WELFARE REFORM AND WORK BILL

House of Lords: 17 November 2015

Second reading briefing

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Executive summary

In relation to the Welfare Reform and Work Bill, CPAG is calling for the following:

Clauses 1 to 6: The Bill would repeal most of the Child Poverty Act, abandoning poverty-reduction targets and proposing new measures of poverty and life chances that do not include income. Child poverty is multifaceted, but the lack of adequate income is its decisive characteristic and one of the primary drivers of poor life chances. It must remain central to measurement.
We call for the existing Child Poverty Act measures and targets to be retained, with an extension of the target dates until 2030. At minimum we urge that a measure of income must feature among a new suite of life chances measures.

Clauses 7 and 8: The benefit cap 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, and risks increasing homelessness. Evidence on the current cap suggests that fiscal savings have been small and the effect on movement into work weak. A significant number of those affected would otherwise not be required to work due to disability or caring responsibilities.
We urge Parliament not to lower the cap. At minimum we urge that children's benefits be excluded from the cap, and that the cap not be applied to the most vulnerable (e.g. homeless families) or those who would not otherwise be required to work (e.g. lone parents of very young children). We call for a robust process for reviewing the level of the cap and assessing its impact on children.

Clauses 9 and 10: The Bill proposes to extend the freeze on working-age benefits from two years to four years, up to April 2020. This would end the link with both prices and earnings and effectively cut benefit support loose from the cost of living and from mainstream living standards. It would ensure the lowest income households continue to get poorer, and follows a series of below-inflation uprating decisions. From 2010 to 2020, for example, child benefit is projected to lose 28 per cent of its value.
We urge Parliament not to extend the benefits freeze. We call for children's benefits in particular not to be frozen, but instead to be given the same 'triple lock' protection that basic state pensions enjoy.

Clauses 11 and 12: Limiting child tax credit to the first two children would affect 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. Withdrawing support from these families would deepen poverty for the very children most at risk of hardship.
We call for the two-child limit be rejected or, at minimum, for exemptions to be made for a range of cases including adopters and kinship carers, people who have difficulty increasing their income (e.g. recipients of disability benefits), those who experience a significant and unpredictable loss of income (e.g. due to widowhood) and those with a conscientious objection to contraception or abortion.

Clause 15: This clause will mean that all parents will be expected to be available for work and actively seeking work from the time their youngest child turns three in order to be able to claim universal credit. Parents of one- and two-year olds will be expected to undertake work-focused interviews and work preparation. While the majority of parents are keen to return to work and maximise their income, this provision will deprive parents of the choice of what is best for their child.
We urge that the changes to work-related conditionality be rejected, or at minimum that requirements be aligned with childcare availability, so parents are not expected to seek work unless they have access to good quality, affordable childcare.

Child poverty

Child Poverty Action Group

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.

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 in the UK. 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 by Loughborough University for CPAG estimates that child poverty cost £29 billion in 2013 in financial terms alone – and that higher rates of poverty would increase the costs associated with extra pressure on public services and wasted economic potential.[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.[8] 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, which secured cross-party support, introduced four target measures:

