Child Poverty and Welfare Reform

Introduction

The Welfare Reform and Work Bill introduces major changes to the Child Poverty Act, as well as a number of measures to implement policies in the July 2015 Budget. The Children’s Society has a number of concerns, particularly with regard to the impact of these reforms on low income working families.

Child poverty targets

The proposed changes to how child poverty is measured, if implemented, would see the removal of targets on absolute, relative and persistent poverty as set out in the Child Poverty Act 2010. It would also remove the duty on local authorities to produce a child poverty strategy, a sustainable communities strategy and to work collaboratively to reduce child poverty.

In their place, the Government announced a new duty on the Secretary of State to report on the number of children living in workless households in England; children living in long-term workless households in England; the educational attainment of children in England, including the educational attainment of disadvantaged children in England.

Last month government data\(^1\) revealed that while child poverty remained static between 2012/13 and 2013/14 at 3.7m children in poverty after housing costs (AHC), the number of children in families living on less than 50% of medium income has risen from 2.2m to 2.4m – meaning that there are 200,000 more children living in deeper poverty. **There has also been an increase in the proportion of children in poverty living in a working family – this is now at 63%.** Given this, it is clear that reporting on a measure focussed on children in workless households, will not get to the heart of understanding child poverty in the UK.

The Children’s Society support plans to add additional reporting requirements on parental employment and educational attainment as they are important in contributing to children’s welfare. However these should be additional to current measures, rather than replacing them. Income is, however, fundamental in determining whether children have the basic essentials they need to learn, grow and develop, and that they have standard of living adequate for their physical, mental, spiritual, moral and social development.

**Recommendation: The Government should consider how it can incorporate approaches to measuring child poverty which address poverty amongst low income working families.**

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Impact of Welfare Reforms on Children

The Government plans to cut £46bn\(^2\) from the welfare budget over the next five years, with a significant proportion enabled through the Welfare Reform and Work Bill. The impact of some of these measures is outlined below.

1. **Four year benefit freeze**

The Bill introduces a four year freeze on working age benefits. This will apply to a wide range of benefits and tax credits, including those paid on account of children in the household.

Table 1 below shows the loss to a couple with three children earning £400 per week (assuming no Housing Benefit entitlement) as a result of the introduction of a four year benefit freeze, based on OBR forecasts for RPI inflation.

As can be seen, by 2020 the loss amounts to £34.20 per week for a typical low income working family compared to support rising in line with costs of living. A similar family with no earnings would lose £36.75 by the same point. Note – this is only the impact of benefit freezes, other losses such as the removal of the family element of CTC are not included.

Table 1. Couple with 3 children earnings £400 per week (gross), real terms weekly loss as a result of benefit/tax credit freeze for each year to 2020

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**Recommendation:** Children should be given the same protection as is given to elderly people through the basic state pension. This means “triple locking” children’s benefits so that they rise in line with the highest of earnings, inflation or by 2.5% per year.

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2. Removal of the Family element of Child Tax Credit (CTC), and introduction of a two child limit for the child element

The Welfare Reform and Work Bill introduces a 2 child limit on receipt of the child element of child tax credit for children born after 5 April 2017 or are a completely new claim to UC. Based on the current profile of tax credit claimants, around 2m children in working families will see their support cut as a result of this decision.

This measure will mean that each family with 3 or more children will lose £2780 for each additional child per year. In addition, the Family Element is to be removed. This is a single payment made per family worth £545 per year.

In total this means that a family with 3 children will lose £3325 (£64 per week) from their maximum child tax credit entitlement as a result of these measures.

Freezes on entitlements for remaining tax credit entitlements will be applied on top of this measure.

This measure will apply to the child element for disabled children. The disability premia (the disabled and severely disabled child elements in CTC) and an amount for each disabled child in UC will be protected regardless of the number of children in a family. However, the Child Element in CTC and UC will only be paid in respect of two children in a family, even where the third child is disabled.

**Recommendation:** A two child cap should not be applied to receipt of Child Tax Credit. Disabled children in particular should be made exempt from this cap.

3. Reducing the level of the Benefit Cap

The Welfare Reform Bill reduces the level of the Benefit Cap from £26000, to £23000 in London and £20000 in the rest of the Country.

Table 1 below shows the impact of this on couple families with varying numbers of children. Based on average LHA rates for different household sizes, it shows that a family with four children could see their benefit income reduce to just £4 per person per day. As shown in the final column, this is just a third of what they would need in order to escape poverty.

As a result of its focus on capping the benefits of larger families, we know that the Benefit Cap disproportionately affects children over adults. In February 2015 (the latest available statistics), around 92,100 children were living in families affected by the cap, compared to 30,500 adults – **around three times as many**.

