Dear Tommy,

Thank you for contributing to the Lords debate on the persistent child poverty target regulations on Tuesday 25 November.

During the debate you mentioned a recent independent report from the London School of Economics (LSE) and the Institute for Social and Economic Research (ISER). You noted that the report states that changes to benefits and income tax have had the effect of switching income from the poorer half of households to the richer half, with the poorest 5 per cent in the country losing nearly 3 per cent of what they would have earned if the tax and welfare system of May 2010 had been retained.

As I alluded to during the debate, the Government has regularly published analysis at each Budget and Autumn Statement. The most recent analysis was published on 3rd December 2014\(^1\) which shows that:

- The 20 per cent of households with the highest income continue to make the greatest contribution towards reducing the deficit – both as a percentage of their income and benefits in kind from public services and in cash terms.

- In 2015-16, the net contribution to consolidation\(^2\) of the top quintile will be larger than the net contribution of the other four quintiles put together.

- On average, in 2015-16 the 20 per cent of households with the lowest income will receive almost five times as much support from spending on public services and welfare as they contribute in tax.

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\(^2\) This is the action taken to reduce the gap between what the state spends and what it raises in taxes.
• Before consolidation, the 20 per cent of households with the highest income contributed three and a half times as much in tax as they received from public spending. This has now increased to almost four times as much.

This analysis is much wider in scope than in the report published by the LSE and ISER as it includes changes to fuel duty, considers the wider distributional impacts of public service spending, and where possible, considers the increased tax take through the government’s measures to reduce tax avoidance.

Independent figures published in June earlier this year by the Office for National Statistics show that the benefit system continues to be redistributive from those with higher incomes to those with lower incomes. The 2012/13 “Effects of Taxes and Benefits on Household Income” publication estimates that the average disposable income was unchanged from 2011/12, but that it remains lower than at the start of the economic downturn, with equivalised disposable income falling by £1,200 since 2007/08 in real terms. This report also shows that the current system is helping the poorest in society:

• Before taxes and benefits are taken into account, the richest fifth of households had an average income of £81,300 in 2012/13, almost 15 times greater than the poorest fifth, who had an average income of £5,500.

• Overall, taxes and benefits lead to income being shared more equally between households. After all taxes and benefits are taken into account the ratio between the average incomes of the top and the bottom fifth of households (£59,900 and £15,600 per year respectively) is reduced to four-to-one.

• Cash benefits made up 56.4% of the gross income of the poorest fifth of households (£7,200), compared with 3.2% (£2,700) of the income of richest fifth.

A copy of this letter will be sent to each of the peers who spoke during the debate on the persistent poverty target and a copy will also be placed in the library of the House.

Yours sincerely,

[Signature]

Lord Freud

Minister for Welfare Reform