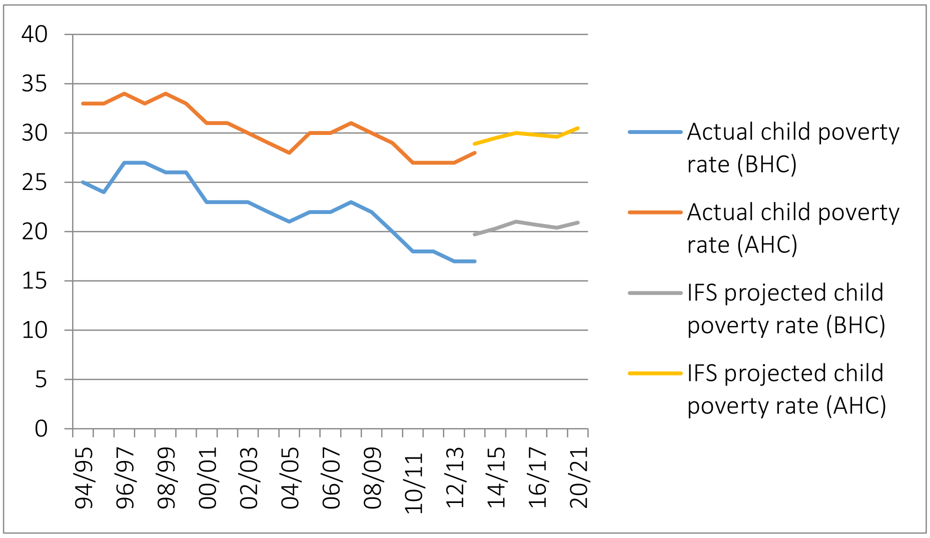
- to reduce relative low-income child poverty to less than 10 per cent by 2020/21;
- to reduce absolute low-income child poverty to less than 5 per cent by 2020/21;
- to reduce persistent child poverty to below a target level (to be set in 2015) by 2020/21;
- to reduce combined low-income and material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

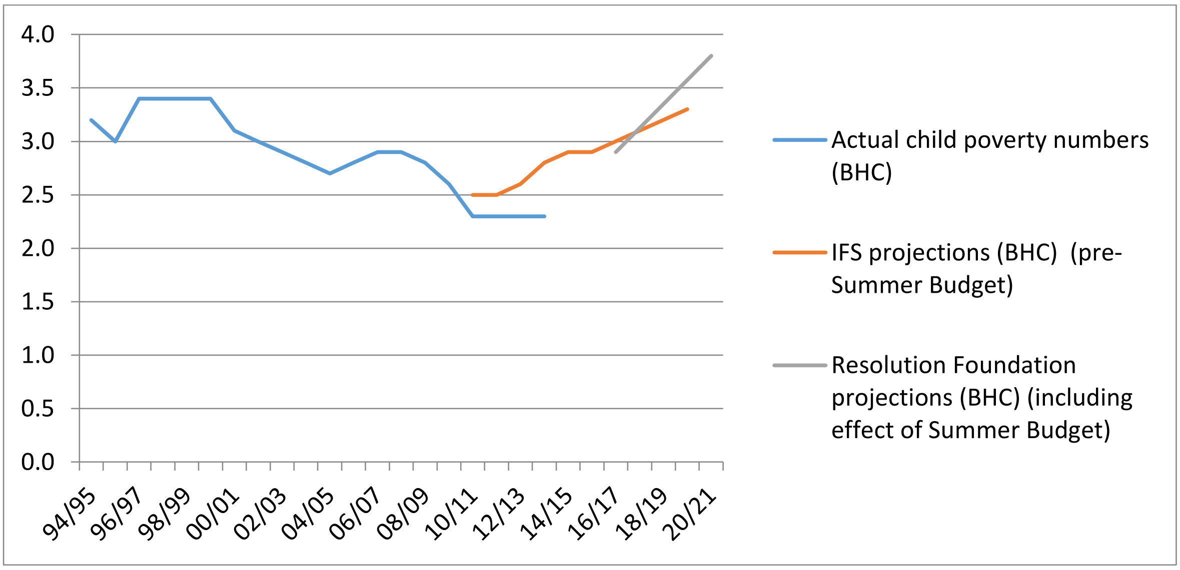
Independent projections from the Institute for Fiscal Studies (IFS), the New Policy Institute and the Resolution Foundation all suggest that poverty will increase sharply between now and 2020. The most recent analysis, by the Resolution Foundation, takes into account the policy measures announced in the 2015 Summer Budget. This indicates that between 300,000 - 600,000 more children will fall into poverty a direct result of measures in the Summer Budget alone.[9] Overall, the Resolution Foundation projects between 3.7 million and 3.9 million children will be in poverty by 2020.

