Short Changed: the true cost of cuts to children's benefits

Introduction

Every day End Child Poverty members, and other organisations working on issues of Child Poverty across the UK, see the day to day impact that poverty has on children's lives today. Children who lack such basic necessities as a warm winter coat or properly fitting shoes and whose parents have to choose between turning the heating on or putting food on the table. Poverty affects children's well-being and development, including their cognitive ability, ability to achieve and participate in school. It affects their health and their behaviour.

The End Child Poverty coalition exists to hold the Government, and all main political parties, to account to their commitment to eradicate child poverty by 2020. With just five years to go until this deadline, it is now more important than ever for the new Government to have clear policy priorities from which to pursue this goal.

The value of children's benefits is closely linked to the scale of child poverty. The previous government's decision to increase benefits at a level below inflation at 1% for three years is estimated to have pushed 200,000 more children into poverty[1].

That is why End Child Poverty coalition, as well as other organisations working with the coalition, are calling for Child Benefit and Child Tax Credit – the principal financial state support for children – to be given the same protection as the basic state pension. In April 2015, the previous government announced it would give pensions a "triple lock" guarantee that they would rise in line with inflation, earnings, or by 2.5% – whichever is the highest.

As a first step we are asking the Government to lock the uprating of child benefit and child tax credit in line with price rises (CPI) for at least the next two years. As soon as possible the second lock, in line with average earnings, should be added. By 2020, a full triple lock should be in place for children's benefits, guaranteeing a minimum yearly increase of 2.5%.

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[1] http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm130115/text/130115w0003.htm#13011576001705

Cuts to support have hit children extremely hard – they are twice as likely to be poor as older people. It is vital that the Government protects children by giving the key benefits on which they depend the same protection as pensioner benefits. Every child, no matter the circumstances they are born into, deserves the best possible start in life.

Summary of key points

- 4.1 million families and 7.7 million children have been affected by below inflation rises of Child Benefit and Child Tax Credit over the past three years.
- One in five families - the equivalent of one and a half million across the UK, with two and a half million children - said that they had cut back on food, and a similar proportion had cut back on heating their home as a result of benefits being increased below inflation.
- Nearly two-thirds of those families affected are low income working families that are living in poverty as a result of low pay. Only one in five families affected by these cuts has household earnings over £20,000 a year.
- A typical low-income working family will lose £513 this year alone as a result of the Government's decision to increase benefits and tax credits below inflation.
- Only one in ten parents in the UK thinks that Child Benefit and Child Tax Credit should continue to be increased below inflation.
- Increasing children's benefits and tax credits in line with the same "triple lock" guarantee as for pensions would lead to an estimated 280,000 fewer children living in relative income poverty and 310,000 fewer in absolute poverty by 2020, than under the Government's current policy,

Key decisions on uprating of children's benefits and tax credits

Over the last five years, a number of decisions have been made that have affected the uprating of benefits and tax credits for children and families. In the Emergency Budget in 2010, it was decided that:

- The Consumer Prices Index (CPI) rather than the (normally higher) Retail Prices Index (RPI) would be used for the uprating (increase) of children's benefits and tax credits in the future.

- Child Benefit would be frozen for three years.

- The child element of Child Tax Credit would be increased by CPI, plus £180 in April 2011, and then by CPI plus £110 for the following year, and then just by CPI thereafter. However, in the Autumn Statement, the 2012 £110 over-inflationary uprating was abandoned.

- In the 2012 Autumn Statement, the Government announced that most children's benefits and tax credits would be increased by just 1% for the following three years (2013-14 to 2015-16), regardless of the rate of inflation. This was made law under the Benefit Uprating Act 2013.

Instead of making sure that children's benefits and tax credits rose with inflation, as an alternative the previous government invested heavily in increasing the personal allowance for income tax. Unfortunately, this policy has little benefit for the poorest working families. This is for two reasons:

1. The very poorest are below the income tax threshold already – as a result increases in personal allowances do not benefit this group.

2. Low income working families earning above the income tax threshold will lose most of what they gain through increases in the personal allowance due to cuts to benefits. Many means-tested benefits are paid based on earnings after income tax. This means that increases in income resulting from reductions in taxation are deducted from benefits received by the family. Working families receiving Housing Benefit and a Council Tax reduction are likely to keep as little as 15% of anything they gain from a reduction in income tax liability.

This will become even more of a problem following the introduction of Universal Credit since, unlike Tax Credits, Universal Credit is paid after tax. Given that around half of families with children will be receiving Universal Credit once it is fully introduced, increases in personal allowances for income tax will be of even more limited use in addressing child poverty and protecting the incomes of this group.

