WELFARE REFORM AND WORK BILL

Commons second reading briefing: 20 July 2015
Executive summary

Child Poverty Action Group (CPAG) is a charity, working for children in the UK. We believe that no child should grow up in hardship or lose out through poverty. We aim to prevent and end child poverty by providing evidence-based solutions to child poverty to policy makers, and accurate information and advice so families can access the support they need. In this briefing we argue the following key points.

- **Clauses 1 to 6:** The Bill would repeal most of the Child Poverty Act, abandoning poverty-reduction targets and proposing new measures of poverty that do not include income. Child poverty is multifaceted, but the lack of an adequate income remains its decisive characteristic and must remain central to any poverty measurement. Proposed new reporting requirements on worklessness, educational attainment, apprenticeships, troubled families and social mobility are welcome, but are not measures of poverty.

- **Clauses 7 and 8:** The benefit cap policy severs the historic link between what families need to live on – as assessed by Parliament in its setting of benefit levels – and entitlement. Lowering the cap would mean families could be left with less than enough for their basic needs, such as food and warmth. Evidence on the current cap suggests that fiscal savings have been small (under 4 per cent of the total savings to the social security budget) and the effect on movement into work weak. A lower cap would compromise the wellbeing of more children, as housing security is compromised, school life is disrupted and community links are broken.

- **Clauses 9 and 10:** The Bill proposes to extend the freeze on working-age benefits from two years to four years, ending in April 2020. This would end the link with both prices and earnings and effectively cuts benefit support loose from the cost of living and the living standards of the mainstream of society. It would ensure the lowest income households will continue to get poorer and follows a series of below-inflation uprating decisions. Between 2010 and 2020, for example, child benefit is projected to lose 28 per cent of its value. Children’s benefits should be given the same ‘triple-lock’ protection as basic state pensions enjoy.

- **Clauses 11 and 12:** Limiting child tax credit to the first two children would affect only a minority of families, but the impact would be dramatic. Only one-fifth of families (21 per cent) receiving tax credits have three or more children, but more than one-third of them (34 per cent) are in poverty. Limiting their tax credits would deepen poverty for the very children most at risk of hardship.

- **Low pay (Summer Budget 2015 proposals, not included in the Bill):** The Chancellor’s proposal for a new ‘national living wage’ for the over-25s (starting at £7.20 with the aim of it reaching 60 per cent of median earnings by 2020) is a welcome increase in the minimum wage, rather than a true living wage, as the latter is based on real costs faced by families. An increased minimum wage is a positive development in and of itself, but will not straightforwardly flow to low-income households and is not a direct substitute for cuts to in-work support. The Institute for Fiscal Studies has noted that it is ‘arithmetically impossible’ for the increase in the minimum wage to provide full compensation for the majority of losses experienced by tax credit and universal credit recipients.
Child poverty

Why does child poverty matter?
Child poverty damages childhoods; it damages life chances; and it damages society as a whole.

Children from low-income families often forgo events that most of us take for granted. They miss school trips; cannot invite friends round for tea; and cannot afford a one-week holiday away from home. Children living in poverty are almost twice as likely to live in bad housing, with significant effects on their physical and mental health, and on their educational achievement.¹

Children born in the poorest areas of the UK weigh, on average, 200g less at birth than those born in the richest areas, and children from low-income families are more likely to die at birth or in infancy, to suffer chronic illness during childhood, or have a disability.² Those living in the most deprived areas of England can expect to have over 19 fewer years of healthy life expectancy than those in the least deprived areas.³

Children from poorer backgrounds lag behind at all stages of education. By the age of three, poorer children are estimated to be, on average, nine months behind children from more wealthy backgrounds. According to Department for Education statistics, by the end of primary school, pupils receiving free school meals are estimated to be almost three terms behind their more affluent peers. By 14, this gap grows to over five terms and, by 16, children receiving free school meals achieve 1.7 grades lower at GCSE.⁴

Finally, child poverty imposes social costs. Some of these are linked to reduced life chances, but the majority come from the ‘fallout costs’ of child poverty, such as personal social services, school education, and police and criminal justice. Research undertaken for Child Poverty Action Group estimates that child poverty cost £29 billion in 2013 in financial terms alone.⁵

Measuring child poverty
In 1979, Peter Townsend defined poverty thus:⁶

‘Individuals, families and groups in the population can be said to be in poverty when they lack resources to obtain the type of diet, participate in the activities and have the living conditions and amenities which are customary, or at least widely encouraged and approved, in the societies in which they belong.’

This conception of poverty as being relative was endorsed by David Cameron, in his 2006 Scarman lecture:

‘Even if we are not destitute, we still experience poverty if we cannot afford things that society regards as essential. The fact that we do not suffer the conditions of a hundred years ago is irrelevant.

‘In the nineteenth century Lord Macaulay pointed out that the poor of his day lived lives of far greater material prosperity than the greatest noblemen of the Tudor period. But as Dickens observed, the poor of those days were still poor. Fifty years from today, people will be considered poor if they do not have something which has not even been invented yet. So poverty is relative – and those who pretend otherwise are wrong.’⁷
Poverty measurement is an attempt to operationalise this definition. The internationally recognised measure, described by the Royal Statistical Society in its response to the 2013 child poverty measurement consultation as ‘the product of valid social science procedure’, is those with an equivalised household income of below 60 per cent of the median. This measure allows comparison with other nations, and with the UK’s own performance over time.

Acknowledging that no one measure can ever perfectly capture the extent of poverty, the Child Poverty Act 2010 introduced four target measures:

- to reduce relative low-income child poverty to less than 10 per cent by 2020/21;
- to reduce absolute low-income child poverty to less than 5 per cent by 2020/21;
- to reduce persistent child poverty to below a target level (to be set in 2015) by 2020/21;
- to reduce combined low-income and material deprivation child poverty to less than 5 per cent by 2020/21.

What is happening to child poverty?

Relative poverty fell substantially in the decade after the 1999 Tony Blair pledge to end child poverty, from 3.4 million children then to 2.6 million in 2009/10, stabilising at 2.3 million the year after and remaining there up to the latest figures we have, for 2013/14. The number of children in absolute poverty, however, has increased by 300,000 (500,000 on an after housing costs basis) since 2010/11 – meaning that low-income families have lost out in absolute terms during that period.