Figure 1: Percentage of children in poverty: official statistics and Institute for Fiscal Studies projections (before impacts of the Summer Budget)



The IFS stated in making its projections 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. A Parliamentary Question in January 2013 revealed that the government itself estimated that the three years of 1 per cent uprating alone would put 200,000 more children in poverty by 2015/16.[10]

Figure 2: Number of children in poverty: official statistics, IFS projections (before the Summer Budget) and Resolution Foundation projections (including impacts of the Summer Budget)



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.[11]

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 Dr Kitty Stewart (Associate Professor, London School of Economics) 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.[12] This was true even after controlling for a range of other household and parental characteristics. The study concluded that:

> *'There is strong evidence that households' financial resources are important for children's outcomes, and that this relationship is one of cause and effect. Protecting households from low income is unlikely to provide a complete solution to less well-off children's worse outcomes, but ought to be a central part of Government efforts to promote children's opportunities and life chances… Few other policies are likely to affect such a range of outcomes at once…The downside of this picture, particularly in the current economic climate, is that reductions in household income are likely to have wide-ranging negative effects.'*

Any measure that is not sensitive to changes in income cannot be regarded as a robust measure of poverty.

The Government has sometimes argued its case for abandoning the measures in the Child Poverty Act on the basis that the relative income measure (households with income less than 60% of the median) can give apparently perverse results if the national median income goes down, as happened during the recent economic crisis. However, the Child Poverty Act in fact specifies four different measures of poverty, recognising that no single measure provides a complete picture. The absolute poverty measure and the material deprivation measure tell us about living standards in the here and now, while the relative poverty measure tells us about whether the fortunes of a group of the population are drifting away from the majority over time.

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 believed 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.
- 90 per cent of respondents believed that income 'should be included in a measure of poverty', and only 1 per cent believed that income 'should not be included'.
- 97 per cent of respondents believed that income is an 'important' or 'very important' dimension of poverty.

The measures of poverty in the Child Poverty Act are based on 400 years of research into the measurement of child poverty, in which the UK is a world leader, and have subsequently been widely adopted around the world, including by the OECD, the EU and the World Bank. Giving evidence to the Commons Bill Committee, Professor David Gordon (University of Bristol) expressed grave concern that 'if we abandon our measures, there is a danger that we become an international laughing stock'.

The proposed new measures

Measurements that conflate poverty and worklessness risk absurdity. The Resolution Foundation notes that 'income poverty itself is likely to be a key driver of future poverty risks'. It adds that 'there appears to be a fundamental incoherence in targeting two factors [worklessness and educational attainment] considered to be potential drivers of the outcomes of income poverty and deprivation while rejecting the measurement of these outcomes themselves'.[13]

Work is increasingly less of a route out of poverty. Sixty-four per cent of children living in poverty are in working families (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.[14] 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, it is clear that the targets will not be met on the existing timescale.[15] This is a view shared by the Social Mobility and Child Poverty Commission in its *State of the Nation* report in October 2014.[16] 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. The targets drove the development and implementation of strategies to tackle child poverty at national and local level. We fear that with the abolition of the targets, this momentum will be lost.

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.

CPAG urges parliamentarians 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 we urge that, at a minimum, an income-based measure be retained in the package of life chances measures, given the centrality of income as a determinant of life chances.

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 lower 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 assessed 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. It also has the power to effectively override regulations on who should be expected to seek work, as starting work is the only means for a family to become uncapped yet many capped families are already deemed unable to work due to caring responsibilities or health problems.

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.[17] 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 against these objectives.

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, as savings from the benefit cap have thus far been overestimated and it 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

	2013/14 £m	2014/15 £m
Expected savings from benefit cap	185	185
Additional discretionary housing payment funding to mitigate the impact of benefit cap	65	45

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',[18] and, likewise, the Queen's Speech did not mention fiscal savings.[19]

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. CPAG has calculated that a lone parent with four children, for example, would be £105.42 per week better off working for 16 hours per week on the minimum wage than on out-of-work benefits, even without the application of a cap, when both earnings and benefit income are taken into account.[20] The benefit cap is not necessary to create a work incentive.