How many children and families are affected by benefit uprating decisions?

The widespread the impact on families with children is particularly striking. Analysis of government statistics shows that around 7.3 million families, and 12.6 million children are affected by increasing child benefit or child tax credit below the rate of inflation. Table 1 provides a breakdown.

Table 1. Numbers of families and children affected by benefit uprating

	Child Benefit only	Child Benefit +Child Tax credit (total)	Child Benefit +Child Tax Credit (in work)	Child Benefit + Child Tax Credit (out of work)
Families	7,300,000	4,100,000	2,600,000	1,500,000
Children	12,600,000	7,700,000	4,900,000	2,800,000

End Child Poverty analysis based on HMRC statistics[2]

Some of these families have been affected by below inflationary Child Benefit uprating only. These will tend to be households with higher incomes and no entitlement to Child Tax Credit. But an estimated 4.1 million families — and 7.7 million children — are affected by losses to both of these key supports.

Nearly two thirds (63%) of these families are in work. Of those only receiving Child Benefit the proportion will be even higher.

Although most are in work, these families are typically living on low incomes. Only 737,000 families with children affected by the 1% increase for Child Benefit and Child Tax Credit have household earnings of over £20,000 before tax. This is fewer than one in five families receiving these benefits.

The cost to family budgets

Analysis of benefit rates and inflation data shows that a working couple with two children, who are on low-incomes of £600 a week, are losing about £1020 as a result

[2] Child Benefit statistics from:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/286670/Child_Benefit_statistics_geographical_analysis_August_2013.xls

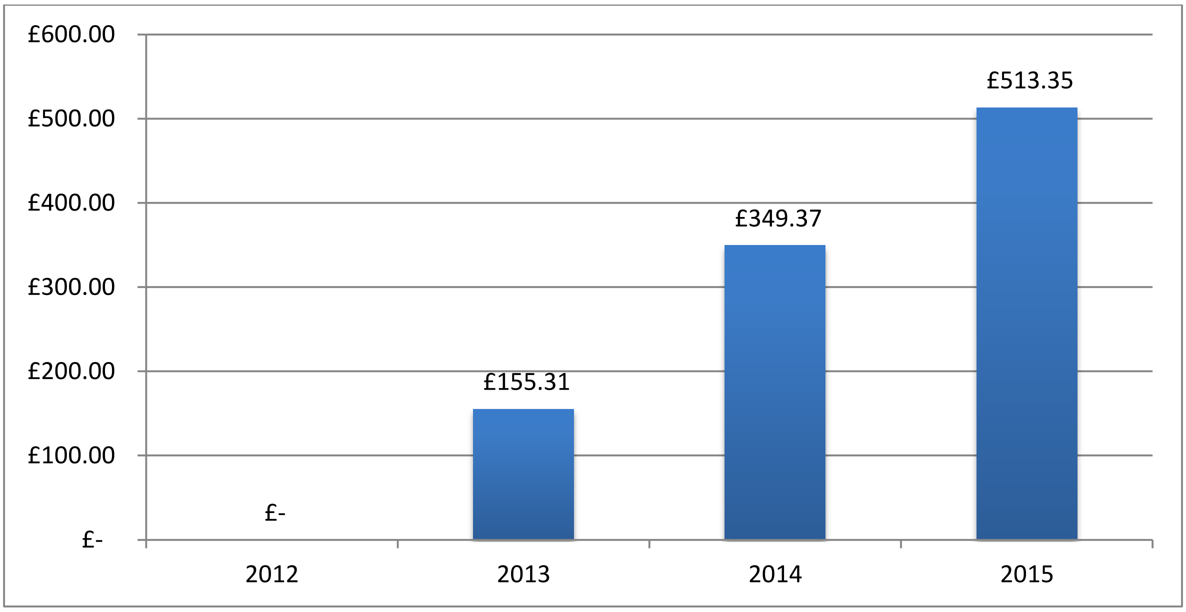
Child Tax Credit statistics from:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/384915/cwtc_awards_revised.xls

of the policy to keep benefit rises below the rate of inflation, showing that this is a policy which affects working as well as non-working families.

Below inflationary uprating has had a substantial, and increasing, impact on family incomes. Analysis of benefit rates and inflation data shows that a couple with two children and For non-working families the picture is even bleaker. A family of the same size, but who have no earned income will have lost around £1335 between 2013 and 2015 as a result of the benefit uprating cap compared to having their benefits and tax credits increase in line with RPI inflation.