Independent projections from both the Institute for Fiscal Studies (IFS) and the New Policy Institute (NPI) suggest that poverty will increase between now and 2020. The IFS projects that three million children will be in poverty under the relative measure in 2020/21 before housing costs (and 3.5 million in absolute poverty), and that 4.3 million will be in relative poverty in 2020/21 after housing costs (and 4.7 million in absolute poverty). The NPI, meanwhile, estimates that, in 2014/15, there were four million children in relative poverty after housing costs (an increase of 300,000 on the previous year).

Figure 1: Percentage of children in poverty: official statistics and Institute for Fiscal Studies projections

Each of these projections predates the proposals made in the July 2015 Budget, however, and thus are likely to be significant underestimates of the increases we can expect. In making its projections,
the IFS stated that, ‘real cuts to working-age benefits are a key reason behind rising child poverty’, singling out the shift to CPI indexation of benefits and three years of 1 per cent uprating of most working-age benefits. The addition of four years of benefit freezes and outright cuts to tax credits will add to that effect. The IFS estimated in its February 2015 Green Budget that £5.1 billion of cuts to child tax credit would increase child poverty by 300,000; in the event, the Treasury estimates its three key cuts to tax credits and universal credit will save £5.5 billion by 2020/21. A Parliamentary Question in January 2013 revealed that the government estimated that the three years of 1 per cent uprating alone would put 200,000 more children in poverty by 2015/16.
Clauses 1 to 6: Reporting requirements and amendments to the Child Poverty Act

The proposals
The Bill would introduce reporting obligations in four areas: full employment; apprenticeships; support for ‘troubled families’; workless households and educational attainment. CPAG welcomes the provision of information by government, for purposes of accountability. The new duty to report on full employment is, in principle, positive, though the definition is yet to be seen. Children in couple families in which no adult works face a 57 per cent risk of poverty; where one adult works full-time and the other doesn’t work, the risk is 20 per cent; and, in families where one adult works full time and one part time, the risk of a child being in poverty is 5 per cent.\(^{13}\)

The Bill would repeal the majority of the Child Poverty Act, including all the targets, the provision for Child Poverty Commission (replacing it with a Social Mobility Commission), and the duty to publish UK and local child poverty strategies. Provision for Scottish and Northern Irish strategies are retained, though without targets. The Act is to be renamed the Life Chances Act 2010.

Removing the existing measures
CPAG has long argued that child poverty is multifaceted, and as a result, we have repeatedly welcomed additional measures on child poverty, and information on worklessness and educational attainment is part of that wider landscape. However, these proposed reporting requirements are not measures of poverty: they are supplements to it. We believe that poverty is a condition marked by a lack of adequate resources, some of which may not be financial. Nonetheless, an inadequate income remains the decisive characteristic of poverty and must remain central to any poverty measurement. For example, a review of the available evidence by Kitty Stewart for the Joseph Rowntree Foundation in October 2013 found a direct relationship between household income and children’s outcomes, including their development and school achievement.\(^{14}\) This was true even after controlling for a range of other household and parental characteristics. Any measure that is not sensitive to changes in income cannot be regarded as a robust measure of poverty.

When the previous government consulted in 2013 on a proposal for a new measure of poverty, the Royal Statistical Society described the existing measure as ‘the product of valid social science procedure’, and stressed its international respect and comparability. It argued then that ‘convincing evidence that a proposed alternative measure will be superior should be adduced’ before proceeding with developing a new measure, and no such evidence has been presented since then. Indeed, DWP analysis of consultation responses, obtained via a Freedom of Information request in April 2014, showed that, when the government consulted on new measures of child poverty in 2013, 97 per cent of respondents believe that all the targets under the Child Poverty Act should be retained. Only 8 per cent of respondents believed that new measures were needed to replace the current measures.

The proposed new measures
Measurements that conflate poverty and worklessness risk absurdity. Work is increasingly less of a route out of poverty. Sixty-four per cent of children are in working households (compared with 55 per cent in 2009/10), and to remove those children out of the new measures is to define their poverty out
of existence.\textsuperscript{15} It is notable that this change is being introduced at the same time as cuts to in-work support that will significantly increase the risk of in-work poverty.

Removing poverty targets
The removal of binding targets is a retrograde step. CPAG has previously argued that the existing targets constitute two things: the goal (to end child poverty as defined by four target measures) and the timescale (by 2020). Although the Secretary of State told the BBC’s Today Programme in 2014 that he would meet the current targets, we acknowledge that the targets will not be met on the existing timescale.\textsuperscript{16} This is a view shared by the Social Mobility and Child Poverty Commission in its \textit{State of the Nation} report in October 2014.\textsuperscript{17} However, this does not make the goal of ending child poverty itself any less achievable than it was. We know, from past and international experience, that, with the right policies, the right timeframe and the right level of political will, we can eradicate poverty in the UK. Rather than abandoning this ambition – and giving up on our children – we should be redoubling our efforts, albeit with a revised timescale.

Changes to the Social Mobility and Child Poverty Commission
CPAG opposes the removal of the child poverty functions of the Social Mobility and Child Poverty Commission. This suggests a lack of commitment to reducing child poverty, and removes a valuable source of independent advice and expertise to the government in doing so. The existing, wider remit should be retained.

\textit{CPAG urges MPs to vote against Clauses 5 and 6 of the Bill, and to consider amendments to change the target dates in the existing Child Poverty Act. If Clauses 5 and 6 remain, then the Bill should be amended to introduce targets for the indicators being proposed.}
Clauses 7 and 8: The benefit cap

The proposals
The benefit cap was first introduced in the Welfare Reform Act 2012, capping the total amount of benefits that a workless family could receive to £26,000 pa (£18,200 for households without dependent children). This Bill proposes to reduce the cap to £20,000 pa (or £13,400), except in Greater London where the cap will be £23,000 pa (or £15,410). The Secretary of State is given the power to review the future level of the benefit cap. Currently, the cap is implemented by reducing the amount of housing benefit paid to a household. Universal credit claimants can have their total award reduced.