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One The Children’s Society family support worker supporting a family affected by the benefit cap told us:

‘The family have been served a section 21 notice as a result of their inability to pay full rent. They have been awarded a discretionary housing payment however there is still a shortfall. The family is large - 5 children - and have lost £92 pound a week with the introduction of the cap. Since the introduction of the cap mum has got herself a part time job of 16 hours which now means she comes off of the benefit cap and can now reapply for housing benefit to assist. They are still being evicted though as they have already gone into arrears.’

### Table 2. Impact of benefit cap on couple family with varying numbers of children, based on receiving English average LHA rates for relevant household size

<table>
<thead>
<tr>
<th></th>
<th>Average LHA rates (England)</th>
<th>Benefit entitlement</th>
<th>Disposable income after cap applied</th>
<th>Disposable weekly income per head in household</th>
<th>Weekly loss as a result of cap</th>
<th>Poverty line (after housing costs deducted)</th>
<th>Househol d income as % of poverty line</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 child</td>
<td>£137</td>
<td>£199</td>
<td>£199</td>
<td>£66</td>
<td>£0</td>
<td>£288</td>
<td>69%</td>
</tr>
<tr>
<td>2 children</td>
<td>£163</td>
<td>£267</td>
<td>£221</td>
<td>£55.32</td>
<td>£46</td>
<td>£389</td>
<td>57%</td>
</tr>
<tr>
<td>3 children</td>
<td>£163</td>
<td>£334</td>
<td>£221</td>
<td>£44.25</td>
<td>£113</td>
<td>£437</td>
<td>51%</td>
</tr>
<tr>
<td>4 children</td>
<td>£212</td>
<td>£401</td>
<td>£172</td>
<td>£28.69</td>
<td>£229</td>
<td>£538</td>
<td>32%</td>
</tr>
<tr>
<td>5 children</td>
<td>£212</td>
<td>£468</td>
<td>£172</td>
<td>£24.59</td>
<td>£296</td>
<td>£586</td>
<td>29%</td>
</tr>
<tr>
<td>6 children</td>
<td>£212</td>
<td>£535</td>
<td>£172</td>
<td>£21.52</td>
<td>£363</td>
<td>£686</td>
<td>25%</td>
</tr>
</tbody>
</table>

**Recommendation:** The Children’s Society is concerned that lowering the level of the Benefit Cap could have severe consequences for many tens of thousands of children.

If proceeding with reducing the level of the Benefit Cap, the Government must consider what protective transitional measures can be put in place to minimise the impact on children, including enhanced payments of Discretionary Housing Payments to Local Authorities to support difficult cases.

**4. Reductions in income thresholds in Tax Credits and work allowances in Universal Credit for working families, and increase in the tax credit taper rate from 41% to 48%**

The July Budget introduced new measures (not introduced through the Welfare Reform and Work Bill) to reduce levels of income disregards in tax credits and work allowances in Universal Credit. These levels set the amount of earnings that a family in receipt of benefit can keep before additional earnings start to affect their benefit entitlement. They are crucial in ensuring that work pays for low income families.
Any earnings above this threshold begin to affect the amount of support that a family receives (currently at a rate of 41p for each additional £1 earned for families in receipt of Tax Credits).

The income threshold for Tax Credits is currently set at £6420 per year, with earnings over this threshold deducted at a rate of 41p for each £1 earned above this threshold. In future, this threshold will be reduced by £2570 to £3850 per year.

At a deduction of 41p in the £1, this reduced threshold will cost low income working families £1054 per year. However, the Government also intends to increase the taper rate for tax credits from 41% to 48% (from 41p in the £1 to 48p in the £1), meaning that the cost of this reduction in the income threshold will be still higher—around £1233 per year.

These measures will only affect working families, and will significantly reduce the incentive to work. With the majority of children in poverty living in working families, this is not a measure that can be afforded by working families.

**Recommendation:** Income thresholds are a crucial measure for addressing in work poverty and improving work incentives. These thresholds should be raised in line with increases in personal allowances for income tax.

### Questions for the Minister:

- How does the Minister plan to measure progress in helping the two thirds of children in poverty who are living in working families?
- Can the Minister confirm what proportion of those affected by the benefit cap are children? What measures will the Government take to protect children from the impact of reducing the level of the cap?
- What assessment has the Minister made of the impact of reducing income thresholds and increasing tapers in the tax credit system on work incentives for low income families?
- What assessment has been undertaken of how the Government’s planned welfare reforms will affect children?

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