability conditions were met. The Cabinet Office's headline criterion for being classified as vulnerable was five or more of the vulnerability measures.

Obviously any definition of "vulnerability" can be criticised as somewhat arbitrary, but given that the Cabinet Office produced this definition only a few years ago – and also that the UK Department for Communities and Local Government used it last year as a proxy for the number of "troubled families" in England – it seemed like an obvious starting point for this analysis.

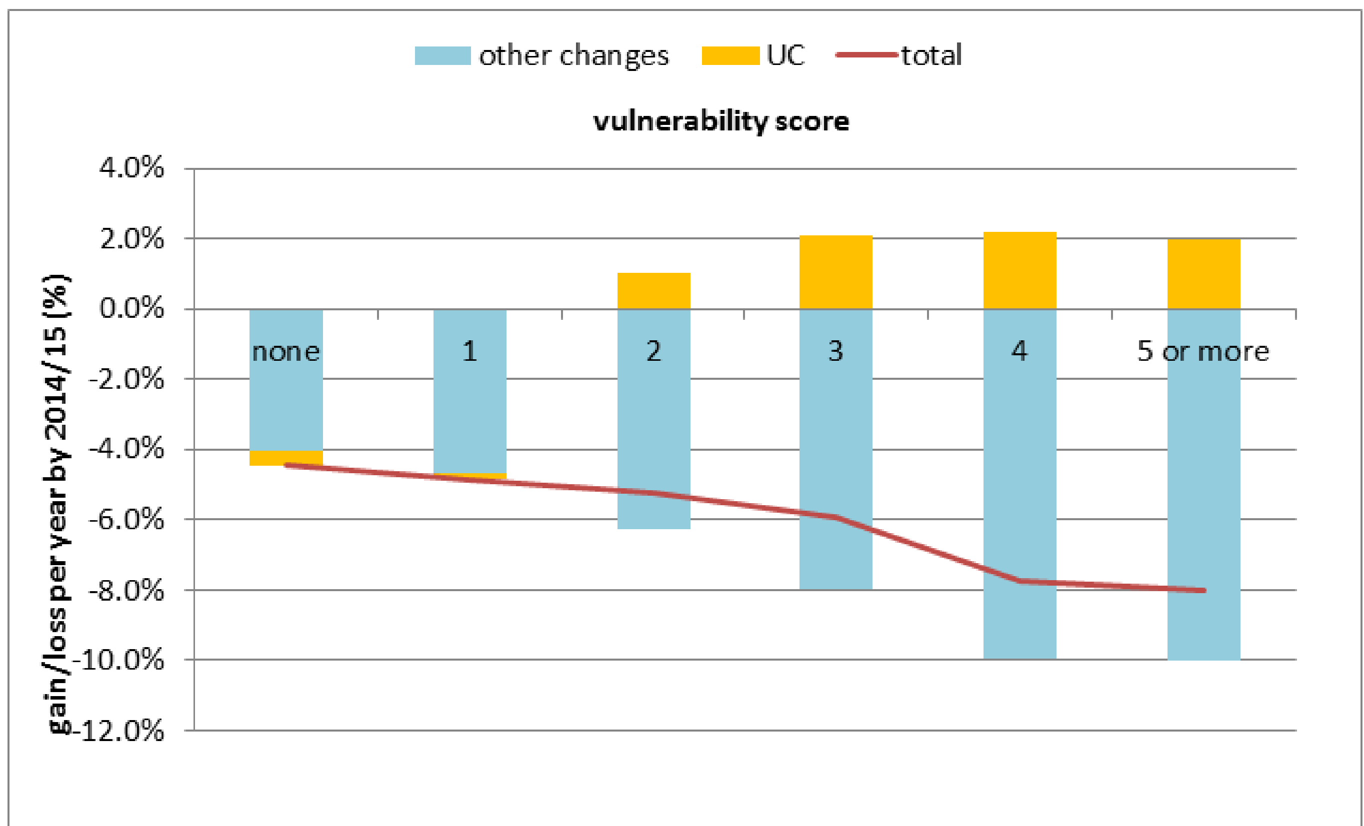
This research had four main aims. Firstly, it seemed useful to bring the Cabinet Office research as far up to date as possible. The Cabinet Office research used data up to 2004, but FACS is available up to 2008 (after which the survey was discontinued). The results show that the number of families defined as 'vulnerable' on five or more measures decreased from around 160,000 in 2004 to just over 130,000 in 2008.

