



# ***Welfare Reform and Work Bill*** ***2015-16***

## **House of Commons Public Bill Committee** **Supplementary evidence on the limitation of the child** **element of Child Tax Credit and of Universal Credit to** **two children** **October 2015**

### **The limitation of the child element of Child Tax Credit and of Universal Credit to two children - Clauses 11 and 12**

The Welfare Reform and Work Bill introduces a two child limit on receipt of the child element of tax credits for children born after 5 April 2017 and the child element of Universal Credit for families making a new claim (whether or not the child is born before April 2017). Based on the current profile of tax credit claimants, the Government estimate that by 2020/21, 640,000 families<sup>1</sup> will lose support as a direct result of this limit while around 3 million children will be affected overall because their families will receive significantly lower levels of support. The Children's Society has a number of concerns with regard to the impact of these reforms on all children living in poverty including those in low income working families. This briefing covers clauses 11 and 12.

### **The impact on children and families**

The Government expects that the limiting of the child element of Child Tax Credit and of Universal Credit to the first two children will '*encourage parents to reflect carefully on their readiness to support an additional child*'<sup>2</sup>. By 2020/21 the savings as a result of limiting support through tax credits and universal credit to two children will be £1.365bn, and of removing the family element in child tax credit and child element of universal credit will be £675m. The Government's own impact assessment has shown that if households "*continue to make the same choices about whether to have a family and family size as they currently do*"<sup>3</sup> approximately 3.7m households will have a lower rate of payment as a result of the two measures together, 640,000 affected by the two child limit.

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<sup>1</sup> Welfare Reform and Work Bill: Impact Assessment of Tax Credits and Universal Credit, changes to Child Element and Family Element <http://www.parliament.uk/documents/impact-assessments/IA15-006E.pdf>

<sup>2</sup> Ibid. pg 1

<sup>3</sup> Ibid. pg 6



The restriction of the child element of Child Tax Credit will mean that each family with three or more children in receipt of tax credits will lose up to £2,780 for each additional child per year. In addition to the two child limit, the family element of tax credits is to be removed. This is a single payment made per family worth £545 per year.

In total this means that a family with three children will lose £3,325 (£64 per week) from their maximum child tax credit entitlement as a result of these measures. Major further cuts that have been announced to in-work benefits (such as the four year freeze on working age benefits) will come on top of this.

The most recent Households Below Average Income (HBAI) statistics<sup>4</sup> from the Department for Work and Pensions show that children from larger families with three or more children are more likely to be in relative low income before housing costs, than children from smaller families – 22% compared to 16% for one-child families.

HBAI figures also showed that 62% of children in poverty were in families where at least one parent is in work, and we are concerned that these measures will only make matters worse for these families.

*"[Mum] is working every day. She is doing loads of hours so that we can do something nice. I feel a bit lonely sometimes as I am here on my own..."* Quote by a young person from the Children's Commission on Poverty<sup>5</sup>

## **Impact of financial insecurity on children**

Lack of financial resources and the experience of material deprivation have a significant impact on children's lives. Our research with children shows that, far from being unaware of the family finances, children are extremely anxious about the adequacy of income coming into their homes and whether there is enough for them and their family's needs.

Poverty in childhood brings a lack of basic items that others take for granted like food, towels, bedding and clothing. From our work we know that families living on low income struggle to meet their basic needs, to feed and clothe their children, to heat their homes and, in some cases, to repay debt. For example, The Children's Society and StepChange report The Debt Trap<sup>6</sup> showed that families in problem debt

<sup>4</sup> Department for Work and Pensions. (2015). Households Below Average Income 2013/2014 <https://www.gov.uk/government/statistics/households-below-average-income-19941995-to-20132014>

<sup>5</sup> The Children's Society (2013) Through Young Eyes - The Children's Commission on Poverty: [http://www.childrenssociety.org.uk/sites/default/files/through\\_young\\_eyes\\_poverty\\_commission\\_report\\_final.pdf](http://www.childrenssociety.org.uk/sites/default/files/through_young_eyes_poverty_commission_report_final.pdf)

<sup>6</sup> The Children's Society and StepChange (2014) The Debt Trap: [http://www.childrenssociety.org.uk/sites/default/files/debt\\_trap\\_report\\_may\\_2014.pdf](http://www.childrenssociety.org.uk/sites/default/files/debt_trap_report_may_2014.pdf)



are engaged in a 'juggling act', caught between making payments on debts, buying essentials or cutting back.

Children in poor families can also lack important childhood possessions, like toys, bicycles and games, and when items such as these break, they can stay broken and are not replaced. In effect, poverty means that children are unable to participate fully in school and social activities with their peers.

*"There are trips in Year 7 and Year 9 you have to go on, if you don't you are in isolation"* Quote by two young people from the Children's Commission on Poverty<sup>7</sup>

## **Families making a new claim under Universal Credit**

The current proposals as set out in Clause 12 of the Bill will mean that families with children born before April 2017 making a new claim under Universal Credit do not receive the same protections as those available to claimants of tax credits, and may have their child additions within Universal Credit limited to two children.

