



BRIEFING PAPER

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Welfare Reform and Work Bill [Bill 51 of 2015-16]

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Summary

The [*Welfare Reform and Work Bill*](#) was presented on 9 July 2015 and is scheduled to receive its Second Reading on 20 July. The Bill will implement some, but not all, of the measures announced in the Chancellor's Summer Budget 2015 on 8 July. The overriding aim of the welfare benefit measures in the Bill, including changes to Support for Mortgage Interest and reductions in social housing rents, is to reduce expenditure and "help to achieve a more sustainable welfare system." A related aim is to support efforts to increase employment and "support the policy of rewarding hard work while increasing fairness with working households."

It is essentially a Bill of three parts. First, it will introduce a duty to report to Parliament on:

- Progress towards achieving full employment.
- Progress towards achieving 3 million apprenticeships in England.
- Progress with the Troubled Families programme (England).

Second, it will repeal almost all of the *Child Poverty Act 2010* and introduce a new duty for the Secretary of State to report annually on "life chances": children living in workless households and educational attainment at age 16, in England. The name and remit of the Social Mobility and Child Poverty Commission is changed so that it becomes the Social Mobility Commission.

Finally, the Bill allows for the introduction of extensive changes to welfare benefits, tax credits and social housing rent levels. These will account for around 70% of the £12-13 billion in welfare savings identified in the Summer Budget 2015. The welfare/housing measures include:

- Lowering the benefit cap threshold and varying it between London and the rest of the UK.
- A four year benefits freeze.
- Limiting support through Child Tax Credits/Universal Credit.
- The abolition of Employment and Support Allowance Work-Related Activity Component.
- Changes to conditionality for responsible carers under Universal Credit.
- Replacing Support for Mortgage Interest with Loans for Mortgage Interest.
- Reducing social housing rent levels by 1% in each year for four years from 2016-17.

Some of the measures in the Bill had been widely trailed, such as the reduction in the benefit cap to £23,000, while others, including the social housing rent provisions, were unexpected.

This paper provides background to the Bill's provisions; summarises the key measures; and includes relevant comment.

Some of the provisions in the Bill apply across the UK while others apply in England, Wales and Scotland only. Some provisions apply in England only. The territorial extent of each clause in the Bill is summarised in section 11 of this paper.

1. Reports

Summary

- The Bill creates an obligation on the Secretary of State to report to Parliament annually on progress towards achieving full employment
- The Bill creates an obligation for the Secretary of State to report to Parliament annually on the progress towards achieving the Government's target of 3 million apprenticeship starts in England between 2015 and 2020
- The Bill creates a requirement for the Secretary of State to report to Parliament annually on progress within the Troubled Families programme

1.1 Full employment

In 2014, the Chancellor, George Osborne stated that a future Conservative Government would target "full employment."¹ The Conservative Party Manifesto for the 2015 election re-affirmed that full employment was a target for this Parliament.²

Clause 1 of the Bill requires the Secretary of State to report on progress towards full employment. The Bill does not provide a definition of full employment.

Defining full employment

There are a number of definitions for full employment that the Government could use.

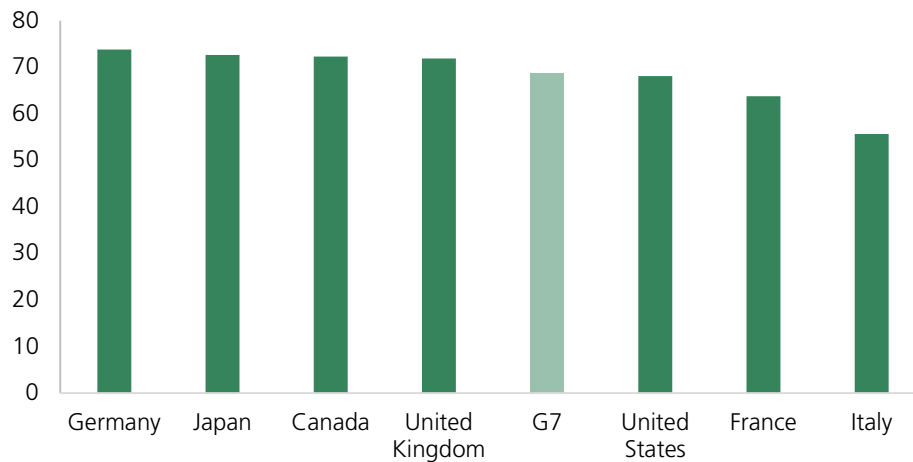
Highest employment rate in the G7

Previously, the Prime Minister and the Chancellor of the Exchequer have [stated](#) that their goal is for the UK to have the highest employment rate of any G7 country.³ In 2014, the UK had the fourth highest employment rate in the G7:

¹ FT, [George Osborne shifts Tory focus to 'full employment' in UK](#), 31 March 2015

² [Conservative Party manifesto 2015](#), p18

³ The G7 countries are Canada, France, Germany, Italy, Japan, UK, USA and the EU.

Employment rates (%) in the G7, 2014*All people, seasonally adjusted*

Looking at comparable data which goes back to 2005, the UK has never achieved the highest rate of employment in the G7:

Highest and lowest rates of employment in the G7*All persons, seasonally adjusted*

	Highest		Lowest		UK
	Country	Rate (%)	Country	Rate (%)	Rate (%)
2005	Canada	72.4	Italy	57.6	71.8
2006	Canada	72.8	Italy	58.3	71.6
2007	Canada	73.5	Italy	58.6	71.5
2008	Canada	73.5	Italy	58.7	71.5
2009	Canada	71.4	Italy	57.4	69.9
2010	Canada	71.5	Italy	56.8	69.4
2011	Germany	72.7	Italy	56.8	69.3
2012	Germany	73.0	Italy	56.6	69.9
2013	Germany	73.5	Italy	55.5	70.5
2014	Germany	73.8	Italy	55.7	71.9

Source: OECD stat

Low unemployment

There are other ways in which full employment may be defined.

The UK having the lowest unemployment rate in the G7 could also be used to define full employment. As the table below shows, the UK would have achieved full employment three times between 2002 and 2004 using this measure:

Highest and lowest rates of unemployment in the G7*All persons, seasonally adjusted*

	Lowest		Highest		UK
	Country	Rate (%)	Country	Rate (%)	Rate (%)
2000	United States	4.0	Italy	10.1	5.4
2001	United States	4.7	Italy	9.0	5.0
2002	United Kingdom	5.1	Germany	8.7	5.1
2003	United Kingdom	5.0	Germany	9.8	5.0
2004	United Kingdom/Japan	4.7	Germany	10.5	4.7
2005	Japan	4.4	Germany	11.3	4.8
2006	Japan	4.1	Germany	10.3	5.4
2007	Japan	3.8	Germany	8.5	5.3
2008	Japan	4.0	Germany/France	7.4	5.6
2009	Japan	5.1	France	9.1	7.6
2010	Japan	5.1	France	9.3	7.8
2011	Japan	4.6	France	9.2	8.1
2012	Japan	4.4	Italy	10.6	7.9
2013	Japan	4.0	Italy	12.1	7.6
2014	Japan	3.6	Italy	12.7	6.2

Source: OECD stat

In *Full Employment in a Free Society*, published in 1944, Sir William Beveridge argued that once unemployment had reached 3%, this would constitute full employment. It used a different measure of unemployment than the one used today.

NAIRU

There is a general consensus among economists that zero unemployment is not desirable, as it would allow employees to demand higher pay.

The Non-Acceleration Inflation Rate (NAIRU) is the lowest possible unemployment rate which does not cause an increase in the levels of inflation.

It is difficult to estimate, but the Office for Budget Responsibility (OBR) have a medium term estimate of NAIRU at 5.4% for the UK.⁴ The current unemployment rate in the UK is 5.6%.⁵

Other options

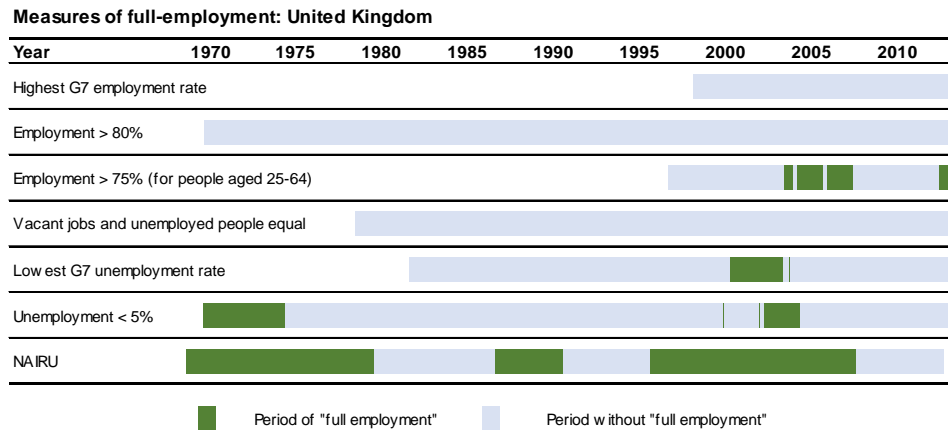
There was an attempt by the [Department for Work and Pensions](#) to define full employment in 2007. It set a long-term employment rate of over 80% - the highest employment rate in the UK since comparable records began in 1971 was 73.5% in January-March 2015.

The EU's [Europe 2020 strategy](#) includes a commitment to achieve full employment by 2020. It defines full employment as an employment rate of 75% for 20-64 year olds; using this measure, the UK has had full employment since the middle of 2013.

⁴ OBR, [Economic and Fiscal Outlook](#), July 2015, p 11

⁵ ONS, [Labour Market Statistics – July 2015](#), 15 July 2015

The chart below shows periods where the UK has achieved full employment according to different measures:



Blank space indicates that data are unavailable.

Sources: OECDStat, Eurostat, ONS Labour Force Statistics, ONS Nomis Database

The Bill

Clause 1 will require the Secretary of State for Work and Pensions to report annually to Parliament on the progress towards achieving full employment. The report would also include a statement on the measures used to define full employment.

This part of the Bill would be repealed on the dissolution of Parliament; therefore, it will not bind a future Government.

The duty to report on progress will apply to the UK as a whole.

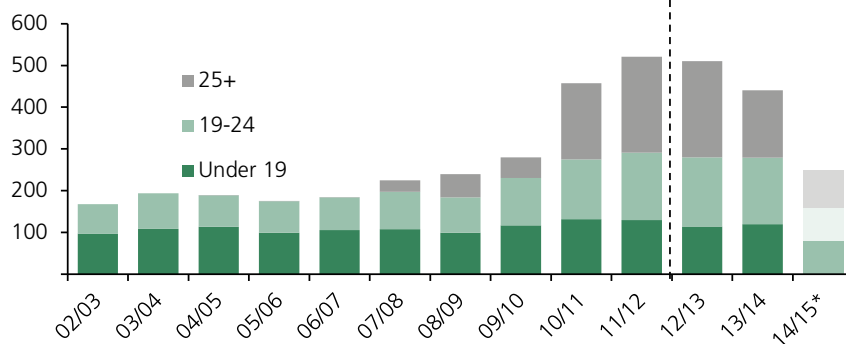
1.2 Apprenticeships

Background

Apprenticeships are paid jobs which incorporate on and off the job training. A successful apprentice will receive a nationally recognised qualification on the completion of their contract. Apprenticeships are a devolved area and the Bill refers only to apprenticeships in England.

Over the last Parliament there was a large increase in the number of people starting apprenticeships, particularly among apprentices aged 24 and over, as shown in the chart below:

Apprenticeship starts by age, thousands



* Data for 2014/15 are for August to January only

Notes

Academic years (August 1st to July 31st)

Source: BIS FE data library: apprenticeships

The 2015 Conservative election manifesto included a pledge to create 3 million apprenticeships.⁶ The target was confirmed in the 2015 Queen's Speech, which also announced that a duty would be placed on Government to report on progress in meeting the target.⁷

3 million apprenticeships over the five years between 2015 and 2020 represents a significant increase on the number of apprenticeship starts compared with the 2010-2015 Parliament. The highest number of starts in any year of the previous Parliament was 521,000 in 2011-12 – to reach the new target an average of 600,000 apprenticeships will need to be started each year.

To help reach the overall target, public sector bodies will be required to employ apprentices and will have targets to increase apprenticeships.⁸

To help fund the increase in apprenticeships the Summer Budget set out plans to introduce a levy on large employers to create a fund supporting apprenticeships. Further details of the levy will be set out in the 2015 Spending Review.⁹

Alison Wolf, who was responsible for [The Wolf Report into vocational education](#), wrote [a proposal for introducing an apprenticeship levy](#) shortly before the Budget.

The Bill

Clause 2 of the Bill creates an obligation for the Secretary of State to publish information on progress towards meeting the apprenticeships target. The target is for 3 million apprenticeship starts in England between 1 May 2015 and 31 March 2020; the Secretary of State will be required to report on progress within nine months of the end of each academic year. The duty to report will be repealed in March 2021.

⁶ [The Conservative Party Manifesto 2015](#)

⁷ Cabinet Office, [Queen's Speech 2015: Background briefing notes](#), 27 May 2015

⁸ BIS Press Release, [Government kick-starts plan to reach 3 million apprenticeships](#), 14 Jun 2015

⁹ HM Treasury, [Summer Budget 2015](#), 8 July 2015

Comment

There have been concerns that, in order to achieve the increase in apprenticeships required to meet the target, apprenticeship quality may suffer. For example, David Allison, wrote in FE Week:

As has been noted by many commentators before, growth in apprenticeships has to be as much about quality as quantity.

My concern is that with this public — and very ambitious — commitment to a volume of apprentices the government will now have to hit it, one way or another.

Those of us that have been in the sector for some time will recognise the cycle that sometimes follows.

Large scale government commitments that are not being achieved lead to a 'relaxation' in standards — either through more flexible eligibility criteria, or through lower educational requirements and standards.

One thing we can all agree on is that a relaxation in standards will do nothing for apprenticeships as a whole — and certainly not the young people that go through them.¹⁰

Alison Wolf argued the case for an apprenticeship levy on the basis that, without it, there was a risk of meeting the pledge to expand apprenticeships by downgrading quality:

Without such a reform, and in today's British labour market, the 'three million' pledge is far more likely to waste large sums of public money, and downgrade apprenticeship quality, than it is to provide the skills that a more productive economy requires.¹¹

The Trades Union Congress (TUC) has been positive about the targets to increase the number of apprenticeships, providing it does not come at the expense of quality:

The TUC has argued for decades for training levies and has consistently called on ministers to use levies to increase the number of apprenticeships in the UK.

The government's target of creating three million apprenticeships is also a welcome move. But it will be important that investment in these new places does not come at the expense of wider further education services and that quality is given as much focus as quantity.¹²

Further information on apprenticeships in England can be found in two Library Briefing Papers [Apprenticeships policy, England](#) and [Apprenticeship statistics](#).

1.3 Troubled Families

Background

Clause 3 of the Bill introduces a requirement for the Secretary of State to report to Parliament annually on progress within the Troubled Families programme. This is a non-statutory programme which has

¹⁰ Fe Week, [Let's agree there should be no relaxation of standards in pursuit of 3m apprenticeships](#), 15 May 2015

¹¹ Social Market Foundation, [Fixing a Broken Training System: The case for an apprenticeship levy](#), July 2015

¹² TUC, [TUC welcomes apprenticeship levy](#), 9 July 2015

operated in England since 2012: the Government has announced its extension into the 2010-15 Parliament.¹³ The programme was intended to address 'families with multiple problems' in a holistic fashion, reducing the number of different points at which such families access public services and hence reducing pressure on public sector resources. Additional background detail on the Troubled Families programme can be found in the Library Briefing Paper [Community budgets and city deals](#).

A progress report on the 2012-15 Troubled Families programme, published in 2015, suggested that 116,654 families with complex needs had benefited from the support provided by local authority teams.¹⁴ Statistics giving some indication of the savings achieved by the programme are also available.¹⁵ A general report on the programme's benefits stated:

As the programme expands to work with up to an additional 400,000 troubled families, with a broader range of problems; and seeks to achieve even more ambitious changes to the way services are delivered to families, the costs and financial benefits will rightly come under intensified scrutiny. At a time when there are pressures on local budgets, the Troubled Families Programme needs to show that it is not only the best way to help families for the long term, but it also reduces costs on budgets across a range of services including health, criminal justice, and education.¹⁶

The 2015-20 programme will run at a larger scale than that of 2012-15, working with 400,000 troubled families as against 120,000. 51 local authorities began the programme from September 2014, with 62 others following in January 2015. The remaining local authorities will be eligible for the programme once they have 'turned around' three-quarters of their troubled families under the 2012-15 programme. In 2015-16, the Government is making £200 million available, with funding in future years dependent on the Spending Review.¹⁷

To qualify for the programme a family will have to face at least two of the following six issues:

- Parents and children involved in crime or anti-social behaviour.
- Children who have not been attending school regularly.
- Children who need help.
- Adults out of work or at risk of financial exclusion and young people at risk of worklessness.
- Families affected by domestic violence and abuse.

¹³ See the Library briefing paper [Community budgets and city deals](#); see also [DCLG's series of reports](#)

¹⁴ DCLG, [Troubled Families: progress information by December 2014 and families turned around by May 2015](#), May 2015

¹⁵ See DCLG, [The Benefits of the Troubled Families programme to the taxpayer](#), 2015

¹⁶ DCLG, [The Benefits of the Troubled Families programme to the taxpayer](#) 2015, p3

¹⁷ DCLG, [Financial Framework for the expanded Troubled Families programme](#), March 2015, p4

- Parents and children with a range of health problems.¹⁸

Annex B of the new financial framework provides more detailed definitions of each of these criteria, together with suggested sources of data on families which fall into them.¹⁹ Authorities will be expected to work with families representing all the types of problem identified. Priority should be given to families which have “multiple problems who are most likely to benefit from an integrated, whole family approach” and which “are the highest cost to the public purse.”²⁰

The new framework provides a £1,000 ‘attachment fee’, payable when a family is identified as in need of support, and a ‘results payment’ of £800 per family, to the participating local authority. The latter payment will be available where a family has:

Achieved significant and sustained progress, compared with all their problems at the point of engagement, or

An adult in the family has moved off benefits and into continuous employment.²¹

Service transformation grants will also be made available to local authorities, related to the extent to which local service provision has been adapted through the Troubled Families programme.

Local authorities must draw up a ‘troubled families outcomes plan’, which must include ten principles identified by DCLG, based on best practice shared in the 2012-15 programme.²² In 2015-20, an evaluation programme commissioned by DCLG will collate information on local authorities’ progress from an early stage. This will also include a National Impact Study, which will compare data regarding participants in the programme to data from other sources in order to isolate the impact of the programme.

The Bill

Clause 3 of the Bill imposes a requirement on the Secretary of State to lay a report before Parliament regarding the progress made by troubled families, who are defined as “relevant households to which local authorities have provided relevant support.”

The Troubled Families programme is not statutory, hence the purpose of clause 3 is to define what type of support for troubled families is covered by the obligation to report to Parliament. Sub-section (1) requires the Secretary of State to define a ‘relevant household’, and criteria for how their ‘progress’ will be measured, in advance of each financial year. ‘Relevant households’ will be covered by the reporting requirement. Sub-section (2) specifies that the families may be described “by reference to problems that they have”, and sub-section (10) provides that a ‘relevant household’ must include at least one child and one parent (or person with parental responsibility for the child).

¹⁸ Ibid., p6

¹⁹ Ibid., pp14-22

²⁰ Ibid., p9

²¹ Ibid., p25

²² Ibid., pp26-28

Sub-section (3) requires the Secretary of State to prepare a report on the progress made by troubled families. The report may include material from previous periods of support for troubled families, and it may compare the two or more sets of data thus provided (sub-sections (4) and (5)). The report must be laid before Parliament before the end of the financial year to which it relates (sub-sections (6) and (7)).

'Troubled families' are defined as those which have received "relevant support" from local authorities. This is defined as support provided to a relevant household (i.e. one covered by the troubled families criteria published under sub-section (1)), aimed at achieving progress against the criteria to be measured under sub-section (1)). The support is only 'relevant support' if the local authority has received a 'Section 31 grant' in respect of it: i.e. any support financed by local authorities themselves is not covered by the reporting obligation.²³ The support may be provided to the whole of a family or to one member of it; and it covers all support provided 'under arrangements made by the local authority' (sub-section (9)). This ensures that provisions under contracting-out arrangements are covered.

Sub-section (10) contains a number of definitions of categories pursuant to the need to define 'relevant households' (see sub-section (1) above). This includes the terms 'parent', 'child' and 'education'.

²³ A 'Section 31 grant' is a grant paid under the general power for the Government to give grants for any purpose to local authorities, found in section 31 of the *Local Government Act 2003*.

2. Child poverty and life chances

Summary

- The Bill removes the four child poverty targets set out in the *Child Poverty Act 2010* and the Government's duty to meet the targets
- The Secretary of State must report annually on children in workless households and the educational attainment of children in England at the end of Key Stage 4
- The remit and name of the Social Mobility and Child Poverty Commission is changed so that it become the Social Mobility Commission
- Most other duties and provisions in the *Child Poverty Act 2010* are removed
- During the last Parliament, Ministers called for improved measures of child poverty that would better reflect the causes of poverty
- The 2015 Conservative Manifesto included a commitment to work to eliminate child poverty and to introduce better measures that recognise its root causes

2.1 Background

Clauses 4-6 of the Bill remove most duties and provisions set out in the *Child Poverty Act 2010*, in particular four targets for child poverty which were to be met by 2020-21.²⁴

The Bill introduces a new duty for the Secretary of State to report annually on "life chances": children living in workless households and educational attainment at age 16. The name and remit of the Social Mobility and Child Poverty Commission is changed so that it becomes the Social Mobility Commission.

The targets in the *Child Poverty Act 2010* are based on income-based measures of poverty, although one of the targets also looks at children experiencing material deprivation. During the last Parliament, Ministers made clear their view that income-based measures were too narrow, claiming a focus on income encouraged policy responses that were directed towards short-term fixes rather than engaging with the causes of poverty. Ministers repeatedly stated their intention to introduce new measures of child poverty that would better reflect the causes of poverty. This was included as a commitment in the 2015 Conservative Manifesto:

We will work to eliminate child poverty and introduce better measures to drive real change in children's lives, by recognising the root causes of poverty: entrenched worklessness, family breakdown, problem debt, and drug and alcohol dependency.²⁵

²⁴ The only substantive part of the 2010 Act left intact by this Bill is section 26, concerning the provision of free school lunches and milk.

²⁵ [Conservative Party Manifesto 2015](#), p28

As things stand, the targets are likely to be missed by a wide margin. The Institute for Fiscal Studies (IFS) and Social Mobility and Child Poverty Commission have both warned that there is no possibility of the targets being met by 2020/21, under plausible scenarios for the UK economy and tax and benefit system.

The Child Poverty Act 2010

The Child Poverty Bill was introduced by the Labour Government in the 2008-09 session (and was carried over to the 2009-10 session). Its stated purpose was to “define success in eradicating child poverty and create a framework to monitor progress at a national and local level.”²⁶ The Act received cross-party support.

The commitment to end child poverty by 2020 had first been announced by Tony Blair in March 1999. Gordon Brown announced the Labour Government’s intention to enshrine in law the 2020 child poverty target in his speech to the Labour Party Conference on 23 September 2008.

The Act:

- Places a **duty on the Secretary of State to meet four child poverty targets** by 2020/21, based on a relative low income measure, a low income measure fixed in real terms, a combined low income and material deprivation measure, and a “persistent poverty” measure
- Requires the UK Government to **publish a UK child poverty strategy**, which must be revised every three years, setting out policies to meet the targets
- Requires **ministers in the devolved administrations in Scotland and Northern Ireland** to publish child poverty strategies (the National Assembly for Wales has enacted separate legislation imposing corresponding duties on Ministers in Wales)
- Establishes a **Social Mobility and Child Poverty Commission** to provide advice on strategies
- Requires the UK Government to publish **annual progress reports**
- Places **duties on local authorities and other “delivery partners”** in England to work together to tackle child poverty, conduct a local needs assessment, produce a child poverty strategy and take child poverty into account in the production and revision of their Sustainable Communities Strategies

The four child poverty targets to be met by 2020/21 were as follows:

- **Relative low income**– to reduce the proportion of children who live in relative low income (in families with incomes below 60% of the median, before housing costs) to less than 10%.
- **Combined low income and material deprivation** – to reduce the proportion of children who live in material deprivation and have a low income (below 70% of the median, before housing costs) to less than 5%.

²⁶ [Child Poverty Act 2010: Explanatory Notes](#), para 6

- **Absolute low income** – to reduce the proportion of children who live below an income threshold fixed in real terms (60% of median income in 2010/11) to less than 5%.
- **“Persistent” poverty** – to reduce the proportion of children that experience long periods of relative poverty; this was set at a specific target of less than 7% following a consultation in 2014.²⁷

The justification for the adoption of four targets was that no single measure captures every aspect of poverty. The main emphasis is on low income, but the inclusion of a combined low income and material deprivation indicator recognises that income may not always accurately reflect the extent to which a family can afford necessities. The persistent poverty target recognises that longer periods in poverty can have a serious impact on children’s experiences and life chances.²⁸ While the Act requires all four targets to be met, the greatest attention (and criticism of these targets) has been focused on the target relating to relative low income.

While the stated purpose of the 2010 Act was the “eradication” of child poverty, the targets are not zero. The Labour Government said that the target rates reflected the lowest sustained rates of child poverty achieved in European countries in recent years, and that it would not be technically feasible to achieve zero poverty using a survey measure because of the under-reporting of incomes and the fact that snapshot surveys do not always accurately reflect the living standards of those with low fluctuating incomes.²⁹

Further information on the background to the Child Poverty Act is provided in the Library’s Research Paper on the [Child Poverty Bill](#) (prepared for Second Reading of that Bill). Library briefing paper [Child Poverty Act 2010: a short guide](#) provides a summary of what the Act does and party positions during the passage of the Bill.