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.'[21] International comparisons show that sanctions have a limited long-term effect in enabling people to move into work,[22] 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.[23]

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. Recipients of carers' allowance – already responsible for 35 hours of caring per week – are not exempt. 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 and 34% caring for a child aged under two.[24]

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 for which this data was released). 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, not their income.

Table 2: Comparing incomes and earnings

Median weekly earnings and total income, where the head of the benefit unit is aged below state pension age within Great Britain, 2011/12.

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

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-six per cent of capped families to May 2015 are headed by a lone parent,[25] a group already at increased risk of poverty[26] and who face greater barriers to the workplace.

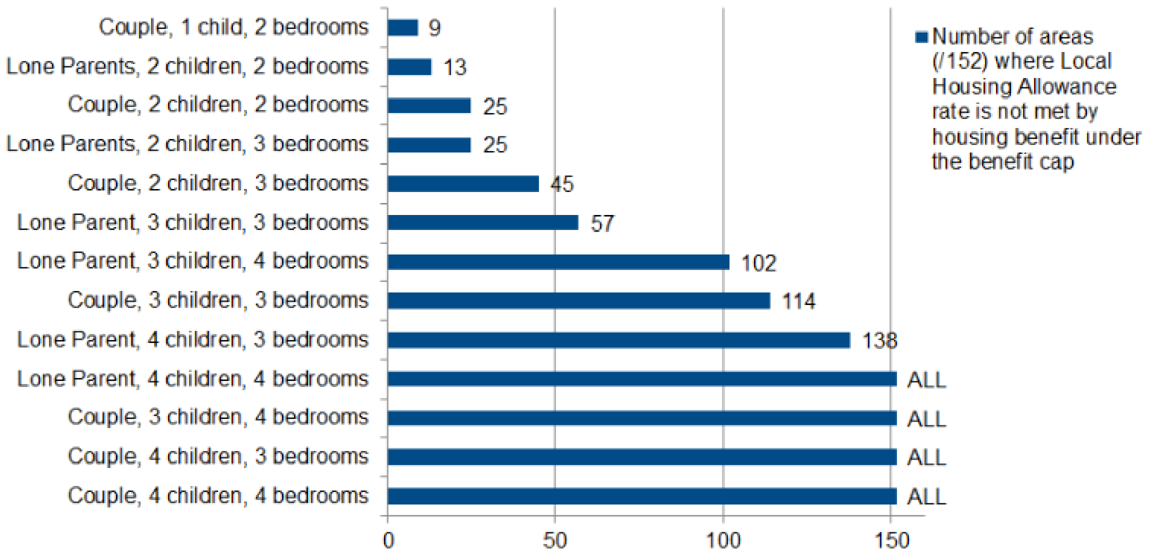
Breach of the UN Convention on the Rights of a Child

The fairness of the cap was also considered recently by the Supreme Court.[27] 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 of equivalent size, but instead to ensure that the income of out-of-work households was always *significantly 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 (UNCRC), 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.' We believe that in order to comply with the UNCRC, the Government will need to conduct a full review of the impact on children of both the current cap and the proposed reduction.

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).[28] 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.[29]

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:[30]

> *'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 the lack of 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'.[31]

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, including an assessment of its impact on child poverty, 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 parliamentarians to vote against Clauses 7 and 8 of the Bill. Should Clauses 7 and 8 be retained, we support amendments which would: (i) exempt the most vulnerable groups from the cap (e.g. lone parents with a child under five, people living in temporary accommodation as a result of homelessness, victims of domestic violence); (ii) exempt those who would not otherwise be expected to seek work from the cap; (iii) exclude children's benefits from the list of capped payments; and (iv) set up a robust process for reviewing the level of the cap and assessing its impact on children.