The Government has stressed that the limit on benefits beyond the first two children is a 'behaviour related' measure aimed at "*encouraging parents to reflect carefully on their readiness to support an additional child could have a positive effect on overall family stability*"<sup>8</sup>. However, if the limit on support is applied to those families who already have a certain family structure in place when they make a new claim under Universal Credit, it cannot affect behaviour, and will simply punish families who are making a new claim for benefits for decisions that they have already made prior to the policy change.

This measure would have the effect of reducing support for children and families facing serious challenges in their lives such as families with disabled children, kinship carers, families who have experienced bereavement, domestic violence, parental illness or disability, loss of employment, family breakdown or other unforeseen and unplanned life events. In the next section, we have outlined some particularly vulnerable groups of families that we believe are likely to be negatively affected by the provisions under the Bill as currently drafted.

## **Vulnerable Families:**

### **Families with disabled parents or children**

The two child limit for child tax credit will also affect disabled children. The disability premium (the disabled and severely disabled child elements in child tax credits) and

<sup>7</sup> The Children's Society (2013) Through Young Eyes - The Children's Commission on Poverty: [http://www.childrenssociety.org.uk/sites/default/files/through\\_young\\_eyes\\_poverty\\_commission\\_report\\_final.pdf](http://www.childrenssociety.org.uk/sites/default/files/through_young_eyes_poverty_commission_report_final.pdf)

<sup>8</sup> Welfare Reform and Work Bill: Impact Assessment of Tax Credits and Universal Credit, changes to Child Element and Family Element <http://www.parliament.uk/documents/impact-assessments/IA15-006E.pdf>



an amount for each disabled child in universal credit will be protected regardless of the number of children in a family. However, the child element in child tax credits and universal credit will only be paid in respect of two children in a family, even where the third child is disabled.

Furthermore, the child disability element (for children other than those on the high rate care component of Disability Living Allowance) has already been effectively halved within Universal Credit, meaning that for families with disabled children.

In total the potential loss is extremely large. Currently a family with a disabled third child would receive a maximum Child Tax Credit entitlement of £5,920 (a child element of £2,780, plus a disabled child element of £3,140). Following the reduction of the disability component and the introduction of the two child limit, a new Universal Credit claimant would have a maximum annual entitlement of just £1,513 – little more than a quarter of their current entitlement in the tax credit system.

The Children's Society's research shows that four in ten disabled children are living in poverty once you take into account the extra costs these families face as a result of disability<sup>9</sup>. This is due to the difficulties disabled adults and parents with a disabled child can face in entering and sustaining employment and the additional costs involved with raising a disabled child or supporting a disabled adult. The proposed changes will place an additional strain on the income of these families.

### **Parent affected by disability<sup>10</sup>**

*"I needed support from benefits when my life abruptly changed after an accident at home while doing repairs. I sustained a burst fracture of the lumber spine and needed surgery and stabilization with metal rods. As someone who hardly missed a day off work in 17 years I suddenly found myself with an acquired disability and not a clue where to turn to. I've had to fight very hard for Disability Living Allowance and the stresses and strains of being out of work, and depression led to the break-up of my 15 year marriage. With kids involved, this added more stresses and I tried to take my own life. Without the help of benefits, I don't think I would be here to tell the tale."*

### **Bereaved Families**

Families with three or more children who are making a claim for tax credits as a result of having been bereaved of a parent will be unable to get adequate support for all the children within the family. It is common for families dealing with the death of a parent to have to make a claim for additional support – either as a result of the loss

<sup>9</sup> The Children's Society (2011) '4 in every 10 - Disabled children living in poverty': [https://www.childrenssociety.org.uk/sites/default/files/tcs/4\\_in\\_10\\_reportfinal.pdf](https://www.childrenssociety.org.uk/sites/default/files/tcs/4_in_10_reportfinal.pdf)

<sup>10</sup> Who Benefits? Coalition (2015) 'Telling the real story of benefits': <http://whobenefits.org.uk/files/Who-Benefits-Report-Final-3.pdf>



of an earner, or because they have to give up work or reduce their hours to care for their children.

If a parent claims Universal Credit for the first time following the death of their partner, they would be treated as a new claimant. As a result, they would be affected by the two child limit, even if their children were born before April 2017.

The case study below illustrates the importance of the welfare safety net for families following unforeseen life events such as the death of a parent:

### **Teenager's family in need of support after father's death<sup>11</sup>**

*"My dad died when I was 15. He had been our only income, since my mum had no qualifications and had quit work to look after me and my sister. This support let me and my sister finish our schooling and gave my mum some peace of mind during our grief. It made sure that she could find work that fulfilled her and made good use of her skill-set. It meant that I could be the first in my family to attend university, instead of having to quit school and find a job to help support my family."*

### **Kinship carers and private foster carers**

Kinship carers and private foster carers are vital support networks for children and parents when sudden life events – such as parental illness, disability, domestic violence and other issues – making parents unable to care for their children temporarily or permanently. Kinship carers<sup>12</sup>, for example, support an estimated 200,000 children across the UK while an estimated 15,000 to 20,000 children are thought to be in private fostering arrangements<sup>13</sup>.

