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Social Policy in a Cold Climate

Summary Research Report 4

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The Coalition's Social Policy Record 2010-2015

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This paper summarises nine detailed reports assessing the social policies of the UK Coalition government elected in 2010. What did the Coalition set out to achieve? How much was spent and saved? What policies were enacted and with what effect?

- The Coalition made 'tackling our record debts' its most urgent task. However, it also aimed to deliver radical reforms to achieve 'a stronger society, a smaller state and responsibility in the hands of every citizen'.
- Rapid and far reaching reforms were enacted: re-structuring the NHS; expanding the number of Academies; starting to introduce Universal Credit; pension reforms; widening non-state provision, increasing local autonomy and reducing eligibility for services and benefits.
- The Coalition's decisions to offer relative protection to schools, pensions and the NHS meant that its austerity programme was more limited overall than its rhetoric suggested, and was concentrated in particular policy areas. Total public spending fell by 2.6 per cent between 2009/10 and 2014/15. However, "non-protected" services were cut by around one-third.
- Although the Coalition stressed the importance of the "foundation years", real spending per child on early education, childcare and Sure Start services fell by a quarter between 2009-10 and 2012-13 and tax-benefit reforms hit families with children under five harder than any other household type. Provision for adult social care users fell 7 per cent per year during the Coalition period to 2013/14.
- Despite a promise that the better-off would carry the burden of austerity, changes to direct taxes, benefits and tax credits affected poorer groups most. After initial protection ended, estimates suggest that poverty increased to 2014/15 and will get worse in the next five years.
- It is too early to assess the full effect of the Coalition's structural reforms (such as changes to the school system). Whoever is elected in May 2015 will face many continuing issues including child poverty, unaffordable housing, pressure on the NHS and social care from an ageing population, a regionally unbalanced economy, low wages and insufficient affordable childcare. The 'cold climate' for social policy - very high public sector debt and a high deficit – also remains.

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The Coalition's Inheritance

The Conservative - Liberal Democrat Coalition that took power in May 2010 inherited a particularly tough fiscal climate. By the end of 2009/10 net public sector debt had reached £956.4bn (62 per cent of GDP), while the current budget deficit stood at £103.9bn (6.9 per cent of GDP). These figures were very high for the UK by recent standards and reflected the impact of the global financial crisis that affected most major world economies in similar ways. Strategic choices had to be made: should public spending be maintained in a Keynesian move to support economic growth, or cut in order to pay down the debt quickly? Should efforts to balance the public finances focus on tax increases or spending reductions? Who should bear the burden of these efforts?

On the issues that are the principal concern of our enquiry – social outcomes, poverty and inequality – the Coalition inherited a better situation than its predecessor. Labour's social policy programmes had delivered expanded public services. Socio-economic gaps in access to services had decreased. Economic and social outcomes, such as pupil achievements and child poverty, had also generally improved, while differences between the most and least deprived social groups narrowed.

But a lot remained to be done. Child and pensioner poverty had fallen, but overall income inequality had not. There were still large social class gaps in health, early childhood development, school achievement, university participation, and neighbourhood living conditions. An ageing population made the funding of health, social care and pensions increasingly challenging. Other pressures included rising unemployment, concerns about the quality of care, and a chronic under-supply of housing.

What were the Coalition's aims and goals?

The incoming Government declared that its most urgent task was to tackle the country's debts. But it also insisted that fairness would lie at the heart of its decisions "so that those most in need are most protected". The better-off would be expected to: "pay more than the poorest, not just in terms of cash, but as a proportion of income as well".

Beyond deficit reduction, the Coalition set a further goal of improving social mobility and creating a society where "…everyone, regardless of background, has the chance to rise as high as their talents and ambition allow them". Reforms to 'welfare', taxation and education were promised, with devolution of decision-making powers from central to local government and communities. Defining its core values as "freedom, fairness and responsibility", the Coalition pledged to deliver "radical reforming government, a stronger society, a smaller state and power and responsibility in the hands of every citizen".

