

Equality and Human Rights Commission

Research report 94

# Cumulative Impact Assessment: A Research Report by Landman Economics and the National Institute of Economic and Social Research (NIESR) for the Equality and Human Rights Commission

*executive summary*

Howard Reed and Jonathan Portes



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# Executive Summary

In May 2012, the Equality and Human Rights Commission (EHRC) published *Making Fair Financial Decisions: An Assessment of HM Treasury (HMT)'s 2010 Spending Review conducted under Section 31 of the 2006 Equality Act* (EHRC, 2012). One of the key issues examined in the EHRC report was cumulative impact assessment. Cumulative impact assessment techniques measure the overall impact of a set of changes to government policies (such as tax or welfare reforms, or changes to other public spending) on the UK population, analysed according to one or more characteristics (e.g. income level, age, family type, ethnicity, disability, and so on). Rather than looking at individual policy decisions in isolation, cumulative impact assessment helps government and the public to assess the overall impact of government policies on the population as a whole and on specific groups. The government already undertakes cumulative impact assessments, but not for the main groups of people sharing protected characteristics.

In March 2013, the EHRC commissioned NIESR, working with Landman Economics, to explore, develop and model the impact of various policy changes in the 2010-15 period on groups of people with different protected characteristics.

This research addresses the question of the extent to which it is possible to use cumulative impact assessment techniques to analyse the equalities impacts of tax, welfare and spending policies. It has four objectives:

1. To explore the various data sources and modelling and methodological issues involved in modelling distributional issues by equality group.
2. To provide a preliminary assessment of the impact of tax, welfare and other spending changes in the 2010-15 period on people with different protected characteristics disaggregated by gender, ethnicity, disability and age.
3. By doing so, to provide a 'proof of concept' for further modelling work, whether inside or outside government.
4. To make recommendations with regard to best practice for cumulative assessment and how such assessments might be best conducted in future.

The report draws on the two main data sources used most extensively by government departments and other researchers for modelling the cumulative impact of tax and social security policies, the **Family Resources Survey (FRS)** and the **Living Costs and Food Survey (LCF)**. Both datasets have different strengths and weaknesses which are addressed in detail in the report. The modelling was done using Landman Economics' existing micro-simulation model.

## Key findings

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### Feasibility of cumulative impact assessment

The research found that:

- Consistent with the original NIESR assessment, modelling cumulative impact assessment by equality group is feasible and practicable (at least for the protected characteristics for which sample size information is available in household survey data).
- However, again consistent with the original assessment, a number of important caveats apply. Some of the modelling by its very nature is experimental and we hope will be the basis of future discussion with HM Treasury and the Fair Financial Decisions Advisory Group. Some relate to data constraints (sample size or the nature of the relevant surveys); others, particularly in the case of gender, are methodological choices.
- In order to get a full picture of the impact, it is necessary to look at impacts both by income and by equality group, where possible in conjunction (where sample size allows). In other words, it is not particularly sensible to look just at the impact on men compared to women, as opposed to comparing low income men with low income women and so on.
- Modelling the impact of tax and benefit changes is easier, both conceptually and in practice, than modelling the impact of public spending changes. So although this report presents analysis for both we acknowledge that the latter is a preliminary assessment and that there is more to be done going forward.

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## Impact of tax, spending and benefit changes 2010-15

Based on the stage of development of the model to date, the report found that:

- The impacts of tax and welfare reforms are more negative for families containing at least one disabled person, particularly a disabled child, and that these negative impacts are particularly strong for low income families. This is not surprising, given the significant reductions to working-age welfare, and the high proportion of working age welfare spent on disabled people, particularly those on low incomes.
- Women lose somewhat more from the direct tax and welfare changes compared to men. This is mainly because women receive a larger proportion of benefits and tax credits relating to children, and these comprise a large proportion of the social security reforms between 2010 and 2015. It should be noted that these results are sensitive to the precise assumption made on the 'sharing rule' being used within households.
- Households containing younger adults do better than other households; although the impact of benefit changes is relatively uniform across groups, they benefit more from changes to direct taxation (the increase in the personal allowance) than any other group.
- In terms of public services (as opposed to tax and welfare), Black and Asian households lose out somewhat more than other groups. This is largely due to greater use of further and higher education, and (for Black households) social housing.

## Recommendations

The main recommendations of the study are that:

1. HM Treasury's distributional impact analysis of tax and benefit changes should incorporate analysis by groups sharing different protected characteristics in particular disability, ethnicity, age and gender. The analysis should:
  - show the impact of tax and benefit changes by different groups;
  - show the interaction between distributional impacts by income and by equality group;
  - identify the key drivers of differential impacts; and
  - identify the key assumptions made in producing the analysis and, where appropriate, present alternative assumptions.

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2. HM Treasury should consider its approach to equality impact assessment for the next Spending Review (2015). In particular, it should:
  - issue guidance to Departments on data collection and analysis;
  - identify in which areas quantitative analysis of equality impacts is likely to be feasible and informative, focusing on key service areas (health, education, etc); and
  - publish a detailed explanatory and methodological note to guide interpretation of distributional impact analysis (covering both income and equality issues).



This research report examines the extent to which it is possible to use cumulative impact assessment techniques to analyse the equalities impacts of tax, welfare and spending policies. It considers the feasibility of cumulative impact assessment, details the impact of the tax, spending and benefits changes 2010 – 2015 and provides key recommendations. This exploratory research was commissioned by the Equality and Human Rights Commission as part of its work to examine ways of making financial policy-making fairer.