As discussed further below, the emphasis on income has been criticised in some quarters. Some have argued that income-based targets risk skewing policy responses towards measures which have a more immediate impact on household incomes (such as benefit increases) rather than measures aimed at improving other aspects of children’s lives and addressing the intergenerational transmission of child poverty (e.g. reducing the gap in educational achievement).³⁰ Nevertheless, few have advocated abandoning income-based targets completely, preferring to supplement them with other measures.

²⁷ Department for Education, [Setting the 2020 persistent child poverty target: government response](#), 16 October 2014

²⁸ [Ending child poverty: making it happen](#), January 2009, chapter 3

²⁹ *Impact Assessment for the Child Poverty Bill*, December 2009, para 1.15; see also Child Poverty Unit, *Ending child poverty: making it happen*, January 2009, paras 52-53

³⁰ See for example Mike Brewer, [What is the point of the Child Poverty Bill?](#), IFS Observations, November 2009

2.2 Measuring poverty

There is no single, universally accepted definition of poverty nor is there unanimous agreement over how poverty ought to be measured. Library Research Paper 04/23 [Poverty: measures and targets](#) summarises different ways of conceptualising poverty along with some of the most common approaches to measurement.

The traditional approach to measuring poverty involves establishing an income threshold and calculating how many individuals, families or households fall below it. However, this begs the question of how the threshold should be established. There is no single correct approach; a wide range of methods have been used in different countries and at different times.

Moreover, there is the question of whether income, at least as it is recorded in sample surveys, is itself a reliable indicator of living standards. Alternative approaches look at a broader range of indicators of material deprivation, or combine low income with other deprivation indicators to provide a wider measure of living standards.

Relative and absolute low income

Currently, the headline poverty measures used in the UK count the number of individuals falling below some threshold for household disposable income.

Relative low income (sometimes referred to as relative poverty) counts people living in households with income below 60% of median household income. **Absolute low income** (or absolute poverty) counts people living in households with income below 60% of the median in some base year (2010/11), uprated for (RPI) inflation. These measures form two of the four targets in the Child Poverty Act. The median is the point at which half of households have a lower income, and half have a higher income.

In this context, household income is measured after the effect of taxes and benefits (i.e. disposable income) and is 'equivalised' to adjust for differences in household size and composition. Equivalisation is intended to account for the fact that a large household will need a higher level of income to enjoy the same standard of living as a smaller household.

The charts below show the trend in the number of children in relative and absolute low income since the 1960s. Information on poverty trends for other groups in the population can be found in Library briefing paper [Poverty in the UK: Statistics](#).

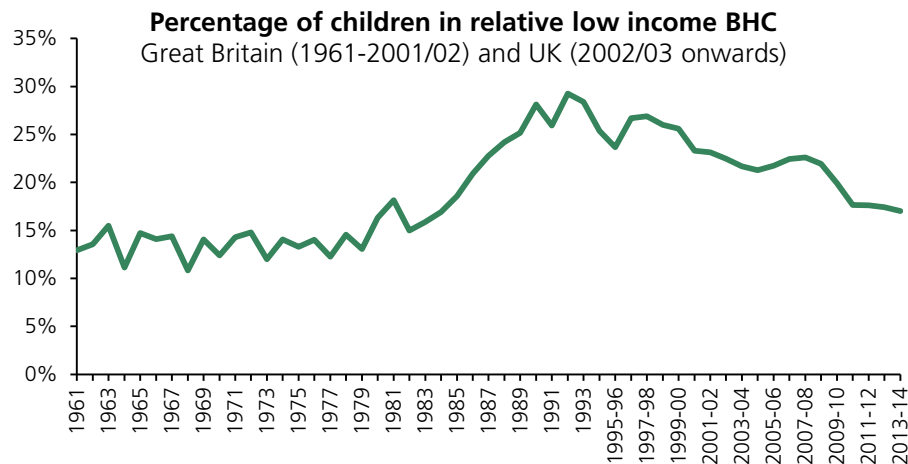
Housing costs

Income may be measured before or after housing costs have been deducted (BHC or AHC). Poverty levels are higher when household incomes are measured after housing costs, as households in the lower end of the income distribution tend to spend a larger share of their income on housing than higher-income households. All the poverty

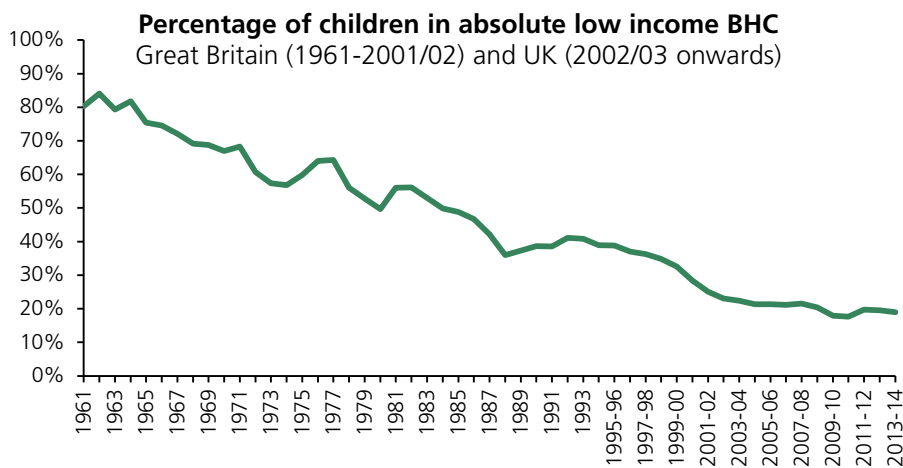
targets in the Child Poverty Act 2010 are based on incomes before housing costs.³¹

Children in relative and absolute low income: long-term trends

There was a large increase in the proportion of children in relative low income during the 1980s, followed by a more gradual decline. The proportion of children in absolute low income, on the other hand, has greatly reduced over the past fifty years because over most of this period growth in incomes outstripped inflation.



Notes: Years refer to calendar years up and including 1993 and financial years from 1994/95 onwards.
Source: Institute for Fiscal Studies (IFS), using data compiled from the Family Resources Survey and Family Expenditure Survey, and Department for Work and Pensions



Notes: Years refer to calendar years up and including 1993 and financial years from 1994/95 onwards.
Source: Institute for Fiscal Studies (IFS), using data compiled from the Family Resources Survey and Family Expenditure Survey, and Department for Work and Pensions

Official figures for the number of people in relative and absolute low income are survey-based and are published by the Department for Work and Pensions (DWP) in its annual [Households below average income](#) (HBAI) publication. The figures in HBAI are derived from the Family Resources Survey, which surveys around 20,000 households in the UK annually. The survey findings are weighted so that the profile of

³¹ Further discussion of housing costs is provided in section 1 of Library briefing paper [Poverty in the UK: Statistics](#).

respondents matches that of the wider UK population, which allows estimates to be produced for the population as a whole.

Income-based measures of poverty: limitations

The Bill replaces the targets in the Child Poverty Act with a duty to report on children in workless households and educational attainment of children in England at GCSE level. A press release announcing these new measures stated, “The current child poverty measure – defined as 60% of median income – is considered to be deeply flawed and a poor test of whether the children’s lives are genuinely improving.”³²

Some criticisms of income-based measures are more valid than others. As noted by the Institute for Fiscal Studies (IFS) in its response to the Government’s 2012 consultation on [Measuring Child Poverty](#), some of the criticisms fail to distinguish between concepts of relative and absolute poverty.³³ Additionally, as pointed out in a consultation response from Professor Jonathan Bradshaw, one of the targets in the *Child Poverty Act 2010* already combines low income with material deprivation to address the fact that income does not always represent the extent to which families can afford necessities, and HBAI presents a range of indicators and data for different groups rather than rely on a single figure.³⁴ A previous consultation on measuring child poverty by the Department for Work and Pensions in 2002 decided in favour of a tiered approach that would track absolute low income; relative low income; and material deprivation and low income combined: “Using this measure, poverty is falling when all three indicators are moving in the right direction.” The final conclusions from the consultation explained:

Following the consultation exercise, further methodological work and discussion with experts, we have decided that a tiered approach is the best way in which we can monitor progress on child poverty over the long term. This uses a set of inter-related indicators (tiers) capturing different aspects of poverty whilst respecting the finding of our consultation that income is at the core of people’s conception of poverty. Each has significance in its own right and our objective is to make progress against all indicators.³⁵

Nevertheless, various deficiencies with income measures are identified in the IFS response to the 2012 consultation. The consultation response explains how data on incomes could be supplemented with additional information in order to obtain a fuller picture of living standards:

A comprehensive picture of living standards

Current income is, for good reason, a standard measure of material living standards. It has been used across the world for a

³² DWP press release, [Government to strengthen child poverty measure](#), 1 July 2015

³³ J Browne et al, [Response of IFS researchers to “Measuring Child Poverty: a consultation on better measures of child poverty”](#), Institute for Fiscal Studies, February 2013, p3

³⁴ J Bradshaw, [Consultation on child poverty measurement: Response prepared by Professor Jonathan Bradshaw with the help of the Poverty and Social Exclusion project team](#), January 2013

³⁵ DWP, [Measuring child poverty](#), December 2003

long time by both governments and academics, and should continue to be. But it has always been acknowledged as an imperfect measure, both due to the concept of income in principle and its measurement in practice. Here we outline some of its key deficiencies, and suggest how these can be alleviated by supplementing it with additional information.

Some families have relatively high or low incomes only temporarily. Current income may be a poor proxy for the material living standards of these people. Given that incomes can effectively be transferred from one period to another via borrowing and saving (or paying off previously accumulated debt), what we would really like to observe is lifetime income.

That this can really matter for poverty measures can be seen by considering an increase in income volatility (e.g. due to an increase in short-term unemployment) versus an increase in permanent income inequality between different groups (e.g. due to an increase in long-term unemployment). Both will increase the cross-sectional dispersion of incomes, and hence will tend to increase the number of people with incomes below a poverty line. But we would expect the effects on living standards and lifetime resources to be smaller in the former case, as (at least some of) those with temporarily low incomes will be able to finance consumption either by drawing down accumulated savings or by borrowing against the expectation of higher income in future. A way to address this is to use poverty measures based on consumption.

Consumption is generally considered a better proxy than income for lifetime resources and for current living standards. And it can be used to assess whether changes in the distribution of current income are large and persistent enough to have caused substantial changes in material living standards. For example, relative poverty in the UK in the 1980s grew less quickly when measured using consumption than when measured using income. This likely reflects the fact that some (though not all) of the increase in income inequality over the period reflected an increase in income volatility – which can, at least partly, be smoothed via saving and borrowing – rather than higher lifetime inequality.

Standard income-based measures also do not account for housing quality. This is true whether they measure incomes before or after deducting housing costs (BHC or AHC). For example, BHC income measures do not account for the fact that owner-occupiers with the same income and housing quality as those in other tenures would be able to achieve a larger consumption flow with their income (since they do not have to spend any of it on housing costs, and can instead spend it on other things); and AHC income measures do not account for the fact that two families with equal BHC incomes and housing costs may have different qualities of housing. This latter point is particularly pertinent for the poor, who are relatively likely to be in social rented accommodation where rents do not necessarily reflect market values. Accounting for housing quality, as the consultation document suggests, is therefore a good idea.

A consumption-based measure of poverty could account for housing quality by imputing a consumption flow from housing, based on observed market rents for those in the private rented sector and based on information on housing quality for social renters and owner-occupiers. Income-based measures could also account for housing quality in an analogous way, by adding to

cash income the imputed consumption/income flow from housing (and subtracting current spending on housing, e.g. rents and mortgage interest payments). IFS research has shown that using either consumption or this broader measure of income makes a substantial difference to impressions of relative living standards between families of different sizes, and between different cohorts, in the UK.

A practical problem with income is that household survey datasets on which income statistics are based tend not to record income perfectly. This can be a particular problem close to the bottom of the income distribution. There is substantial under-recording of some benefit and tax credit incomes in the Family Resources Survey. Empirical work suggests that under-reporting of income is in fact the primary reason why income is an imperfect measure of low living standards in the UK ... those families with children with the lowest measured current incomes do not tend to have the lowest expenditures. There is evidence that this is primarily due to under-reporting of incomes rather than over-reporting of expenditure, and one finds the same pattern when mapping income against measures of deprivation. Therefore, using consumption-based measures (which are based in large part on expenditure data) may also have practical advantages when trying to measure poverty accurately.

Note that greater confidence about the reliability of the data towards the bottom of the expenditure distribution would also be likely to mean that the depth of poverty could be accounted for more robustly when using consumption-based measures. Moving beyond simple 'headcount' poverty measures – which, in principle, is appealing (see Section 1) – may therefore be more workable when using consumption-based poverty measures than income-based ones.

Finally, income-based measures (and consumption-based measures) do not capture the fact that families use publicly provided services. If the government spends an additional £1 billion on tax credits, this would increase people's current incomes (and probably their consumption too). If it spent the same money on improving public services for people in poverty, this could also improve their living standards but would have no direct impact on their income. If income-based measures of poverty alone were driving policy, then the incentives being acted on by policy-makers would be skewed and sub-optimal. A way to address this is to track measures of the quality and usage of public services and, as far as possible, how quality and usage differs across the population.³⁶

2.3 Progress towards the 2020-21 targets

At 2013-14:

- 17% of children were in relative low income (compared to a target of 10% by 2020-21)
- 19% of children were in absolute low income (compared to a target of 5%)

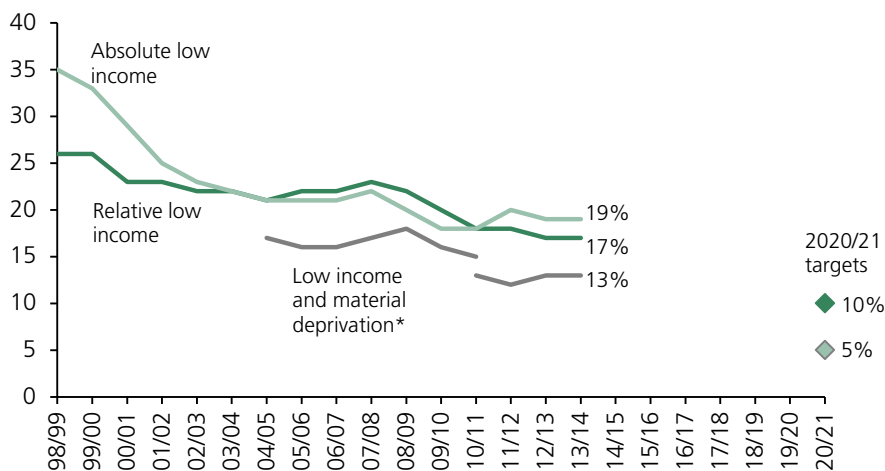
³⁶ J Browne et al, [*Response of IFS researchers to "Measuring Child Poverty: a consultation on better measures of child poverty"*](#), Institute for Fiscal Studies, February 2013, pp5-8

- 13% were in combined low income and material deprivation (compared to a target of 5%)

All figures are based on household incomes measured before housing costs, as used in the targets in the Child Poverty Act.

The Child Poverty Act also set an interim target of fewer than 1.7 million children in relative low income by 2010-11, which would be half the 1998-99 level. The actual number of children in relative low income by 2010/-1 was 2.3 million, meaning the target was missed by around 600,000.³⁷

Percentage of children in low income households - main measures, before housing costs: UK, 1998/99-2013/14



* There is a break in the Low income & material deprivation series in 2010/11.

Source: DWP *Households below average income, 1994/95-2013/14*

After initial falls in child poverty between 1998-99 and 2002-03, progress in reducing child poverty stalled in the mid-2000s. However, there were further falls in the number of children in relative low income in the aftermath of the recession – from 2.6 million in 2009-10 to 2.3 million in 2010/-1. This can be explained by the fact that people at the bottom of the income distribution saw their incomes fall by less (in real terms) than those at the middle of the distribution, as explained by DWP:³⁸

... Median equivalised household income fell between 2009/10 and 2010/11, which in turn reduced the relative poverty thresholds. Individual median earnings as shown in the [Family Resources Survey] in 2010/11 were about the same as in 2009/10 in cash terms, and fell by around 4 per cent in real terms over this period because of a higher inflation rate than most past years (see Table 2.1tr). This was one of the main factors leading to the reduction in median incomes.

Benefit and tax credit income grew in cash terms and fell only slightly in real terms. This meant that low-income households in receipt of benefits and tax credits saw their income fall less in 2010/11 than households at the median, tending to decrease the

³⁷ Further information on the background to the 2010/11 target is provided in Library Research Paper 09/62, [Child Poverty Bill](#).

³⁸ DWP, [Households Below Average Income, 2010/11](#), 11 June 2012, p46

overall rate of relative low income, Before and After Housing Costs. In turn, the groups that saw reductions in rates of relative low income were those more likely to be in households in receipt of state support, such as children, working-age adults with children and pensioners. Above indexation increases in the child element of Child Tax Credit and increases in the Basic State Pension also helped these groups.

Since 2010-11, the number of children in relative low income households has remained steady at around 2.3 million as incomes for households around the poverty threshold have moved in line with incomes at the median.

The population in **absolute low income**, on the other hand, has increased since 2009-10 as household incomes have grown more slowly than inflation. However, levels of absolute low income remain much lower than in the late 1990s.

The proportion of children in Great Britain in persistent poverty (defined as being in relative low income in three years out of a four year period, based on income before housing costs) declined from around 17% in 1998-2001 to 10% in 2003-2006 and 2004-2007. It then rose to 12% during 2005-2008.³⁹

The figures for persistent poverty are taken from the British Household Panel Survey (BHPS); they are currently the most up-to-date figures available due to the BHPS being replaced by the *Understanding Society* survey in 2009.

Will the targets be met?

The Institute for Fiscal Studies (IFS) sees no possibility of the 2020 targets being met under any plausible scenario for the UK economy and tax and benefit policy.⁴⁰ The Social Mobility and Child Poverty Commission has similarly warned the targets will be missed and that none of the main political parties has been willing to admit “this uncomfortable truth.”⁴¹

The IFS previously produced projections in Autumn 2014 of poverty levels and rates among children and working-age adults for years to 2020-21. These suggested that 3.0 million children (21% of children in the UK) could be in relative low income by 2020-21, and 3.5 million (25%) in absolute low income – much higher than the targets. The estimates do not take into account any more recent announcements after September 2014 or measures that are likely to be announced in future; instead they represented “our best estimates of future poverty levels if policy does not change.”⁴²

³⁹ Department for Work and Pensions, [Low Income Dynamics, 1991-2008 \(Great Britain\)](#), September 2010

⁴⁰ J Browne, A Hood and R Joyce, [Child and working-age poverty in Northern Ireland over the next decade: an update](#), IFS Briefing Note BN154, 24 November 2014, p26

⁴¹ Social Mobility and Child Poverty Commission, [State of the Nation Report 2014](#), 20 October 2014, pV

⁴² J Browne, A Hood and R Joyce, [Child and working-age poverty in Northern Ireland over the next decade: an update](#), IFS Briefing Note BN154, 24 November 2014, pp27-8. More recent analysis (but also prepared before the March 2015 Budget)

The IFS had forecast a rise in child poverty in 2013-14, in light of the reduction in the real value of most benefits and weak earnings growth, but this was not reflected in the published figures, which instead showed relative low income levels to be flat in 2013-14. The HBAI publication attributed this in part to growth in employment rates, which meant that household incomes both for families towards the bottom of the distribution and for those in the middle remained broadly flat in real terms.⁴³ The IFS comments that some of the difference could simply be the result of survey error and notes the HBAI data are “most reliable as guides to broad trends measured over a number of years.”⁴⁴

The Social Mobility and Child Poverty Commission warned in October 2014 that although levels of child poverty are low by historic standards, “there is no realistic hope of the child poverty targets being met in 2020, given the likely tax and benefit system in place at that date”:

In the years to come, all the trends suggest that poverty is set to rise. The evidence presented above suggests that the good short-term progress that is being made on worklessness and the longer-term prospect of improvements in educational attainment are unlikely to be enough to improve either the absolute or the relative incomes of low-income families. Family living standards are set to worsen because increases in earnings from parents moving into work will not be enough to offset social security cuts or the deeper structural labour market issues that inhibit improvements in both pay and progression.

Meanwhile, the recovery is driving a wedge between those at the bottom of the labour market and those at the top and middle where incomes are set to improve. Without action, it is hard to see how Britain does not become ever more divided.

Modelling for the Commission illustrates the scale of the challenge. It projects that – based on current OBR forecasts for employment and wage growth – relative poverty (before housing costs) will rise to 21 per cent by 2020, 11 percentage points above target, and absolute poverty will rise to 24 per cent, even further behind the target of five per cent. This is likely to be an optimistic view as it ignores the impact of the further cuts to welfare benefit entitlements that are pencilled into current plans for deficit reduction in the next Parliament.

The Institute for Fiscal Studies has concluded in stark terms that it is “*inconceivable*” that the UK Government will hit, “*or even get close to*”, the 2020 targets – and this is before any effect of additional social security cuts or tax rises after 2015. It is becoming clear that new approaches will be needed if poverty is to be beaten.⁴⁵

Research for the Commission, carried out by Landman Economics and the National Institute for Economic and Social Research and published in

provides projections up to 2014/15: J Cribb, A Hood and R Joyce, [Living Standards: Recent Trends and Future Challenges](#), IFS Briefing Note BN165, 4 March 2015

⁴³ DWP, [Households Below Average Income, 2013/14](#), 25 June 2014, p45

⁴⁴ C Belfield et al, [Living Standards, Poverty and Inequality in the UK: 2015](#), Institute for Fiscal Studies Report 107, July 2015

⁴⁵ Social Mobility and Child Poverty Commission, [State of the Nation Report 2014](#), 20 October 2014, Chapter 5, paras 61-64

June 2014, considered the impact of an increase in parental employment rates on child poverty levels. The research concluded that an increase in parental employment rates would, on its own, not be enough to meet the 2020 target for children in relative low income; meeting the target “looks impossible in any realistic scenario for parental employment and earnings in 2020”. However, using the resulting gains in tax revenue for other poverty-reducing measures would offer greater scope to meet the target:

Analysis of other scenarios for employment and wage growth shows that faster employment growth reduces relative and absolute poverty. Faster wage growth reduces absolute poverty but slightly increases relative poverty because higher wages increase net incomes of households in the middle by more than those at the bottom (meaning that more households are classified as 'poor' on a relative measure). Even in the most optimistic scenarios for parental employment and earnings growth (where employment and wages increase faster than the OBR forecast, and parents make up most or all of the additional entrants into work), the targets for relative and absolute poverty are not achieved. This remains true even if a different inflation measure is used.

To achieve the 2020 relative poverty target it is necessary to assume (a) an extreme (and implausible) increase in employment rates for parents, plus (b) substantial increases in hours worked for working adults in households with children who remain in poverty despite being in work – over and above the additional requirements for claimants in the Universal Credit system. Hitting the relative poverty target through improved parental employment outcomes alone looks impossible in any realistic scenario for parental employment and earnings in 2020. However, increases in employment and earnings over and above the OBR forecast result in substantial gains to the Exchequer through increased direct tax receipts and reduced welfare spending. This additional net tax revenue could be recycled into measures to reduce child poverty further (such as increased Universal Credit payments or improved childcare provision). The approach offering most scope for meeting the 2020 targets would be to supplement increases in parental employment (to reduce absolute and relative child poverty) and wage increases (to reduce absolute child poverty) with recycled savings through financial support for families (to offset the slightly negative impact of wage increases on relative child poverty).⁴⁶

The IFS and Social Mobility and Child Poverty Commission projections predate announcements in the 2014 Autumn Statement and 2015 Budgets. In particular, changes to tax credits announced in the July 2015 Budget were met with concern from various campaign groups. The Joseph Rowntree Foundation welcomed the move to a National Living Wage but warned, “The cuts in tax credits and the reduction of the work allowance in Universal Credit means that working

⁴⁶ H Reed and J Portes, [*Understanding the parental employment scenarios necessary to meet the 2020 Child Poverty Targets*](#), Research Report for the Social Mobility and Child Poverty Commission, 9 June 2014

families on low incomes will find it even harder to make ends meet.”⁴⁷ The Child Poverty Action Group warned, “Two thirds of poor children now live in working families but incredibly the Chancellor has removed tax credits targeted to help them.”⁴⁸ IFS analysis of measures in the July 2015 Budget, reported in the Financial Times, suggested that the personal tax and welfare measures in the Budget would hit poorer households hardest and reduce the incentives for the main earner in low-wage households to take work. The introduction of a National Living Wage failed to compensate for tax credit cuts, since the two measures were targeted differently.⁴⁹

2.4 Developments since the Child Poverty Act 2010

Although the *Child Poverty Act* received cross-party support, both the Conservatives and Liberal Democrats criticised elements of the Bill. In particular, the Conservatives’ key concern was that the targets in the Bill were “poor proxies for achieving the eradication of child poverty.” The Conservatives said they would “aim to widen the agenda and build up targets, which are more likely to address the underlying causes of poverty.”⁵⁰ During the 2010-15 Parliament, Ministers repeatedly signalled their intention to introduce improved measures. A commitment to introduce new measures was included in the 2015 Conservative Manifesto.