What did the Coalition do?

Cut public spending, rather than raising taxes

A fundamental decision announced in the Coalition's first, "emergency" Budget was to target deficit reduction through spending cuts (77 per cent) much more than tax increases (23 per cent). On the taxation side of its strategy, the Coalition raised the VAT rate from 17.5 to 20 per cent, and increased Capital Gains Tax for higher rate taxpayers. Yet room was also made for sizeable tax cuts – including raising the Income Tax personal allowance from £6,475 to more than £10,000. Corporation Tax was cut, and, from 2013/14, the Income Tax rate for people earning over £150,000 was reduced from 50 per cent (recently introduced by Labour) to 45 per cent.

Gave relative protection to the NHS and schools, but made deep cuts to other budgets

The Government chose to maintain spending in some policy areas and implement deeper cuts elsewhere. Budgets for the NHS and schools, accounting for more than a quarter of total departmental expenditure, were relatively protected. Spending on health grew in real terms by 2.7 per cent between 2009/10 and 2013/14: a real increase although a smaller growth rate than in previous years and much lower than the increase in need (for example as measured by the increasing elderly population). Schools expenditure fell by less than one per cent up to 2012/13 (the latest data available). A Pupil Premium, paid to support pupils from low-income families, helped maintain school budgets and also directed money towards those in more disadvantaged contexts.

Although funding for schools and 16 to 19 year-old learners was protected, the budget for adult skills training was reduced by 26 per cent between 2009/10 and 2013/14. Higher education spending was also cut – by 44 per cent in the short-term – as government grants for teaching were replaced with student tuition fees and loans.

The biggest losers among 'non-protected' services were those provided by local councils. Between 2009/10 and 2014/15, local government funding in England fell by an estimated 33 per cent. Within particular service areas, spending on children aged under five fell 21 per cent between 2009-10 and 2012-13, with falls of 11 per cent for early education and 32 per cent for Sure Start. These reductions coincided with a 6 per cent increase in the number of under-fives. Spending on housing and community amenities, which includes funding to build social housing, fell by 35 per cent between 2009/10 and 2013/14. All the main central government funding streams for neighbourhood renewal were removed. Budgets for residential homes and other adult social care community services were cut by 7 per cent between 2009/10 and 2013/14, while the population aged 65 and over grew by 10 per cent.

Uprated pensions, while reducing other social security budgets

Pensions were protected from Coalition commitments to curtail spending on social security. A 'triple lock' was put in place requiring them to be uprated each year by earnings growth, price inflation or 2.5 per cent, whichever was highest. In contrast, cuts were made elsewhere by restricting eligibility for tax credits and working-age benefits and imposing new conditions on claimants. Benefits were made less generous by a change to the inflation index used for annual adjustments and by below-inflation increases from 2012-13, as well as cuts for particular groups.

Restructured the welfare state

Alongside spending cuts, the Coalition embarked on an extensive restructuring of welfare state institutions. In education, it vastly extended Labour's programme of directly-funded Academies, and enabled 'Free Schools' to be set up by groups of parents, charities or other institutions. Higher education regulations were changed to allow new providers to offer degree qualifications. In the NHS, government introduced major reforms emphasising competition, decentralisation, a range of provider types (public, private and third sector) and outcomes. Delivery of a new, consolidated Work Programme, helping jobseekers to gain employment, was contracted-out on a 'payment-by-results' basis. Social housing providers were encouraged to seek more private funding for new homes, charge rents closer to market levels, and move away from 'tenancies for life'.

'Localism' provided another key theme. Government regional offices and regeneration programmes, were abolished in favour of local decision-making. Local government finance was reformed to provide more incentives for economic development. In addition, two elements of the social security system – the Social Fund and Council Tax Benefit – were devolved to local authorities, both with reduced budgets. New rights were also conferred on community groups. Local government assumed new responsibilities and powers in the context of public health and the public health budget was devolved. However, with the exception of public health, the expansion of local powers and responsibilities took place at a time when budget cuts gave local authorities less capacity to make use of them.