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 breaks 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.[32] 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: [33]

> *'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:

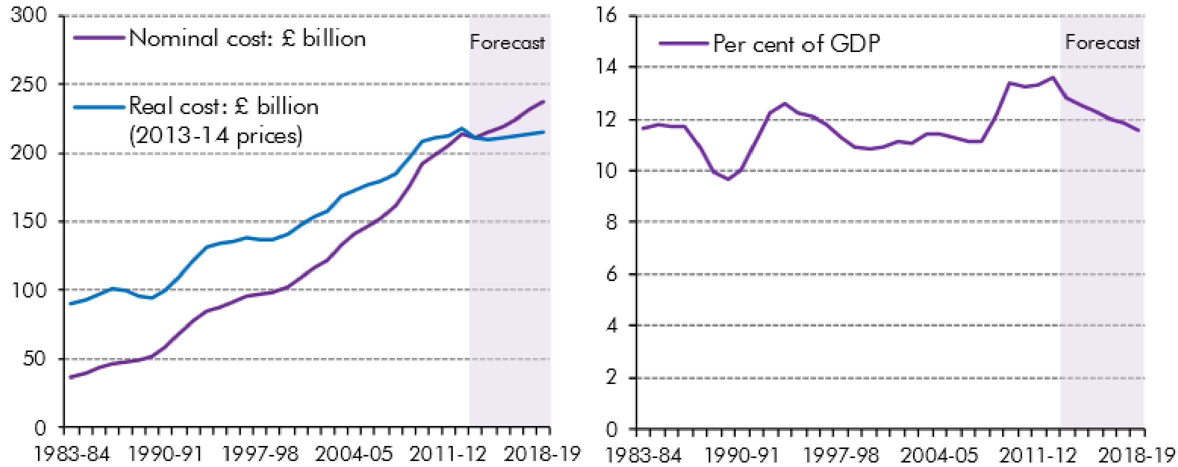
- Child benefit was frozen in cash terms from 2011/12 to 2013/14, and then uprated by 1 per cent in 2014/15 and 2015/16.
- The child element of child tax credit was uprated above inflation in 2011/12 (CPI plus £180), by CPI in 2012/13 and by 1 per cent from 2013/14 to 2015/16.
- The Budget in June 2010 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 determines whether their income maintains its value and whether 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 social security remained reasonably steady until 2008. The Office for Budget Responsibility found that the largest contribution to the increase since then has been the uprating of state pensions, rather than working-age benefits.

Figure 3: Welfare spending



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

Scorecard: cost of a child in 2014

A. How much extra a child adds to family costs, and how much benefits contribute to this cost	**Minimum additional cost of a child (averaged for first and second child)**	
	Couple	Lone parent
1. Basic cost over 18 years	£83,155	£96,905
2. Full cost over 18 years	£153,679	£172,694
3. Percentage of basic cost covered by child benefit	19%	16%
4. Percentage of basic cost covered by child benefit plus maximum child tax credit	85%	73%
B. The extent to which families have enough to cover the minimum cost of living	**Net income as a percentage of minimum family costs (family with two children aged 3 and 7)**	
	Couple	Lone parent
5. Not working	57%	60%
6. Each parent working full time on the national minimum wage	82%	87%
7. Each parent working full time on the median wage	106%	91%

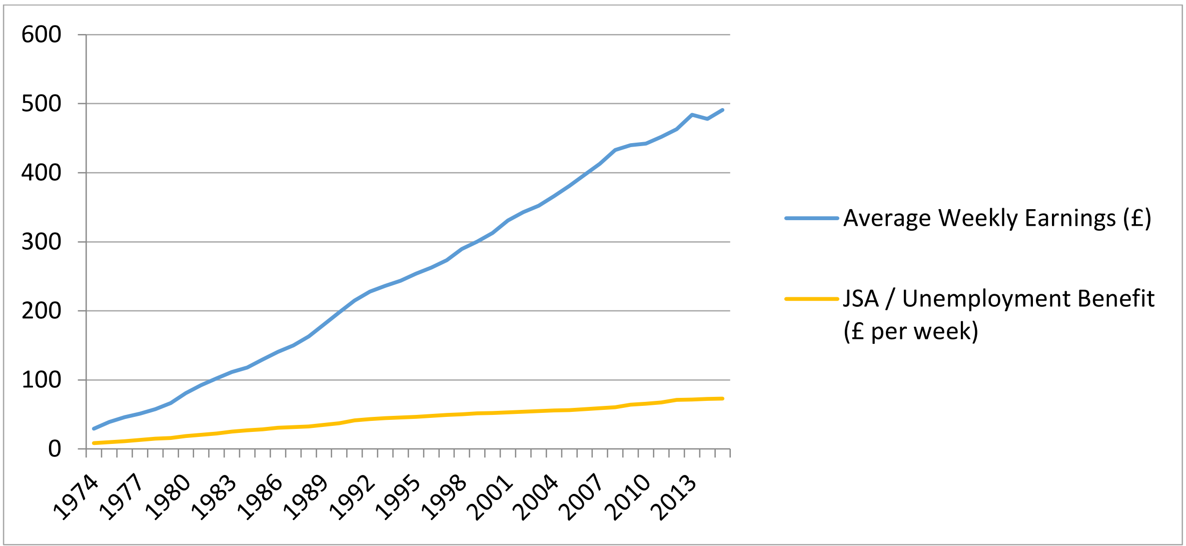
Note: Basic cost does not include rent, childcare or council tax, and net income is income after subtracting these costs.