Frank Field review, 2010

Shortly after the Coalition Government came to office in 2010, David Cameron asked Labour MP Frank Field to lead an independent review on poverty. A press release from the Prime Minister’s Office explained the main aims of the review:

- examine the case for reforms to poverty measures, in particular for the inclusion of non-financial elements
- generate a broader debate about the nature and extent of poverty in the UK
- explore how a child’s home environment affects their chances of being ready to take full advantage of their schooling.
- recommend potential action by government and other institutions to reduce poverty and enhance life chances for the least advantaged, consistent with the Government’s fiscal strategy.⁵¹

⁴⁷ Joseph Rowntree Foundation, [*JRF response to the Chancellor’s Emergency Budget*](#), 8 July 2015

⁴⁸ Child Poverty Action Group, [*Budget U-turn on tax credits and working families*](#), 8 July 2015

⁴⁹ Chris Giles, [*Higher wage will not compensate for tax credit cuts. IFS says*](#), Financial Times, 9 July 2015; Andrew Hood, [*Benefit changes and distributional analysis*](#), Presentation for the IFS *Post-Budget Briefing, Summer 2015*, 9 July 2015

⁵⁰ HL Deb 15 Jan 2010 c26

⁵¹ Prime Minister’s Office press release, [*Review on poverty and life chances*](#), 5 June 2010

The Review focused on how to prevent poor children from becoming poor adults, arguing that this required the issue of child poverty to be addressed in a fundamentally different way. It criticised the current framework of measuring income poverty rates year on year as having “undermined the ability of policy makers to take a long term sustainable approach.”

Citing “overwhelming evidence that children’s life chances are most heavily predicated on their development in the first five years of life,” the Review called for a shift in funding towards these so-called Foundation Years. Its main recommendation was for a new set of Life Chances indicators:

21. The Review recommends a new suite of measures to run alongside the existing financial poverty measures. The new measures will inform and drive policy, as well as spending decisions aimed at narrowing the outcome gaps between children from low and higher income families. The Review’s primary measurement recommendation is that the Government adopts a new set of Life Chances Indicators. These indicators will measure annual progress at a national level on a range of factors in young children which we know to be predictive of children’s future outcomes, and will be created using national survey data.

22. Existing local data should be made available to parents and used anonymously to enable the creation of Local Life Chances Indicators which can be compared with the national measure. In order to make this local data as useful as possible, information collected by health visitors during the age two health check, which this Review recommends should be mandatory, and information collected as part of the Early Years Foundation Stage (following the results of Dame Clare Tickell’s review) should be as similar as possible to the information used to create the national measure.

23. The Government should develop and publish annually a measure of ‘service quality’ which captures whether children, and in particular children in low income families, have suitable access to high quality services.

24. This Review is about ensuring that the life chances of the very poorest children are enhanced. We suggest that a new measure of severe poverty should be developed. This will focus attention on prolonged material and financial deprivation and we recommend the Government begins to develop a strategy specifically to help the most disadvantaged children.⁵²

The Life Chances indicators would cover the following factors:

Child factors

- Cognitive (including language and communication) development at around age three
- Behavioural and social and emotional development at around age three
- Physical development at around age three

⁵² Frank Field, [*The Foundation Years: preventing poor children becoming poor adults*](#), The report of the Independent Review on Poverty and Life Chances, December 2010, pp8-9

Parent factors

- Home learning environment
- Positive parenting
- Maternal mental health
- Mother's age at birth of first child
- Mother's educational qualifications

Environmental factors

- Quality of nursery care⁵³

Child Poverty Strategy 2011-14

The Child Poverty Act requires the Government to publish a Child Poverty Strategy every three years, a duty which will be removed by the current Bill. The previous Government published Strategy documents in 2011 and again in 2014.

The Strategy for 2011-14, [*A New Approach to Child Poverty: Tackling the Causes of Disadvantage and Transforming Families' Lives*](#), was published on 5 April 2011. A Written Ministerial Statement summarised the main measures, including broadening the remit of the Child Poverty Commission (created by the Child Poverty Act) to include social mobility:

... Our strategy will bring together the work of several Departments to help improve children's life chances. Through the universal credit alone, we expect to lift 350,000 children out of poverty and 200,000 children out of the severest poverty. Overall universal credit will help nearly 1 million people out of poverty and with the Work programme we will see more people break out of the cycle of worklessness and benefit dependency.

We will do all in our power to increase the life chances of children by supporting vulnerable families through expanding the network of health visitors, targeting child care for the most disadvantaged and investing in early intervention. By increasing standards in education we will raise children's aspirations and narrow the gaps in attainment, which play such a crucial role in defining children's future lives.

As part of the strategy, we are announcing that we will establish a child poverty commission with an improved remit, wider and more effective than previously legislated for by the last Government. We have consulted widely to ensure that we get the power of the commission right and we have decided to increase the effectiveness of this body, further strengthening its role in holding the Government to account, while amending its advisory functions. This will be a broader commission which will monitor and drive progress towards ending child poverty, improving life chances, and increasing social mobility. Until the new commission is in place, we will be broadening the current remit of the Government's independent reviewer on social mobility (Alan Milburn) to include child poverty. Alan Milburn will then be appointed acting chair of the new commission while an open appointment process for the commission takes place. It is our

⁵³ Ibid, p73

intention to use the Welfare Reform Bill to make the necessary changes to the Child Poverty Act.⁵⁴

The Strategy also argued there was a need for additional poverty measures that would tackle the root causes of poverty.⁵⁵

The Child Poverty Action Group was unimpressed, commenting: “A child poverty ‘strategy’ which does not set out how poverty numbers will fall, and by when, is not a strategy.”⁵⁶ The Joseph Rowntree Foundation noted there was little content in the strategy that was new, save for the announcement of indicators to be used to track progress, and was particularly disappointed by the lack of discussion about how the Government’s growth strategy would support lower poverty.⁵⁷

Measuring Child Poverty – 2012 Consultation

The intention to introduce new poverty measures was taken up in a 2012 Government consultation, [Measuring Child Poverty: A consultation on better measures of child poverty](#). This argued for a multidimensional measure of child poverty “that would illustrate the reality for children growing up in entrenched poverty in the UK today”. The indicators suggested for inclusion were:

1. Income and material deprivation
2. Worklessness
3. Unmanageable debt
4. Poor housing
5. Parental skill level
6. Access to quality education
7. Family stability
8. Parental health⁵⁸

The multidimensional measure would combine the range of indicators into a single number, by weighting indicators according to the extent to which they play a role in child poverty.

The Consultation criticised income-based measures as failing to capture the “reality for children growing up in entrenched poverty in the UK today.” The fact that a fall in real incomes on average can lead to a reduction in relative poverty, as occurred in 2010-11, was also suggested as a reason why income measures are deficient. Nevertheless, it acknowledged that income would have to remain a key part of the new measure:

⁵⁴ [HC Deb 5 Apr 2011 c63-4WS](#)

⁵⁵ HM Government, [A New Approach to Child Poverty: Tackling the Causes of Disadvantage and Transforming Families’ Lives](#), Cm 8061, 5 April 2011, p8

⁵⁶ Child Poverty Action Group, [Unlawful child poverty ‘strategy’ includes cuts that make poor families poorer](#), 5 April 2011

⁵⁷ Helen Barnard, [Social Mobility and Child Poverty Strategies: Well intentioned but nothing new](#), Joseph Rowntree Foundation blog, 5 April 2011

⁵⁸ HM Government, [Measuring Child Poverty: A consultation on better measures of child poverty](#), Cm 8483, November 2012, p17

Central to any measure of child poverty will be the inclusion of household income. In a recent report, Save the Children said that *'the debate about child poverty has become polarised between supporting family finances and taking steps to improve children's life chances'*. The Government is not playing a zero-sum game with child poverty measurement. There can be no doubt that **income is a key part of our understanding of child poverty and who it affects**. It is not, however, the only part.⁵⁹

Responses to the Consultation

The Social Mobility and Child Poverty Commission agreed that a more multidimensional approach could be valuable, but warned that it should supplement rather than replace the existing framework. The Commission looked to the Government "to make a clear commitment to maintain the centrality of income in measuring poverty and to clarify its position on the targets enshrined in the Child Poverty Act 2010". It also expressed concern that "the suite of different dimensions proposed in the consultation conflates the *causes* and the *consequences* of poverty in a way that is likely to be confusing."⁶⁰

Similarly, the Institute for Fiscal Studies warned that the different dimensions suggested for inclusion related to different concepts, so combining them into a single number would be meaningless. It agreed with the Consultation premise that as a measure of child poverty, "current income alone is too narrow" and suggested ways that incomes data could be supplemented with information about, for example, household consumption. It noted, however, that the Consultation confused the perceived narrowness of income measures with separate issues as to whether to use absolute or relative poverty lines or how to account for the "depth" of poverty.⁶¹

In an article for *Poverty*, the journal of the Child Poverty Action Group (CPAG), Jonathan Bradshaw assessed the appropriateness of the different dimensions proposed to be included in the new measure. He dismissed the proposed multidimensional measure as "a ragbag of risks, correlates and consequences of poverty rather than poverty itself. In the process, it is ignoring more than four decades of poverty measurement that has resulted in a number of robust poverty measures captured in the Child Poverty Act 2010."⁶²

Based on information obtained from a Freedom of Information request, CPAG reported that respondents to the consultation were largely in favour of retaining the targets in the Child Poverty Act:

When the government consulted on new measures of child poverty in 2013, 97% of respondents believed that all the targets under the Child Poverty Act should be retained (101 out of 104

⁵⁹ Ibid, p14

⁶⁰ Social Mobility and Child Poverty Commission, [Response to "Measuring Child Poverty: A consultation on better measures of child poverty"](#), February 2013

⁶¹ J Browne et al, [Response of IFS researchers to "Measuring Child Poverty: a consultation on better measures of child poverty"](#), Institute for Fiscal Studies, February 2013

⁶² J Bradshaw, [Measuring child poverty: can we do better?](#), *Poverty*, Issue 144 (Spring 2013), pp6-9

giving a response; 2 of the remaining 3 respondents believed that the relative income target alone should be retained). Only 8% of respondents believed that new measures were needed to replace the current measures (14 out of 183 giving a response). Source: DWP analysis of consultation responses, obtained via a Freedom of Information request in April 2014.⁶³

Child Poverty Strategy 2014-17

The Government published its second [Child Poverty Strategy for 2014-17](#) on 26 June 2014. This focused on work and education as routes out of poverty. The Strategy set out steps that the Government was taking to:

- Support families into work and increase their earnings
- Improve living standards
- Prevent poor children becoming poor adults through raising their educational attainment

A press release provides a summary:

Actions set out in the strategy which the government are taking from 2014 to 2017 to tackle child poverty include the following.

Supporting families into work by:

- helping businesses to create jobs
- helping people to take up work through Jobcentre Plus and schemes such as the Work Programme and the Troubled Families Programme
- making work pay and having clearer work incentives through introducing Universal Credit, with more help for childcare
- tackling low pay by raising the minimum wage and the personal tax allowance, continuing to lift low-income families out of the tax system
- helping people move on to better jobs and improving the qualifications of parents through adult apprenticeships, investing in English and maths and helping parents through the National Careers Service

Reducing costs to support people's living standards by:

- reducing energy, extending the Warm Home Discount and helping people to make their homes more energy efficient
- capping the bills of low-income families with 3 or more children on a water meter and promoting social tariffs
- reducing food costs for low-income families through introducing free school meals for all infant school pupils alongside Healthy Start Vouchers for young children, breakfast clubs in deprived areas, and free fruit and vegetables at school for primary school children
- reducing transport costs for low-income families

⁶³ Child Poverty Action Group press release, [Government turns its back on poor children](#), 1 July 2015

- increasing access to affordable credit for low income families through expanding credit unions

Raising educational attainment by:

- increasing the number of poor children getting quality pre-school education
- introducing an Early Years Pupil Premium to help ensure 3 and 4 year olds from the most disadvantaged backgrounds get the best start in life
- ensuring poor children do better at school by giving disadvantaged pupils an additional £14,000 throughout their school career – a £2.5 billion a year commitment through the Pupil Premium
- supporting poor children to stay in education post-16 through training, apprenticeships, traineeships, and better careers advice
- helping parents provide the best possible home environment by supporting parenting classes and providing free books to poor families
- helping parents who experience mental health issues, investing in drug and alcohol dependency treatment and supporting young carers
- increasing support for children with Special Educational Needs⁶⁴

Upon the publication of the 2014 Strategy, Iain Duncan Smith and George Osborne repeated their commitment to introduce new child poverty measures in an article in the *Guardian*, identifying “entrenched worklessness, family breakdown, problem debt, drug and alcohol dependency” as root causes of poverty:

For far too long, a fixation on relative income led the last government to chase an ever elusive poverty target, spending unprecedented amounts on benefits and almost £170 billion on tax credits as they tried to move poor families over the line. But it did not deal with the difficult issues. And in the process, Labour lost sight of the very people they were trying to help – leaving millions trapped on benefits, but without tackling the root causes of why they found themselves in poverty in the first place. ⁶⁵

DWP Evidence Review

The 2014-17 Strategy built on the findings of an [Evidence Review](#) of the drivers of child poverty (published January 2014). The Review considered firstly the factors which make it harder for families currently in poverty to exit it now, and secondly the factors which increase children’s chances of being in poverty as adults. The relative importance of various factors were assessed by considering their (i) Certainty – does the factor have an effect; (ii) Strength – how big is the effect; (iii) Coverage – how many children are affected.

⁶⁴ Department for Work and Pensions press release, [Child poverty strategy launched](#), 26 June 2014

⁶⁵ Iain Duncan Smith and George Osborne, [The Conservatives' child poverty plan tackles poverty at source](#), The Guardian, 26 February 2014

The Review found that the most important factors standing in the way of children exiting poverty were those factors contributing to a lack of sufficient income from parental employment:⁶⁶

Families in poverty now: factors making it harder to exit poverty now

Table 1 below summarises the relative influence of each factor on the length of child poverty spells against the criteria outlined above.

Table 1: Relative influence of factors on length of child poverty spell

Factor	Certainty	Strength	Coverage
Long-term Worklessness & Low Earnings	High	High	High
Parental Qualifications	High	High	High
Family Instability	High	Medium	Medium
Family Size	High	Medium	Medium
Parental Ill Health and Disability	Medium	Medium	Medium
Drug & Alcohol Dependency	High	High	Low
Child Ill Health	Medium	Low	Low
Housing	Low	Low	Medium
Debt	Low	Low	Medium
Neighbourhood	Low	Low	Medium
Educational Attainment	N/A	N/A	N/A
Non-Cognitive Development	N/A	N/A	N/A
Home Learning Environment	N/A	N/A	N/A

Although educational attainment does not have a bearing on poverty in the short term, it was identified as the main driver that causes poor children to become poor adults:

Poor children growing up to be poor adults: factors making some poor children more likely to become poor adults

Table 2 summarises the relative influence of each factor on future poverty against the criteria outlined above.

Table 2: Relative influence of factors on future poverty

Factor	Certainty	Strength	Coverage
Educational Attainment	High	High	High
Parental Qualifications	High	Medium	High
Childhood Poverty	Medium	Medium	High
Home Learning Environment	Medium	Medium	High
Non-Cognitive Development	Medium	Medium	High
Parental Ill Health and Disability	Medium	Medium	Medium
Child Ill Health	High	Medium	Low
Long-term Worklessness & Low Earnings	Medium	Low	High
Family Size	Medium	Low	Medium
Neighbourhood	Medium	Low	Medium
Family Instability	Medium	Low	Medium
Drug & Alcohol Dependency	Low	High	Low
Housing	Low	Low	Medium
Debt	Low	Low	Medium

Social Mobility and Child Poverty Commission reaction

In its annual *State of the Nation Report* for 2014, the Commission noted there were some positive elements in the 2014-17 Strategy but pointed

⁶⁶ HM Government, [An evidence review of the drivers of child poverty for families in poverty now and for poor children growing up to be poor adults](#), Cm 8781, January 2014, pp6-8

out various deficiencies. It specifically noted the need to tackle poverty among working households:

Overall the Child Poverty Strategy falls short of what is needed to reach the 2020 targets, although it does represent some improvement on the previous strategy. We welcome the stronger focus in the strategy on getting parents into *sustainable* employment with *decent earnings*. Increased employment among parents – especially lone parents – since 2010 is a real achievement for which the Government deserves much credit. But in too many households moving into work does not tackle low income, with parents getting stuck in low-paid working poverty, and the strategy still does little to tackle this issue. We also welcome other positives in the strategy, such as the increased strategic focus on cutting the cost of living, the announcement to extend childcare support in Universal Credit and the statement that employers should “consider paying the Living Wage”. But problems with the strategy include:

- The lack of any clear measures. A strategy without any agreed goals or ways of measuring progress is meaningless. It is very disappointing that senior ministers have distanced themselves from the statutory measures without putting any alternatives in place;
- Absence of a step-by-step plan for meeting the statutory targets. The strategy is instead a list of policies, often already under way with no sense of the impact they will need to have if the targets are to be met;
- A failure to engage with projections of rising poverty. This creates a credibility gap at the heart of the strategy;
- Lack of new action on in-work poverty. A critical test for a strategy that relies on tackling poverty through employment while cutting income transfers is whether it includes effective plans for increasing pay and helping parents progress into higher- paying jobs. This test has not been met;
- Limited actions to mobilise society-wide efforts to tackle poverty. The strategy needs to do more to guide the efforts of employers and others and to provide more clarity about their responsibilities;
- Ignoring the impact of additional welfare cuts. The additional £12 billion of welfare cuts pencilled in for the next Parliament – not factored into already highly pessimistic forecasts of child poverty – will make achieving the targets even more challenging

The Commission recommended that the UK Government:

- Set out clear measures of poverty which ministers clearly buy into and accept accountability against;
- Set out a step-by-step plan to meet the 2020 targets;
- Engage with projections of rising poverty;
- Take action against the structural as well as the individual-level causes of poverty;
- Provide a clear plan for mobilisation and leadership of other actors;

- Engage seriously with the challenges posed by continued fiscal consolidation.⁶⁷

2.5 Background and overview of the Bill

Announcement of new child poverty measures – 1 July 2015

Shortly after the publication of 2013-14 poverty data on 25 June 2015, the Secretary of State announced new measures to replace those in the Child Poverty Act in a Statement to Parliament on 1 July. The new measures would look at children living in workless households and educational attainment at age 16, with other measures and indicators to be developed and reported on annually:

The problem with a statutory framework set around the relative income measure has become all too apparent to all people and to everyone who wants to be honest about this. At 60% of median income, if someone sits below the line they are said to be poor; if they sit above it, they are not. Asking Government to raise everyone above that set percentage often led to unintended consequences, although for good reasons. Most of all, it led to poorly targeted spending, pumping money into the welfare system and focusing more often on inputs than on what those outcomes meant.

[...]

To that end, today I am announcing that we will bring forward legislation to remove the existing measures and targets in the Child Poverty Act 2010, as well as the other duties and provisions. However, the legislation will introduce a statutory duty to report on measures of worklessness and educational attainment. The worklessness measures will identify the proportion of children living in workless households, and the proportion of children in long-term workless households. The educational attainment measures will focus on GCSE attainment for all pupils and particularly for disadvantaged pupils.

The worklessness and education measures will reflect the agreed responsibilities in the devolution agreements. As with all our reforms, we will work with the devolved Administrations as we progress. They must make decisions about what they want to do. Alongside these reports we will continue to publish the HBAI—households below average income—statistics annually.

Alongside the statutory measures, we will develop a range of other indicators—I think this is very important—to measure the progress against the root causes of poverty. We know that in households with unstable relationships, where debt and addiction destabilise families, parents lack employment skills, and children are not ready to start school, these children do not have the same chances in life as others. It is self-evident. They cannot break out of that cycle of disadvantage. We are currently developing these measures, including family breakdown, problem debt, and drug and alcohol dependency. We will report each year on these life chances measurements as well.

⁶⁷ Social Mobility and Child Poverty Commission, [*State of the Nation 2014: Social Mobility and Child Poverty in Great Britain*](#), October 2014, p145

We will reform the Social Mobility and Child Poverty Commission to become the Social Mobility Commission. The commission will ensure independent scrutiny and advocate for improved social mobility. This approach will ensure that tackling the root causes of child poverty and improving future life chances become central parts of our business as a one nation Government.⁶⁸

The Bill

Clause 4 – Workless households and educational attainment reporting obligations

Clause 4 of the Bill creates a new duty on the Secretary of State to publish and lay before Parliament data on children living in workless households in England; children living in long-term workless households in England; the educational attainment of children in England at the end of Key Stage 4 (GCSE level); and also the educational attainment of disadvantaged children in England at the same stage.

As part of this report, the Secretary of State has to define a child, household, worklessness, long-term worklessness, educational attainment, and disadvantage.

The first such report would be published before the end of the financial year ending 31 March 2017, with subsequent reports published before the end of each financial year.

Measures must be based on data published in relevant official statistics. For **worklessness**, the Explanatory Notes to the Bill indicate this could be the current Office for National Statistics release, [Working and workless households](#). **Educational attainment** measures are to be based on Key Stage 4 attainment data published by the Department for Education, such as the Statistical First Release currently titled [GCSE and equivalent attainment by pupil characteristics](#) as set out in the Explanatory Notes.

Definitions

The reports laid by the Secretary of State would be required to define household worklessness and long-term worklessness. However, the Explanatory Notes suggest the respective terms would mean households where no adult is in employment and households where no adults has been in employment for at least the last twelve months.

Similarly, the reports laid by the Secretary of State would be required to provide a definition of **disadvantage**, rather than bound to any existing definition. In the most recent Statistical First Release on *GCSE and equivalent attainment*, published in January 2015, the following definition is used:

Disadvantaged pupils are defined as pupils known to be eligible for free school meals in the previous six years as indicated in any termly or annual school census, pupil referral unit (PRU) or

⁶⁸ [HC Deb 1 Jul 2015 c1504-6](#)

alternative provision (AP) census or are children looked after by the local authority for more than 6 months.⁶⁹

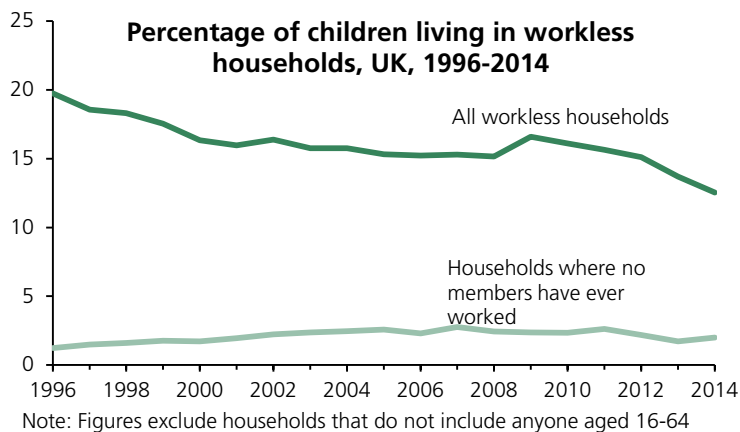
Measuring educational attainment

The Bill does not bind the Secretary of State to a particular definition of educational attainment. Currently, *GCSE and equivalent attainment* uses the number of pupils who have achieved 5 or more A*- C GCSE grades (or equivalent), including English and mathematics,

Box 1: Trends in worklessness and educational attainment

Children in workless households

The Bill introduces a duty for the Secretary of State to report on children living in workless households. The Explanatory Notes identifies the Office for National Statistics (ONS) release [Working and workless households](#) as the likely data source. This release looks at children aged under 16 who are living in households containing at least one person aged 16-64.



At April-June 2014, there were 1.51 million children aged under 16 were living in households where no adult was in work, 12.5% of all children. This is the lowest number and proportion since at least 1996. The Bill also requires the Secretary of State to report on children living in long-term workless households. The Explanatory Notes indicate this may be interpreted as children living in households where no one has worked for at least a year, although these data are not currently included in the release.

The release does, however, include data on children living in households where no member aged 16 and over has ever worked: as of April-June 2014, 241,000 children aged under 16 in the UK were living in households where no members had ever worked, 2.0% of all children. Figures exclude households which contain no members aged 16-64.

Data are survey-based, so some of the variability in the series may be attributable to survey error rather than actual changes. This is especially the case for households where no members have ever worked, given the relatively small number surveyed.

Educational attainment at age 16

The Explanatory Notes identify the Department for Education statistical release [GCSE and equivalent attainment by pupil characteristics](#) as the likely data source to be used by the Secretary of State in reporting on educational attainment at age 16, including attainment among disadvantaged children. The release currently looks at pupils attaining 5 A*-C grades at GCSE (or equivalent), including English and mathematics, as a performance measure. The measure of disadvantaged children used in the release "includes pupils known to be eligible for FSM in any spring, autumn, summer, alternative provision or pupil referral unit census from year 1 to year 6 (i.e. not including nursery or reception) or are looked after children". Data has only been reported in this form since 2010/11. The Bill does, however, allow the Secretary of State to use different definitions.

36.7% of disadvantaged pupils in England achieved 5 or more A*-C grades at GCSE (or equivalent), including English and maths, in 2013/14. This compared to 64.2% of all other pupils.

The 2013/14 data are not comparable to previous years, but figures for 2010/11-2012/13 show an increase in attainment on this measure both among disadvantaged pupils and all other pupils.

⁶⁹ Department for Education, [Statistical First Release: GCSE and equivalent attainment by pupil characteristics, 2013 to 2014 \(Revised\)](#), 29 January 2015

as a performance measure.