The Coalition also shifted the boundaries of welfare provision, in many cases moving away from 'progressive universalism' towards greater targeting. Eligibility was restricted for some benefits and services. Extra conditions were imposed, particularly for out-of-work benefits, along with tougher penalties for not meeting them. In some areas, financial responsibility underwent a wholesale shift from the state to the individual; for example, by trebling university student tuition fees in England and by introducing adult learning loans. In social care there were moves in both directions: on the one hand tighter eligibility criteria for receipt of social care services shifted responsibility towards individuals and their carers; on the other hand the Care Act 2014 introduced a lifetime cap on the total long-term care costs individuals would in future be required to pay.

Embarked on reforms to the content and design of services

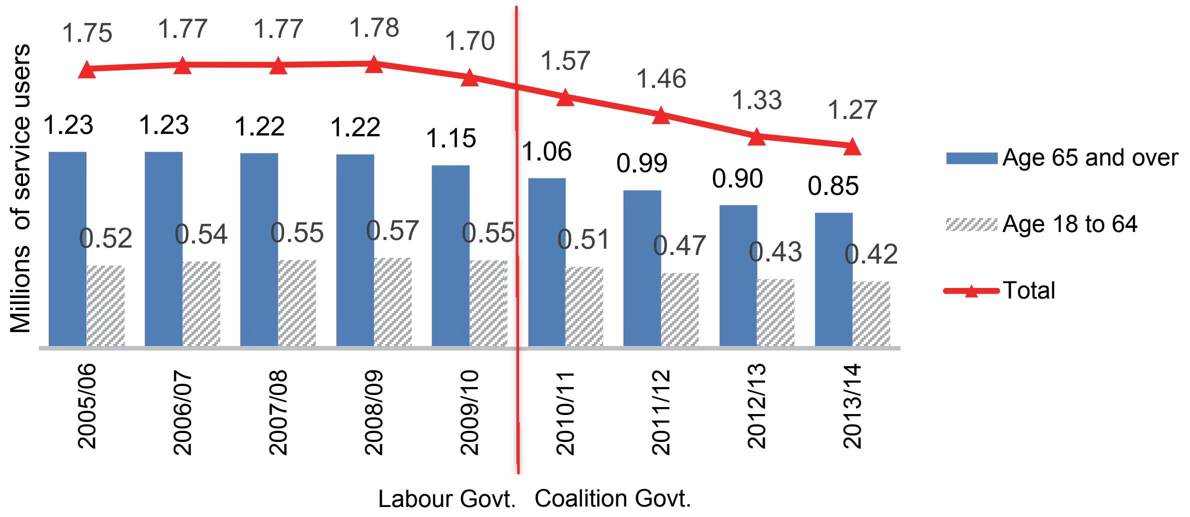
In some policy areas the Coalition's reforms went deeper into the content and design of services, living up to its promise of sweeping changes. These changes are described in detail in the papers that underpin this summary report. For example, the school curriculum and examination system in England were overhauled, justified on the grounds of making them more rigorous, and a new system of teacher training was introduced. In adult skills training, the Coalition instituted changes to the length and quality of apprenticeships, designed to bring England closer to European systems. One of the most ambitious reforms was a complete overhaul of working-age benefits and tax credits, bringing most of them into a single system, Universal Credit (UC), designed to incentivise work and get rid of complicated overlaps in means-tests and taxation. While many people support the principles behind UC, it proved challenging to implement, and there are remaining concerns about its design and the capacity of the IT system to cope with the number of monthly changes in circumstances which will be required. Just 18,000 people were receiving it late 2014, against an original target of 2 million.

What were the results?