We are concerned about the impact that this will have on low-income families. To date, twice as many children have been hit by the cap as adults. Our principal concern with the benefit cap is that it breaks the link between need and entitlement, and that this means families will receive less than Parliament – in setting benefit levels – has decided is essential to meet their subsistence needs. This means that families can be left without sufficient income to meet their basic needs, such as food and warmth.

Rationale
The introduction of the benefit cap aimed to achieve three policy objectives: to deliver fiscal savings; to improve work incentives for those on benefits; and to deliver fairness to the taxpayer in work. Child Poverty Action Group (CPAG) questions the extent to which the cap has achieved each of these objectives, but more importantly, questions whether impoverishment is an appropriate policy tool, regardless of effectiveness.

Delivering fiscal savings
The reduction in the level of the benefit cap is projected to save almost £500 million by 2020/21, less than 4 per cent of the total of the cuts to the social security budget announced in the Budget. Learning from the first two years of implementation suggests that overall savings to the public purse will be even less than this, and may even have presented a cost to date. As Table 1 below shows, some of the savings to the housing benefit bill were offset by additional funding through discretionary housing payments. There are a large number of additional costs, predominantly falling to councils, which are harder to quantify. These include: costs of providing temporary housing for priority need households made homeless by the cap; additional support to families hit by the cap to enable them to become ‘uncapped’; and disruption to children’s lives and schooling.

Table 1: Savings from the benefit cap

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<tr>
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<th>2013/14 £m</th>
<th>2014/15 £m</th>
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</thead>
<tbody>
<tr>
<td>Expected savings from benefit cap</td>
<td>185</td>
<td>185</td>
</tr>
<tr>
<td>Additional discretionary housing payment funding to mitigate the impact of benefit cap</td>
<td>65</td>
<td>45</td>
</tr>
</tbody>
</table>

It is notable that the objective of making fiscal savings is no longer put forward as a policy objective of the cap, perhaps recognising its limited potential. The Conservative Party manifesto states the aims as
being to ‘make the system fairer’ and ‘reward work’, and, likewise, the Queen’s Speech did not mention fiscal savings.

Improving work incentives
The benefit cap is based on the false premise that it is needed in order to ensure that parents will be better off working than on benefits. The social security system is already designed to make people better off when they move into work. The DWP conducted research into the effect of the benefit cap, particularly focusing on moves into work, which was peer reviewed by the Institute for Fiscal Studies (IFS). This research found that the proportion of households that moved into work (measured by numbers that made a working tax credit claim) was 4.7 percentage points higher among capped households than for the control group. The IFS concluded that the analysis told us ‘that the large majority of affected claimants responded neither by moving into work nor by moving house.’

International comparisons show that sanctions have a limited long-term effect in enabling people to move into work, although they do have an effect in causing exits from benefits. By contrast, there is substantial evidence of the impact individualised and supportive employment support can have to enable people to move into work.

It is also worth considering whether work is a viable and preferable outcome for all households hit by the benefit cap. As one of the pilot boroughs for the benefit cap, Haringey undertook research on the early local impacts. It found that 49 per cent of capped households were receiving income support and 19 per cent were receiving employment and support allowance, and were therefore not required to seek work, recognising claimants’ caring responsibilities, health condition or disability. Gingerbread has found that, in the first year of implementation, 60 per cent of the households affected by the benefit cap were single parent families, of which 70 per cent were caring for a child aged under five.

Delivering fairness
The question of the cap’s ‘fairness’ has been highly contested since its introduction. As many have pointed out, it was based from the outset on a false comparison between an out-of-work family’s income and an in-work family’s earnings, ignoring in the process the various top-ups from the state that those in work may also receive, such as child benefit, working tax credit and housing benefit. Table 2 illustrates the point, looking at median earnings and income in 2011/12 (the only year this data was released for). Income, which includes in-work benefits, is considerably higher than earnings, particularly for lone parents who are most likely to be hit by the cap. The rationale for the cap compares the income of workless families with the earnings of working families.
Table 2: Comparing incomes and earnings

<table>
<thead>
<tr>
<th></th>
<th>All</th>
<th>Single no children</th>
<th>Lone parents</th>
<th>Couples no children</th>
<th>Couples with children</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings (net of income tax and NICs)</td>
<td>420</td>
<td>270</td>
<td>200</td>
<td>590</td>
<td>600</td>
</tr>
<tr>
<td>Earnings (gross of income tax and NICs)</td>
<td>520</td>
<td>330</td>
<td>230</td>
<td>730</td>
<td>750</td>
</tr>
<tr>
<td>Total income (net of income tax and NICs)</td>
<td>490</td>
<td>280</td>
<td>400</td>
<td>640</td>
<td>670</td>
</tr>
<tr>
<td>Total income (gross of income tax and NICs)</td>
<td>600</td>
<td>340</td>
<td>420</td>
<td>790</td>
<td>820</td>
</tr>
</tbody>
</table>

Source: Benefit unit median weekly earnings and total income for Great Britain, Family Resource Survey, DWP, August 2013

The reduction in the level of the benefit cap severs the link with median earnings, and instead is based on an arbitrary figure, leaving it unclear what the fairness test is now. Given that fairness is a binary concept – something is either fair or it is not – it is not clear whether it has been decided that the previous level of the cap was ‘unfair’ and needed changing, or whether fairness is no longer the motivation for changing the level of the cap.

We would also question whether a measure that has had a disproportionate impact on lone parents, children and Black and Minority Ethnic groups can be considered fair. To date, children have been the group most likely to be hit by the benefit cap. Over 200,000 children have been affected by the benefit cap compared with 81,373 adults. While we recognise the intention of the benefit cap to instigate behavioural change in adults, this is clearly not the expectation of the children who have also been affected. Fifty-nine per cent of capped families to February 2015 are headed by a lone parent, and a group already at increased risk of poverty, and who face greater barriers to the workplace.

