

# Welfare Reform and Work Bill: Report and 3<sup>rd</sup> reading *Briefing – Two Child Limit*

## Introduction

The Welfare Reform and Work Bill introduces a two child limit on receipt of the child element of Child Tax Credit 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). The Children's Society has a number of concerns with regard to the impact of these reforms on all children living in poverty.

### Key points

- 640,000 families will lose support as a direct result of the proposed changes
- In total the loss of a child element plus the family element of CTC will mean that a family with three children will lose up to £3,325. A family with four children will lose up to £6100.
- Disabled children will be affected by these measures if they are the third child in the family – this will come in addition to major cuts to children's disability support through Universal Credit.
- So far the Government has promised an exemption from this measure for children born as a result of rape – however, families with 3 or more children as a result of kinship care arrangements, and families requiring additional support as a result of bereavement or Domestic Violence do not currently have any exemption from the 2 child limit.
- Whilst under Child Tax Credit, families will not be affected if their children are born before April 2017, this is not the case for families making a new claim for Universal Credit. This inconsistency is both unfair to Universal Credit claimants, and risks creating confusion and complexity for claimants.

## 1. The two child limit for the child element of Tax Credits and Universal Credit

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>1</sup>.

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>2</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.

<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> 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>

The impact assessment provided estimates that based on the current profile of tax credit claimants by 2020/21 640,000 families<sup>3</sup> will lose support as a direct result of the proposed changes. The same impact assessment has shown that *around 1.2million household will be affected by the loss of the family element*<sup>4</sup>.

## **2. Vulnerable families affected**

### ***Families with disabled 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 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.

### ***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 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.

### ***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>5</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>6</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.

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.

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<sup>3</sup> Ibid. pg 5

<sup>4</sup> Ibid. pg 6

<sup>5</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>6</sup> Philpot T (2001) A Very Private Practice: An investigation into private fostering. London: BAAF

### ***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.

### **3. 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>7</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 cut support for families who are making a new claim for benefits for decisions that they have already made prior to the policy change.

### **The Children’s Society supports the removal of a limit on the child element of Tax Credits and Universal Credit to the first two children.**

- If the Government do proceed with this measure, they should make sure that the most vulnerable families are exempted from the changes, particularly families with disabled children, kinship carers, private foster carers, families who have experienced bereavement or domestic violence
- 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.

### **Questions for the Minister**

- Can the Minister confirm what they will do to ensure that no family with a third or subsequent child born before April 2017 will be penalised as a consequence of these changes?
- Can the Minister confirm whether any kinship carers, victims of Domestic Violence, families with disabled children, or families who have experienced bereavement, will be protected from the proposed changes?

<sup>7</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>