A new GCSE grading system is being introduced from September 2015, applying to the reformed GCSEs in English language, English literature and mathematics, for pupils receiving their results in summer 2017. This system will grade GCSEs from 1 to 9, with 9 being the highest grade. This new system will be extended to GCSEs in other subjects over the following two years. Ofqual has published a [timeline](#) of these reforms as they will impact on pupils currently at school.⁷⁰

On 16 June 2015, the Education Secretary, Nicky Morgan, announced that the new grading system would set a new level of what constitutes a 'good pass', to be used to hold the government and schools to account. The current system of using grade C as the base measure will be altered to the new grade 5. Grade 5 will be the equivalent to a high C or low B under the existing system, whereas the bottom of the current grade C will be the bottom of the new grade 4. The Government stated that this would bring the standard into line with top-performing countries such as Finland, Canada, the Netherlands and Switzerland.⁷¹

More detail information on GCSE reform is available in the Library briefing paper [GCSE, AS and A level reform](#), CBP06962.

Clause 5 – Social Mobility Commission

Clause 5 of the Bill renames the Social Mobility and Child Poverty Commission so that it becomes the Social Mobility Commission, and sets the remit of the Commission. Schedule 1 of the *Child Poverty Act 2010*, which sets out the structure and membership of the Commission, including terms of office, staff and facilities, is retained.

As described in the Explanatory Notes, the Commission will have a duty to promote social mobility in England and will provide an independent scrutiny and advocacy role on social mobility in England.

The Commission will be required to report annually on progress in improving social mobility for the whole of the UK. This report must also describe measures taken by devolved administrations to prevent children in their areas from experiencing socio-economic disadvantage. (Devolved administrations in Scotland and Northern Ireland are required under the *Child Poverty Act 2010*, sections 11(2)(b) and 12(2)(b), to prepare strategies setting out measures for the purpose of ensuring as far as possible that children in their respective areas do not experience socio-economic disadvantage. This part of the 2010 Act remains under the Bill.)

Clause 6 – Other amendments to Child Poverty Act 2010

Clause 6 of the Bill repeals much of the *Child Poverty Act 2010*, including:

⁷⁰ Ofqual, [Changes to GCSEs, AS and A levels that will affect each current school year group](#), 18 June 2015 [accessed 10 July 2015]

⁷¹ Department for Education, [New reforms to raise standards and improve behaviour](#), 16 June 2015

- Sections 1-7, 15, 17 and schedule 2 of the 2010 Act: the statutory child poverty targets are removed. Consequently the Secretary of State no longer has a duty to ensure the targets are met by 2020-21.
- Sections 8-8c of the 2010 Act: provisions relating to the Social Mobility and Child Poverty Commission are removed. (Section 5 of the Bill, discussed above, sets out the remit for the renamed Social Mobility Commission.)
- Sections 9-10 of the 2010 Act: the duty on the Secretary of State to prepare a triennial child poverty strategy is removed.
- Sections 19-25 of the 2010 Act: duties on local authorities are removed, including the preparation of a local child poverty needs assessment, a joint child poverty strategy for the local area. and the requirement to take child poverty into account in the production and revision of their Sustainable Communities Strategies

Subsections (2) and (3) of clause 6 amend sections 11 and 12 of the *Child Poverty Act 2010*, which deal with Scottish and Northern Ireland strategies. The strategies set out what measures the devolved administrations will take for the purpose of ensuring as far as possible that children in Scotland and Northern Ireland do not experience socio-economic disadvantage – subsections (2)(a) and (3)(a) mean that strategies no longer need to set out measures to meet the (repealed) child poverty targets. The *Child Poverty Act 2010* did not deal with a Welsh strategy, since provision was made in legislation passed by the National Assembly for Wales. Consequently, the Bill does not amend the duties imposed on Ministers in the Welsh Government.

The Bill removes other references to the child poverty targets from the *Child Poverty Act 2010* and updates the ‘interpretation’ sections of the 2010 Act to explain relevant terms.

Subsection (9) of clause 6 changes the name of the *Child Poverty Act 2010* to the *Life Chances Act 2010*. Renaming an Act in this way is somewhat unusual but not unheard of.

Comment

Speaking for the Opposition, Stephen Timms branded the Secretary of State’s announcement of 1 July 2015, “the obituary notice for compassionate conservatism”, noting the Conservative Party’s previous support for the *Child Poverty Act* in 2010 and the large cuts to tax credits expected in the July 2015 Budget:

What we need is not a change in the definition of poverty, but a plan to deal with poverty and boost productivity. Ministers should be tackling low pay, but instead they are attacking the low-paid. The Children’s Commissioners for England, Wales, Scotland and Northern Ireland have today come together to warn that the Government’s policies will push more young people into poverty. What happened to the long-term plan? Why have children been left out? Why is the party that promised in its pre-election

manifesto to work to eliminate child poverty now planning to increase it?⁷²

Dr Eilidh Whiteford, the Scottish National Party's spokesperson on Social Justice and Welfare, argued that the Government was "failing to protect the most disadvantaged children from their austerity cuts", citing a report published the same day by the UK Children's Commissioners.⁷³ She called for powers over employment and social security to be devolved to the Scottish Parliament so it could take more effective action to tackle poverty.⁷⁴

The announcement was welcomed by the Chair of the Work and Pensions Committee, Frank Field, although he emphasised the importance of a child's first five years in determining 'life chances' and for future welfare-to-work schemes to address the problem of low pay.⁷⁵

The removal of the income measures from the Child Poverty Act and the absence of any references to in-work poverty (see Box 2) meant that the Government's announcement came in for criticism from other quarters. Alan Milburn, Chair of the Social Mobility and Child Poverty Commission, argued that low income still needed to be acknowledged as "the most obvious symptom of poverty" and that tackling in-work poverty must be prioritised:

It has long been obvious that the existing child poverty targets are not going to be met. In fact they will be missed by a country mile. The commission has argued in the past that a more rounded way of measuring poverty - taking greater account of causal risk factors - is sensible. The life chances of children, the poorest especially, depend on many things including good parenting, childcare, education and employment. For that reason we welcome the new legal duties on worklessness and educational attainment. It is not credible, however, to try to improve the life chances of the poor without acknowledging the most obvious symptom of poverty, lack of money. Unless the government sets out a clear target for improving the life chances of the poorest families, its agenda for healing social division in our country will lack both ambition and credibility.

Abolishing the legal targets doesn't make the issue of child poverty go away. It remains a deep scar in the fabric of our nation. The key issue is less how child poverty is measured and more how it is tackled. Far more needs to be done to make sure that the poorest families share in the proceeds of economic growth. When 2 in 3 poor children are nowadays in families where someone is in work, the priority has to be to tackle in-work poverty. That's why we look to the government to champion the living wage and to ensure that welfare cuts do not fall exclusively on the working poor. The risk is otherwise that child poverty - regardless of how it is measured - will go on rising, not falling.

⁷² [HC Deb 1 Jul 2015 c1506-7](#)

⁷³ [Joint report of the four United Kingdom Children's Commissioners, UN Committee on the Rights of the Child's examination of the UK Fifth Periodic Report under the UN Convention on the Rights of the Child, 1 July 2015](#)

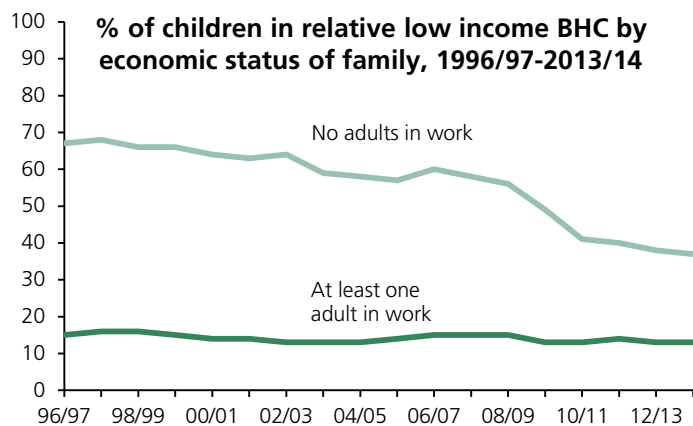
⁷⁴ HC Deb 1 Jul 2015 c1509

⁷⁵ HC Deb 1 Jul 2015 c1510

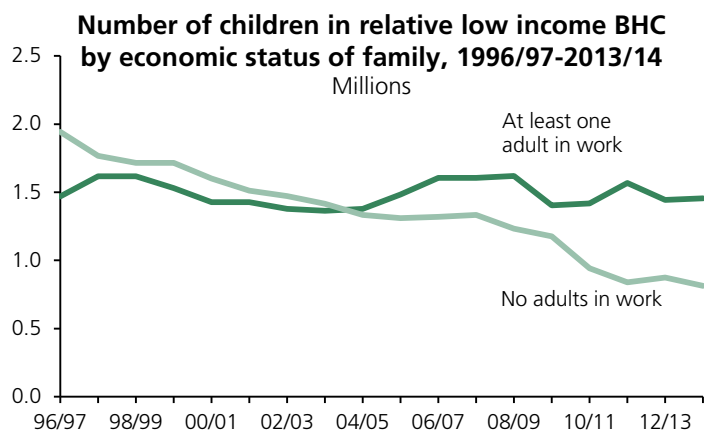
We welcome the government's commitment to continued independent scrutiny of progress in relation to social mobility, life chances and poverty. Ultimately, it is a matter for Parliament to determine the basis on which the commission operates, but in the meantime the Social Mobility and Child Poverty Commission will continue to function on its present basis. We will publish our annual 'State of the Nation' report in the autumn as usual.⁷⁶

Box 2: In-work poverty

Children living in workless households are much more likely to be in poverty than those living in households where at least one person works. 37% of children in workless families were in relative low income, before housing costs (BHC), in 2013/14 compared to 13% in families where at least one person works.



Nevertheless, children living in working families comprise almost two thirds (64%) of children in relative poverty, reflecting the fact that there are many more working than workless families to begin with: in 2013/14, there were approximately 1.5 million children in working families in relative poverty compared to 0.8 million poor children living in workless households.



Children in working families have formed the majority of children in relative poverty since the mid-2000s. This is the product of a decline during the late 1990s and early 2000s in the total number of children in workless families, as well as a decline in the risk of poverty for workless families.

Source: DWP, *Households below average income, 1994/95-2013/14*, Tables 4.2ts and 4.14ts

The Joseph Rowntree Foundation called the removal of income poverty measures a "mistake". It also warned against the change in remit of the Social Mobility and Child Poverty Commission:

JRF agrees that raising educational attainment and getting people into work are central to addressing poverty, as well as giving children the opportunities they deserve. We welcome the addition of new indicators because poverty is complex - they must, however, clearly measure their direct effects on poverty.

But evidence shows that income matters to children's outcomes and removing the measure from government policy would be a

⁷⁶ Social Mobility and Child Poverty Commission, [Response to government child poverty statement](#), 1 July 2015

mistake. The current two proposed measures will miss the many families who have one or more parents in work but have very low incomes which damage children's lives now and prospects for the future. We therefore urge the Government to reinstate an income measure, ideally linked to a cost of living measure, to give a proper focus on families' real ability to afford the basics of life in a decent society.

This country needs a comprehensive strategy to reduce poverty across all ages otherwise poverty is likely to rise. Arguing about the measure does not equate to action to reduce poverty. Removing poverty from the remit of the Social Mobility and Child Poverty Commission is a backwards step. JRF wants instead to see a Poverty Commission whose remit would be to hold governments to account on their plans and actions to reduce poverty for all ages.

Improving productivity, addressing low pay, market reform and affordable housing need to be part of any such strategy. Changing the Child Poverty Act creates an opportunity for action to address these factors and we urge the Government to take these issues seriously so that we can deliver a long-term and sustainable improvement to the life chances of disadvantaged children.

The Child Poverty Action Group accused the Government of “turning its back on poor children”. Responding to the announcement, it similarly highlighted the problem of in-work poverty and emphasised the necessity of income-based measures: “A child poverty strategy which excludes income isn’t a child poverty strategy”.⁷⁷

By contrast, the Secretary of State’s announcement was welcomed by the Centre for Social Justice thinktank. A report published the previous week by the thinktank advocated the removal of income-based targets in favour of measures relating to worklessness; family breakdown; educational failure; addiction; and serious personal debt.⁷⁸

⁷⁷ Child Poverty Action Group press release, [Government turns its back on poor children](#), 1 July 2015

⁷⁸ Centre for Social Justice, [Reforming the Child Poverty Act](#), 24 June 2015

3. Summer Budget welfare measures

The Conservative Party's 2015 election manifesto said that, over the next two years, it would "find £12 billion from welfare savings, on top of the £21 billion of savings delivered in [the 2010] Parliament."⁷⁹

The IFS estimated that measures already announced before the election – a freeze in most working-age benefits for two years, a reduction in the household benefits cap from £26,000 to £23,000, and removing Housing Benefit from under 21s on Jobseeker's Allowance – would save around £1.2 billion a year (with the two-year benefits freeze accounting for £1.0 billion).⁸⁰ This left additional savings of around £10 billion in today's terms⁸¹ to be found from other sources. Announcements were expected in the Budget on 8 July.

The Government is committed to the State Pension "triple lock" and has also pledged to "maintain all current pensioner benefits including Winter Fuel Payments, free bus passes, free prescriptions and TV licences."⁸² With the Prime Minister's further undertaking that Child Benefit also "stays as it is"⁸³ for the duration of the Parliament, at least 48% of the total welfare budget would be "protected" from cuts.⁸⁴ Over half of all unprotected spending is on "legacy" benefits and tax credits which are to be replaced by Universal Credit (UC).

⁷⁹ Conservative Party, [2015 Manifesto](#), April 2015, p8

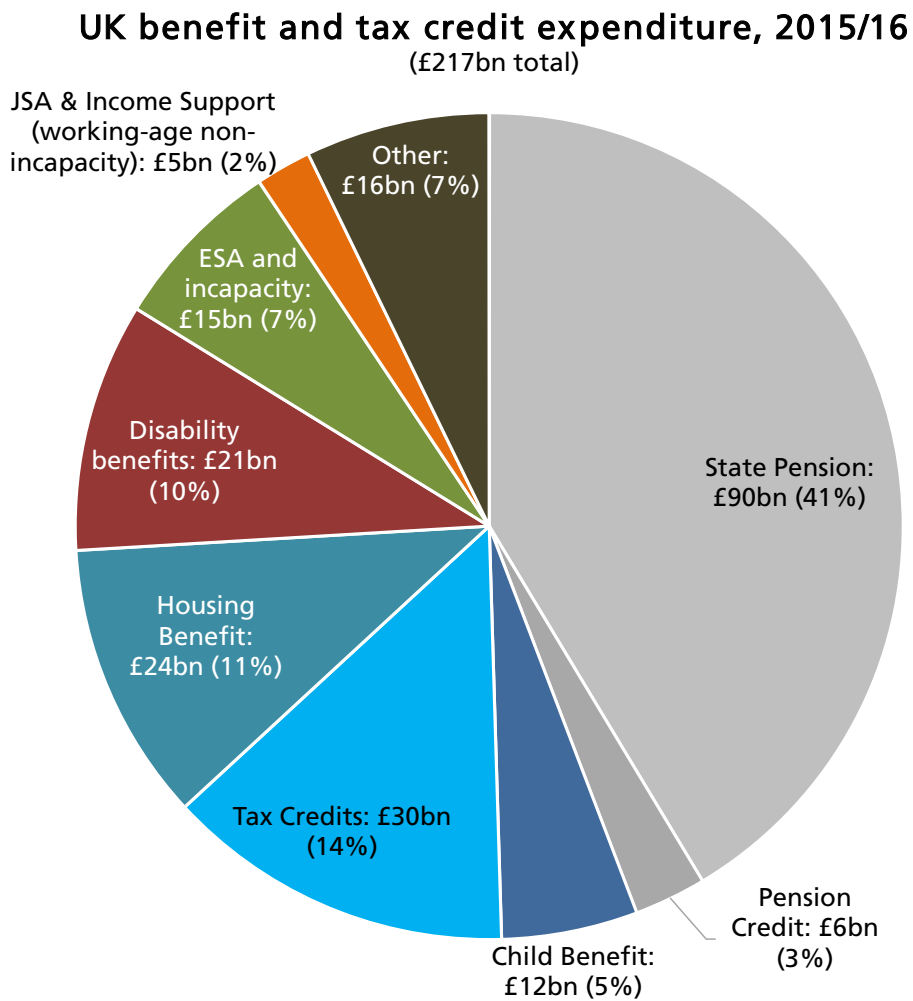
⁸⁰ Robert Joyce, [Benefit cuts: where might they come from?](#) IFS Observations, 26 May 2015

⁸¹ Assuming the target is £12 billion nominal savings by 2017-18

⁸² Conservative Party, [2015 Manifesto](#), April 2015, p67. Winter Fuel Payments are however to be withdrawn from pensioners living in warmer EEA countries, as previously announced

⁸³ "[David Cameron: child benefit safe with me for five years](#)," *Telegraph*, 2 May 2015; HC Deb 3 June 2015 c581

⁸⁴ It was not clear whether Pension Credit was included in the "pensioner benefits" to be maintained



3.1 Budget announcements

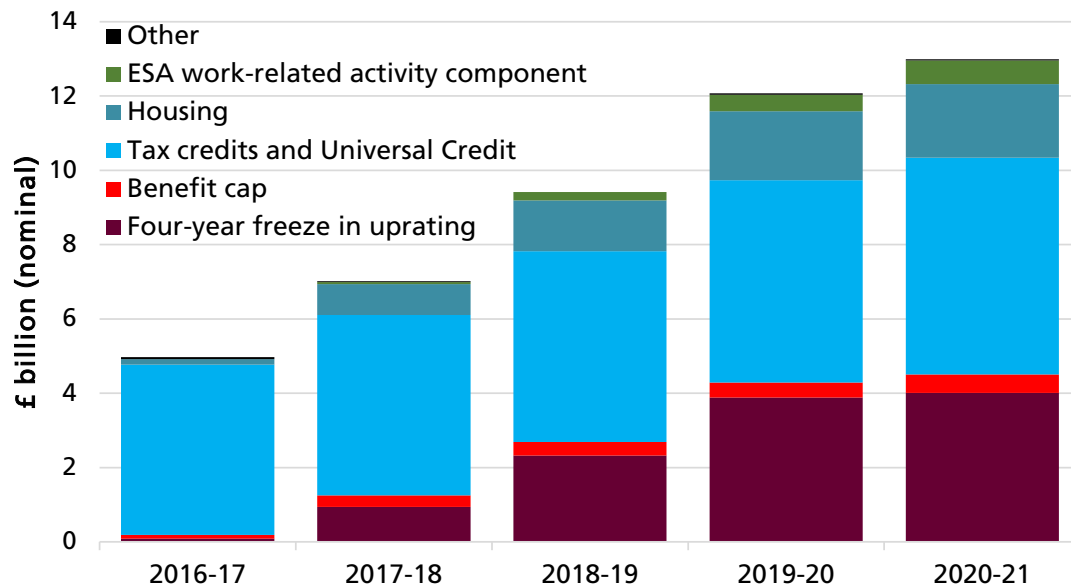
The Government had been expected to announce additional welfare savings of £12 billion a year by 2017-18. The welfare measures in the Summer Budget are expected to produce savings of £12 billion, but not until 2019-20. By 2020-21, the welfare measures are expected to yield savings of £13 billion a year.

The main elements are:

- A package of changes to tax credits and to Universal Credit giving savings of £5.8 billion a year by 2020-21
- A four-year freeze in working-age benefits (rather than a two-year freeze as previously announced), giving savings of £4 billion by 2020-21
- Changes to housing support and Support for Mortgage Interest, saving £2.0 billion a year by 2020-21
- Abolishing the Employment and Support Allowance Work-Related Activity Component for new claims, saving £640 million a year by 2020-21
- Reductions in the household benefit cap, saving a further £0.5 billion a year by 2020-21

The following **chart** shows the expected savings from the welfare measures in Summer Budget 2015 in each year to 2020-21.

Exchequer savings from welfare measures announced in Summer Budget 2015



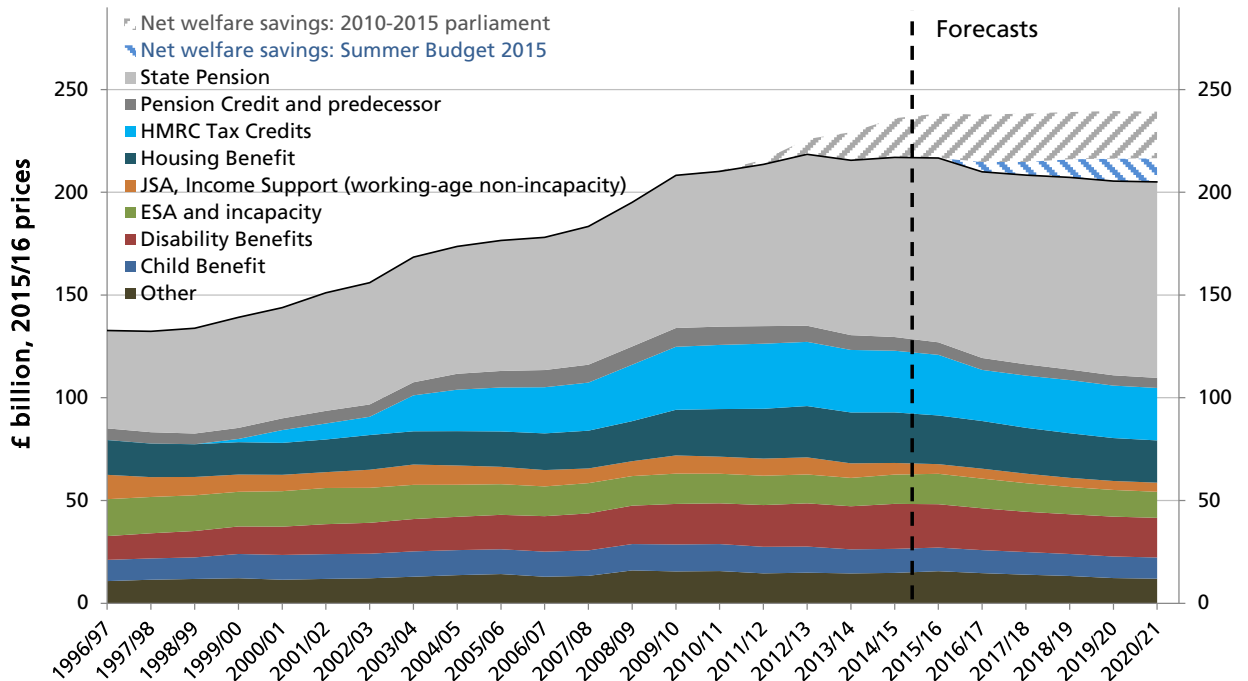
Source: HM Treasury, Summer Budget 2015, red book table 2.1 lines 37-52

The **chart below** shows the trend in real-terms welfare expenditure (including the State Pension) since 1996, and also the estimated impact of the welfare savings resulting# from measures announced by the 2010 Government and the Summer Budget 2015, up to 2020-21.

By 2020-21, total spend is forecast to be around £205 billion in today's prices. Measures announced since June 2010 are forecast to save around £35 billion by the end of the forecast period (£23 billion achieved from 2010 Government measures, £12 billion from the Summer Budget 2015). So without these savings, spending would have been in the region of £240 billion by 2020-21.

Social security and tax credit expenditure, UK, 1996/97 to 2020/21

£ billion, real terms (2015/16 prices) - incorporates latest OBR forecasts



Sources: DWP Benefit Expenditure and Caseload Tables; OBR Economic and Fiscal Outlook; HMRC tax receipts statistics; Treasury GDP deflator

Measures in the Bill would account for around 70% of the Summer Budget 2015 welfare savings in 2020-21. The expectation is that the other important measures announced in the Summer Budget – including changes to tax credit income thresholds and Universal Credit work allowances, the increase in the tax credits taper rate, and changes to Housing Benefit – will be implemented via regulations.

The remainder of the briefing paper looks at the welfare measures covered in the Bill.

4. Benefit cap

Summary

- Benefit cap to be reduced from £26,000 per year (£18,200 for single people) to £23,000 in Greater London (£15,410 for single people) and £20,000 (£13,400 for single people) to be phased in from April 2016
- The link between the level of the cap and average earnings is to be broken
- The new cap levels will be subject to review at least once in each Parliament
- IFS estimates savings of £200m in 2020-21 after other benefit changes are taken into account
- Some families will lose a maximum of £6,000 (£3,000 in London)
- Funding for Discretionary Housing Payments will be £800m over the next five years (currently £125m in 2015-16)
- Will extend to England, Wales and Scotland

4.1 Background

As part of the October 2010 Spending Review the Coalition Government announced an intention to cap total household benefits at £500 per week for a family (£26,000 a year) and £350 per week for a single person with no children (£18,200 a year) from 2013. Provisions to introduce the cap were included in the *Welfare Reform Act 2012* (sections 96 and 97) and the [Benefit Cap \(Housing Benefit\) Regulations 2012](#) (SI 2012/2994). After a phased roll-out, the cap was in place nationwide by the end of September 2013.⁸⁵

Rationale

The [Impact Assessment for the Household Benefit Cap](#) (2012) explained the thinking behind its introduction:

The objective of the policy is to restrict the total amount of money a non-working household can receive to broadly the level of the average earned income of working households, after tax and national insurance contributions have been deducted. By doing this the policy will:

- sit alongside the other measures announced in the 2010 Spending Review to make the system fair and affordable as workless households will no longer receive more in benefits than the average working family receives in pay;
- deliver fiscal savings;
- improve working incentives for those on benefits; and

⁸⁵ DWP [Press Release](#), 27 September 2013

- deliver fairness to the taxpayer in work.⁸⁶

During the passage of the *Welfare Reform Act* through Parliament Lord Freud, Minister for Welfare Reform, stressed the intention to effect behaviour changes through the benefit cap:

The benefit cap provides a clear, simple message that there has to be a maximum level of financial support that claimants can expect the state to provide. The aim of this policy is to achieve positive effects through changed attitudes to welfare, responsible life choices and strong work incentives. People must be encouraged to take responsibility for their decisions in light of what they can afford.⁸⁷

The level of the cap

Section 96 of the *Welfare Reform Act 2012* provides for regulations to be made setting out details of the cap, including the level at which it is set. Subsections (6)-(8) currently provide that the cap must be set by reference to estimated average earnings, although it gives the Secretary of State leeway as to how average earnings are to be estimated for these purposes:

(6) The amount specified under subsection (5) is to be determined by reference to estimated average earnings.