Breach of the UN Convention on the Rights of a Child

The fairness of the cap was also considered recently by the Supreme Court. In arguments, it became clear that the government’s intention in introducing a cap was not to create parity between in- and out-of-work families but instead, to ensure that the income of out-of-work households was always lower to reinforce work incentives. The judgment called into question the fairness of the cap, with three of the five judges finding that, in introducing the cap, the government had failed to comply with the UN Convention on the Rights of the Child, and two finding that it breached Article 14 of the European Convention on Human Rights. In the judgment, Lord Kerr said that, ‘it cannot be in the best interests of the children affected by the cap to deprive them of the means of having adequate food, clothing warmth and housing’ and Lady Hale said the cap deprived children of ‘the basic necessities of life’ and made them ‘suffer from a situation which is not of their making and which they themselves can do nothing about.’
Potential impact on homelessness and housing affordability

The benefit cap has already had an impact on reducing the ability of affected families to afford suitable housing and increasing homelessness, and we should expect the reduction of the level to have an even more acute effect. Citizens Advice has modelled the impact that reducing the cap to £23,000 could have on housing affordability (this does not consider the further reduction to £20,000 outside London). For households renting in the private sector, the vast majority of the country will be unaffordable for couples with three or more children and for lone parents with four or more children, but considerably smaller families will also find large parts of the country unaffordable. It is worth noting that even fewer areas will be affordable under a £20,000 cap (see Figure 2). Shelter has also raised concerns that even families with just one child could struggle to find housing within the cap, even in traditionally inexpensive areas, such as Tottenham and Catford.

Figure 2: Number of areas where the local housing allowance rate is not met by housing benefit under a £23,000 benefit cap

Source: Shelter

For families hit by the cap, there is a high risk that they will not be able to afford rent payments and be made homeless. The Homelessness Act 2010 places a duty on local authorities to house priority need households. The benefit cap makes it very difficult – and in some cases impossible – for councils to fulfil the duties placed on them by this Act, as it can reduce housing benefit entitlement to as little as 50 pence.

The benefit cap also hits households who are already homeless and living in temporary accommodation. Temporary accommodation is often more expensive than other forms of housing, and when local authorities are required to house larger families or find adequate accommodation in high rent areas, they will struggle to find temporary accommodation that does not bring the household within the confines of the cap. As a result, families who are accepted as homeless and then placed in temporary accommodation could be made homeless again due to their inability to cover their costs as a result of the benefit cap. The perversity of this situation was recognised by Lord Freud during the passage of the Welfare Reform Act, when he stated:
‘We need to get a solution to this so that we do not have a ludicrous go-round of people moving into expensive temporary accommodation which they can no longer pay for because of the cap.’

Discretionary housing payments are currently used to prevent this situation. We welcome the increase in discretionary housing payment funding announced (£800 million will be provided over the course of the next five years), but these payments cover a range of circumstances, and are finite and unstable. We would expect demand on discretionary housing payment funding to increase significantly as a result of lowering the cap, to the point that it will not be possible for councils to house homeless families in affordable accommodation.

Setting the future level of the benefit cap
The Bill allows the Secretary of State to review the level of the cap in the future, to determine whether an increase or decrease is appropriate, at a minimum of once per parliament, but more frequently if considered appropriate. In carrying out this review, the only obligation is that s/he takes into account the national economic situation and ‘any other matters that the Secretary of State considers relevant’. Given that this is a highly political decision with implications for the functioning of the welfare state, we are concerned about the lack of parliamentary scrutiny and clarity on the criteria that will be used for determining the level of the cap. Supporting documents state that the level is to be set by secondary legislation, so that it can be ‘implemented fairly quickly’.

We are concerned that this procedure is not suitable, given the significance of the level of the benefit cap to the functioning of the social security system. The benefit cap breaks the link between need and entitlement and can override other tests for social security entitlement. The link to average earnings has also been broken, and so it is unclear how the current proposed level has been decided on and also how future levels will be decided. Therefore, the decision for setting the level of the cap should be subject to clear criteria and proper democratic accountability to Parliament.

Benefit cap in Scotland
The Scotland Bill proposes that control of the rates of the housing element in universal credit, the power to establish new disability benefits and the ability to top up benefit rates be devolved to the Scottish Parliament. It will therefore be necessary to ensure that nothing in this clause undermines the Scottish Parliament’s discretion to introduce more generous benefit rates which might increase household income above the specified cap.

CPAG urges MPs to vote against Clauses 7 and 8 of the Bill.
Clauses 9 and 10: Benefit freezes

The proposals
The Bill proposes to extend the freeze on working-age benefits from two years to four years, ending in April 2020. It excludes benefits relating to the additional costs of a disability and statutory payments. This is projected to save over £4 billion per year by 2020/21, making it the largest cut to social security.

We are concerned that this cuts the link with both prices and earnings, and effectively it cuts support for people receiving these benefits loose from the cost of living and the living standards of the mainstream of society. It ensures the lowest income households will continue to get poorer. Analysis by the Institute of Fiscal Studies (IFS) shows that below-inflation increases in benefits would cause relative poverty to rise, as earnings would increase faster than benefits – meaning that households at the median will see their incomes rise faster than those of lower income households, who receive a larger share of their income from benefits and a smaller share from earnings. The link between uprating and child poverty rates was recognised explicitly in the 2010 Budget, when the welcome decision was taken to uprate child tax credit above inflation:

‘This Budget includes measures to reduce welfare spending… Steps have been taken to protect low-income families with children from the impact of these changes, by freezing the rate of child benefit to partly fund above-indexation increases to the child tax credit. This ensures that the overall impact of all modelled Budget changes on child poverty in 2012/13 is statistically insignificant.’

Background
There are three ways in which benefits can be uprated:

- with reference to a price index – which ensures benefits keep pace with the cost of living;
- with reference to changes in average earnings – which ensures that those in receipt of benefits do not drift too far away from the mainstream;
- by using a nominal figure – which can achieve a particular policy end, such as increasing generosity through over-indexation, or making savings through under-indexation.

