

A Briefing from The Children's Society

The Distributional Impact of the Benefit Cap

Introduction

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.

Whilst we welcome the intention of the Government's welfare reforms to simplify the welfare system and improve work incentives, this briefing highlights our concerns about the impact on children of the Government's proposed cap on household benefit. We are keen to see a system in place that works in a way which supports children and families, and enables parents to move away from poverty.

Summary

- The Government plans to introduce a cap on household benefits for out of work households. This is expected to be set at around £500 per week per household for couples and lone parents.
- The cap is intended to promote income fairness between those in work and those receiving benefits and provide incentives to move into work.
- The Government estimates that approximately **50,000 households** will be affected by the cap, **losing £93 per week** on average in benefit receipt.
- Our analysis reveals that children are disproportionately affected by these proposals. **210, 000 children will be affected by the cap**, compared to 70,000 adults.
- This means that **75% of those affected are children, making them nine times more likely than adults to be affected**. Only one in 556 adults are affected, and one in 64 children stand to lose out.
- As a consequence of this proposed cap **over 80,000 children could end up homeless**, more children will be forced to live in severe poverty, and children's subjective well-being is likely to fall as a result of a fall in their household income.

The disproportionate impact of the benefit cap on children

The Government plans to cap household benefit entitlement for out of work households so that the amount received in benefits cannot exceed average weekly wages for working households. The cap is expected to be set at around £500 per week for couples and lone parent households.

The Government's equality impact assessment¹ estimates that 50,000 households will be affected by the planned cap on household benefit entitlement. The average loss resulting from the cap will be around £93 per week of household income, and 7,500 households will lose as much as £150 per week.

The analysis in table 1, taken from this impact assessment, shows the distributional impact of the benefit cap across different household types.

Table 1: Composition of households affected by the cap on household benefit receipt²

Number of children in household					
	0	1 or 2	3	4	5 or more
Couples	0%	5%	15%	10%	10%
Singles/ lone parent	5%	10%	5%	10%	35%

(N.B. Percentages in published Equality Impact Assessment table 1 sum to 105% due to rounding)

Based on 50,000 households being affected by the cap (and factoring down the percentages in table 1 to equal 100%), table 2 shows this distributional impact in terms of overall numbers of households of different types which are affected.

Table 2: Numbers of households affected by the cap on household benefit receipt

Number of children in household					
	0	1 or 2	3	4	5 or more
Couples	0	2,381	7,143	4,762	4,762
Singles/ lone parent	2,381	4,762	2,381	4,762	16,667

The published impact assessment did not break down the impact of the cap to the individual level. However, the tables above can be broken down to show the number of individual adults and children affected by the changes.

Table 3: Households and individuals affected by benefit cap by relationship status

	Number households	Total adults
Couples	19,048	38,096
Singles/ Lone Parents	30,953	30,953
		69,049

¹ DWP Household Benefit Entitlement Equality Impact Assessment - <http://www.dwp.gov.uk/docs/eia-benefit-cap-wr2011.pdf>.

² Percentages in published Equality Impact Assessment table 1 do not add up to 100% because of the impact of rounding.

Table 4: Households and individuals affected by the benefit cap by number of children in household

Number children in household	Number households	Total children³
0	2,381	0
1 or 2	7,143	10,715
3	9,524	28,572
4	9,524	38,096
5 or more	21,429	128,574
		205,957

As can be seen from the tables above, although around 50,000 households are affected by the benefit cap, this contains around 69,000 adults, and 206,000 children.

This means that around three times as many children are affected by the cap on household benefit receipt as adults. Only one quarter of the total number of individuals affected are adults and three quarters are children.

In addition, these statistics allow us to calculate the proportion of all children and adults who are affected by the cap.

Table 5: Proportion of adults and children affected by the cap

	Total Population⁴	Number affected by cap	Percentage of population affected
Adults	38.8 million	69,000	0.18%
Children	13.1 million	206,000	1.57%

As table 5 shows, whilst around 1.57% of all children are estimated to be affected by the cap (around one in every 64) only 0.18% of adults are likely to be affected (around one in every 556) – as a result, children are around nine times more likely than adults to be affected.

³ We have estimated that where 1 or 2 children are in a household, the calculation of total children in households affected is based on assumption of 1.5 children per household. Where 5 or more children are in the household, calculation of total children in households affected is based on assumption of 6 children per household affected