(7) In this section “estimated average earnings” means the amount which, in the opinion of the Secretary of State, represents at any time the average weekly earnings of a working household in Great Britain after deductions in respect of tax and national insurance contributions.

(8) The Secretary of State may estimate such earnings in such manner as the Secretary of State thinks fit.

The most detailed explanation of how the Government arrived at the figure of £26,000 was provided in a [DWP technical note](#) (October 2010):

HOW THE ILLUSTRATIVE MEDIAN NET EARNED INCOME FOR WORKING FAMILIES HAS BEEN CALCULATED

The Spending Review announced that household welfare payments will be capped on the basis of median earnings after tax and National Insurance Contributions for working households from 2013. This was estimated to be around £500 per week for couple and lone parent households and £350 per week for single adults by 2013/14, when the cap will be introduced.

This estimate was produced using the Department for Work and Pensions’ Policy Simulation Model. This is a static microsimulation model based on data from the 2008-09 Family Resources Survey, up-rated to the relevant year’s prices, benefit rates and earnings levels. The modelling was carried out under the current benefit system rules. Note that in cases where households contain more than one benefit unit¹, the median earnings after tax and

⁸⁶ [Impact Assessment for the Household Benefit Cap](#), updated in July 2012, para 7

⁸⁷ HC Deb 21 November 2011 GC345

National Insurance Contributions were calculated at the benefit unit level.⁸⁸

The DWP said that the threshold was a forward-looking estimate of what the median net earnings level would be for couple households in 2013-14.⁸⁹ The Secretary of State is required to review the level of the cap in each tax year to see whether its relationship with average earnings has changed. The Secretary of State may increase or reduce the cap if it is believed appropriate to do so.

Applying the cap

The cap is administered by local authorities and operates by reducing the claimant's Housing Benefit entitlement where their total amount of benefit entitlement (excluding certain specified benefits) exceeds £500 per week for a family or £350 per week for a single person. Once households have been transferred to Universal Credit, the cap will apply to their combined income from Universal Credit and benefits, including Child Benefit and Carer's Allowance.

Calculating the cap: included and excluded benefits

The cap is calculated by adding together all the included benefits that an individual, their partner, and any children they are responsible for and who live with them, are entitled to. The calculation does not include the benefits of non-dependants.⁹⁰

The following benefits **are** taken into account when calculating the cap:

- Bereavement Allowance/ Widowed Parent's/Mother's Allowance
- Carer's Allowance
- Child Benefit
- Child Tax Credit
- Employment and Support Allowance (ESA) (contribution-based and income-related) except where the Support Component has been awarded
- Guardian's Allowance
- Housing Benefit
- Incapacity Benefit
- Income Support
- Jobseeker's Allowance (contribution-based and income-based)
- Maternity Allowance
- Severe Disablement Allowance (SDA)
- Widow's Pension

Any benefits or other income not included in the above list are **not** taken into account when calculating the level of the cap.

The following benefits and payments are **disregarded** when calculating the cap:

⁸⁸ DWP, [Technical note on UK income data sources and details of the comparison between the new benefit cap and average income](#), October 2010

⁸⁹ Ibid.

⁹⁰ A non-dependant is someone who normally lives with the benefit claimant such as an adult son, daughter, relative or friend.

- Bereavement payment
- Localised support for Council Tax
- Discretionary Housing Payments
- Social Fund Payments – all one off payments:
 - Budgeting Loans
 - Cold Weather Payments
 - Funeral Payments
 - Sure Start Maternity Grants
 - Winter Fuel Payment
- Pension Credit
- Residency order payments
- Statutory Adoption Pay – Paid by employers.
- Statutory Maternity Pay – Paid by employers.
- Statutory Paternity Pay – Paid by employers.
- Statutory Sick Pay - Paid by employers.

In December 2012 the Government announced that Housing Benefit paid to households in supported exempt accommodation (S(E)A) would be disregarded from the benefit cap.⁹¹ The relevant amendments were made by the *Benefit Cap (Housing Benefit) (Amendment) Regulations 2013* (SI 2013/546) which came into force on 15 April 2013.

Exemptions from the cap

Claimants in receipt of certain benefits and payments are **exempt** from the cap:

Entitlement to Working Tax Credit: In order to increase the incentive to find a job or increase hours worked, all benefit households which are entitled to Working Tax Credit (WTC) will be excluded from the cap. This includes households who are working sufficient hours to qualify for WTC but whose earnings are so great that they have been awarded a “nil entitlement.”

Receipt of Disability Living Allowance, Personal Independence Payment, Attendance Allowance, Industrial Injuries Benefits (and equivalent payments made as part of a war disablement pension or the Armed Forces Compensation Scheme) or the Support Component of Employment and Support Allowance: This is in recognition of the additional financial costs that can arise from disability and that disabled people will have less scope to alter their spending patterns or reduce their housing costs.

War Widows and Widowers: An exemption will apply to any war widow or widower who is in receipt of a pension paid under the relevant parts of the War Pension Scheme, Armed Forces Compensation Scheme or analogous schemes. This supports the aim of the Armed Forces Covenant to recognise sacrifice of those seriously injured or killed in the service of their country.⁹²

⁹¹ HB/CTB Circular U5/2012

⁹² DWP, [Explanatory memorandum](#), June 2012

A nine-month “grace period” operates during which the cap does not apply to claimants who have been in work for the previous 12 months and who lose their job through no fault of their own.

The impact of the cap

Both the [Impact Assessment for the Household Benefit Cap](#), published alongside the *Welfare Reform Bill* (subsequently updated in January and July 2012) and the [Household benefit cap – equality impact assessment](#) (updated July 2012) predicted that the cap would affect large families (mainly with three or more children) who were out of work and households in high rent areas in receipt of substantial Housing Benefit payments.⁹³ A higher proportion of ethnic minority households were expected to be affected.

The DWP releases [regular statistics](#) on the number of households affected by the cap. The most recent release (14 May 2015) provided information on the numbers affected from the introduction of the cap to the end of February 2015.

Cumulative measures: 15 April 2013 to February 2015

- 58.7 thousand households had their Housing Benefit capped.
- 45% of households affected by the benefit cap were in London.

Of the top 20 Local Authorities with the highest number of households affected by the benefit cap, only one was outside London – Birmingham.

Snapshot measures - of data extracted in February 2015:

- 23.1 thousand households had their Housing Benefit capped. This is a decrease of 1.2 thousand (5%) from 24.3 thousand households in November 2014.
- 83% of capped households were capped by £100 or less a week.
- 59% of capped households had between 1 and 4 children and 35% had 5 or more children.
- 63% of capped households constituted a single parent with child dependants.

Off-flow measures - of data extracted in February 2015:

- 35.6 thousand households (61%) who have (previously) been capped are no longer subject to the cap as at February 2015. Of these, 14.4 thousand households are exempt with an open Working Tax Credit claim, which is 41% of those no longer subject to the cap.⁹⁴

On publication of the May 2015 statistics the DWP issued a press release commenting on the impact of the cap:

The benefit cap continues to provide a clear incentive to work, with over 22,000 people who had their benefits capped moving

⁹³ [Impact Assessment for the Household Benefit Cap](#), updated July 2012, para 14

⁹⁴ DWP, [Benefit cap: number of households capped to February 2015](#), 14 May 2015

into work, reducing their Housing Benefit claim or no longer claiming Housing Benefit at all.⁹⁵

The same press release referred to 'recent research' showing that 'the cap is motivating people to find work:'

- those who would be impacted by the cap are 41% more likely to go into work than a similar group who fall just below the cap's level, but this trend didn't exist before the cap was in place – indeed those with higher weekly benefit used to be less likely to move into work
- 38% of those capped said they were doing more to find work, a third were submitting more applications and 1 in 5 went to more interviews
- where households said they intended to seek work because of the cap in February 2014 (45%), by August the vast majority of them (85%) had done so 2 in 5 (40%) of those who said they had looked for work because of the cap in February actually entered employment by August.⁹⁶

[The Benefit Cap: a review of the first year](#) was published in December 2014.⁹⁷ The review identified positive 'employment-focused behavioural change.' The key findings are reproduced below:

- Evaluation of the benefit cap following its first year of operation shows consistent evidence of employment-focused behavioural change. The movement into work for those households affected by the benefit cap is higher when compared to the numbers moving into work from similar households not affected by the cap.
- This behavioural change is also evident for sub-groups such as those in receipt of Carer's Allowance, larger families with three or more children and lone parents (irrespective of the age of the youngest child).
- Greater movement into work is seen for those capped by larger amounts and for households in London.
- Where households have not yet moved into work they are coping with the cap by budgeting and using support services in the short term while making plans to return to work in the longer term. They are also undertaking more job-seeking activity than previously and are more encouraged to find work. Only a minority of capped households are not doing anything in response, these households tend to be those capped by lower amounts.
- Barriers to moving into work for capped households include the logistics of childcare for multiple children, lack of language skills and limited qualifications.
- Additional funding for Discretionary Housing Payments (DHPs) has been provided to ensure those who were not able to make a behavioural change immediately were supported over a transitional period. Evidence suggests DHPs are working; households are seeing them as a

⁹⁵ [DWP Press Release](#), 14 May 2015

⁹⁶ [DWP Press Release](#), 14 May 2015

⁹⁷ Cm 8985, DWP, [The Benefit Cap: a review of the first year](#), December 2014

temporary solution and receipt of DHPs has not reduced off flow from the benefit cap into work.

- The majority of claimants that were capped have not built up rent arrears. There is evidence that those who had built up arrears and subsequently moved into work were able to make steps to pay those arrears back, as four in five of those no longer affected were up to date with rent.
- Only small numbers of capped claimants are actually moving house and moves that are taking place are generally over short distances. Claimants are, by and large, adjusting to the benefit cap in ways other than moving, such as through finding work or adjusting their budgets. There is some evidence of claimants successfully renegotiating their rent with landlords.
- Benefit cap caseloads are lower than originally estimated with over 51,000 households capped since the introduction of the benefit cap in April 2013 (up to August 2014). In making our original estimates for the number of households that would be capped we did not fully appreciate the scale of the positive benefits of the cap and the motivation it would give to claimants to move into employment. The cap is likely to lead to wider savings from lower benefit receipt amongst those who have moved into employment. Of far greater significance though are the wider benefits of moving towards work for claimants, for their families and for society.⁹⁸

December 2014 also saw publication of a quantitative analysis by the DWP of the direct impacts of the cap and how the affected people might have responded.⁹⁹ The Institute for Fiscal Studies (IFS), having peer-reviewed this work, commented on some of the key findings:

Identifying causal impacts of policies on behaviour is rarely easy, but DWP's analysis allows us to draw some conclusions about the likely effects. The Figure below illustrates perhaps the most striking evidence. It plots the amount of weekly benefit income (before any cap is applied) against the probability of claiming working tax credit (WTC) a year later, for four groups ('cohorts') of benefit recipients: those receiving benefits in May of 2010, 2011, 2012 and 2013 (excluding those exempt from the cap, and excluding the single childless who are subject to a different cap level). The May 2012 cohort is the first that we might expect to see changing its behaviour in light of the cap: from May 2012, claimants who looked like they were set to be affected were sent a letter notifying them of this and were offered support through Jobcentre Plus. The cap was then rolled out from April 2013.

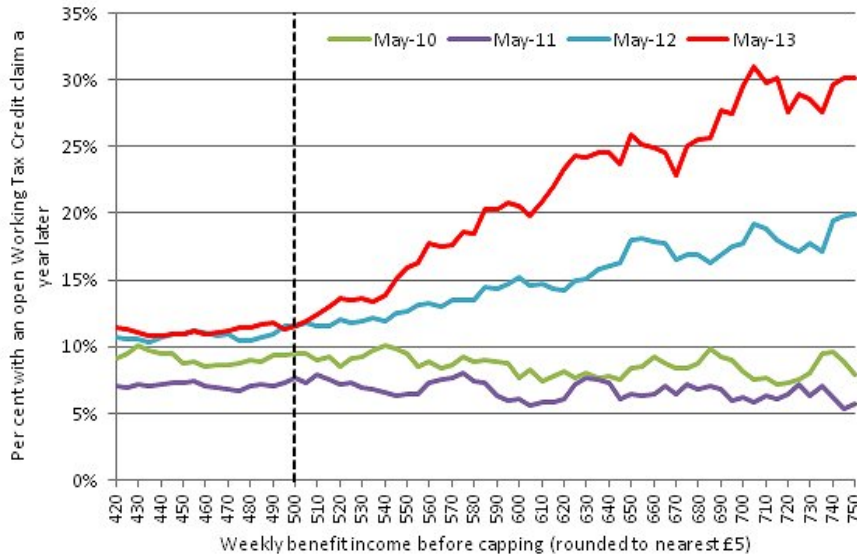
The May 2012 and 2013 cohorts were more likely to flow onto WTC than the earlier cohorts at all benefit levels shown – including for recipients below the cap level, which suggests that some of this difference is due to a wider recovery in the economy after 2011 rather than the cap. Crucially though, the divergence between cohorts begins to widen at just around the £500 point at which the cap binds. The divergence grows consistently as one moves to the very highest levels of benefit entitlement, i.e. to

⁹⁸ Ibid., pp5-6

⁹⁹ DWP, [Benefit Cap: analysis of outcomes of capped claimants](#), December 2014

those who were hit hardest by the cap. (Note that there are very few claimants at these very high levels of entitlement.)

Figure: Movements onto Working Tax Credit after one year by benefit income (before capping)



Source: Chart 8.2 of DWP [Benefit Cap: analysis of outcomes of capped claimants](#)

Notes: £500 benefit cap introduced in 2013. Excludes single adults without dependent children, for whom a lower cap level applies (£350 rather than £500 per week). Figures are four-point moving averages.

DWP conducted some more formal econometric analysis of the kinds of patterns documented in the Figure. On average, claimants with benefit income exceeding the impending cap level in the May 2012 cohort – who received warning of the cap and support in dealing with it – were 1.5 percentage points more likely to flow onto WTC within a year than their counterparts just below (within £50 per week of) the cap. This is over and above any gap that would be expected simply because of observed differences in the characteristics of these two groups, such as the number of children that they have. The difference grew to 4.7 percentage points for the May 2013 cohort, after implementation of the cap. These differences did not exist for the earlier May 2010 and May 2011 cohorts (indeed prior to the cap those with higher levels of benefit income were slightly less likely subsequently to move onto WTC). This suggests that these differences provide a reasonable sense of the likely effect of the cap on movements onto WTC.

It is worth bearing in mind the caveat that starting a WTC claim is not the same thing as moving into paid work. Some people may move into work but not work enough hours to be entitled to WTC or not take up the WTC to which they become entitled. On the other hand, some might start a WTC claim when they were in work all along, perhaps because claiming this entitlement is a relatively easy way of exempting oneself from the benefit cap. To the extent that additional moves onto WTC are an accurate indicator of moves into work, these estimates suggest that around 2,000 families who were claiming benefits in May 2013 had someone move into paid work twelve months later in response to the cap. (Note: this estimate is for this cohort, rather than an overall estimate of total additional moves to WTC.)

We might also expect some claimants to move house in response, as many affected claimants are above the cap because they have high rents and hence have a large housing benefit claim. There is evidence of this, but (at least so far) only for the small number of claimants who lost particularly large amounts of benefit income as a result of the cap. For those with benefit entitlement at least £200 above the cap level, 14% of the May 2010 cohort moved within the next year; this had risen to 20% for the May 2013 cohort once the cap was in place. For benefit claimants just under the cap level, the proportion moving house within a year stayed constant at 11% for each of the May 2010, 2011, 2012 and 2013 cohorts.¹⁰⁰

The DWP's other research findings, including the results of interviews with affected claimants and the impact on local authorities and social landlords, all of which were published in December 2014, can be found on the [GOV.UK website](#).¹⁰¹

There is no general consensus that the benefit cap, together with other welfare reforms, is proving an effective means of moving claimants into work. For example, the London School of Economics (LSE) surveyed 200 social housing tenants in the south west of England over a two year period and reported the findings in [Is Welfare Reform Working?](#) (March 2015). The interviews indicated that tenants were managing by reducing their expenditure in certain areas:

A majority – 126 out of 200, or 63% – said they were managing financially by reducing expenditure, in some cases on food, getting into debt to pay large bills, or borrowing from family and friends. Some ways of coping, such as cutting back on spending, are more viable than others, such as borrowing. One third were struggling financially. The vast majority of tenants are strongly opposed to resorting to payday loans, and only five percent have done so.¹⁰²

4.2 Budget announcement: reducing the cap threshold

July 2013 saw reports of the Chancellor considering a reduction in the cap from £26,000 to £20,000.¹⁰³ George Osborne subsequently announced a proposal to reduce the cap to £23,000 at the 2014 Conservative Party Conference as part of a package intended to help finance the creation of three million new apprenticeships:

Let's abolish long term youth unemployment altogether. So here's how we'll do it.

We'll replace Job Seekers Allowance.

Reform housing benefit.

And take the benefit cap we've introduced down to £23,000 – because families out of work should not get more than the average family in work.

¹⁰⁰ IFS, [Coping with the cap?](#) 15 December 2014

¹⁰¹ Accessed on 4 June 2015.

¹⁰² LSE, [Is Welfare Reform Working?](#), March 2015

¹⁰³ *Inside Housing*, ["Osborne mulls a further £6K cut to benefit cap"](#), 17 July 2013

And all of these savings will be used to fund three million new Apprenticeships.¹⁰⁴

A commitment to reduce the cap to £23,000 (£440 a week for families with children) was included in the Conservative Party's 2015 Manifesto.¹⁰⁵

The [Summer Budget 2015](#) confirmed the Government's intention to reduce the cap for families to £23,000 in London (£15,410 for single people) and £20,000 (£13,400 for single people) outside the Capital. The higher cap in London is in recognition of higher rent levels. A cap of £23,000 is "equivalent to typical pre-tax earnings of around £29,000, and a cap of £20,000 is equivalent to typical pre-tax earnings of around £25,000."¹⁰⁶ Thus the current link between the cap and average earnings is to be broken. The reduction in the cap thresholds will be phased in from April 2016. No changes are proposed to the exemptions from the cap.

Announcing the change, the Chancellor said:

The fourth principle we will apply to our welfare reform is this: the benefits system should not support lifestyles and rents that are not available to the taxpayers who pay for that system.

We have already introduced a cap on the total amount of benefits any out of work family can receive, at £26,000.

It encouraged tens of thousands into work.

We will now go further, and reduce the benefits cap from £26,000 to £23,000 in London, and £20,000 in the rest of the country.¹⁰⁷

The IFS estimates that the measure will save £200m in 2020-21 after other changes to benefits are taken into account.¹⁰⁸

The Bill

Clause 7 of the Bill will delete subsections (6)-(8) of section 96 of the *Welfare Reform Act 2012* to remove the link between the level of the cap and average earnings. New regulation making powers will allow the Secretary of State to determine the benefit cap's 'relevant amount.' This will be the weekly level of the cap applied for Housing Benefit and monthly level which will be applied for Universal Credit purposes. The determination will be made by reference to the 'annual limit of entitlement' for a single person or a couple and lone parent. The annual limits of £20,000 (£13,400) and £23,000 (£15,410) are provided for in subsection (5A).

Subsection (5B) gives the Secretary of State regulation making powers under which he will specify which limit will apply to couples or single

¹⁰⁴ [George Osborne: Speech to Conservative Party Conference 2014](#), 29 September 2014

¹⁰⁵ [Conservative Party Manifesto 2015](#), p25

¹⁰⁶ [Summer Budget 2015](#), HC 264, July 2015, para 1.152

¹⁰⁷ [Chancellor George Osborne's Summer Budget 2015 Speech](#), 8 July 2015

¹⁰⁸ Andrew Hood, [Benefit changes and distributional analysis](#), IFS presentation, 9 July 2015

people. Regulations will also define when a person is or is not resident in Greater London.

Subsection (4) defines those welfare benefits which will be taken into account for the purposes of applying the cap. These are currently set out in the [Benefit Cap \(Housing Benefit\) Regulations 2012](#) and the [Universal Credit Regulations 2013](#) – no changes are proposed to the benefits taken into account.

Regulations made under clause 7 will be subject to the negative procedure.

Clause 8 will insert a new section 96A into the 2012 Act which will commit the Secretary of State to at least one review of the cap in each Parliament. He will be able to decide whether it is appropriate to increase or decrease one or more of the annual limits. Aside from this provision, it will also be open to the Secretary of State to review the cap levels at other times.

Comment

The introduction of the benefit cap was highly controversial. Lord Kirkwood of Kirkhope described the relevant sections of the *Welfare Reform Act 2012* as constituting “a direct and dangerous attack on entitlement and the concept of entitlement.”¹⁰⁹ The cap effectively ended the link between a household’s assessed need and its entitlement to benefit. Library Briefing Paper CBP06294, [The Benefit Cap](#), discusses attempts to amend the cap during the 2012 Act’s progression through Parliament.¹¹⁰

Proposals to reduce the cap to £23,000 were widely trailed. The IFS’s commentary, [Coping with the cap?](#) (December 2014), included reference to the Conservative Party’s commitment to reduce the cap:

At its Autumn conference, the Conservative Party suggested lowering the benefits cap by approximately a further £60 per week (to about £440 per week). On the basis of the analysis published today, it would be reasonable to expect this to result in some of the affected claimants moving into work, but few moving house – the maximum possible loss of benefit income, from this additional hypothetical cut, would be £60 per week, and the current cap seems to have increased house moves only among those who lost substantially more than that.

Nevertheless, there is still much we do not know. There are various other possible responses to this reform, including cutting back on spending, running down savings (or building up debts) or getting help from family or friends. Analysis of benefits data cannot tell us about this (although DWP have also conducted surveys of, and in-depth interviews with, those subject to the cap and these provide some information on other potential responses). What the quantitative analysis does tell us is that the large majority of affected claimants responded neither by moving into work nor by moving house. For this majority, it remains an

¹⁰⁹ HL Deb 21 November 2011 GC367

¹¹⁰ This paper also provides more comment on the cap’s impact and covers an unsuccessful legal challenge to the cap on the ground that it is ‘discriminatory and unreasonable.’

open question as to how they adjusted to what were, in many cases, very large reductions in their income.¹¹¹

When speaking in support of the cap, in addition to emphasising the number of households no longer affected by it as an indication of its success in incentivising work, the Government has referred to the wide public support it attracts; for example, Lord Freud referred to a YouGov survey during the 2012 Act's Report Stage in the House of Lords:

I ask noble Lords to consider how well these principles are received by the public at large. They will have seen press reports of a YouGov survey that found that 76 per cent of the public are in favour of the benefits cap. The overwhelming majority of people think there should be a limit to the amount of benefit those out of work can receive. We have received many representations that we are pitching the level of the cap far too high. In fact, only 7 per cent of respondents in today's YouGov survey think that the cap should be higher than £26,000. Another 9 per cent think there should be no cap, so of the people who answered the survey, 69 per cent thought that the cap as we have set it or below that amount is the right figure. Of those who expressed an opinion, the figure is above 80 per cent, or above four-fifths. The truth is that people do not understand why we pay claimants more money when they are out of work than they could reasonably expect to earn from working full time.¹¹²

Expected savings

In May 2015 the IFS published [Benefit cuts: where might they come from?](#) in which it estimated that a reduction in the cap threshold to £23,000 would result in savings of around £100 million:

Reducing the benefits cap from £26,000 to £23,000 per year would hit some families with several children and/or high rents hard: the biggest losers would be about 24,000 families who are already capped and who would lose another £3,000 per year (i.e. up to 11.5% of their income). But because in total fewer than 100,000 families would be affected and most would lose less than this, the policy reduces spending by only £0.1bn. Evidence from the current cap ([discussed here](#)) suggests that, at least in the short-term, a small minority of affected families will respond by moving into work – the cap does not apply to claimants of Working Tax Credit – and that very few indeed will respond by moving house.¹¹³

On publication of the [Summer Budget 2015](#), the IFS estimated that the introduction of a lower cap outside of London, alongside the reduction to £23,000 in Greater London, would produce savings of £200m by 2020-21 after other benefit changes are taken into account.¹¹⁴ The Government has estimated savings from a reduced cap of £495m by 2020-21 – the differences in expected savings are explained in the OBR's [Economic and Fiscal Outlook](#):

¹¹¹ IFS, [Coping with the cap?](#) December 2014

¹¹² HL Deb 23 January 2012 c806

¹¹³ IFS, [Benefit cuts: where might they come from?](#), May 2015

¹¹⁴ Andrew Hood, [Benefit changes and distributional analysis](#), IFS presentation, 9 July 2015

Interactions between different measures mean that the order in which they are scored (and in which they therefore appear on the Treasury scorecard) can make a potentially significant difference to the cost or saving attributed to each measure. The cut in the 'benefit cap' is a case in point. Logically, you might score the benefit cap last as it is a cap applied to people's aggregate entitlement to benefits once all other reforms have taken place. But the Treasury has chosen to place it part way through the scorecard. This increases the estimated savings, because the cap is assumed to apply to a more generous welfare system than that which will actually be in place following the enactment of all the Budget measures.