This proposal, if enacted, will be particularly painful for low-income families, as it comes on top of a series of below-inflation uprating decisions. Over the last Parliament:

- Child benefit was frozen in cash terms from 2011/12 to 2013/14, and then uprated by 1 per cent in 2014/15 and 2015/16.
- The child element of child tax credit was uprated above inflation in 2011/12 (CPI plus £180), by CPI in 2012/13 and by 1 per cent from 2013/14 to 2015/16.
- The Budget in June 2010 announced that CPI rather than RPI would be employed as the default basis for uprating benefits in the future. RPI almost always outpaces CPI by a significant margin.
- The Welfare Benefits Up-rating Act 2013 provided for most working-age benefits (excluding benefits relating to the costs of disability) to be uprated at 1 per cent, below inflation.
- Throughout the Parliament, pensioner benefits were protected by a ‘triple lock’, meaning that they were uprated by inflation, earnings or 2.5 per cent, whichever was the highest.
Uprating of benefits is of vital importance to low-income households. It is the mechanism that decides whether their income maintains its value and they are still able to afford the same basket of goods over time. Given that benefits are already set at subsistence levels, freezing working-age benefits will quickly mean that households are unable to afford the essentials that they could buy in previous years.

Overall ‘welfare’ spend
The motivation for freezing working-age benefits is to put welfare spending on a more ‘sustainable’ footing, citing that in 1980 working-age welfare spending accounted for 8 per cent of national spending, whereas now it is 13 per cent. However, analysis by the Office for Budget Responsibility questions whether spending on social security is in fact increasing at an unsustainable rate.34 As the graphs below show, as a percentage of GDP, spending on welfare remained reasonably steady until 2008. The Office for Budget Responsibility found that the largest contribution to the increase since then was the uprating of state pensions, rather than working-age benefits.

The OBR concludes: “Over the past 30 years, welfare spending has risen steadily in cash and real terms, but on average that increase has been broadly in line with growth in the economy. So the proportion of national income devoted to welfare spending has not shown a significant upward or downward trend over time.”35

Benefit adequacy
The combination of benefit uprating and the rising cost of living has eroded benefit adequacy in recent years. This is shown in our annual research on the Cost of a Child. As Table 3 illustrates, workless parents and parents working full time on the national minimum wage both fall considerably short of being able to afford the costs of raising a child. This research found that rises in the cost of child since 2012 outstripped inflation, and therefore child benefits are less able to meet these costs.36 In future, this situation will be exacerbated by below-inflation uprating.
Table 3: Cost of a child in 2014

<table>
<thead>
<tr>
<th>Scorecard: cost of a child in 2014</th>
<th>Minimum additional cost of a child (averaged for first and second child)</th>
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<tbody>
<tr>
<td>A. How much extra a child adds to family costs, and how much benefits contribute to this cost</td>
<td>Couple</td>
</tr>
<tr>
<td>------------------------------------</td>
<td>----------</td>
</tr>
<tr>
<td>1. Basic cost over 18 years</td>
<td>£83,155</td>
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<tr>
<td>2. Full cost over 18 years</td>
<td>£153,670</td>
</tr>
<tr>
<td>3. Percentage of basic cost covered by child benefit</td>
<td>19%</td>
</tr>
<tr>
<td>4. Percentage of basic cost covered by child benefit plus maximum child tax credit</td>
<td>85%</td>
</tr>
<tr>
<td>B. The extent to which families have enough to cover the minimum cost of living</td>
<td>Net income as a percentage of minimum family costs (family with two children aged 3 and 7)</td>
</tr>
<tr>
<td>------------------------------------</td>
<td>----------</td>
</tr>
<tr>
<td>5. Not working</td>
<td>57%</td>
</tr>
<tr>
<td>6. Each parent working full time on the national minimum wage</td>
<td>82%</td>
</tr>
<tr>
<td>7. Each parent working full time on the median wage</td>
<td>106%</td>
</tr>
</tbody>
</table>

Note: Basic cost does not include rent, childcare or council tax, and net income is income after subtracting these costs.

Source: Child Poverty Action Group

The cost of many of the items needed to provide a minimum standard of living for a child are rising faster than inflation. CPAG undertook research on how the cost of essentials has risen in comparison with benefits.37 This found that while the value of benefits was largely protected by relatively low rises in costs for food, fuel and lighting through the 1990s and early 2000s, since 2008 the cost of these essentials has risen much faster than the uprating of benefits. Families are hit by the double whammy of sharply rising costs and stagnating incomes.

As well as comparing benefit levels to costs, it is worth comparing benefit levels to average earnings. This provides a picture of how far they are behind mainstream earnings, rather than looking at what families can afford. Figure 4 below shows that there has been a steady decline since 1979 in the value of jobseeker’s allowance in comparison to average weekly earnings. In 1979, unemployment benefit (the predecessor to jobseeker’s allowance) was about 22 per cent of average weekly earnings; by 2011 it was about 15 per cent, a relative decline of around a third.38
Figure 4: Jobseeker’s allowance compared to average earnings over time

Source: Jonathan Portes, NIESR

Impact on uprating of children’s benefits over the last Parliament
Uprating decisions over the last Parliament have meant that children’s benefits have lost considerable value. This means that over-indexation would be necessary in order to restore their value, but instead this Bill proposes further below-inflation increases. The impact of freezing benefits can be seen most clearly by looking at child benefit, which was frozen for the first three years of the last Parliament and then uprated by 1 per cent for the remaining two years. During that five-year period, child benefit lost 15 per cent of its value compared to RPI uprating (Table 4). This means that a family with two children has lost £900 over the course of the Parliament. The cumulative effect of under-indexation means that the losses increase year on year, and the family losing £271 in 2015/16 alone.39

Table 4: Annual value of child benefit (actual and if uprated by RPI)