Cuts in many services and increasing pressure on others

'Unprotected' services have been substantially reduced. In adult social care, where spending was cut despite a growing elderly population, there was a falling caseload (down 25 per cent from 2009/10 to 2013/14) (Figure 1) and 'intensified' focus on supporting those with the greatest needs. Housing policies made little impact on the supply of new homes. Between 2010 and 2013 an average of 139,000 new homes per year were completed, compared with 190,000 under Labour. There were 17 per cent fewer adult learners as course funding was curtailed, and loans introduced. Centrally funded neighbourhood renewal activity was drastically reduced, while economic regeneration programmes performed well below expectations in terms of business and job creation. Despite Government endorsements for voluntary activity and a 'Big Society', Third Sector budgets also fell, with cuts estimated between 50 and 100 per cent in some deprived neighbourhoods.

Figure 1: Falling number of people receiving community-based, residential or nursing care services through local authorities, by age group, 2005/6 to 2013/14, England



Source: National Adult Social Care Intelligence Service (NASCIS)

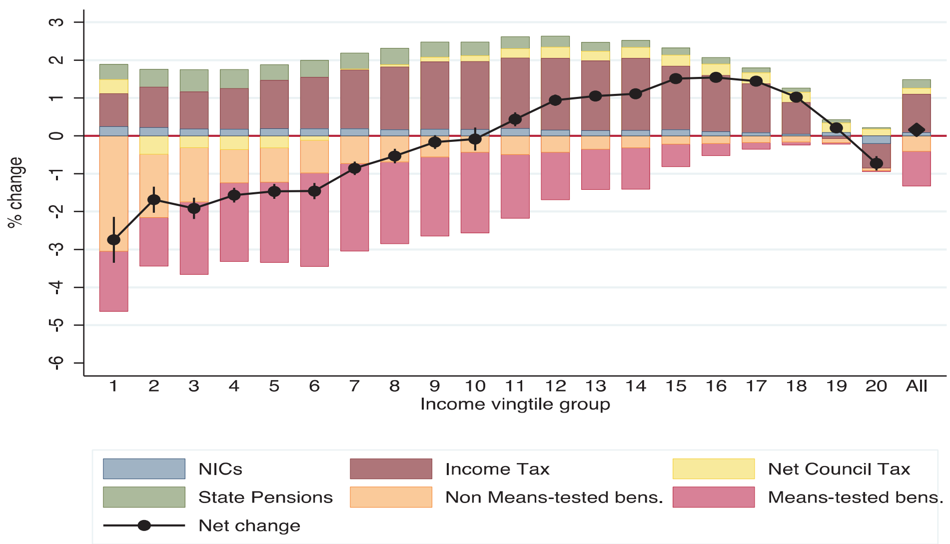
In early years services, the number of Sure Start children's centres fell from 3,631 in April 2010 to 3,019 in June 2014, although survey data showed that many of those remaining expected to maintain, or even expand, the services they provided, in part by making them more targeted. There was also new early education provision for 2-year olds and the number of health visitors and Family Nurse Partnership provision for teenage parents expanded.

'Protected' areas have been less hard hit. In education, the Coalition kept school funding resources broadly stable. In England, the number of schools increased, pupil-teacher ratios were maintained, and while the average class size increased in primary schools, it fell in secondary schools. Although there were more 16-19 year learners, the proportion not in education, training or employment fell. Health services were protected relative to other areas but pressures on access and quality began to emerge as increases in demand outstripped increases in spending. The proportion of cancer patients seen within 62 days declined and fewer hospitals met their Accident and Emergency waiting-time targets. Public satisfaction with the NHS, measured by the British Social Attitudes Survey, fell from 70 per cent in 2010 to 60 per cent in 2013. Among employment services, the new Work Programme proved cheaper, though no more effective, than its predecessors.