Secondly, the project looked at the impact on vulnerable families of changes to taxes, benefits and tax credits occurring between 2010 and 2015. Microsimulation using the 2008 FACS data – uprated to April 2012 prices and earnings levels – was used to model as many of the changes as possible, including: income tax and employee National Insurance contributions changes; the increase in VAT from 17.5 to 20 per cent; the freezing of Child Benefit in nominal terms; reductions in the generosity of Housing Benefit,

Council Tax Benefit and the Child and Working Tax Credits; the replacement of tax credits and most means-tested benefits with Universal Credit in autumn 2013 and the changeover from Retail Price Index to Consumer Price Index uprating.

Figure 1 below shows the overall results of this analysis for families in the 2008 FACS in percentage terms, broken down by vulnerability "score" (from no vulnerabities on the left-hand side to five or more vulnerabilities at the right hand side). The effect of Universal Credit is positive for families with two or more vulnerabilities but the effect of the other tax and benefit changes is larger (as a percentage of net income) the more vulnerable each family is, and this effect dominates the overall distributional pattern.

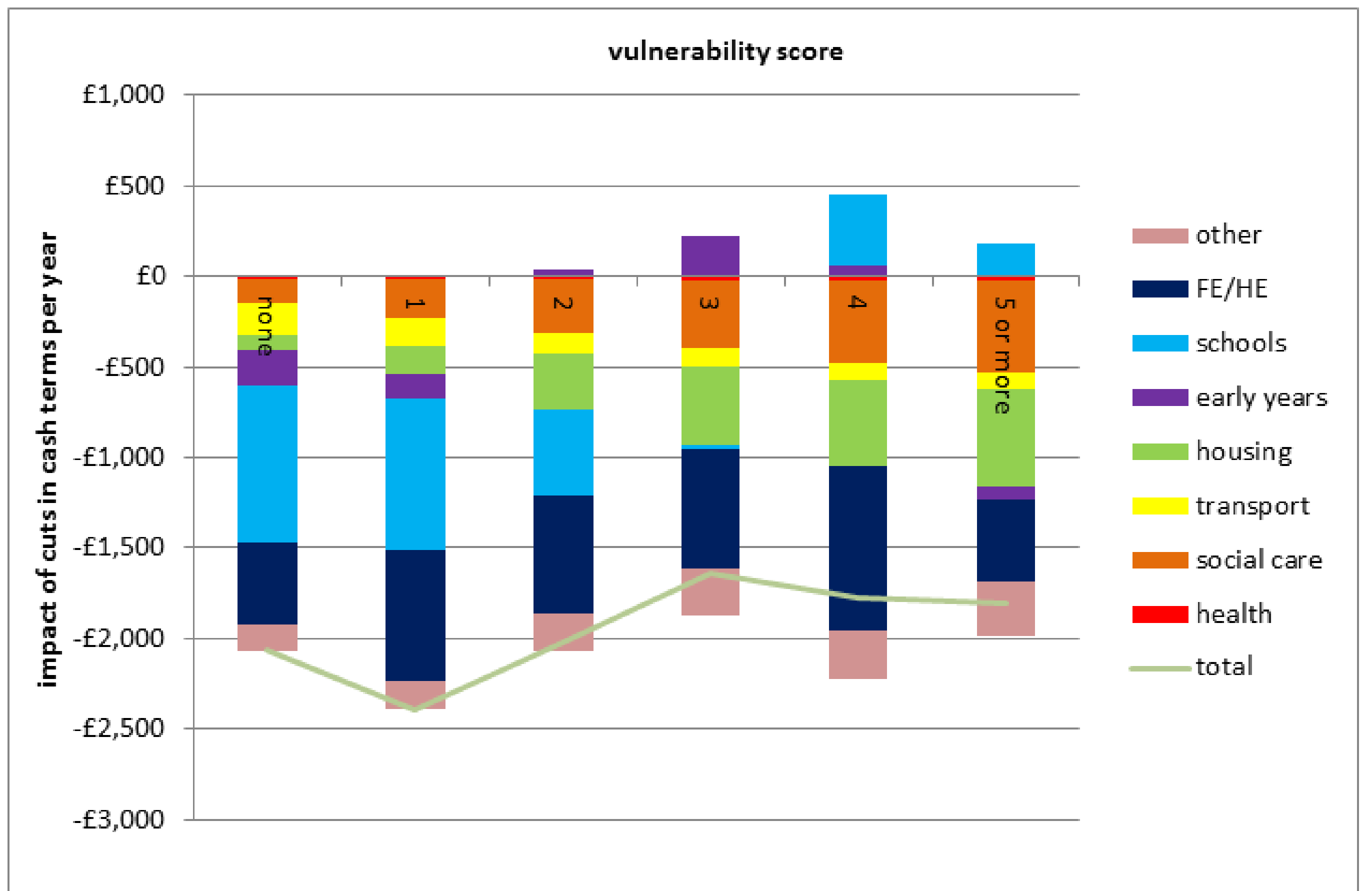
Figure 1. Distributional impacts of changes to taxes, benefits and tax credits for families by vulnerability "score": 2008 FACS