<table>
<thead>
<tr>
<th>(First child only)</th>
<th>2010/11</th>
<th>2011/12</th>
<th>2012/13</th>
<th>2013/14</th>
<th>2014/15</th>
<th>2015/16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual value</td>
<td>£1,056</td>
<td>£1,056</td>
<td>£1,056</td>
<td>£1,056</td>
<td>£1,066</td>
<td>£1,076</td>
</tr>
<tr>
<td>Value if uprated by RPI</td>
<td>£1,056</td>
<td>£1,104</td>
<td>£1,166</td>
<td>£1,196</td>
<td>£1,235</td>
<td>£1,263</td>
</tr>
<tr>
<td>Value if uprated by CPI</td>
<td>£1,056</td>
<td>£1,088</td>
<td>£1,145</td>
<td>£1,170</td>
<td>£1,202</td>
<td>£1,216</td>
</tr>
<tr>
<td>Losses against RPI</td>
<td>£-</td>
<td>£49</td>
<td>£110</td>
<td>£141</td>
<td>£169</td>
<td>£187</td>
</tr>
<tr>
<td>Losses against CPI</td>
<td>£-</td>
<td>£33</td>
<td>£89</td>
<td>£115</td>
<td>£136</td>
<td>£140</td>
</tr>
<tr>
<td>Cumulative loss in value against RPI</td>
<td>4.6%</td>
<td>10.5%</td>
<td>13.3%</td>
<td>15.8%</td>
<td>17.3%</td>
<td></td>
</tr>
<tr>
<td>Cumulative loss in value against CPI</td>
<td>3.1%</td>
<td>8.5%</td>
<td>10.8%</td>
<td>12.7%</td>
<td>13.0%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Child Poverty Action Group
The impacts are even more acute when they are considered alongside decisions on child tax credit, as was done in the End Child Poverty coalition’s report, *Short Changed*. The cuts to child benefit have had the widest reach – 4.1 million families and 7.7 million children – but the biggest losses have been felt by households that are also claiming child tax credit. Only one in five families affected by cuts to child tax credit have earnings over £20,000 a year, despite nearly two-thirds (63 per cent) being in work. A couple with two children who are on low incomes of £600 a week, lost £513 in 2015 as a result of uprating decisions implemented since 2012. One in five families polled said that they had cut back on food as a result of benefits being increased below inflation.

Under-indexation is also not popular with the public. Only one in 10 parents in the UK think that child benefit and child tax credit should continue to be increased below inflation. In advance of the general election, there was no indication that these benefits would be cut and, instead, indications were given that they would be protected. On child tax credit, David Cameron said, ‘That’s not going to fall’; on child benefit, he said, ‘That’s not what we need to change’. These proposals would see both benefits changing and falling.

Expected impact of freezing children’s benefits for this Parliament

In order to show how uprating decisions affect the value of benefits, we have modelled the impact the ongoing under-indexation of child benefit would have compared to the Office for Budget Responsibility’s projected rates of inflation. As can be seen in Table 5, by 2020, child benefit will have lost almost 28 per cent of its value compared to RPI.

Table 5: Cumulative losses in the value of child benefit

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(First child only)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual value</td>
<td>£1,056</td>
<td>£1,076</td>
<td>£1,076</td>
<td>£1,076</td>
<td>£1,076</td>
</tr>
<tr>
<td>Value if uprated by RPI</td>
<td>£1,056</td>
<td>£1,272</td>
<td>£1,300</td>
<td>£1,339</td>
<td>£1,380</td>
</tr>
<tr>
<td>Value if uprated by CPI</td>
<td>£1,056</td>
<td>£1,216</td>
<td>£1,231</td>
<td>£1,252</td>
<td>£1,274</td>
</tr>
<tr>
<td>Losses against RPI</td>
<td>£-</td>
<td>£195</td>
<td>£223</td>
<td>£262</td>
<td>£304</td>
</tr>
<tr>
<td>Losses against CPI</td>
<td>£-</td>
<td>£140</td>
<td>£154</td>
<td>£175</td>
<td>£198</td>
</tr>
<tr>
<td>Cumulative loss in value against RPI</td>
<td>18.2%</td>
<td>20.8%</td>
<td>24.4%</td>
<td>28.2%</td>
<td></td>
</tr>
<tr>
<td>Cumulative loss in value against CPI</td>
<td>13.0%</td>
<td>14.3%</td>
<td>16.3%</td>
<td>18.4%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Child Poverty Action Group

Impact on housing affordability

Freezing local housing allowance rates will have a particularly detrimental effect on housing affordability in some areas. The local housing allowance is used to determine housing benefit entitlement for a household renting in the private rented sector, and has previously been determined by rents in the local area. Since 2013, the link between market rates and housing benefit has been broken by instead uprating the local housing allowance by 1 per cent (in addition, some areas receive limited support from the targeted affordability fund), allowing rents to drift further from housing benefit entitlement. This affects housing affordability across the country, but hits particularly hard those areas where rents are rising the fastest. For example, in England as a whole, rents rose by 7 per cent between 2011 and 2014, but in London the rate of increase was 19 per cent, compared to the North West where the rate of increase was just 1 per cent. This will mean that working and workless families reliant on housing benefit living in areas where rents are rising rapidly will quickly find their
area unaffordable. A decision to move to a more affordable area could involve children needing to move schools, the loss of local support networks and potentially the loss of a job.

**Conclusion**

Freezing working-age benefits would mean living standards falling significantly for the working and workless families reliant on them. For this reason, we urge MPs to vote against it. We are also particularly concerned about the loss in value to children’s benefits over the last Parliament. We are calling for these benefits to be given the same protection as the basic state pensions, a ‘triple lock’. This guarantees that they rise in line with inflation, earnings or by 2.5 per cent, whichever is the highest. This valuable protection to pensioners’ incomes needs to be extended to children, which have been hit hard over recent years.

*CPAG urges MPs to vote against Clauses 9 and 10 of the Bill.*
Clauses 11 and 12: Limiting child tax credit to the first two children

The proposals
Clauses 11 and 12 of the Bill will remove entitlement to child tax credit for the third and subsequent children born in a family after 6 April 2017. Currently, 872,000 families in the UK (548,000 of whom are in work) receive an average of £3,670 a year by way of support for third and subsequent children.

Risk of poverty among larger families
This provision is of particular concern given, as the government’s national child poverty strategy recognises, that the risk of child poverty is already significantly higher among larger families. Currently, a third (34 per cent) of children living in poverty live in families with three or more children. The policy therefore threatens to undermine the financial security of thousands of vulnerable families already experiencing, or at heightened risk of, poverty. The proposal will affect a small, but significant, minority of families in the UK. Currently, 21 per cent of families currently in receipt of tax credits have three or more children.

CPAG research confirms that many of these families are already struggling to meet their children’s most basic needs. Our Cost of a Child 2014 report estimates that the average cost of raising a third child is between £8,357 and £8,450 a year. Even at current levels of tax entitlement, child benefit and maximum child tax credit cover only between 72.6 per cent and 84.6 per cent of this cost. To slash the income of the lowest income families by a further £3,670 will guarantee that a growing number will struggle to provide the basic necessities for their children.