Table A.4 shows that the scorecard saving from the benefit cap increases to £495 million in 2020-21. But if it were in last place on the scorecard, reflecting the reduced generosity of other benefits and tax credits, the saving would be less than half as large at £195 million.¹¹⁵

The maximum loss to a family will be £6,000 (£3,000 in London).¹¹⁶ Based on research into the impact of the existing cap, the IFS acknowledges that there is evidence of a "small proportion" of those affected responding by moving into work whereas very few have responded by moving to a cheaper property.¹¹⁷

Impact on housing providers

As the cap is initially being implemented by "squeezing" Housing Benefit entitlement, housing organisations did some early modelling of the impact of a cap set at £23,000. Moat housing association, which provides social housing across the south-east, published a discussion paper, [Rent levels and the benefit cap](#) (December 2014), in which concluded that a cap at this level would make all its three-bedroom properties unaffordable for families in receipt of full Housing Benefit. Two-bedroom properties in all but eight local authorities in which Moat operates would become unaffordable within four years.¹¹⁸ When taking account of affordable rent levels (rents set at up to 80% of market rents),¹¹⁹ Moat described the potential impact as 'alarming':

...it shows that paying rent would become extremely problematic for many additional families on Housing Benefit under a £23,000 cap. All three bedroom properties would become instantly unaffordable under the proposal, and many two bedroom properties would become unaffordable also. It is important to note that this analysis is based on actual housing association rents, not 80% of market rent, so this is a reflection of what would happen under what is currently being charged.¹²⁰

In order to ensure ongoing affordability of two-bedroom affordable rent properties in the south-east under a reduced benefit cap, Moat concluded that associations: "would need to begin depressing rent

¹¹⁵ OBR, [Economic and Fiscal Outlook](#), paras A.23-A.24

¹¹⁶ Andrew Hood, [Benefit changes and distributional analysis](#), IFS presentation, 9 July 2015

¹¹⁷ Ibid.

¹¹⁸ Moat Housing Association, [Rent levels and the benefit cap](#), December 2014, p5

¹¹⁹ See section 4 of this note (p19)

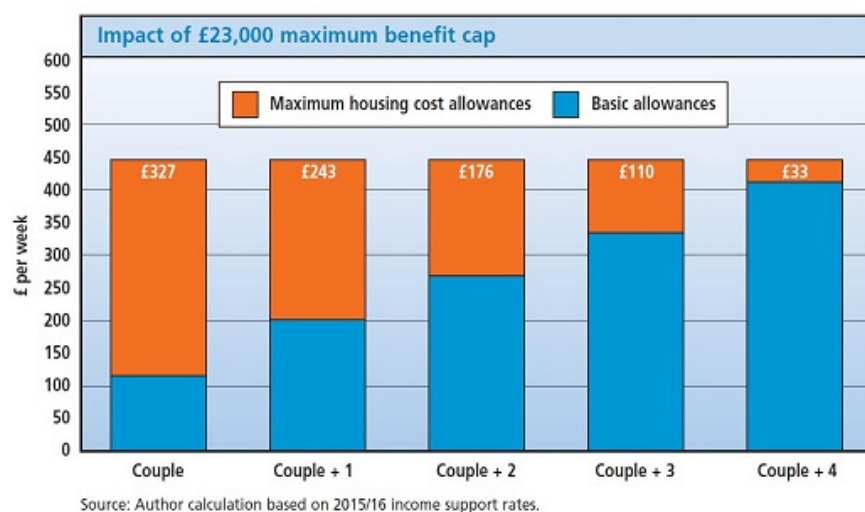
¹²⁰ Moat Housing Association, [Rent levels and the benefit cap](#), December 2014, p7

levels across virtually all local authorities in the South East.” Moat went on to acknowledge that this approach may not be acceptable to the Homes and Communities Agency “given that it would have major consequences on development programmes which would have to be revised downwards to cover lost revenue.”¹²¹ In the event of a lower cap resulting in increased rent arrears and evictions, there is a possibility that this would impact on lenders’ willingness to finance future development as this is based on an assessment of tenants’ ability to afford their rent.

The Moat discussion paper also referred to the potential impact that a reduction in the cap would have for the increasing number of benefit-dependent and vulnerable households in the private rented sector (PRS). The PRS now houses more households in England than the social rented sector and these households are liable, particularly in London and the south east, to pay substantial levels of market rents. The termination of private sector assured shorthold tenancies has been the most frequently occurring cause of homelessness amongst households approaching local authorities for housing assistance in the last twelve consecutive quarters. The ending of a PRS tenancy accounted for 29% of homeless acceptances in England between January and March 2015 (39% in London).¹²²

The [UK Housing Review 2015 Briefing Paper](#) (June 2015) considered the impact of a cap of £23,000 and concluded that £110 per week for couples with three children “would be insufficient to meet an average housing association three-bedroom social rent anywhere in either the Midlands or the south of England, and even in many areas in the north of England.”¹²³

The chart below (taken from the Briefing Paper) shows how a lower cap (£23,000) would affect the amount available to couples to meet their housing costs (including Council Tax):



¹²¹ Ibid., p8

¹²² [Statutory homelessness in England: January to March 2015](#), DCLG, 24 June 2015

¹²³ Steve Wilcox, John Perry & Peter Williams, [UK Housing Review 2015 Briefing Paper](#), June 2015, p15

Commenting on proposals to reduce the cap to £23,000, Deputy chief executive of the Chartered Institute of Housing (CIH), Gavin Smart, said:

People affected by the current cap already face significant barriers to finding work, including a lack of job seeking skills and affordable childcare. Our UK Housing Review briefing shows that lowering the cap would make huge swathes of the country unaffordable for larger families on benefits. Where will these people go? Being forced to move large distances away will make it even harder to find work, because they could be cut off from the support network they rely on for childcare for example.

The social housing sector is already struggling to cope with demand. I fear we will see increasing levels of homelessness, with already vulnerable people being subjected to even more risk.

Ultimately, if the government really wants to tackle the housing benefit bill, it needs to commit to building more genuinely affordable homes. We have failed to build the number of homes we need for decades which means that the cost of housing is becoming unaffordable for more and more people, increasing the numbers who rely on the benefits system to make ends meet. Action to restrict entitlement to benefits is at best a stop gap measure and at worst increases poverty and misery for already poor and vulnerable people. Long-term, effective action would focus on increasing our housing supply not further restricting access to our already insufficient and inadequate supply of homes.¹²⁴

Following the Summer Budget announcement, Coast and Country Housing (a Durham based housing association) carried out some initial modelling based on a benefit cap level of £20,000. *Inside Housing* reported a finding that 750 of the association's tenants would be affected with losses averaging £1,200 per year.¹²⁵ In the same article, South Yorkshire Housing Association (SYHA) reported that 254 of its tenants would be affected with an average shortfall of £60 per week.¹²⁶

The National Housing Federation (NHF), the representative body of housing associations, has commented on the impact of a lower benefit cap:

The Federation's modelling suggests that the lower benefit cap could impact 205,000 households including 68,000 households living in housing association properties. The lower cap will impact affordability in all areas of the country and a lower benefit cap outside London takes no account of regional variations in rents outside London.

Our modelling shows that a couple with three children would not be able to afford the average housing association rent on a 3-bed property in any region. Under the £23,000 cap in London, they would face a shortfall between housing benefit and rent of £27.79 per week. The weekly shortfall under a £20,000 cap ranges from £37.40 in Yorkshire and Humberside to £67.35 in the South East, based on the current rent agreement.

¹²⁴ CIH, [Reduced benefit cap would make many areas off-limits for larger families](#), 22 June 2015 [accessed on 29 June 2015]

¹²⁵ "Social tenants hit by benefits cap," *Inside Housing*, 10 July 2015

¹²⁶ Ibid.

Housing associations and local authorities will need advance notice of the lowering of the cap in their areas. Effective data sharing arrangements will need to be in place so that housing associations are in a position to support tenants affected by the cap.¹²⁷

One of the Government's key policies for increasing the supply of social housing is the introduction of an "affordable rent" tenure. Under this model housing associations are able to offer tenancies at rents of up to 80% of market rent levels within the local area. The additional finance raised is available for reinvestment in the development of new affordable housing. Communities and Local Government's (DCLG) November 2010 consultation document, [Local decisions - a fairer future for social housing](#) confirmed that Housing Benefit would be payable to cover affordable rents.¹²⁸ Housing organisations have highlighted an apparent policy tension between the drive to reduce expenditure on benefits by imposing a cap which "squeezes" Housing Benefit entitlement, while at the same time giving housing associations an incentive to charge rents of up to 80% of market levels.

In July 2011 the *Guardian* published a [leaked letter](#) (reportedly sent to the Prime Minister by the office of Eric Pickles, then Secretary of State for Communities and Local Government) which drew attention to the potential impact of the cap on local authority expenditure in respect of homelessness and temporary accommodation, in addition to its impact on the development of new family homes at affordable rents.¹²⁹ When challenged on the issue of savings versus costs, Lord Freud said that an estimate had been prepared and that the wider ramifications of the cap had been considered – he stressed that the message the Government was sending "is a behavioural one much more than a cost-based one."¹³⁰

Regional caps

During the 2012 Act's progress through Parliament attempts were made to amend the cap to introduce regional variations to take account of different regional wages and living costs. The Policy Exchange think tank published a [Welfare Manifesto](#) in February 2015 in which it recommended the introduction of a "two-tier" cap to "reflect regional differences in incomes and housing costs:"

The cost of living varies across regions, and both Labour and the Conservatives have indicated that regional differences in the cost of living could be reflected in welfare design. The first stage of creating a regionalised system would be to create two levels of benefit cap, one for London and the South East where average incomes within the UK are the highest, and one for the whole of the rest of the UK. The level of the two caps could be set to reflect the relative difference between the lowest average income region in London and the South East, and the highest average income region in the rest of the UK. There would be a choice of

¹²⁷ [Summer Budget 2015 Briefing](#), National Housing Federation (NHF), 10 July 2015

¹²⁸ DCLG, [Local decisions - a fairer future for social housing](#), November 2010, para 2.6

¹²⁹ *Guardian*, [Full text of letter from the office of Eric Pickles](#), 2 July 2011

¹³⁰ HL Deb 23 November 2011 GC421

what level to put the higher cap area at. It could be £26,000 currently in place; it could be higher or it could be lower.¹³¹

¹³¹ Policy Exchange, [Welfare Manifesto](#), February 2015, pp21-22

5. Four year benefits freeze

Summary

- Most working-age benefits and tax credits to be frozen at 2015-16 rates for four years
- Pensioner benefits, disability benefits, disabled child and adult elements of tax credits, and statutory payments such as Statutory Maternity Pay unaffected
- Forecast to save £4 billion a year by 2020-21
- IFS estimates 13 million families will lose £260 a year on average (7.4 million of whom in work, losing £280 a year on average)
- Combined with three years of 1% uprating, IFS estimates real terms cut of 8% in affected benefits between 2012 and 2019

5.1 Uprating policy and practice

Social security legislation requires the Secretary of State to review the level of certain benefits annually to determine whether they have retained their value relative to prices. Some benefits – including Disability Living Allowance, Carer’s Allowance and bereavement benefits – must be “uprated” at least in line with prices, while the Basic State Pension and standard minimum guarantee in Pension Credit must be increased at least in line with earnings. The Government also remains committed to uprating the basic State Pension by the highest of earnings, prices or 2.5% (the “triple lock”).

For other benefits – including Child Benefit, Jobseeker’s Allowance, Housing Benefit, Statutory Sick Pay and Statutory Maternity Pay – there is no statutory requirement to uprate, and arrangements have varied from benefit to benefit. Historically however governments exercised their discretion by increasing means-tested working-age benefits and employer-provided benefits including SSP and SMP each year in line with prices. From 1987 onwards, benefit rates changed from April each year, based on the increase in the relevant price index over the twelve months to the previous September.

The statutory framework governing uprating of tax credits is less prescriptive. It merely requires the Treasury to review the level of the tax credit elements and thresholds to determine whether they have retained their value in relation to prices.

The *Welfare Reform Act 2012* added the individual Universal Credit elements to the list of social security benefits to be reviewed annually (but not subject to mandatory uprating). The expectation was that the UC “work allowances” (earnings disregards) would also be increased in line with prices, but Autumn Statement 2013 announced that the work allowances would instead be frozen for three years from April 2014. Autumn Statement 2014 extended the freeze for an additional year.

Further information on the statutory framework governing the uprating of social security benefits and tax credits is given in Library briefing RP 13/01, [Welfare Benefits Uprating Bill](#).

There were two significant developments regarding benefits uprating under the 2010 Government. Its first Budget announced that, from April 2011, the measure of price inflation used for uprating benefits and tax credits would henceforth be the Consumer Prices Index (CPI), rather than the Retail Price Index or the Rossi index (RPI less certain housing costs). Since CPI tends to rise more slowly than either the RPI or Rossi, the long-term savings are expected to be substantial – the Office for Budget Responsibility forecasts savings from the switch to CPI indexation of £5.2 billion a year by 2019-20.¹³²

The second major development was the announcement in Autumn Statement 2012 that, from April 2013, increases in most working-age benefits would be limited to 1% a year for three years. The OBR estimates savings from this measure totalling £3.4 billion in 2015-16, rising to £4.8 billion a year by 2019-20.¹³³

The decision to limit increases in benefits to below inflation was historically unprecedented, resulting in permanent real terms reductions in benefits and tax credits rates, although lower than expected inflation has limited the impact. Nevertheless, as a result of three years of 1% uprating, affected benefit rates are 3% lower this year than they would have been if they had increased in line with CPI inflation: for example, the basic rate of JSA is £73.10 per week in 2015-16, whereas with CPI indexation it would have been around £75.40.

Further information on the three-year 1% uprating is given in [Library briefing 13/01](#).

5.2 Budget announcement: benefits freeze

The Conservative Party's General election Manifesto announced that a Conservative Government would freeze working age benefits for two years from April 2016, with exemptions for disability and pensioner benefits, as well as statutory payments such as Statutory Maternity Pay and Statutory Sick Pay.¹³⁴

In his Budget Statement on 8 July, the Chancellor announced that instead of a two year freeze, working age benefits would now be frozen for four years. The Summer Budget Red Book stated that the freeze would "ensure that it always pays to work, and that earnings growth overtakes the growth in benefits."¹³⁵ It noted that since the financial crisis began in 2008, average earnings has increased by 11%, whereas most benefits had risen (in nominal terms) by 21%.¹³⁶

¹³² [OBR Policy measures database](#), 7 April 2015 version

¹³³ Ibid.

¹³⁴ Conservative Party, [2015 Manifesto](#), April 2015, p28

¹³⁵ [Summer Budget 2015](#), HC 264 2015-16, para 1.137

¹³⁶ Ibid.

The Bill

Clause 9 of the Bill provides for a freeze in the rate of selected social security benefits and in Child Benefit rates for four years, and **clause 10** makes equivalent provision for certain tax credit elements. The rates from April 2016, April 2017, April 2018 and April 2019 are to remain the same as in 2015-16.

The amounts to be frozen include Child Benefit, and other specific benefits/elements listed in the **Schedule** to the Bill. These include:

- the main rates (i.e. the personal or couple rates) of Income Support, Jobseeker's Allowance, Employment and Support Allowance and Housing Benefit
- the standard allowances for single claimants or couples in Universal Credit
- the ESA Work-Related Activity Component, the Work-Related Activity Component of Housing Benefit and the Limited Capability for Work element of Universal Credit
- the lower rate disabled child addition in Universal Credit
- the basic, 30 hour, second adult and lone parent elements of Working Tax Credit
- the individual element of Child Tax Credit payable for a child or qualifying young person who is not disabled or severely disabled

Benefits and payments that are **not** part of the freeze, and which will continue to be uprated under the usual arrangements include:

- pensioner benefits
- "extra costs" disability benefits including Attendance Allowance, Disability Living Allowance and Personal Independence Payment
- the ESA Support Component and the corresponding Universal Credit Limited Capability for Work-Related Activity element
- statutory payments such as Statutory Maternity Pay and Statutory Sick Pay
- the Child Tax Credit disabled or severely disabled child element
- disabled and severely disabled elements of Working Tax Credit

The clauses effectively suspend the normal uprating arrangements, in relation to the payments affected, for the four year period. There is however some uncertainty about how the benefits freeze in the first year (2016-17) is to be achieved, given the timetable for the Bill and the stage likely to have been reached in the annual benefits uprating cycle by the time the Bill receives Royal Assent. The [Explanatory Notes](#) accompanying the Bill comment:

The Bill will not become statute until it has completed its Parliamentary stages and has Royal Assent. We expect this to be within the current tax year, but until that time the current legislation applies. This means that the Secretary of State will review the value of benefits and pensions in light of the change in prices in the autumn, and make decisions on up-rating for 2016/17 at that stage in accordance with the legal obligations in force at the time.¹³⁷

¹³⁷ Bill 51-EN, para 49

Comment

The Government had originally proposed a two-year freeze for most working-age benefits, which was estimated would save around £1 billion by 2017-18. A four-year freeze saves considerably more – £4 billion a year by 2020-21.¹³⁸

The largest savings come from tax credits (£2.0 billion in 2020-21), followed by Child Benefit (£0.6 billion) and Employment and Support Allowance (£0.6 billion).¹³⁹

The Office for Budget Responsibility (OBR) expects the Consumer Price Index to rise by a cumulative 4.8 per cent over the period 2016-17 to 2019-20.¹⁴⁰ The Appendix to this paper includes a table comparing certain benefit and tax credit rates to be frozen up to 2019-20 with the actual rates which would have applied had uprating taken place, using the OBR's forecasts for CPI inflation. It shows that, for example, while the basic rate of JSA will remain £73.10 for a person aged 25 or over, it would have risen to £76.70 by 2019-20 under normal uprating rules, assuming inflation is in line with the OBR's forecasts.

The Institute for Fiscal Studies (IFS) estimates that the freeze would affect 13 million families, who would lose £260 a year on average (7.4 million of whom are in work, losing £280 a year on average).¹⁴¹

The four year freeze follows three years in which increases in most working age benefits have been limited to 1% a year.¹⁴² The IFS estimates that the cumulative effect on benefits affected by 1% uprating and the proposed freeze will be a total real terms cut of 8% between 2012 and 2019.¹⁴³ The actual impact on the living standards of those in receipt of benefits and/or tax credits could however be greater (or less) if, as studies suggest, the inflation experience of poorer households differs from that of other groups in the population.¹⁴⁴

While extra-costs disability benefits such as DLA, disability elements in tax credits, disability and carer premiums payable with means-tested benefits, and the ESA Support Component will continue to rise in line with the CPI, many families with disabled people will still be affected by the four year freeze since the main rates of means-tested benefits, the main tax credit elements and the ESA Work-Related Activity Component (and the equivalents under Universal Credit) will be frozen.

¹³⁸ [Summer Budget 2015](#), HC 264 2015-16, Table 2.1

¹³⁹ OBR, [Economic and Fiscal Outlook](#), Cm 9088, July 2015, para 4.101

¹⁴⁰ Ibid.

¹⁴¹ Andrew Hood, [Benefit changes and distributional analysis](#), IFS presentation, 9 July 2015

¹⁴² see Library briefing RP 13/01, [Welfare Benefits Uprating Bill](#)

¹⁴³ Ibid.

¹⁴⁴ Ibid. section 5.1; ONS, [Variation in the inflation experience of UK households: 2003-2014](#), 15 December 2014; Abi Adams and Peter Levell, [Measuring poverty when inflation varies across households](#), Joseph Rowntree Foundation, 5 November 2014

The imposition of a four year benefits freeze is likely to reignite concerns voiced when the previous Government announced 1% uprating of working-age benefits, including-

- a further widening of the disparity in the benefits system between the treatment of pensioners and those of working age;
- the impact on low-income working families; and
- the absence of any official empirical study of the adequacy of benefits and the extent to which households dependent on out-of-work benefits can meet minimum needs.¹⁴⁵

Successive governments have argued that there is no single, objective, universally accepted way of deciding what constitutes a minimum acceptable income for a particular person or family. Independent researchers have however made a number of attempts to determine the income levels necessary for a minimum acceptable standard of living. A long-running research project funded by the Joseph Rowntree Foundation produces regular estimates of “Minimum Income Standards” for different household types, based on detailed research into what members of the public think should be included in a minimum household budget, supported by expert knowledge on certain physical living requirements, including nutrition. The latest report was published on 1 July.¹⁴⁶

The following table from the report compares the Minimum Income Standard (MIS) for four household types with the out-of-work benefits each household type each household would currently receive.

Minimum Income Standard compared with out-of-work benefit income, April 2015

	Single adult, working age £ per week	Pensioner couple £ per week	Couple with two children £ per week	Lone parent, one child £ per week
MIS excluding rent, 91.5% of Council Tax ¹ and childcare	182.65	244.35	463.47	275.38
Income Support ² /Pension Credit (including where relevant Child Benefit, Child Tax Credit and Winter Fuel Payment)	73.1	234.69	266.08 ³	157.43
Difference (negative indicates shortfall)	-109.55	-9.66	-197.39	-117.95
Benefit income as % of MIS	40%	96%	57%	57%

Source: Donald Hirsch, [A Minimum Income Standard for the UK in 2015](#), Table 2

The analysis suggests that most people reliant on out-of-work benefits do not reach the Minimum Income Standard. For single people, benefit income is well under half the MIS (net of rent and Council Tax). For families with children, out-of-work benefits cover around 60% of the MIS. For a pensioner couple in receipt of Pension Credit however, income is just short of the MIS.

¹⁴⁵ see section 2 of Library briefing RP 13/01, [Welfare Benefits Uprating Bill](#)

¹⁴⁶ Donald Hirsch, [A minimum income standard for the UK in 2015](#), JRF, July 2015

6. Tax credits and Universal Credit

Summary

- Changes to means-tested support for children, as part of wider Summer Budget 2015 package of changes to tax credits and UC saving £5.8 billion a year by 2020-21
- Child element in tax credits and UC to be limited to 2 children for new claims and births after April 2017
- Protection for families already getting support for third and subsequent children born before April 2017, and for other “exceptional circumstances”
- Family element in tax credits and UC to be abolished for new claims from 2017
- Together with equivalent changes to Housing Benefit, measures in the Bill save £2 billion an year by 2020-21, but IFS estimates long-run savings of £5 billion
- At April 2015, 900,000 families (590,000 in work) received tax credits for three or more children

6.1 Background

Tax credits

Tax credits – the Child Tax Credit and the Working Tax Credit – were introduced in April 2003. They replaced Working Families Tax Credit and Disabled Persons Tax Credit, which had been introduced in 1999. At April 2015, 4.6 million families containing 7.6 million children were receiving tax credits. 3.3 million tax credit recipients (72% of the total) were in-work families, of whom 2.7 million had children.¹⁴⁷ Total [expenditure on tax credits](#) in the UK is forecast to be £29.5 billion in 2015-16. Expenditure on tax credits increased significantly in real terms during Labour’s term in office.

Tax credits comprise:

- **Child Tax Credit (CTC)**, payable to people with children. Along with Child Benefit, it provides a single system of financial support for families with children, whether in or out of work. It also replaced the additions for children that were payable with benefits such as Income Support and income-based Jobseeker’s Allowance.
- **Working Tax Credit (WTC)**, payable to people in low-paid work, including those without children. Those with children may be able to get help with childcare costs via the childcare element of the Working Tax Credit.

People may receive the CTC, or the WTC, or both. Tax credits are claimed on a family rather than an individual basis, so that for couples the incomes and circumstances of both partners will be taken into account.

¹⁴⁷ HMRC, [Tax Credits Provisional Statistics: April 2015](#)

How much a family receives from tax credits will depend on a number of factors including:

- The number and ages of the children, and whether any are disabled
- The number of hours worked by the adults, and whether they are disabled
- Whether the family is incurring childcare costs for eligible childcare
- The family's income from earnings and other sources

Tax credits are means-tested; i.e. the amount received depends on income, so that in general the amount received tapers away as income increases. For families eligible for Working Tax Credit, the maximum tax credit award is withdrawn at the rate of 41p for every pound gross income in excess of the income threshold (currently £6,420 a year).¹⁴⁸

Tax Credits were introduced by the Labour Government in April 2003 to "tackle child poverty and help to make work pay."¹⁴⁹ WTC would be payable to low income working people, including those without children; while CTC along with Child Benefit, would constitute a "single, seamless system of support for families with children, payable irrespective of the work status of the adults in the household." The Government believed that this would ease the transition from welfare to work for families with children, and create a more inclusive system of support for children that did not stigmatise poorer families.¹⁵⁰

In response to a PQ in January 2006, the then Paymaster General, Dawn Primarolo, set out the principles underpinning the Labour Government's policy towards providing financial support for families with children:

The Government's system of financial support for families with children is built on the principle of progressive universalism, delivering help for all families and more help for those who need it most. Universal child benefit forms the foundation of this system, recognising the extra costs and responsibilities associated with bringing up a child. The Government believe it is right that society should recognise the importance of family life by providing financial support for every family with a dependent child, and will not tax child benefit. Child benefit is complemented by child tax credit, which delivers greatest support to those who need it most, including families on lower incomes, those with children under one, and parents of disabled children.¹⁵¹

The 2010 Government announced a package of changes to tax credits in the June 2010 Budget and October 2010 Spending Review aimed at "controlling the costs of tax credits" in order to "provide a fair and affordable platform for the introduction of the Universal Credit."¹⁵² Further measures were announced in Autumn Statement 2011

¹⁴⁸ For further information on how awards are calculated see "What are tax credits?" in HMRC's [Child and Working Tax Credit Statistics - Finalised annual awards 2013-14](#)

¹⁴⁹ HM Treasury, [The Child and Working Tax Credits: The Modernisation of Britain's Tax and Benefit System: Number Ten](#), April 2002, p1

¹⁵⁰ Ibid. p3

¹⁵¹ HC Deb 12 January 2006 c765W

¹⁵² HM Treasury, [Spending Review 2010](#), Cm 7942, October 2010, Box 2.6, p68

(including not going ahead with the above-indexation increase in the CTC child element that was to have taken effect from April 2012), and the freezing of certain WTC elements. Further measures were announced subsequently aimed at reducing tax credit and fraud, and increasing recovery of tax credit debt. Tax credits have also been affected by changes to uprating rules, including the switch to Consumer Price Index (CPI) uprating from April 2011, and 1% uprating of certain elements for three years from 2013-14 (as a result of the *Welfare Benefits Up-rating Act 2013*).