The annual losses for this family for the three years are shown in table 2 below. It is important to remember that the losses increase year on year because previous years' losses are retained in future years. Importantly, this also means that the £513 loss of 2015-16, will continue to be felt every year into the future, until the Government should decide to over-index children's benefits to restore value.

Table 2: Annual losses due to the 1% benefit uprating cap, compared to benefit increases with RPI inflation, for a working couple with two children earning £600 per week.



End Child Poverty analysis based on actual entitlements and inflation rates from the Office for National Statistics[3]

Considering the cash impact alone does not establish the real impact that below inflationary benefit uprating has on family life. We polled 1000 parents across the UK asking them what decisions they had made about key items of expenditure as a result of how benefits are increased. Worryingly, one in five - the equivalent of one

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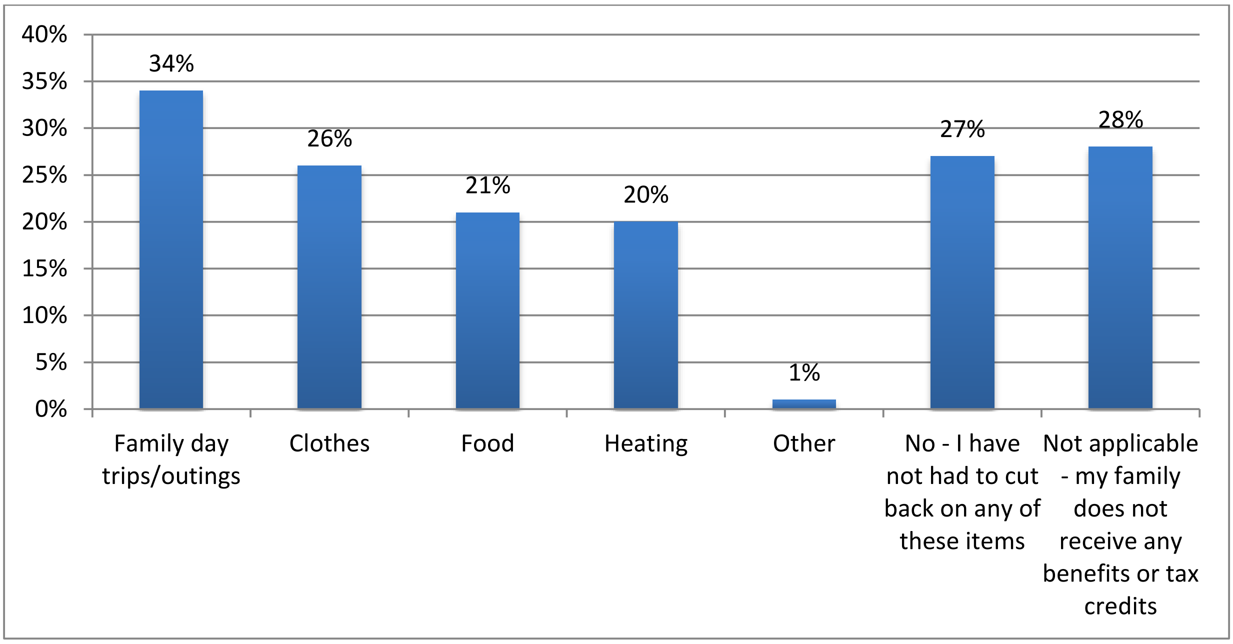
[3] http://www.ons.gov.uk/ons/datasets-and-tables/data-selector.html?cdid=CZBH&dataset=mm23&table-id=2.2

and a half million families, with two and a half million children - said that they had cut back on food, and a similar proportion had to cut back on heating their home as a result of it. A third of parents said that they had cut back on family trips or outings.

Table 3: Many benefits and tax credits paid to many families with children (such as child benefit, tax credits, and housing benefit) have been increased below the increases seen in costs of living in recent years. Has this caused you to cut spending on any of the following items, if any, for your family?



Not surprisingly the poorest families are the hardest hit. Forty percent of families with an income below £15,000 a year said that they cut back on food and 43% said they cut back on heating their home.

Triple locking children's benefits and tax credits

Despite the Government's legally binding commitment to end child poverty by 2020, the latest official figures indicate that in 2012-13, the number of children living in relative income poverty (after housing costs) rose by 200,000 to 3.7 million from the previous year. The Institute for Fiscal Studies forecasts that child poverty is set to rise by a further 900,000, reaching 4.6 million by 2020[4].