Rationale of the provision
The assumptions underlying the policy, intended to inform the ‘financial choices’ of those having children, are also deeply questionable. Firstly, this reasoning is based on an assumption that it is always possible to plan for a child. Not all children are planned, and employment is often – and increasingly – unstable and short term. There can, after all, be very few people in the UK who feel confident when they decide to have a child that they will be continually employed for the next 18 years. To deny those families assistance when they fall upon hard times is unsupported. Crucially, in terms of the Government’s argument, the majority receiving child tax credits are working.

Furthermore, the policy is based on an acceptance of the idea that a third child should be a luxury reserved for the well-off. The right to family life is well established and to attempt to penalise those who choose to have additional children is completely unacceptable.

This measure withdraws support for some children – with knock-on effects for siblings and parents – based not on their needs, but on their family size. It is not parents who will be punished the most by reduced entitlement to tax credits, but rather those children unfortunate enough to be born into larger families. As a result of this provision, they will be at increased risk of poverty, ill health and lower educational attainment. It will also act as a disincentive to re-partner, where this would result in more than two joint children.

*CPAG urges MPs to vote against Clauses 11 and 12 of the Bill.*
Clauses 13 and 14: Reducing the rate of employment and support allowance to jobseeker’s allowance levels

The proposals
Clause 13 of this Bill will reduce the rate at which employment and support allowance is paid to new claimants placed in the work-related activity group. Entitlement will be reduced by approximately £30 a week, bringing employment and support allowance rates in line with jobseeker’s allowance. Clause 14 extends this reduction in entitlement to universal credit.

Flawed rationale
During the Budget Statement the Chancellor noted that, ‘The number of JSA claimants has fallen by 700,000 since 2010, while the number of incapacity benefits claimants has fallen by just 90,000.’ It appears the logic underpinning this reform is that reducing support for those on employment and support allowance will incentivise employment. This is a deeply flawed rationale for several reasons.

Firstly, it assumes that people in the work-related activity group are capable of work and, given the right incentive, could find a job. This is not the case. People placed in this group have been subject to a work capability assessment, after which the DWP has decided they are, in fact, not fit to work, only for work-related activity (such as attending training or preparing a CV). While some claimants may see improvements in their health over time and may eventually return to employment, many of the people in the work-related activity group have permanent disabilities and/or degenerative conditions and may never be fit for work again. Reducing the financial support available to people in the work-related activity group will therefore not only fail to move them closer to the job market, but a reduction in the financial support could undermine their health and wellbeing to the point that they are actually less capable of work.

Furthermore, while the government announced that this policy was intended to do away with ‘perverse incentives’ which cause long-term unemployment, it will, in fact, create perverse incentives of its own. People who are currently in receipt of employment and support allowance and in the work-related activity group are likely to become increasingly reluctant to accept an offer of work which they see as short term or potentially unsustainable. This is because if they take the job then subsequently become unemployed again, they will not be entitled to the same rate of employment and support allowance as they currently receive. This could cause claimants to ‘hunker down’, becoming risk-averse and avoid employment unless they are sure that an opportunity is completely secure and sustainable.

CPAG urges MPs to vote against Clauses 13 and 14 of the Bill.
Clause 15: Work-related requirements for parents

The proposals
Currently, lone parents (and the main carer in a couple) need only attend work-focused interviews or work related activity when their children are between the ages of one and five, rather than having to actively seek work. Clause 15 of this Bill will mean that all parents will be expected to be available for and actively seeking work from the time their youngest child turns three in order to claim universal credit.

Balancing work and parenting responsibilities
Clearly, all parents have to make difficult choices and trade-offs between time spent in employment and time spent caring for their children. However, it is unreasonable and unrealistic to compel all parents – and particularly all lone parents – to return to work when their youngest child is only three - particularly given that parents will have limited control over the hours they are expected to work. Research carried out by CPAG found that the median amount of time the public think is unreasonable to expect a lone parent of a three- or four-year-old to work is just 20 hours.\(^5\) This suggests that there is no public support for the expectation that lone parents should be compelled to work more and more hours in order to escape poverty.

While the majority of parents are keen to return to work and to maximise their income, this provision will deprive parents of the intensely personal and deeply felt choice of what is best for their child in the crucial early years of their development. Forcing parents to return to work before they are ready – and before suitable childcare arrangements are in place – could be counterproductive, causing additional stress and financial instability as parents move in and out of work.

The availability of suitable childcare
The Chancellor noted during the delivery of the Budget that, ‘To make sure work pays... from September 2017 all working parents of three- and four-year-olds will receive free childcare of up to 30 hours a week.’\(^5\) While extended hours of free childcare are hugely welcome, several major concerns remain.

Firstly, if these additional hours are made available only to ‘working parents’, they will be of little assistance to parents who need childcare while they are ‘actively seeking work’. There is a need for the government to provide further clarity on this point.

Secondly, responsibility for childcare is devolved to national governments, and so the extension to 30 hours free childcare will only apply to families in England. It is therefore unclear how families in Scotland, Wales and Northern Ireland are expected to comply with these job seeking requirements without additional childcare. Given uncertainty around whether the devolved administrations will provide additional hours, other parts of the UK should be exempt from this requirement.

Finally, even where extended provision of free childcare is available, there are likely to be ongoing concerns for parents. Will childcare be available all year round or will it be restricted to term time? How will the government ensure that adequate, high quality childcare is available, given that concerns
have already been raised that providers and local authorities are struggling to meet existing commitments?

Addressing these concerns is vital, given that a lack of flexible childcare will put parents in receipt of universal credit at increased risk of failing to satisfy aspects of their ‘claimant commitment’. This could lead to higher rates of sanctioning and, in turn, income crises and increased reliance on emergency support such as food banks.

*CPAG urges MPs to vote against Clause 15 of the Bill.*
Low pay (not in the Bill)

The proposals
The Summer Budget 2015 made a number of proposals relating to social security to be enacted outside the scope of the Welfare Reform and Work Bill. The key measures from Child Poverty Action Group’s perspective are the following.