Tax and benefit changes benefited richer groups more, while contributing nothing to deficit reduction

Despite the Coalition's insistence that "those with the broadest shoulders should bear the greatest burden", the poor bore the brunt of its changes to direct taxes, tax credits and benefits from May 2010 to 2014-15. Up to 2014/15, the poorest twentieth lost nearly 3 per cent of their incomes on average from these changes (not allowing for VAT and other indirect taxes) and people in the next five-twentieths of the income distribution lost almost 2 per cent. With the notable exception of the topmost twentieth, those in the top half of the distribution were net gainers from the changes (Figure 2). Perhaps surprisingly, overall the 'welfare' cuts and more generous tax allowances balanced each other out, contributing nothing to deficit reduction.

Figure 2: The combined impact of direct tax and cash transfers was mostly regressive, moving incomes from poorer households to those that were better off.



Source: De Agostini, et al (2014)/EUROMOD. Figures show percentage change in household disposable income by income group due to policy changes, compared with May 2010 system uprated by CPI.

Early protection for the poor, but increasing poverty later

As a result of decisions made under Labour and initially continued, benefits rose in line with inflation during the Coalition's first two years at a time when real earnings fell during the recession. The result was that poverty measured in relation to median incomes (before housing costs) fell until 2012-13. Income inequality also fell during election year 2010-11 and held steady up to 2012-13 at its lowest level for a quarter of a century. However, figures measuring poverty against a fixed income threshold show an increase over the same period – the more so when housing costs are taken into account.

These latest official figures pre-date most of the Coalition's welfare reforms coming fully into effect. Modelling analysis by the Institute for Fiscal Studies suggests there will already have been a sharp rise in relative poverty (and in poverty against a fixed line) between 2012/13 and 2014/15 for children and for working-age non-parents, and then a further rise to 2020/21, with the relative child poverty rate reaching 21 per cent, up 3.5 percentage points from 2012/13. Qualitative evidence suggests growing hardship since 2013 among households affected by a combination of falling real wages, rising fuel and food costs, changes to benefit rules, and sanctions.

Pensioners were protected, children less so

As far as taxes and benefits (including pensions) are concerned, pensioners continued to be relatively favoured. As a share of national income, transfers to pensioners had increased under Labour from 5.4 per cent of GDP in 1996-97 to 6.6 per cent in 2009-10. This was also the proportion in 2014-15, although a peak of 6.9 per cent was reached in 2012-13. However, pensioners with care needs were affected by cuts to adult social care.

Meanwhile the cost of working-age benefits not related to having children fell from 3.4 per cent in 2009/10 to 3.1 per cent in 2014/15, and spending related to children from 2.8 per cent to 2.3 per cent of GDP by 2014-15. Concerns about future social mobility might be raised as young children in low-income families were affected by cuts to spending on services, as well as by reductions in benefits for the under-fives. On the other hand, poorer school age children received additional help through the Pupil Premium. Fears that the abolition of the Education Maintenance Allowance and the rise in university tuition fees would widen socio-economic gaps in further and higher education participation have not been borne out to date. In fact the proportion of young people not in education, employment and training fell for the first time in a decade in 2013, and increasing numbers of disadvantaged young people applied to university.

Too early to tell for many social and economic outcomes

Most data indicating changes in outcomes are only available until 2012 or 2013, making it impossible to assess the full impact of Coalition policies. The data available to date show that progress in many areas continued in the new government's early years, but much of this must be considered the legacy of the previous government, since many policies were not fully implemented in the period covered. An exception is education, where, up until 2013, attainment continued to improve and socio-economic gaps to narrow, although no immediate accelerating effect of the Pupil Premium was evident. Early indications are that these gaps may widen when 2014 results are released, since poor pupils have tended to rely more on the vocational qualifications that now carry less value in school league tables.

The overall picture is that there has been little significant change, as yet, in many of the key indicators of social progress and equity. Health inequalities remain deeply entrenched. There is no evidence of closing socio-economic gaps in child development. Gaps in worklessness and poverty between the poorest neighbourhoods and others reduced as the economy recovered, but not quite back to their pre-economic-crisis levels. The Coalition did preside over positive trends in employment, which rose to a new peak in summer 2014, higher than before the crisis. But wages fell and much of the increase was in self-employment and part time working. Some indicators were less positive. Unmet needs for care among the elderly increased. Housing became increasingly unaffordable and homelessness increased.