Source: Child Poverty Action Group

The cost of many of the items needed to provide a minimum standard of living for a child is rising faster than inflation. CPAG undertook research on how the cost of essentials - based on what the members of the public regard as basic 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 with average earnings over time



Source: Office of National Statistics, Institute of Fiscal Studies

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)

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

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.*[40] 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.

The IFS has concluded 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. [41]

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.[42] 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 it was 'not going to fall'[43]; on child benefit, he said, 'That's not what we need to change'[44]. 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

	2010/11	2016/17	2017/18	2018/19	2019/20
(First child only)					
Actual value	£1,056	£1,076	£1,076	£1,076	£1,076
Value if uprated by RPI	£1,056	£1,272	£1,300	£1,339	£1,380
Value if uprated by CPI	£1,056	£1,216	£1,231	£1,252	£1,274
Losses against RPI	£-	£195	£223	£262	£304
Losses against CPI	£-	£140	£154	£175	£198
Cumulative loss in value against RPI		18.2%	20.8%	24.4%	28.2%
Cumulative loss in value against CPI		13.0%	14.3%	16.3%	18.4%

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.[45] 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 parliamentarians 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 pension, 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, who have been hit hard over recent years. Children are now more likely to live in either relative or absolute poverty than pensioners.[46]

CPAG urges parliamentarians to vote against Clauses 9 and 10 of the Bill. Should Clauses 9 and 10 be retained we would support exemptions for children's benefits from the freeze, and the introduction of a 'triple lock' for children's benefits.

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.[47] The government has indicated that it will publish regulations setting out prescribed exceptions, including for multiple births, re-partnering and rape, but has not yet done so.

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.[48] 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.[49]

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.[50] 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.[51] 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.[52]

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. There are also no guarantees against disability, long-term illness, widowhood or relationship breakdown hitting the income of any family. To deny those families assistance when they fall upon hard times is unsupportable. 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. According to the 1968 proclamation of the International Conference on Human Rights, '*Parents have a basic human right to determine freely and responsibly the number and spacing of their children*'.

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. The Impact Assessment for this policy assumes that there will be no behavioural response to the policy, in which case any money saved will be at the expense of these children. As a result of this provision, they will be at increased risk of poverty, ill health and lower educational attainment.

Finally the Impact Assessment, along with much of the Government's rhetoric surrounding the policy, implies that the policy is designed to influence the *future choices* of families. It notes that the policy aims to encourage families supported by benefits 'to consider whether they can afford to support additional children' and to ensure that 'those on benefits face the same financial choices around the number of children they can afford as those supporting themselves through work'. It further states that 'entitlement will remain at the level for two children for households who make the choice to have more children, *in the knowledge of the policy*' [emphasis added]. However, it is now clear that the policy will affect many children already born, should their families fall on hard times and require assistance, as it is to apply to new claims to Universal Credit after April 2017, regardless of the date of birth of the children.

