

Briefing from The Children's Society: 1% benefit up-rating cap

Summary

- The Government plans to cap uprating on certain key benefits and tax credits at 1% for the next three years.
- This measure will affect all families with children in receipt of Child Benefit or Child Tax Credit in the UK.
- Nearly 12 million adults with children, and 11 and a half million children are estimated to be in families affected.
- Parents affected include an estimated 300,000 nurses and midwives, 150,000 primary school teachers and 40,000 armed forces personnel.
- Based on average earnings for their profession, a single-parent primary school teacher, with two children stands to lose £424 a year by 2015. A nurse with two children could lose £424, and an army second lieutenant with three children could lose £552 a year.
- The impact on households is likely to be even greater if they are renting in the private rental sector and in receipt of Housing Benefit, or if prices rise faster than expected.

Numbers affected

Total number of people affected by the 1% benefit uprating cap

Since Child Benefit (CB) is affected by the cap on uprating, it is possible to produce a total estimate of children and adults with children who will be affected on the basis of child benefit claims data.

7.9million families receive CB (including an estimated 6m couples and 1.9m lone parents). Following the introduction of the high income CB charge is introduced the number of families receiving full CB reduces to 6.7m (including 10.2m people in couples and 1.6m lone parents – a total of 11.8m people with children.)

There are 13.7m children in these households – (11.6 million estimated after high income CB charge). As a result, the estimated numbers of people in households with children affected by the 1% uprating cap are:

- 11.8 million adults with children
- 11.6 million children

The amount lost will depend on whether the families receive CB alone, or CB combined with other benefits. Those receiving only CB will only be affected by a small amount – around £50 per year by 2015 for a family with two children. Families who also receive Tax Credits will be affected to a much greater extent. (For example a working family with two children in receipt of tax credits could lose up to £425 per year.)

As Tax Credits are means tested, those with low to middle earnings, and single earner households, are particularly likely to be affected by the benefit uprating cap affecting Tax Credits. In December 2012, 4.1 million families with children, containing 7.8 million children, received tax credits or the equivalent child support through benefits.

It is considerably more difficult to estimate numbers of adults without children affected by the cap. This is not attempted here.

Estimates by profession

An estimate of the numbers of parents in different professions in households affected by the 1% benefit up-rating cap is given below.

Total numbers of people in different professions are based on indicative data from the Annual Survey of Hours and Earnings. The estimates of those affected are based on the following assumptions:

- 37% of working age adults are in households with children¹, and that this is constant across the different professions.
- An insignificant proportion of those in the professions given are in households affected by the high income child benefit charge. While average incomes for the professions given are all well under the level of the charge, some workers will be on a considerably higher than average income for their profession, or have a partner on a higher income.

Estimates only include those with children who would be affected by the 1% uprating cap.

¹ Based on data from HBAI (2010/11): http://statistics.dwp.gov.uk/asd/hbai/hbai2011/pdf_files/full_hbai12.pdf

Profession	Average weekly income for profession	Numbers of workers in profession	Estimated numbers of parents in profession affected by cap:
Nurses and midwives	£530	770,000	300,000
Primary and Nursery School Teachers	£600	405,000	150,000
Admin workers and secretaries	£331	3.07 million	1.14 million
Electricians and electrical fitters	£545	119,000	44,000
Sales assistants and cashiers	£160	1.39M	510,000
Armed forces personnel	£550	113,000	42,000

How much could different families lose?

Calculating the impact

The impact on different households can be calculated by comparing their entitlements to benefits and tax credits to what they would have been without the cap on up-rating.

Five key factors affect the amount that households are affected by the up-rating cap:

- 1. The number of children in the household** – which affects the amount of child tax credit and child benefit the household may receive.
- 2. Whether the household is working** – which affects their entitlement to out of work benefits such as Job Seeker's Allowance or Employment and Support Allowance, and to in-work benefits such as Working Tax Credit.
- 3. Housing Benefit receipt** – if the household is privately renting then they may be affected by caps affecting Housing Benefit entitlement.

The cases given below assume that the households are not in receipt of Housing Benefit, either because they own their own home, or because their income is too high. The impact on households is likely to be even greater if they are renting in the private rental sector and receiving Housing Benefit, since, for the majority of areas, maximum support with rent will also only be up-rated by 1% in 2014 and 2015.

4. **Household income** – for the professions given in the examples below, earnings are based on average earnings for different professions.

5. **CPI inflation** – without the 1% cap, most key benefits would be updated with the Consumer Prices Index (CPI) for the next three years².

Therefore, the rate of inflation affects the impact of the cap. For the examples below, inflation is based on OBR/ONS projections³. Were inflation to be significantly higher than projected, the impact of the cap would be significantly greater than that indicated.

The impact on different household types:

The following calculations are based on average earnings for different professionals, as given in the annual survey of hours and earnings⁴. In all cases it is assumed that the households do not have substantial savings or investments (which may affect their entitlement).

- A lone parent working as a nurse with two children, earning £530 per week – **would lose £424 a year by 2015.**
- A couple with 3 children, one earner a second lieutenant in the Army, earning £470 per week – **would lose £552 a year by 2015.**
- A lone parent working as a hairdresser with one child, earning £195 per week – **would lose £296 a year by 2015.**
- A couple, one a childminder earning £240 per week, and the other a postal worker earning £395 per week, with two children – **would lose £351 a year by 2015.**
- A couple with two children, one earner, a primary school teacher earning £600 per week – **would lose £424 a year by 2015**

For more information about this briefing, please contact Sam Royston, poverty and early years policy adviser to The Children's Society on sam.royston@childrenssociety.org.uk or on 07969 291 251.

² Notably, this is not the case for Child Benefit and key elements of Working Tax Credit, were already to be frozen in 2013, and only increased with CPI in 2014 and 2015.

³ Assumptions for CPI rates are based on: 2013 uprating - actual CPI september 2012 (2.2%). 2014 and 2015 uprating based on ONS/OBR forecasts (Dec 2012) for year to Q3 2013 (2.6%) and Q3 2014 (2.2%)

<http://budgetresponsibility.independent.gov.uk/pubs/December-2012-EFO-charts-and-tables2342.xls>

⁴ Gross average weekly earnings by profession based on: <http://www.ons.gov.uk/ons/rel/ashes/annual-survey-of-hours-and-earnings/2012-provisional-results/2012-provisional-table-14.zip> Table 14.1a

Earnings for army 2nd lieutenant based on commissioned (non-graduate) starting pay of £24,615

<http://www.army.mod.uk/join/20097.aspx>

About The Children's Society

The Children's Society supports nearly 50,000 children and young people every year through our specialist services and children's centres. We believe in achieving a better childhood for every child but have a particular focus on children who have nowhere else to turn, such as children living in poverty,, young refugees, children at risk on the streets, disabled children and children in trouble with the law. We seek to give a voice to children and young people and influence policy and practice so they have a better chance in life.