- Removal of the family element in tax credits and universal credit and the family premium in housing benefit, for new claims. The family element of child tax credit and the universal credit equivalent is currently worth £545 per year, and will be removed for first children born on or after 6 April 2017. The family premium in housing benefit is an income allowance worth £17.45 per week for families with children, and will be removed for new claims or for children born after April 2016. Under universal credit, this will apply to new claims on or after 6 April 2017, with protection for those who have received tax credits or universal credit with an interruption of less than six months. This measure is expected to save the government £675 million a year by 2020/21.

- Reduction of the income thresholds in tax credits and work allowances in universal credit. This measure removes the work allowance (the amount a household can earn before its benefits start to be removed) in universal credit for non-disabled households without children, and reduces all other work allowances to £192 per month for households with housing costs and £397 per month for those without housing costs. This represents a freeze for disabled households with housing costs, and a cut of £250 a month for those without. It represents significantly larger cuts for all households with children, up to £337 a month for single parents without housing costs. This reduction will apply to all universal credit claimants from April 2016. The income threshold for tax credits will be reduced to £3,850 a year, from April 2016, from £6,420. This measure is expected to save the government £3.4 billion a year from 2020/21.

- Increase in the tax credits taper rate to 48 per cent. This measure increases the rate at which tax credits are withdrawn (after the newly lowered income threshold) from 41 to 48 per cent (and from 39 per cent when the coalition government came to power in 2010). This measure will take effect from April 2016, and will save £1.5 billion in its first year, reducing in subsequent years as households are migrated to universal credit.

- A new national ‘living wage’ for over-25-year-olds, starting at £7.20 (50p above the existing minimum wage), with the aim of it reaching 60 per cent of median earnings by 2020. The new living wage will take effect from April 2016, with the Low Pay Commission given the remit to set out how it will reach 60 per cent of median earnings by 2020. Based on the Office for Budget Responsibility’s earnings forecasts, this means it should be over £9 by 2020.

Cuts to benefits for families with children
The removal of the family elements in child tax credit, housing benefit and universal credit represent an outright cut to the incomes of low-income households with children. The reduction in work allowances and the increase in the taper rate for tax credits have the same impact, while also reducing work incentives.
Taper rate

In his last party conference speech before becoming prime minister, David Cameron argued against high taper rates:53

> ‘In Gordon Brown’s Britain if you’re a single mother with two kids earning £150 a week, the withdrawal of benefits and the additional taxes mean that for every extra pound you earn, you keep just 4p.

> What kind of incentive is that? Thirty years ago this party won an election fighting against 98 per cent tax rates on the richest. Today I want us to show even more anger about 96 per cent tax rates on the poorest.’

Since then, however, he has raised the taper rate for tax credits, first from 39 per cent to 41 per cent, and now to 48 per cent.

Money taken from low-income families

The cumulative impact of the cuts outlined above will be, by 2020/21, to take £4.4 billion out of the pockets of low-income households, the majority of which will come from families with children. This is in addition to the substantial cuts represented by the four-year freeze to the majority of working-age benefits, and limiting the child element in child tax credit and universal credit to two children, which are considered elsewhere in this briefing, and which take that total to £9.7 billion.54 The cut to work allowances under universal credit ‘represents a substantial shift in the design of the UC system’, according to the IFS’s Budget response. They go on to note that ‘significant allowances were an integral part of the design of UC, intended to give claimants an incentive to move into work… These are changes that will alter the effects and structure of the system quite substantially’. In making such swingeing cuts to work allowances, the government is effectively torpedoing its flagship scheme, fatally undermining its stated aim that it will ‘make work pay’.

National living wage

Increases in wages for low earners are very much welcome. The new national living wage is effectively an increase in the minimum wage for the over-25s, rather than a true living wage, as the latter is based on real costs faced by families. It also factors in state support – meaning it will rise inevitably as that support is reduced, as has been announced in the Budget. An increased minimum wage is, nonetheless, a positive development in and of itself.

However, it is important to note that the increase in the minimum wage will not straightforwardly flow to low-income households, and it is not a direct substitute for cuts to in-work support.

The Office for Budget Responsibility’s Economic and Fiscal Outlook report to accompany the Budget noted that ‘around half of the cash gains’ from the policy will flow to the wealthiest half of households. The average annual gains to higher income households will be greater than those for lower income households (see Figure 5).55 This is because a high proportion (in its Budget analysis, the Institute for Fiscal Studies (IFS) estimated around half) of those who gain will have a working partner, while Brewer and De Agostini estimate that those in higher income households earning the minimum wage work more hours, and thus gain more income.56 Many of those in the bottom income deciles will be unable to work, and thus gain nothing. For similar reasons to the above, increases in the personal tax allowance benefit wealthier households more than lower income households.
In its Budget analysis, the IFS noted that it is ‘arithmetically impossible’ for the increase in the minimum wage to provide full compensation for the majority of losses experienced by tax credit and universal credit recipients. Social security spending as a whole is to be cut by an additional £12 billion a year (and tax credits alone by around £6 billion), while the gross increase in employment income from the increased minimum wage is £4 billion. As noted above, the gains from the minimum wage will not flow predominantly to the lower income households who will lose most from the cuts to in-work support. As a result, the IFS states that, ‘unequivocally, tax credit recipients in work will be made worse off by the measures in the Budget on average.’ 57

Fundamentally, increases in wages can never fully offset in-work support, since the two do different things. An increase in the minimum wage tackles wage levels, while in-work support is focused on household incomes. Because families with children face higher costs (and reduced earning potential, due to parenting responsibilities), there is a long-established principle that in-work support for those families is needed to offset those costs, as part of the role of the social security system in redistributing incomes across the life cycle. Thus, families with children are the biggest losers from all the cumulative effects of cuts to in-work support and increases to the minimum wage.

Overall impact on low income families
The Summer Budget is regressive overall, as the IFS has demonstrated (see Figure 6). 58 Given the distribution of the gains from the new national living wage, it is clear that the overall picture once this is factored in will be more regressive still, leaving households on low incomes worse off overall. As the biggest losers from reductions in tax credits and universal credit, low-income families with children are the hardest hit of all.
Figure 6: Financial impact of the Budget

For more information, please contact Jane Ahrends, Press and Campaigns Officer, on 020 7812 5216 and jahrends@cpag.org.uk

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