Perverse incentives

This policy could act as a disincentive for parents to re-partner, where this would result in more than two children in the newly formed family, and as an incentive for families with more than two children to separate. It may also create a disincentive for adopters and kinship carers to take on additional children, particularly sibling groups. This will have direct consequences for the wellbeing of highly vulnerable children, as well as increasing the cost to the public purse of caring for looked-after children. Alarmingly, there is also evidence the policy may encourage some women to consider aborting wanted pregnancies.[53]

CPAG urges parliamentarians to vote against Clauses 11 and 12 of the Bill. Should Clauses 11 and 12 be retained, we would support amendments to provide exemptions for cases including: adopters and kinship carers; people in receipt of disability benefits, income support or working tax credit; people who have suffered a significant and unpredictable reduction in income since the birth of a third or subsequent child for example due to the death or serious illness of a parent; people who are victims of, or at risk of, domestic violence; and those who have a conscientious objection to the use of contraception or abortion.

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.'[54] 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 parliamentarians 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.[55] 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. Parents know best, so pressurising 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.'[56] 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' of three- and four-year olds, they will be of little assistance to parents who need childcare while they are 'actively seeking work' or for parents of one- and two-year olds who will have to undertake work-focused interviews and work preparation. 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?[57]

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 parliamentarians to vote against Clause 15 of the Bill. Should Clause 15 be retained, we would urge that conditionality be aligned to the availability of childcare, that is, that parents not be expected to seek work unless good quality affordable childcare is available, and not until the term after their youngest child's third birthday (when they become eligible for 30 hours free childcare). We also support exemptions for families in Scotland, Wales and Northern Ireland where the additional childcare offer is not in place.

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: [58]

> *'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.[59] 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. It goes 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, undermining its policy of strengthening the gains from work.

Low-paid workers in a range of jobs stand to lose significant amounts from the changes to the tax credit threshold and taper if these are implemented, as Table 6 shows.

Table 6: Tax credit losses in 2016/17 for sole earners with two children, due to changes in the threshold and taper

Job (full time)	Typical annual earnings[60]	Tax credit losses in 2016/17
Animal care worker	£18,046	£2,047.42
Baker	£17,144	£1,984.28
Bank clerk	£21,109	£2,261.83
Bar staff	£13,180	£1,706.80
Book-keeper	£22,380	£2,350.80
Call centre operator	£17,089	£1,980.43
Caretaker	£19,295	£2,134.85
Catering assistant	£13,098	£1,701.06
Chef	£18,283	£2,064.01
Childminder	£16,779	£1,958.73
Cleaner	£14,592	£1,805.64
Cook	£15,363	£1,859.61
Dental nurse	£17,758	£2,027.26
Educational support assistant	£15,875	£1,895.45
Farm worker	£20,906	£2,247.62
Fishmonger	£15,568	£1,873.96
Gardener	£18,655	£2,090.05
Glazier	£20,258	£2,202.26
Hairdresser	£12,641	£1,669.07

Home carer	£16,026	£1,906.02
Hospital porter	£18,063	£2,048.61
Laboratory technician	£21,488	£2,288.36
Legal secretary	£19,363	£2,139.61
Library clerk	£18,524	£2,080.88
Local government administrator	£23,126	£2,403.02
Medical secretary	£21,221	£2,269.67
Nursery nurse	£14,335	£1,787.65
Painter	£22,635	£2,368.65
Pest control officer	£19,697	£2,162.99
Receptionist	£16,207	£1,918.69
Records clerk	£20,434	£2,214.58
Restaurant manager	£21,086	£2,260.22
Retail cashier	£14,820	£1,821.60
Road sweeper	£17,618	£2,017.46
Roofer	£21,358	£2,279.26
Sales assistant	£14,687	£1,812.29
Security guard	£21,707	£2,303.69
School secretary	£19,153	£2,124.91
Taxi driver	£19,205	£2,128.55
Teaching assistant	£15,889	£1,896.43
Travel agent	£19,639	£2,158.93
Typist	£18,723	£2,094.81
Undertaker	£22,348	£2,348.56
Van driver	£19,968	£2,181.96
Veterinary nurse	£19,125	£2,122.95