Thirdly, the analysis uses a model of the distributional effects of public spending which I developed in earlier work for the TUC to analyse the distributional impacts of changes in public spending on various services (excluding the benefit cuts shown in Figure 1 above), based on combining data from the 2010 Spending Review on the extent of spending cuts for each department, with data from FACS and other UK household surveys on how much of each service families with children use based on their characteristics (such as income, number and age of children, housing tenure, etc.).

The resulting impact of the cuts in cash equivalent terms is shown in Figure 2. The more vulnerable families are hit hardest by cuts to spending on social care, public housing, and 'other' services (primarily welfare-to-work spending). By contrast, schools spending on families with four or more vulnerabilities rises due to the impact of the "pupil premium" which allocates more money to pupils in disadvantaged areas, but the impact of this is not enough to offset the spending cuts in other areas. Relative to their average incomes, the most vulnerable families are hit harder by spending cuts than families with fewer (or no) vulnerabilities.

Figure 2. Cash equivalent impact of cuts to public spending, 2010-15, by vulnerability "score": FACS 2008



The final part of the research attempts to forecast the extent to which the number of vulnerable families with children will increase between 2010 and 2015 as a result of changes in tax and benefits, spending cuts and the ongoing effects of the economic downturn. This is done using a combination of the model used to work out the income effects of the tax and benefit changes, unemployment and economic growth projections from the Office for Budget Responsibility, and extrapolation of longer-run trends in educational qualifications and disability. By 2015, I estimate that there will be:

- 120,000 more workless families;
- 25,000 more families with a mother suffering from depression;
- 100,000 more families living on a low income (below 60 per cent median income);
- 25,000 more families in material deprivation;
- 40,000 more families living in poor quality or overcrowded housing;
- Approximately the same number of families with a limiting long-run illness, disability or infirmity;
- and 100,000 fewer families where there is no adult with a qualification.

Overall, between 2010 and 2015 it is estimated that the number of families with five or more vulnerabilities will increase from 130,000 to 150,000 – an increase of just over 14 per cent. The number of children living in families with five or more vulnerabilities is set to rise by 54,000 to 365,000, an increase of around 17 percent.

To summarise, this research project suggests that by 2015 there will be significantly more vulnerable families – using the government's own definition – than there were in 2010. They will be significantly worse off in terms of disposable income than they were in 2010 and the public spending cuts will have hit them particularly hard compared with the population at large. On this reading of the situation, the outlook for vulnerable families over the next three years – and beyond – should be of major concern to policymakers.

Note: This article gives the views of the author, and not the position of the British Politics and Policy blog,

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About the author

Howard Reed is director of the economic research consultancy Landman Economics, which specialises in econometric modelling work and policy analysis. Current research projects for Landman Economics include an innovatve microsimulation model of wealth taxation and an in-depth analysis of the reasons for the decline in wages as a share of UK national income. Before founding Landman Economics in 2008, Howard was chief economist at the Institute for Public Policy Research.

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