Still high levels of debt and deficit, and further cuts to come

The protection of health, schools and pensions from major spending cuts meant that even with reductions of around a third in some other services, the scope for budget savings was limited. Overall, the effect of all the Coalition's measures in the current parliament has been to cut public spending by 2.6 per cent in real terms, from £674bn in 2009/10 to £656bn in 2014/15 (at 2009/10 prices). As GDP grew, this brought spending down from a peak of 47.1 per cent of GDP in 2009/10 to 43.7 per cent in 2014/15.

The current budget deficit was reduced from 5.9 to 3.5 per cent of GDP. However, public sector net debt rose to 80 per cent of GDP by 2014/15. Current plans to address this are predicted to reduce public spending overall to 38.2 per cent of GDP by 2018/19. Day-to-day spending on public services (excluding benefits and debt repayments) is predicted to fall to its smallest share of national income at least since 1948.

Conclusions

There is no doubt that the Coalition Government formed in 2010 faced a very tough fiscal climate and ongoing social policy challenges. Its response was to seek to reduce the deficit quickly. It also decided to achieve most of its fiscal rebalancing through public spending cuts rather than increased taxes, and to protect the NHS, schools and pensions - all very big areas of public spending - from major cuts. And it implemented some expensive commitments, notably increasing the income tax personal allowance to £10,000 and a more generous system for uprating state pensions.

These decisions meant that while the overall reduction in public expenditure has been less than three per cent, very substantial cuts were made in unprotected areas, largely in local services. In the tax and benefits system, pensions were protected and benefits to lower income families were reduced, while there were tax reductions for some better off households. Despite the aim that the better-off should contribute a greater share of income than the poor, the reverse was the case across most of the income distribution. Poverty rates measured against a fixed threshold rose to 2012/13 (the latest official data) and are predicted to rise further, and there are signs of increasing material deprivation and hardship arising from a combination of rising costs of living, reductions in the value of benefits and eligibility and short-term benefit sanctions. Meanwhile, the 'protected' NHS has experienced real average annual expenditure growth rates that have been positive but exceptionally low, while adult social care services have been cut.

Although current public attention rests on 'the cuts', the Coalition's large-scale reforms designed to reduce the size of the state, stimulate private and voluntary provision and increase personal responsibility may ultimately prove its biggest legacy. It is too soon to establish their effects on social and economic outcomes. Whoever is elected in 2015 faces a welfare state in flux, with fundamental changes to the NHS, schools, and benefits still underway. At the same time, many problems that the Coalition inherited remain. Increasing need for health and social care, unaffordable housing, a regionally unbalanced economy, and continuing labour market inequalities all remain to be tackled, as do child poverty, insufficient high quality affordable childcare, a weak system of apprenticeships for young people and relatively ineffective mechanisms for helping workless people back into work. The next Government, like the Coalition, will need to address these issues in the context of high public sector net debt and a current budget deficit, and with many of the most straightforward cuts already made. The climate for social policy and those most affected by it will remain cold for the foreseeable future.

Further information

The full version of this paper *The Coalition's Social Policy Record: Policy Spending and Outcomes 2010-2015,* is available at http://sticerd.lse.ac.uk/dps/case/spcc/RR04.pdf. It is a summary of nine detailed accounts of changes under the Coalition in all the topics mentioned in this paper: cash transfers, health, adult social care, housing, employment, the under fives, schools, further and higher education and area regeneration. Readers wanting further details are advised to go to the individual papers which can be found at http://sticerd.lse.ac.uk/case/_new/research/Social_Policy_in_a_Cold_Climate.asp. All the papers are part of CASE's research programme *Social Policy in a Cold Climate* (SPCC), funded by the Joseph Rowntree Foundation, the Nuffield Foundation, and Trust for London. The views expressed are those of the authors and not necessarily those of the funders.