As regards the changes affecting the structure of tax credits – such as the changes to the thresholds and taper rates and to individual elements – the main impact has been to reduce the number of middle income working families entitled to tax credits, focusing support on families at lower income levels. Between April 2011 and April 2015, the number of families in receipt of tax credits fell from 6.4 million to 4.6 million. The biggest fall was in the number of working families with children receiving tax credits (1.6 million fewer by April 2015). Working families still constitute the majority of tax credit claimants however - at April 2015, 3.3 million tax credit recipients (72% of the total) were in-work families, of whom 2.7 million had children.¹⁵³

The changes introduced by the 2010 Government are also expected to deliver significant savings. The tax credit measures (including uprating changes) are expected to yield savings of over £7 billion a year by 2019-20, not taking into account the effect of behavioural changes.¹⁵⁴

Universal Credit

Universal Credit (UC) is a new benefit which is to replace a range of existing means-tested benefits and tax credits for working-age families, namely-

- Income Support
- Income-based Jobseeker's Allowance
- Income-related Employment and Support Allowance
- Housing Benefit
- Child Tax Credit and Working Tax Credit

The aim is to simplify and streamline the benefits system for claimants and administrators, improve work incentives, tackle poverty among low income families, and reduce the scope for fraud and error. UC is administered by the Department for Work and Pensions. Around 7.7 million individuals and families are expected to receive UC when it is fully introduced.

UC awards comprise a **standard allowance with additional amounts** for children, housing and other needs and circumstances such as disability, childcare and caring. The actual amount a family receives will however depend on its income and savings. **Unearned income** – such as income from certain benefits, or an occupational pension – will

¹⁵³ HMRC, [Tax Credits Provisional Statistics: April 2015](#)

¹⁵⁴ House of Commons Library analysis of the [OBR Policy Measures Database](#), April 2015 edition

usually reduce the maximum UC award on a pound for pound basis.

Earned income – ie income from employment or self-employment – will reduce the UC award at a constant rate of 65 pence for each pound of net earnings (this is known as the **single taper**), although families will be able to keep some of their earned income (the “**work allowance**”) before it begins to affect their UC.

Families already get means-tested assistance through tax credits, but while tax credit awards are based on annual income Universal Credit will be based on current income. UC awards will be calculated on an ongoing basis and will increase or decrease each month in response to changes in income and other factors.

The financial support provided by Universal Credit is underpinned by a new “**conditionality**” framework setting out the responsibilities claimants may be required to meet. The level of requirements will depend on the claimants’ circumstances. The conditionality framework is backed up by a new “strong and clear” sanctions regime for non-compliance.

UC was introduced for a small subset of simpler claimant types in selected “pathfinder” areas starting from April 2013, and is gradually being extended to further areas and to new groups. A detailed timetable for the full introduction of UC is yet to be announced, under the most optimistic scenario some claimants will still be in receipt of “legacy benefits” (the benefits UC is to replace) in 2020.

6.2 Budget announcements: tax credits and UC

Summer Budget 2015 announced a package of measures aimed at “making Tax Credits and Universal Credit fairer.” In presenting the measures, the Red Book emphasised the growth in spending on tax credits, and the need to focus on the “root causes of low pay”:

1.141 Tax credit expenditure more than trebled in real terms between 1999-00 and 2010-11, with total expenditure in 2014-15 estimated to be around £30 billion – an increase of almost £10 billion in real terms over the last 10 years. UK expenditure on family cash benefits is the highest in the OECD, and was double the OECD average in 2011. 9 out of 10 families with children were eligible for tax credits in 2010. As a result of the reforms undertaken in the last Parliament, 6 out of 10 are eligible currently.

1.142 The government believes that now is the best time to address this growing expenditure if the welfare system is to be put on a sustainable footing. Tackling tax credit spending is part of properly addressing the root causes of low pay, with the new NLW [National Living Wage] and a more generous tax system to help people earn more and keep more of what they earn, rather than addressing only the symptoms of the problem by subsidising low pay through the benefit system.

1.143 The Budget will therefore reform the tax credits system (and its successor, Universal Credit) to protect existing families on the lowest incomes while favouring support to working families

through the tax system and earnings growth, rather than the benefit system.¹⁵⁵

The welfare measures announced in the Summer Budget are expected to yield savings of £12 billion a year in 2019-10, rising to 2020-21. The changes to tax credits and to Universal Credit taken together are expected to save £4.6 billion in 2016-17, rising to £5.8 billion in 2020-21. The changes will see expenditure on tax credits return to 2007-08 levels in real terms. The main savings¹⁵⁶ arise from:

- reducing the income threshold in tax credits and UC work allowances (£3.4 billion a year by 2020-21);
- limiting the child element of tax credits and UC to two children for new claims and births after April 2017 (£1.4 billion a year by 2020-21);
- increasing the tax credits withdrawal rate (taper) from 41% to 48%, so that tax credits reduce more sharply as income increases (saving £1.5 billion in 2016-17, declining to £245 million by 2020-21); and
- removing the family element in tax credits and UC (and the family premium in Housing Benefit) for new claims from 2016 or 2017 (saving £675 million a year by 2020-21)

The IFS estimates that the long-run savings from some of the measures will be even greater (as transitional protection for existing families declines). It estimates the long-run savings from the abolition of the family element at around £2 billion a year, and from removing tax credit/UC support for third and subsequent children at around £3 billion a year.¹⁵⁷ At April 2015, just under 900,000 families (of whom 590,000 were in work) were receiving tax credits for three or more children.¹⁵⁸

Effect on tax credit awards

The combined impact of the structural changes to the tax credit system and the four-year freeze in uprating is shown in the following four charts, which illustrate the tax credit entitlements in 2019-20 of a working family (lone parent or couple, working 30 or more hours) with 1, 2, 3 or 4 children, whose tax credit claim began after April 2017. The charts therefore illustrate the full long-term impact of the changes, for families not benefiting from transitional protection (see below for further details).

In all of these scenarios, the families are subject to the lower threshold, the increased taper, the freeze in uprating and the removal of the family element for claims commenced after April 2017. In addition, the

¹⁵⁵ Summer Budget 2015, HC 264 2015-16

¹⁵⁶ The Budget also announced a reduction in the in-year income disregard – which allows income increases below a certain amount to be disregarded when calculating entitlement to tax credits – from £5,000 to £2,500 from April 2016, saving £250 million a year by 2018-19. The previous Government had already reduced the disregard from £25,000 to £10,000 in April 2011, and to £5,000 in April 2013. The further reduction will increase the number of tax credit overpayments

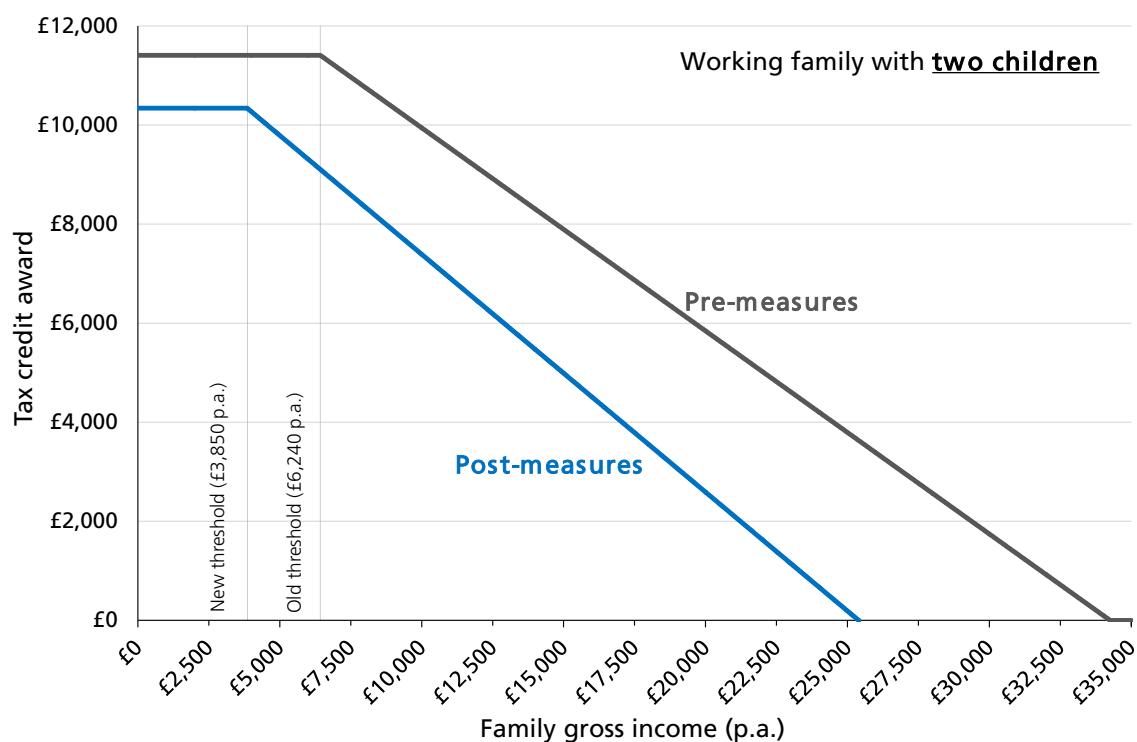
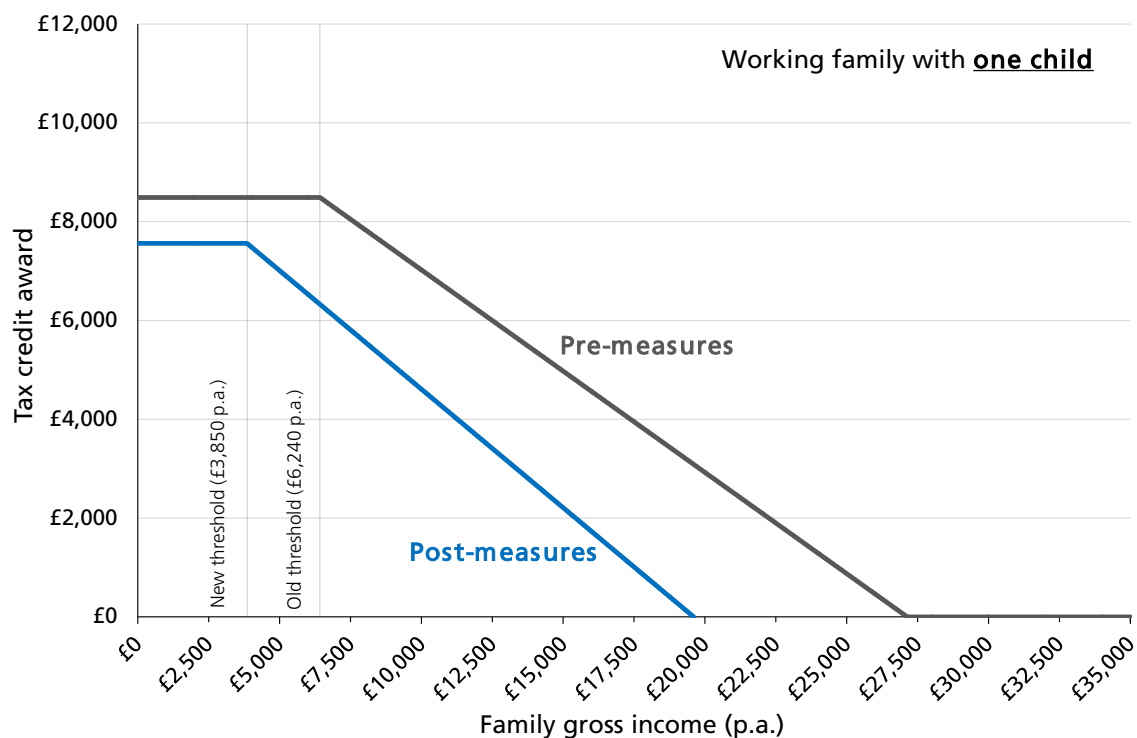
¹⁵⁷ Andrew Hood, [Benefit changes and distributional analysis](#), IFS presentation, 9 July 2015

¹⁵⁸ HMRC, [Child and Working Tax Credits Statistics: April 2015](#), Table 3.2

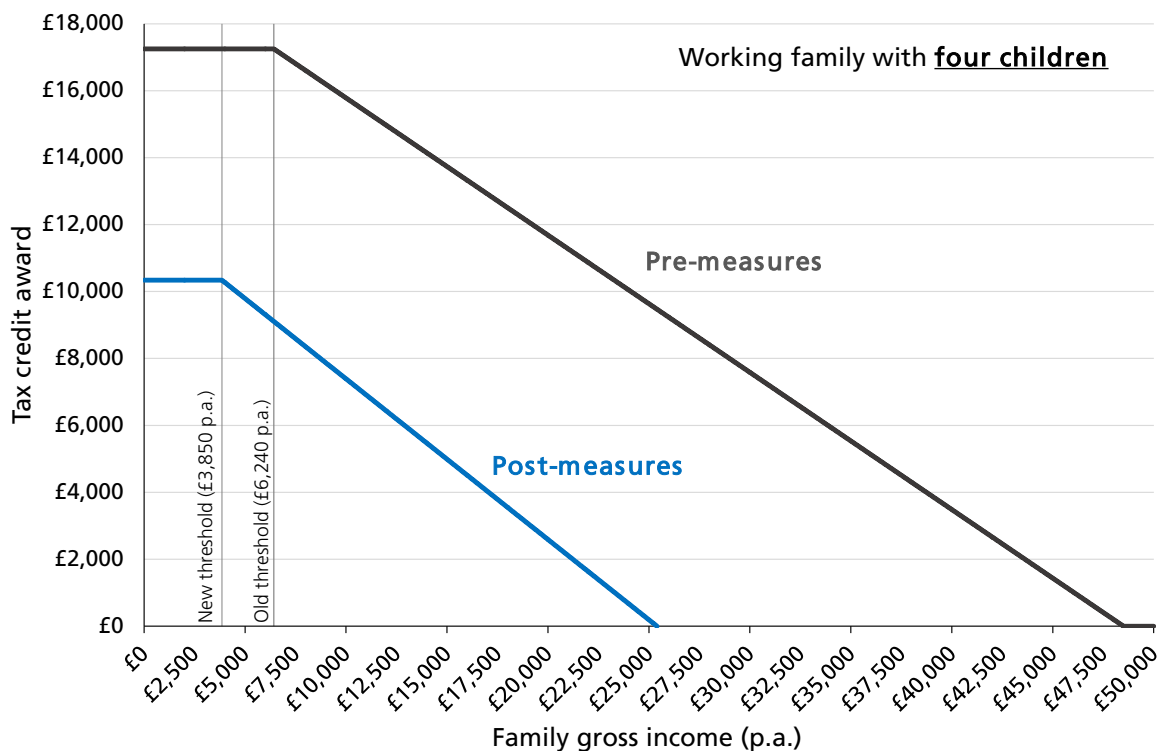
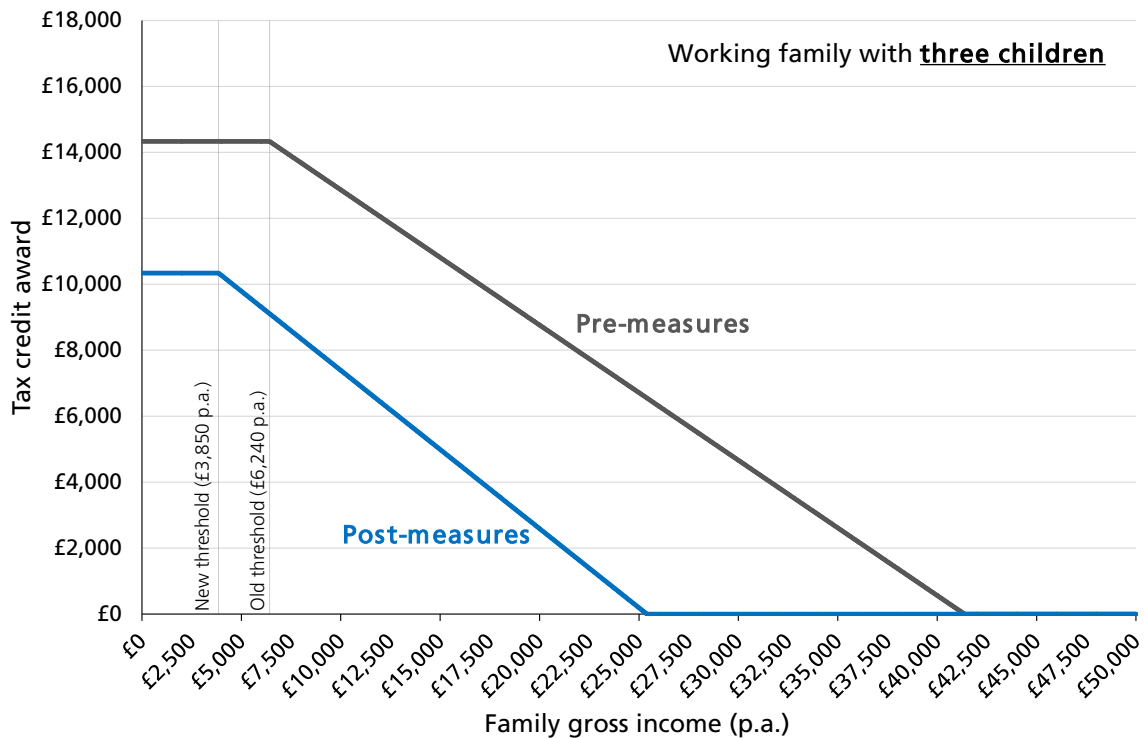
families with three or four children only receive two lots of CTC child element, rather than one for each child.

Illustrative effect on tax credit entitlement in 2019-20 of measures announced at Summer Budget 2015

Full-time working family with one, two, three or four children



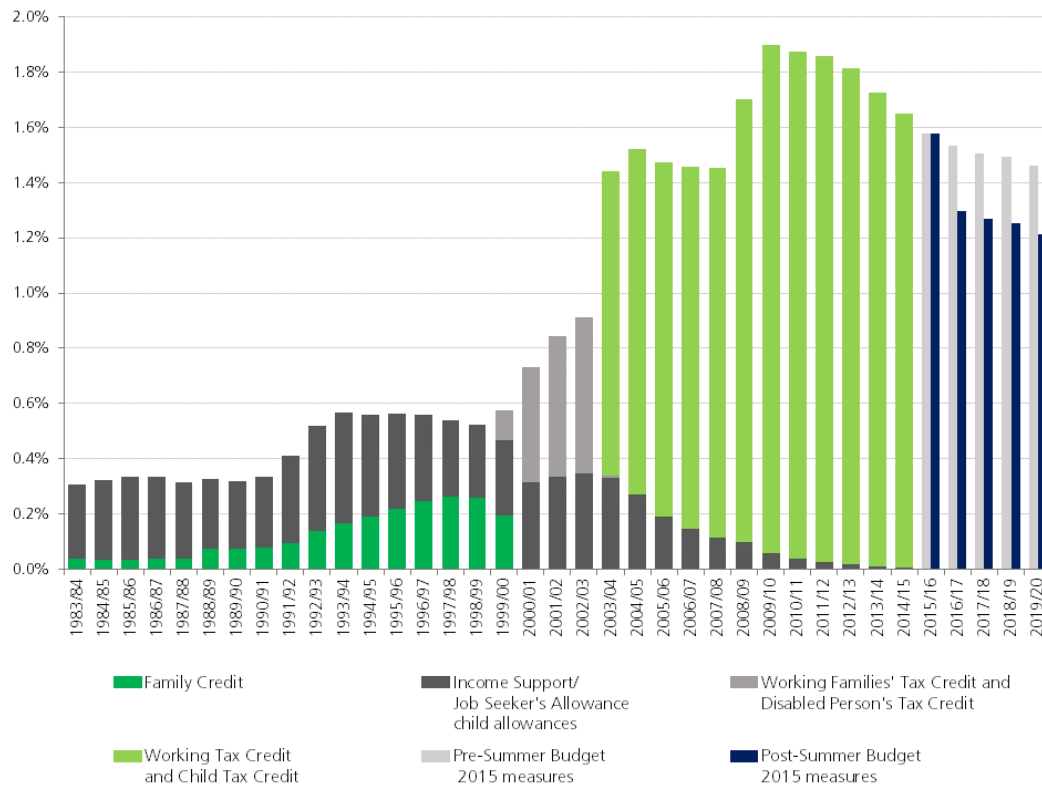
Illustrative effect on tax credit entitlement in 2019-20 of measures announced at Summer Budget 2015 (continued)



The following chart shows spending on tax credits (and equivalent predecessor benefits) as a percentage of GDP since 1983-84, and the expected impact of the Summer Budget changes to tax credits and UC up to 2020-21. Expenditure on tax credits peaked at 1.9% of GDP in 2009-10, but as a result of measures since 2010 and the further

announcements in the Budget expenditure is now expected to be around 1.2% of GDP by 2020-21.

Expenditure on tax credits and equivalents as a share of GDP



Source: DWP and OBR

The Bill

Clause 11 of the Bill provides for limiting the total amount of Child Tax Credit payable for families in respect of births on or after 6 April 2017, and for removing the family element from the calculation of CTC awards for claimants who were not responsible for a child or qualifying young person before 6 April 2017.

Clause 12 makes equivalent changes to Universal Credit. It restricts the number of children or qualifying young persons for whom the child element of UC is payable to two, and removes the higher rate payable for the first child in the household to create a single, flat rate (echoing the abolition of the CTC family element).

The expectation is that the equivalent changes to Housing Benefit; and the other tax credit/UC changes announced in the Budget including the increase in the tax credits taper rate from 41% to 48%, and reductions in the tax credits income threshold and UC work allowances, will be made via regulations.

The implications of the changes to Child Tax Credit are best understood by first outlining the current situation. A family's maximum CTC award

(i.e. before taking account of any reduction due to the taper) is calculated by adding together different elements:

- A single **family element**, worth £545 a year; and
- **Individual elements** for each child or qualifying young person (QYP)

The standard amount of the individual element of CTC is currently £2,780 a year, but a higher rate of £2,780 plus either £3,140 or £4,415 is payable where the child or QYP is disabled or severely disabled respectively.

As a result of the provisions in the Bill:

- A family will only be entitled to an individual element for more than two children if they were claiming for more than two children/QYPs who were born before 6 April 2017. New births after that date will not qualify for an individual element (with certain exceptions – see below).
- Families with third or subsequent children born on or after 6 April 2017 who are disabled or severely disabled will still have the additional amount in respect of disability or severe disability (£3,140 or £4,415) included in their maximum CTC award.
- The restriction on the individual element will be on a “rolling basis” so that, for example, if the eldest child reaches the age where they no longer qualify for CTC, and there is a third child in the family born on or after 6 April 2017, that child will qualify for the individual element.
- The £545 family element will not be included in new awards from 6 April 2017, but will continue to be included in awards for families entitled to CTC who are responsible for a child born before that date.

The changes to the child element of Universal Credit are intended to achieve a similar policy intent.

There will be exceptional circumstances where the individual element of CTC or the child element of UC may be paid in respect of more than two children. Regulations will set out the circumstances where this may be allowed. This is to include instances of multiple births. The Budget Red Book also states:

The Department for Work and Pensions and HMRC will develop protections for women who have a third child as the result of rape, or other exceptional circumstances.¹⁵⁹

Comment

The Budget Red Book states:

The government believes that those in receipt of tax credits should face the same financial choices about having children as those supporting themselves solely through work.¹⁶⁰

In the Budget debate on 9 July, the Secretary of State for Work and Pensions, Iain Duncan Smith, reiterated that the changes to Child Tax

¹⁵⁹ Summer Budget 2015, HC 264 2015-16, para 2.103

¹⁶⁰ Ibid. para 1.145

Credit and the child element of Universal Credit were “about getting fairness back into the system” and “ensuring that people on benefits face the same choices as those in work and not on benefits.”¹⁶¹

In its post-Budget briefing, the Institute for Fiscal Studies commented that limiting support to two children was a “significant step in weakening [the] relationship between need and entitlement in the benefit system,” adding that, along with caps on support for housing costs and total benefit income, this appeared to be an emerging theme in Government policy.¹⁶²

Responding to the Budget, the Children’s Society’s Chief Executive, Matthew Reed, said that the announcement to limit child tax credits to two children was “effectively a two child policy for the poorest families.”¹⁶³ Some have suggested that the policy has more troubling undertones.¹⁶⁴

The actual impact of limiting support for families in CTC and UC on decisions about childbearing is uncertain. A literature review carried out for the Department for Work and Pensions in 2009¹⁶⁵ which looked at studies of the impact on fertility of the Labour Government’s Working Families’ Tax Credit (WFTC) reform found the evidence to be inconclusive. The Government’s *Summer Budget 2015: policy costings* document states that, in estimating the savings from the two child limit, “There are is a small behavioural responses [sic] included in the costing.”¹⁶⁶ No details are given however.