Urgent action is needed to address living standards for low income families if the 2020 child poverty target is to be prevented from drifting out of sight entirely. As shown in the previous section, preventing benefits and tax credits increasing by

[4] http://www.ifs.org.uk/bns/bn144.pdf

more than 1% a year for the last three years, has pushed growing numbers of children and their families on to the breadline.

The last government made the welcome decision to “triple lock” the basic state pension, making sure that it rose according to inflation, average earnings or 2.5% - whichever is highest.

Making the same guarantee for children’s benefits and tax credits is critical for helping stop the rise in child poverty.

New modelling commissioned from the University of Essex’s Institute for Social and Economic Research for this paper reveals that it would lead to an estimated 280,000 fewer children living in relative income poverty and 310,000 fewer in absolute poverty than under the Government’s current policy[5] (full figures are given in Appendix 1).

It should be noted that the 2020 child poverty estimates based on government policy are based on the policy position prior to the 2015 election. Further cuts to uprating of children’s benefits during the course of the next parliament would change the impact of introducing a triple lock.

This move would not be without its costs. The Institute for Social and Economic Research’s analysis estimates it would cost £2.3 billion a year. Set against the longer term costs of child poverty, the cost of inaction is higher. One independent analysis has conservatively estimated that current child poverty levels cost the country £29 billion a year[6].

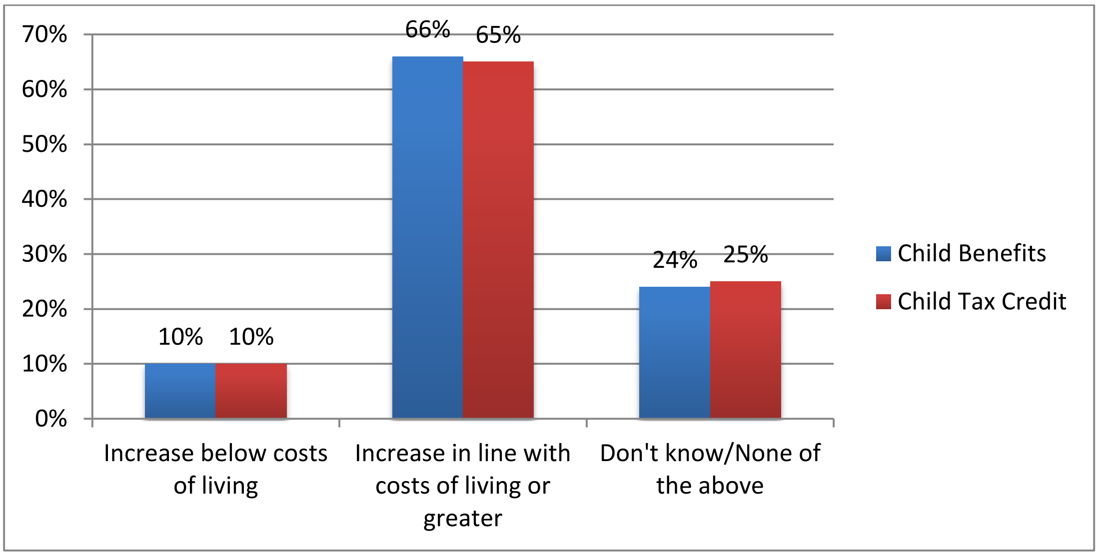
Public attitudes to children’s benefits

We polled 1000 parents across the country to establish their attitudes towards benefit uprating. As shown in Table 5, when asked how they thought child benefit and child tax credit should be increased, two thirds of parents said that they should be increased at least in line with costs of living, whilst only one in ten said that they should rise below costs of living.

Notably, this didn’t vary greatly with income – with widespread support for higher rates of uprating at both ends of the income spectrum. Sixty-eight percent of parents in families with incomes under £15000 supported increasing Child Tax Credit at least in line with costs of living, while 67% of parents in families with incomes in excess of £60,000 a year thought the same.

[5] Poverty measured After Housing Costs, and figures based on RPI deflation to 2020, (CPI deflation gives 330,000 reduction in relative poverty and 310,000 reduction in absolute poverty).
[6] http://www.lboro.ac.uk/news-events/news/2013/june/099child-poverty.html

Table 5: parental attitudes to uprating of child benefit and child tax credit



Conclusion

Children have been hardest hit by austerity. This paper shows how significant progress could be made to help them and to reduce child poverty by giving children's benefits the same protection as pensioner benefits. Without this step, families will continue to struggle to make ends meet, pushing more children into poverty. Below are key changes that would benefit children in families on the lowest incomes:

1. **Move towards a "triple lock" on Child Benefit and Child Tax Credit by 2020** – this would give family incomes the year on year boost they need in order to protect living standards for the poorest in society. The government should do this in stages by seeking to increase Child Benefit and Child Tax Credit by inflation or earnings by 2018, and to introduce the triple lock in 2020.