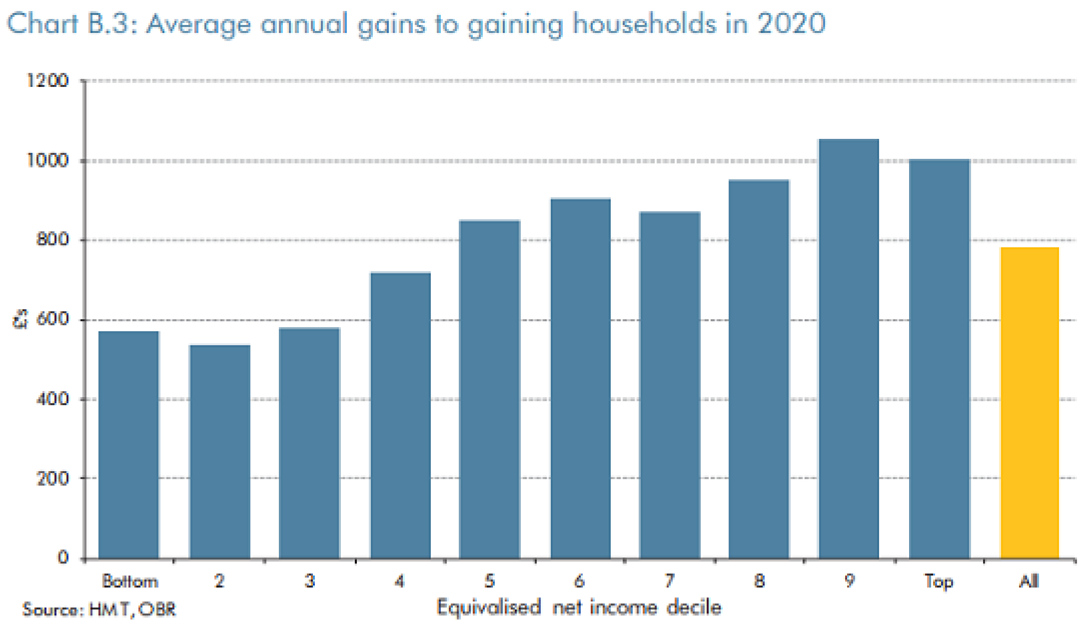
National living wage

Increases in wages for low earners are very much welcome. The new ‘national living wage’ is actually 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).[61] This is because a high proportion (in its Budget analysis, the 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.[62] 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.

Figure 5: Average annual gains to households of living wage



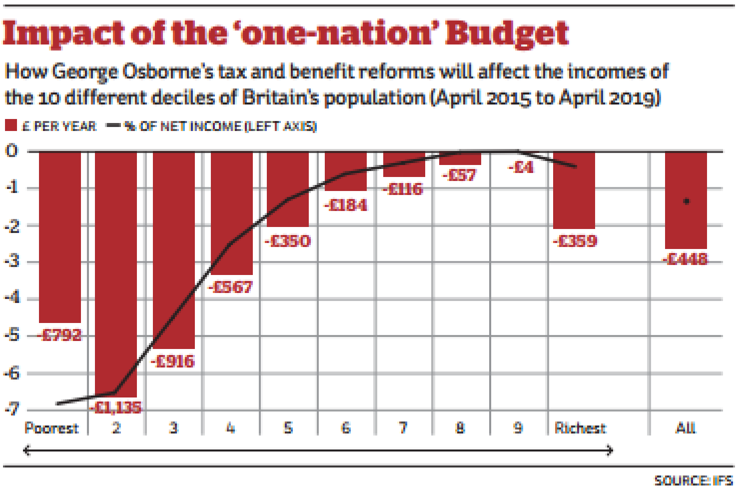
The IFS Budget analysis noted that it is 'arithmetically impossible' for the increase in the minimum wage to provide full compensation for the majority of losses experienced by tax credit and universal credit recipients. Social security spending as a whole is to be cut by an additional £12 billion a 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.'[63]

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).[64] 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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