Supporting children in these circumstances incurs significant costs. Unlike adopters, kinship or private foster carers are not entitled to a period of paid leave for the children to settle in, despite the children having suffered similar difficulties in some cases. A recent survey by Family Rights Group found that of the kinship carers who responded to the survey, almost half (49%) have had to give up work permanently to care for the kin child thus becoming reliant on benefits, and a further 18% had to give up work temporarily<sup>14</sup>. The survey also found that 22% of carers' households had three or more children that they cared for, suggesting that a significant proportion of carers will be affected by this policy.

This policy may act as a disincentive for kinship carers or private foster carers from taking on caring responsibilities for other children if the two child limit on benefits would mean that they are no longer able to get additional support through Universal Credit. This could then have the effect of adding further pressure on local authorities if children need to be taken into care. A recent report by the National Audit Office

<sup>11</sup> Ibid.

<sup>12</sup> Kinship carers are grandparents, older siblings and other relatives and friends who step in to care for children. This figure is taken from the joint evidence presented on behalf of The Children's Society and other NGOs submitted by Family Rights Group: <http://www.publications.parliament.uk/pa/cm201516/cmpublic/welfarereform/memo/wrw61.htm>

<sup>13</sup> Philpot T (2001) A Very Private Practice: An investigation into private fostering. London: BAAF

<sup>14</sup> Ashley C, Aziz R and Braun D (2015) 'Doing the right thing: A report on the experiences of kinship carers':

[http://www.frg.org.uk/images/Kinship\\_Care\\_Alliance/151013%20Report%20on%20kinship%20carers%20survey.pdf](http://www.frg.org.uk/images/Kinship_Care_Alliance/151013%20Report%20on%20kinship%20carers%20survey.pdf)

highlighted that the average annual spend on a foster place for a child ranges between £29,000 and £33,000, while the average annual spend on a residential place for a child is between £131,000 and £135,000<sup>15</sup>.

## **Families fleeing domestic violence**

As with other vulnerable families, those fleeing domestic violence are particularly likely to face difficulties under the policy to limit support to the first two children as new claimants under Universal Credit. As currently drafted the provision under Clauses 11 & 12 would mean that parents without an alternative income and more than two children who are facing domestic violence may not be able to get support for all of their children as a new claimant under Universal Credit, or if their children are born after April 2017.

As with bereaved parents, parents fleeing domestic violence may be particularly likely to need to make a claim for support, especially where the abusive partner was the main earner in the household. For this reason, limiting the child element to two children is likely to make it harder for some parents to flee abusive relationships.

## **Family experiencing breakdown**

Families with more than two children who experience a family breakdown and as a result need to make a new claim under Universal Credit would also be negatively impacted by Clause 12 as currently drafted. This case study highlights the case of a single working mother with three children who would be negatively affected by this provision:

### **Case study – Working mum and children facing family breakdown<sup>16</sup>**

*“I’ve worked all my life and I never thought I would need benefits as I was very motivated and pro-active in seeking work. When my first marriage broke down, I became a single parent ... Never in my wildest dreams did I think that I would end up claiming income support and other benefits to survive. However after the birth of my third child all was not well with him and he was diagnosed with autism, and my marriage broke down. You never know how your life will change, one day you are able to provide for your family independently and the next there is no other option but benefits.”*

## **Step families and cohabiting families**

The provision under Clause 12 as currently drafted could also have the perverse outcomes of preventing step families from joining households given that larger families would get no support beyond the third child and would therefore remain separated (for example two lone parents with two children each).

## **Recommendations**

<sup>15</sup> National Audit Office (2014) ‘Children in care’: <http://www.nao.org.uk/wp-content/uploads/2014/11/Children-in-care1.pdf>

<sup>16</sup> Who Benefits? Coalition (2015) ‘Telling the real story of benefits’: <http://whobenefits.org.uk/files/Who-Benefits-Report-Final-3.pdf>

- We would urge the Government to remove Clauses 11 and 12 which limit the payment of the child element of tax credits and Universal Credit to the first two children.
- At the very least, the Government should make sure that families with more than two children making a new claim under Universal Credit are not unfairly disadvantaged by the proposed changes, particularly families with disabled children, kinship carers, private foster carers, families who have experienced bereavement, domestic violence, parental illness or disability, loss of employment, family breakdown or other unforeseen and unplanned life events.
- The Government should also ensure that families making a claim for Universal Credit are treated in the same way as Child Tax Credit claimants, and not face an additional rule which means children born before April 2017 may still be considered for the purposes of the two child limit.

**More information:** For further details, please contact David Ayre, Policy Officer on [david.ayre@childrenssociety.org.uk](mailto:david.ayre@childrenssociety.org.uk) or 020 7841 4480

### **About The Children's Society**

The Children's Society is a leading charity committed to improving the lives of some of the most disadvantaged children and young people across the country working through our research, campaigns and direct services. Our direct work with vulnerable groups - such as disabled children, children at risk exploitation, children in or leaving care, refugee, migrant and trafficked children - means that we can place the voices of children at the centre of our work.