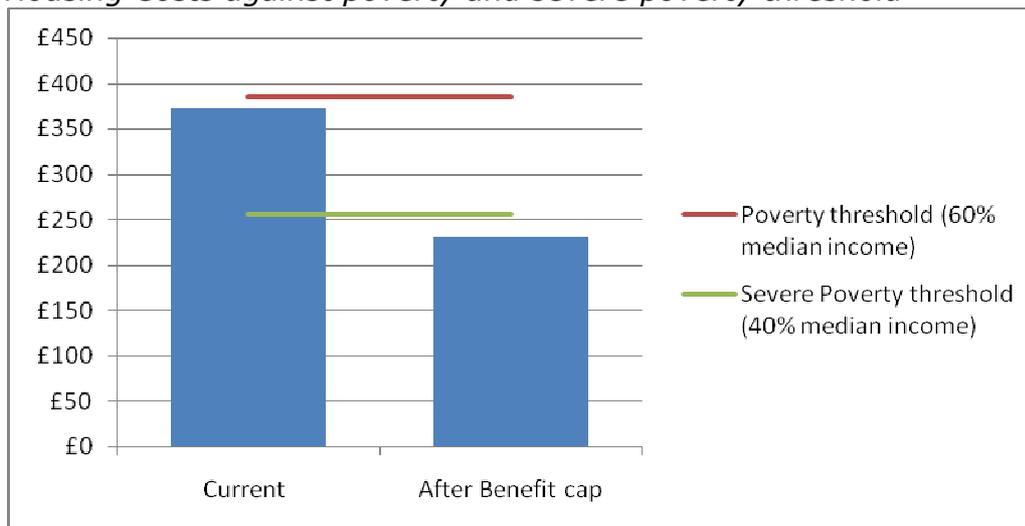
⁴ Population estimates from latest Office for National Statistics figures (adult population aged 18-64, child population aged 0-17) – <http://www.ons.gov.uk/ons/taxonomy/index.html?nscl=Population+Estimates>

The consequences of the cap for children

For the 206,000 children affected by the cap, an average loss of £93 per week from their family's income will have significant consequences.

1. *Children could be made homeless* – based on the Department for Communities and Local Government modelling⁵, there will be a rise of around 20,000 household homelessness acceptances as a result of the cap. Based on an equal distribution across families affected, this would mean around 27,600 adults and 82,400 children could be made homeless as a result of the cap.
2. *Children will drop into the most severe poverty* – for example, an out of work couple with 4 children (all aged between 5 and 12) and with £250 per week rent and £20 council tax would currently typically have an income of around £373 after housing costs are deducted. Following the introduction of the benefit cap this would drop to £230. This family are already living below the poverty line; as a result of the cap they would be pushed into the most severe poverty, living on substantially less than 40% of median household income.

Figure 1: Couple, 4 children (aged 5-12) £250 pw rent, £20 Council Tax, income After Housing Costs against poverty and severe poverty threshold⁶



3. *Children will experience lower levels of well-being* – the Children's Society's well-being research has shown that household income affects children's subjective well-being. In our recent study of 4,000 children aged between 8 and 15, as household income fell, so did children's subjective well-being⁷. Children who lived in households where income had fallen over the past year (15%) were 1.5 times more likely to report low levels of well-being than children living in households where incomes had remained the same (10%).

Conclusions and Recommendations

⁵ Based on Department for Communities and Local Government modelling - <http://www.guardian.co.uk/politics/2011/jul/02/full-text-letter-eric-pickles-welfare-reform>

⁶ Poverty thresholds based on most recently available statistics (2009-10), but benefit rates based on entitlement for 2011-12. As such the impact may be slightly different once poverty thresholds for 2011-12 are calculated.

⁷ How happy are our children? The Children's Society (2011) -

http://www.childrenssociety.org.uk/sites/default/files/tcs/research_docs/How%20happy%20are%20our%20children.pdf

The benefit cap is a proposal being introduced on the principle that it is unfair that some households receive more in out of work benefits than other households receive in work. It is intended to address those adults who are able to work but are unprepared to do so.

However, our analysis raises important questions that need to be answered for this policy to deliver these outcomes. **It shows that the primary impact of this benefit cap is not on adults but on children, with around 210,000 being affected - which is three times more children than adults.** Children should not be punished for the choices made by their parents – yet it is children who are by far the largest group of losers as a result of this proposal.

We believe that the current proposal for a benefit cap fail to fulfil its aims. We urge the Government to rethink the benefit cap and consider alternative options, which will reduce the impact on children. These alternative options and their estimated impact are:

- **Using average income (including in-work benefits) for working families with children to calculate the cap level for families with children,** rather than average household wage (which includes income for households without children). This option increases the overall level at which the cap would be set.

The impact depends on the type of “average” used in calculations. Based on using median earnings, we estimate that using families with children would increase the level of the cap to around £560 for families with children, and would remove around 25,000 families from the cap.

- **Using working household income (including benefit receipt) rather than household earnings as the basis for the benefit cap.** At present the benefit cap is planned to be based on household earnings for working households. However, many working households are also in receipt of benefits in work (including tax credits, child benefit, housing benefit and council tax benefit.)

We estimate that basing the cap on median income in work rather than earnings in work would increase the level of the cap to around £605 per week – this would remove around 38,000 households from the cap⁸.

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 291251, or David Hounsell, economic adviser on david.hounsell@childrenssociety.org.uk or on 07545 824732.

⁸ Includes all benefits and tax credits. Government analysis indicates that if all benefits *other than DLA and Working Tax Credit* are included in household income then around 15,000 households are removed from the cap.