2. **As a first step towards this, commit to no further below inflationary uprating of children's benefits during the course of this Parliament –** this would ensure that support for children does not suffer further falls.

3. **Show how uprating of children's benefits fits into a roadmap to end child poverty** – it is crucial that the government puts a roadmap in place to show the different steps it will take to end child poverty. Increasing children's benefits and tax credits must form part of this plan.

Benefit uprating is not the whole picture. That's why End Child Poverty and other campaign groups will continue to push the Government for a comprehensive action plan for the eradication of child poverty in the UK.

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Table 1: Poverty, children: 2015/16 vs counterfactual scenarios

	Relative poverty				Absolute poverty			
Before housing costs	Poverty headcount (%)	Change in percentage point relative to 2010/11	Poverty headcount (n children)	Change in n children relative to 2010/11	Poverty headcount (%)	Change in percentage point relative to 2010/11	Poverty headcount (n children)	Change in n children relative to 2010/11
2015/16	16.58	n/a	2,135,533	n/a	22.34	n/a	2,877,464	n/a
d) Government policy up to 2020/21, deflated by CPI	17.37	0.79	2,236,786	101,253	23.26	0.92	2,995,732	118,268
e) Triple lock up to 2020/21, deflated by CPI	15.25	-1.33	1,963,808	-171,725	20.16	-2.18	2,596,890	-280,574
difference between projected and triple lock	*-2.1*	*-2.1*	*-272,978*	*-272,978*	*-3.1*	*-3.1*	*-398,842*	*-398,842*
f) Government policy up to 2020/21, deflated by RPI	18.77	2.19	2,417,546	282,013	24.89	2.55	3,205,987	328,523
g) Triple lock up to 2020/21, deflated by RPI	16.5	-0.08	2,124,628	-10,905	22.16	-0.18	2,854,288	-23,176
difference between projected and triple lock	*-2.3*	*-2.3*	*-292,918*	*-292,918*	*-2.7*	*-2.7*	*-351,699*	*-351,699*

After housing costs

2015/16	27.78	n/a	3,577,511	n/a	32.5	n/a	4,185,157	n/a
d) Government policy up to 2020/21, deflated by CPI	28.48	0.7	3,667,629	90,118	33.29	0.79	4,287,463	102,306
e) Triple lock up to 2020/21, deflated by CPI	25.88	-1.9	3,333,262	-244,249	30.88	-1.62	3,977,086	-208,071
difference between projected and triple lock	*-2.6*	*-2.6*	*-334,367*	*-334,367*	*-2.4*	*-2.4*	*-310,377*	*-310,377*
f) Government policy up to 2020/21, deflated by RPI	29.86	2.08	3,844,957	267,446	34.84	2.35	4,487,169	302,012
g) Triple lock up to 2020/21, deflated by RPI	27.69	-0.09	3,566,191	-11,320	32.4	-0.1	4,172,734	-12,423
difference between projected and triple lock	*-2.2*	*-2.2*	*-278,766*	*-278,766*	*-2.4*	*-2.5*	*-314,435*	*-314,435*

Notes: Poverty risk is the percentage of people in households with equivalised disposable income below the poverty threshold. Equivalised household disposable income - before or after housing costs - is constructed using the modified OECD equivalence scale to adjust incomes for household size. The relative poverty threshold is 60% of the median equivalised disposable income in each scenario. The absolute poverty threshold is 60% of the median equivalised disposable income in 2010, adjusted by RPI up to 2015. The scenario 'd) Government policy up to 2020, deflated by CPI' refers to 2015/16 tax-benefit system in which children's benefits have been uprated according to government policies up to 2020/21 and then deflated by CPI back to 2015/16 prices. The scenario 'e) Triple lock up up to 2020, deflated by CPI' refers to 2015/16 tax-benefit system in which children's benefits have been uprated by triple lock up to 2020/21 and then deflated by CPI back to 2015/16 prices. The scenario 'f) Government policy up to 2020, deflated by RPI' refers to 2015/16 tax-benefit system in which children's benefits have been uprated according to government policies up to 2020/21 and then deflated by RPI back to 2015/16 prices. The scenario 'g) Triple lock up up to 2020, deflated by RPI' refers to 2015/16 tax-benefit system in which children's benefits have been uprated by triple lock up to 2020/21 and then deflated by RPI back to 2015/16 prices. *Source:* ISER calculations using EUROMOD.