In a blog post of 8 July, Jonathan Portes, Director of the National Institute of Economic and Social Research, commented in relation to the ending of tax credits for third and subsequent children:

Ultimately, this represents a value judgement about the extent to which society chooses to support low income families who in turn choose to have more than two children. But while there is some evidence of (limited) incentive effects (that is to say, that generous child tax credits did indeed raise the birth rate slightly) we shouldn’t delude ourselves that poor people will stop having children, or that the living standards of low income families, and children in particular, won’t suffer.¹⁶⁷

The proposed exceptions to the two child limit also raise practical and ethical issues. In the Budget debate on 9 July, the SNP’s Social Justice and Welfare spokesperson Eilidh Whiteford said she was “appalled” at the Reference in the Budget Red Book to “protections for women who

¹⁶¹ HC Deb 9 Jul 2015 cc485;488

¹⁶² Andrew Hood, [Benefit changes and distributional analysis](#), IFS presentation, 9 July 2015

¹⁶³ [Children in poverty being left to carry budget’s burden](#), Children’s Society press release, 8 July 2015

¹⁶⁴ Vicky Allan, “[The shaming of big, poor families smacks of eugenics](#),” *Sunday Herald*, 12 July 2015; “[Stephen Kinnock Says Limiting Tax Credits To Smaller Families 'Reminiscent Of Eugenics'](#),” *Huffington Post UK*, 13 July 2015

¹⁶⁵ Bruce Stafford and Simon Roberts, [The impact of financial incentives in welfare systems on family structure](#), DWP Research Report 569, 2009

¹⁶⁶ HM Government, [Summer Budget 2015: policy costings](#), July 2015, p46

¹⁶⁷ Jonathan Portes, [Budget 2015: welfare changes and the "living wage premium"](#), NIESR blog, 8 July 2015

have a third child as the result of rape, or other exceptional circumstances,” and that its implications needed to be addressed more thoroughly. She added:

How does the DWP intend to establish that a child has been born as a consequence of rape? Will there seriously be a box to tick on the form? Will a criminal conviction against a perpetrator be required?

We know that rape is one of the most unreported and poorly prosecuted serious crimes in the UK, with most surveys suggesting that 85% of women who are raped do not report it—for a variety of reasons, not least because most victims know their assailants and know that securing a conviction is a very long shot under our criminal justice system. Many simply do not want to put themselves through another traumatic ordeal.

I put it to Ministers that the women most likely to become pregnant as a result of rape are those in long-term abusive relationships who are being repeatedly assaulted. They are among those least likely to report rape, and those in the most extreme danger if they do. So I ask again, what will this “protection” mean in practice?

How will the DWP arbitrate? Will women be believed? What steps will be taken to preserve their dignity and privacy? I would like to hear some answers to those questions.¹⁶⁸

Implications of the wider package of measures for Universal Credit

Looking further ahead, the introduction of the two child limit, and in particular the cuts to the Universal Credit work allowances (not covered in the current Bill) significantly alters the parameters of Universal Credit and therefore any assessment of the impact of UC, both in terms of gainers and losers, and on work incentives. The Government has always emphasised that work allowances (the amounts claimants can earn before their UC award starts to be withdrawn), more generous than existing earnings disregards in the benefits system, are integral to the aim of ensuring that, under UC, “work pays.”¹⁶⁹ Under the Budget proposals, work allowances are abolished completely for non-disabled households without children, and reduced for most other groups. The IFS estimates that, as a result, just over three million families will lose an average of just over £1,000 a year. It also reduces the incentive on the first earner in a family to enter work.¹⁷⁰

The IFS also questions claims that a new, higher “National Living Wage”¹⁷¹ would compensate for reductions welfare spending. Speaking at its post-Budget briefing on 9 July, the Institute’s Director, Paul Johnson, commented:

...the key fact is that the increase in the minimum wage simply cannot provide full compensation for the majority of losses that

¹⁶⁸ HC Deb 9 July 2015 cc495-6

¹⁶⁹ See for example DWP, [Universal Credit at Work](#), October 2014, p6

¹⁷⁰ Andrew Hood, [Benefit changes and distributional analysis](#), IFS presentation, 9 July 2015

¹⁷¹ For further information see section 5 of Library briefing paper CBP07251, [Summer Budget 2015: A summary](#)

will be experienced by tax credit recipients. That is just arithmetically impossible. The gross increase in employment income from the higher minimum wage is about £4 billion. Welfare spending as a whole is due to fall by £12 billion and, even excluding the effects of the four year freeze tax credit spending is due to be cut by getting on for £6 billion. And of course many of the recipients of the higher minimum wage will not be tax credit recipients. Unequivocally, tax credit recipients in work will be made worse off by the measures in the Budget on average.¹⁷²

¹⁷² [IFS Post-Budget Analysis: Opening remarks](#), 9 July 2015

7. Abolition of ESA Work-Related Activity Component

Summary

- At November 2014, 492,000 ESA claimants were in the “Work-Related Activity Group” (WRAG)
- ESA for claimants in the WRAG to be reduced to JSA rates for new claims from April 2017, alongside “new funding for additional support to help claimants return to work
- Affected claimants will receive up to £1,500 a year less than under current rules
- ESA claimants in the Support Group unaffected
- Corresponding changes to UC – abolition of the “limited capability for work” element
- Savings of £640 million a year expected by 2020-21

7.1 Employment and Support Allowance

Employment and Support Allowance (ESA) is an income-replacement benefit for people identified as having a “limited capability for work” as a result of sickness or disability.¹⁷³ There are two forms: contributory ESA, for those with a sufficient National Insurance record; and income-related ESA, which is means-tested.

Following a Work Capability Assessment (WCA),¹⁷⁴ claimants may be placed in the “Support Group” or, if they are assessed as capable of undertaking some form of work-related activity, the Work-Related Activity Group (WRAG).¹⁷⁵ Following the ESA “assessment phase,” claimants receive a basic weekly benefit of £73.10, plus either £36.20 (if in the Support Group) or £29.05 (if placed in the WRAG).¹⁷⁶

ESA claimants in the Support Group are not required to undertake any activities to continue to receive benefit. ESA claimants in the WRAG may be expected to take part in “Work-Focused Interviews” (WFIs) and undertake work-related activity.

ESA claimants in the WRAG may be required to undertake work-related activity by advisers in the DWP, or as part of the Work Programme. “Work-related activity” is activity that makes it more likely that the person will get a job or remain in work. This could include a wide range of activities such as skills training, jobs search support, drawing up a CV, work placements, or work experience (although a person cannot be

¹⁷³ For further information see Commons Briefing Paper CBP07181, [Employment and Support Allowance: An introduction](#)

¹⁷⁴ See Commons Briefing Paper CBP07181, [The Work Capability Assessment for Employment and Support Allowance](#)

¹⁷⁵ Claimants found not to have a limited capability for work are deemed “fit for work” and therefore ineligible for ESA

¹⁷⁶ The precise amount of benefit payable will however depend on the claimant’s circumstances

mandated to undertake work experience). Any requirement must be “reasonable,” taking into account the person’s circumstances. A person cannot be required to apply for a job, undertake work, or submit to medical treatment. All work-related activity to be undertaken must be recorded in writing in an “action plan.”

ESA claimants who fail to attend and participate in Work-focused Interviews, or to undertake work-related activity when required to do so, without good cause, may face a benefit sanction – i.e. a reduction in the amount of benefit payable. The amount is 100% of the ESA personal allowance (currently £73.10 a week).

ESA replaced incapacity benefits for new claims from October 2008. Existing claimants of incapacity benefits (Incapacity Benefit, Severe Disablement Allowance and Income Support for incapacity for work) were not initially affected by the introduction of ESA, but in late 2010 a programme began under which around 1.5 million people were to be reassessed for ESA. This exercise was to have been completed by spring 2014, but is still underway.

As a result of controversial provisions in the *Welfare Reform Act 2012*, receipt of contributory ESA for claimants in the WRAG is now limited to 365 days.¹⁷⁷ Those still on benefit at that point may then claim income-related ESA, but they may not be entitled to any benefit if they have other income or savings, or a working partner. This measure is expected to result in savings of £1.8 billion a year by 2019-20.¹⁷⁸

ESA statistics

At November 2014, 492,000 ESA claimants in Great Britain were in the WRAG (of whom 248,000 were suffering from mental and behavioural disorders); and 1,180,000 were in the Support Group (a further 529,000 ESA claimants were in the assessment phase).¹⁷⁹

ESA caseload by condition, November 2014

Mental and Behavioural Disorders	248,040
Diseases of the Musculoskeletal system and Connective Tissue	86,230
Other	84,960
Diseases of the Nervous System	26,860
Diseases of the Circulatory or Respiratory System	24,000
Injury, Poisoning and certain other consequences of external causes	22,090
Total	492,180

Source: DWP Tabulation Tool

¹⁷⁷ See Commons Briefing Paper SN06305, [Time limiting of contributory Employment and Support Allowance from 30 April 2012](#)

¹⁷⁸ [OBR Policy measures database](#), 7 April 2015 version

¹⁷⁹ DWP Tabulation Tool

The number of ESA claimants in the WRAG is expected to increase to 537,000 by 2019-20.¹⁸⁰

Rationale for ESA rates

The “standard” rate of ESA for claimants no longer in the assessment phase is currently £73.10 a week plus either £36.20 (for claimants in the Support Group) or £29.05 (for those in the Work-Related Activity Group).¹⁸¹ £73.10 is also the Jobseeker’s Allowance rate for a single person aged 25 or over.

Until the early 1970s, little distinction was made between one type of claimant and another in terms of the amount of benefit payable. If a person was out of work for whatever reason – unemployed, incapacitated or retired – the weekly amounts were the same. Benefit rates for different categories of claimant began to diverge when the Heath Government introduced new benefits, at significantly higher rates, for disabled people and pensioners. Changes have occurred since then, but the basic disparities remain.

The rationale for paying some claimant groups more than others was considered by Richard Berthoud in a 1998 report, *Disability benefits: A review of the issues and options for reform*. In response the question of why benefits are more generous for those deemed incapable of work and for pensioners compared to the unemployed, he observed:

The primary reason historically, was that those who have to live for a long time on social security could not be expected to survive on the very low level of income available as a temporary measure for short-term claimants. Pensioners will be pensioners for the rest of their lives. Those who become incapable of work before pensionable age can also expect a very long period on benefit (depending on the nature of their condition). Unemployed people can expect (or are at least expected) to return to work after a relatively short period – as indeed the great majority of them do. This is reflected in another major difference between the treatment of disabled people/pensioners and unemployed people: the former receive non-means-tested insurance payments for life; the latter have only six months’ entitlement to contributory benefit, before having to submit to a family means test.

There are, though, potential alternative explanations for the preference accorded to pensioners and disabled people, each of which may have played some role in the development of policy:

- There may have been some motivation based on the idea that disabled people and elderly people would face extra costs, even though those are intended to be dealt with by the specialist extra-cost benefits [i.e. Disability Living Allowance and Attendance Allowance].
- Another motive has undoubtedly been that unemployed people are thought to need incentives to persuade them to

¹⁸⁰ DWP [Benefit Expenditure and Caseload Tables](#), March 2015 Budget

¹⁸¹ The precise amount of benefit payable will however depend on the claimant’s circumstances

return to work; whereas retired and disabled people are not expected to look for work.

- A related consideration is that the public sympathises with the plight of unfortunate disabled or elderly people, but resents the dependence of the idle unemployed.¹⁸²

Asked about the rationale for paying ESA claimants in the Support Group more than those in the WRAG during the Committee Stage of the *Welfare Reform Bill 2006-07*, the then DWP Minister Jim Murphy explained:

The rationale is simply that the longer someone is out of the labour market, the greater the preponderance of poverty. We know that that is the nature of people's experiences in this country.¹⁸³

As regards the rationale for the Work-Related Activity Component, from the outset the Labour Government said that those placed in the WRAG would (provided they undertook "work-related activity" as required) be paid an amount above the level of long-term Incapacity Benefit. Those failing to undertake work-related activity when required would have their WRAC reduced in a series of "slices" – by 50% for the first 4 weeks, and 100% thereafter – until they "engaged" with the requirement. Failure to undertake work-related activity could therefore see the amount of ESA payable reduced to the equivalent rate of JSA.¹⁸⁴

The WRAC appears therefore to have been influenced partly by the level of the benefit ESA replaced (IB), and by what presumably was considered a sufficient financial inducement to undertake "work-related activity."

7.2 Budget announcement: aligning ESA rate with JSA

In his Budget speech the Chancellor referred to the "perverse incentive" whereby ESA claimants in the WRAG received more money than claimants of Jobseeker's Allowance "but get nothing like the help to find suitable employment," noting that while the JSA caseload had fallen by 700,000 since 2010, over the same period the numbers on incapacity benefits including ESA had fallen by just 90,000, despite 61% of claimants in the WRAG saying they wanted to work.¹⁸⁵ The Government proposed to align ESA rates for those in the WRAG with JSA (currently £73.10 for people aged 25 and over) for new claims from April 2017, while providing "new funding for additional support to help claimants return to work."¹⁸⁶ This would "ensure the right incentives and support are in place for those closer to the labour market to help them make this transition when they are ready."¹⁸⁷ ESA claimants in

¹⁸² p 27

¹⁸³ SC Deb 17 October 2006 c65

¹⁸⁴ This regime applies until December 2012, when the current ESA sanctions regime was introduced

¹⁸⁵ HC Deb 8 July 2015 c333

¹⁸⁶ Ibid.

¹⁸⁷ Summer Budget 2015, HC 264 2015-16, para 41

the Support Group are unaffected. Savings of £640 million a year are expected by 2020-21.

The Bill

Clause 13 amends the *Welfare Reform Act 2007* to remove provision for the payment of the ESA Work-Related Activity Component, in both contributory and income-related ESA. Income-related ESA is to be replaced by Universal Credit. **Clause 14** abolishes the corresponding Limited Capability for Work element in UC.

Regulations will include provision for claimants already in receipt of the ESA WRAC (or the UC Limited Capability for Work element) at April 2017 to continue to receive it. There will also be protection for Incapacity Benefit, Severe Disability Allowance and Income Support claimants who at that point have not yet had their awards converted to ESA, and who are subsequently placed in the WRAG.

The Explanatory notes do not say whether transitional protection will also extend to ESA claimants in the Support Group who move to the Work-Related Activity Group as a result of a reassessment after April 2017.

Comment

Responding to the announcement in the Budget, Rob Holland, Parliamentary Lead at Royal Mencap Society and Co-Chair of the Disability Benefits Consortium, said they were “deeply concerned” about the proposal to abolish the Work-Related Activity Component for new claims. He added:

Cutting this essential payment to the bare minimum will prevent people seeking work effectively and fly in the face of the Government’s aim to halve the disability employment gap.

Many disabled people have been put in this group because they have long term health conditions which prevent them from working for a certain amount of time. Those who are in this group will often only receive it for a limited time only.

Putting pressure on the incomes of disabled people at a time when they need the extra money because they’re too unwell to work can make it less likely they would be fit enough to work in the future.

The cut will hit households with a disabled person hard – a third of whom are living below the poverty line. Furthermore official Government figures show that the number of disabled people living in poverty has increased by 300,000 over the last year.

The cut must also be seen in the context of other cuts and freezes to support for disabled people, their families and carers such as housing benefit, tax credits and social care.¹⁸⁸

Paul Farmer, Chief Executive of Mind, said they were “extremely disappointed” at the ESA announcement, which would “make people’s lives even more difficult and will do nothing to help them return to work.” He added:

¹⁸⁸ [DBC responds to the budget](#), Disability Benefits Consortium press release, 9 July 2015

“People being supported by ESA receive a higher rate than those on JSA because they face additional barriers as a result of their illness or disability, and typically take longer to move into work. Almost 60 per cent of people on JSA move off the benefit within 6 months, while almost 60 per cent of people in the WRAG need this support for at least two years. It is unrealistic to expect people to survive on £73 a week for this length of time. We’re concerned that the impact of these changes will be felt by our overstretched NHS services, as these cuts hit individual’s mental health as well as their pockets.”

“It is insulting and misguided to imply that ill and disabled people on ESA will be more likely to move into work if their benefits are cut. The vast majority of people with mental health problems want to work but face significant barriers as a result of the impact of their condition and the stigma they often face from employers.”¹⁸⁹

The Institute for Fiscal Studies comments that abolishing the addition for ESA WRAG claimants strengthens the incentive for claimants to try to get into the ESA Support Group,¹⁹⁰ a point also made by Ben Baumberg of the University of Kent, who argues that it could thereby discourage claimants from risking work. He also states that removal of the addition could lead to an increase in the proportion of claimants placed in the Support Group on the grounds that being put in the WRAG would be a risk to their health.¹⁹¹

The abolition of the Limited Capability for Work element in Universal Credit also means that, for adults, only those in the Support Group will receive additional support for disability with their UC award.¹⁹²

¹⁸⁹ [Budget benefit cut ‘insulting and misguided’](#), Mind press release, 8 July 2015

¹⁹⁰ Andrew Hood, [Benefit changes and distributional analysis](#), IFS presentation, 9 July 2015

¹⁹¹ Ben Baumberg, [Why the Budget’s cut to ESA may backfire](#), Rethinking Incapacity blog, 8 July 2015

¹⁹² UC claimants in the WRAG may still however benefit from the higher work allowance for those with a “limited capability for work.” See Commons Briefing papers SN06548, [Draft Universal Credit Regulations 2013](#), section 6, for information on support for disabled people in UC

8. Conditionality for ‘responsible carers’ in Universal Credit

Summary

- Lone parents and other “responsible carers” in receipt of UC not currently subject to “work preparation” requirements until their youngest child reaches 3, and do not have to be available for and look for work until the youngest child reaches 5
- Bill reduces the age thresholds for work preparation to 2, and for full work-related requirements to 3
- Government emphasises additional support for childcare, including the increase in free childcare for working parents of 3-4 year olds from 15 to 30 hours a week from September 2017

8.1 Background

Until 2008, lone parents with a child under 16 who were not in full-time work could claim Income Support. Income Support claimants are not required to seek work as a condition of receiving their benefit.

From November 2008 however most lone parents with a youngest child aged 12 were no longer eligible for Income Support. Those deemed able to work could instead claim Jobseeker’s Allowance (JSA), provided they were “available for and actively seeking work.” The age threshold for the youngest child has been progressively lowered, so that by May 2012 most lone parents with a youngest child aged 5 or over were subject to the JSA regime.

When the new “Lone Parent Obligations” were proposed, the Labour Government said that no lone parent would be forced into a job that did not suit their circumstances, and that Jobcentre Plus advisers would have additional discretion so that lone parents would not be penalised if they did not take up a job because appropriate, affordable childcare was not available. Other “flexibilities” were introduced in the JSA regime to take account of lone parents’ particular circumstances.¹⁹³ Welfare rights groups expressed concerns about the extension of conditionality to lone parent benefits, and about whether the JSA rules could be adapted to take account of the complexities of lone parents’ lives. The availability of affordable and suitable childcare remains a major concern.

From 28 April 2014, DWP advisers were given powers to mandate lone parents with youngest child aged 3 or 4 to undertake mandatory “work-related activity” (WRA). This applies to those awarded Income Support solely on the basis of being a lone parent, and those on

¹⁹³ See DWP factsheet, [Jobseeker’s Allowance and flexibilities for lone parents](#), October 2014; Gingerbread factsheet, [Jobseeker’s allowance – special rules for single parents](#), May 2014

Employment and Support Allowance (ESA) in the Work-Related Activity Group (WRAG). Corresponding changes were also made to Universal Credit legislation – lone parent UC claimants (and “nominated carers” – see below) with a youngest child aged 3 or 4 may be subject to the “work preparation requirement.” This is similar to the requirement on IS/ESA claimants to undertake work-related activity.¹⁹⁴ Lone parents may be mandated to undertake a specified particular action that makes it more likely that they will obtain work, more work or better paid work.

Under Universal Credit, claimants are placed in one of four “conditionality groups”, according to their circumstances. The four groups are:

- **no work-related requirements** – claimants in this group will not be expected to undertake any additional activities to receive UC;
- **work-Focused Interview requirement** – claimants in this group will be expected to attend periodic interviews to discuss their plans for returning to the labour market or, if already in work, to begin thinking about taking on more work, or better paid work;
- **work Preparation requirement** – in addition to attending Work Focused Interviews (WFIs), claimants in this group will be expected to take reasonable steps to prepare for work, do more work, or get better paid work, such as attending a skills assessment, improving personal presentation, or participating in the Work Programme; and
- **all work-related requirements** – claimants in this group will need be available for, and actively seeking work, as people currently in receipt of Jobseeker's Allowance are. If already in work, they may be expected to do more work, or seek better paid work. Claimants may be expected to spend a specific amount of time undertaking certain activities, e.g. carrying out work searches, making applications and registering with employment agencies.

For UC purposes, a “responsible carer” is a lone parent or, in the case of a couple with children, the partner who has been nominated as the carer of the child/children (couples can agree between themselves who should be the nominated carer). For responsible carers, the relevant UC conditionality group is currently:

Youngest child under 1:	No work-related requirements
Youngest child aged 1 or 2:	Work-Focused Interview requirement
Youngest child aged 3 or 4:	Work Preparation requirement
Youngest child 5 or over:	All work-related requirements

Gingerbread, the charity which provides advice and support to lone parents and campaigns on their behalf, expressed concern that most of the “flexibilities” for lone parents formerly in the JSA Regulations were not carried over to the UC Regulations. Most of the flexibilities are now covered in guidance rather than regulations, but Gingerbread argued

¹⁹⁴ See DWP, [Explanatory Memorandum to the Income Support \(Work-Related Activity\) and Miscellaneous Amendment Regulations 2014](#)

that this represented a “significant weakening” of their status, and did not believe that guidance on its own would provide sufficient steer to advisers when supporting lone parents. It also believed over-reliance on guidance could undermine the consistency of service delivery and quality standards.¹⁹⁵

8.2 Budget announcement: responsible carers

Summer Budget 2015 announced an increase in entitlement to free childcare for parents of 3 and 4 year olds, from September 2017:

1.163 This Budget confirms that, from September 2017, the free childcare entitlement will be doubled from 15 hours to 30 hours a week for working parents of 3 and 4 year olds.

This will support those who choose to go out to work. The government will implement this extension of free hours early in some local areas from September 2016. This free childcare is worth around £5,000 a year per child. To support delivery, the government has committed to raise the average hourly rate providers receive and is undertaking a review of childcare costs in order to set a rate that is fair for providers and delivers value for money for the taxpayer.¹⁹⁶

It also confirmed that Tax-Free Childcare would be introduced from early 2017, and announced that, in the meantime, it was holding open the existing Employer Supported Childcare scheme to new entrants. It continued:

1.166 In the context of the extensive childcare support offered to parents of 3 and 4 year olds, the government will also change the conditions for parents claiming out of work benefits. **Parents with a youngest child aged 3 or older (including lone parents) who are able to work will be expected to look for work if they are claiming Universal Credit. These parents will receive support from Jobcentre Plus.** This is a further step in a process of reform which has helped lift the proportion of lone parent families in work to its highest level since 1996.

The Bill

Clause 15 of the Bill amends the *Welfare Reform Act 2012* to change the conditionality requirements for UC claimants who are responsible carers. The changes are summarised in the table below.

¹⁹⁵ See section 9.2 of Library briefing paper SN06548, [Draft Universal Credit Regulations 2013](#)

¹⁹⁶ Summer Budget 2015, HC 264 2015-16

Conditionality for responsible carers in Universal Credit

No change		
Change		
Age of youngest child	Current UC conditionality	Proposed UC conditionality
Under 1	No work-related requirements	No work-related requirements
1	Work-focused interview (WFI) only	Work-focused interview (WFI) only
2		WFI and work preparation activities
3	WFI and work preparation activities	Full work-related requirements
4		
5 and over	Full work-related requirements	

Comment

There has been little comment so far on the UC conditionality changes in the Bill.

Responding to the Budget, Gingerbread's Chief Executive, Fiona Weir, said:

"Gingerbread is very worried about the impact of the £12 billion benefit cuts on many single parent families who are already struggling financially. Most single parents already work and most who don't are very motivated to work – they don't need to be compelled to work, what they need is better support to help them get a job with decent pay and hours. We think it's particularly important for single parents with young children to be able to decide when it's best for their children for them to work and when not to."

Single parents with children aged 3 and 4 having to work:

"Forcing single parents with very young children to work is both impractical and, in many situations, not in the best interests of their children. Removing the right of parents to decide what is best for their children at this crucial stage of their development undermines the importance of putting the child's needs first.

"30 hours of free childcare is welcome, but it's not a magic wand. The hours do not cover school holidays, will be offered at specified times which may not fit with work, and moreover research has shown around half of local authorities are struggling to meet demands for local childcare as they stand. When you add in the lack of flexible working opportunities with the best will in the world single parents with very young children can find it impossible to work." ¹⁹⁷

¹⁹⁷ [Gingerbread's response to the budget](#), Gingerbread press release, 8 July 2015

9. Loans for mortgage interest

Summary

- Support for Mortgage Interest (SMI) currently received by 167,000 claimants of out-of-work benefits; expenditure forecast at £269 million in 2015-16
- From April 2016, SMI to be replaced by interest-bearing loans secured against the property
- Loans subject to the claimant having received financial advice; repayable on sale of the property, or on return to work
- Follows 2011 “call for evidence” on options for reforming SMI
- Government believes would continue to mitigate risk of repossession while providing better value for the tax payer
- Savings estimated at £255 million a year by 2020-21

9.1 The SMI scheme

The Support for Mortgage Interest (SMI) scheme provides help with mortgage interest payments to claimants of certain means-tested benefits:

- Income Support (IS)
- Income-based Jobseeker’s Allowance (JSA)
- Income-related Employment and Support Allowance (ESA)
- Pension Credit

The purpose of SMI is to help owner-occupiers making a claim for one of the above benefits to maintain their existing mortgage commitments so that they can remain in their own homes. SMI makes a contribution towards the eligible interest taken out to purchase the property and specific loans for repairs and improvements necessary to maintain the home’s fitness for habitation. Help may also be available with other housing costs such as ground rent and certain service charges. Capital repayments are not met.

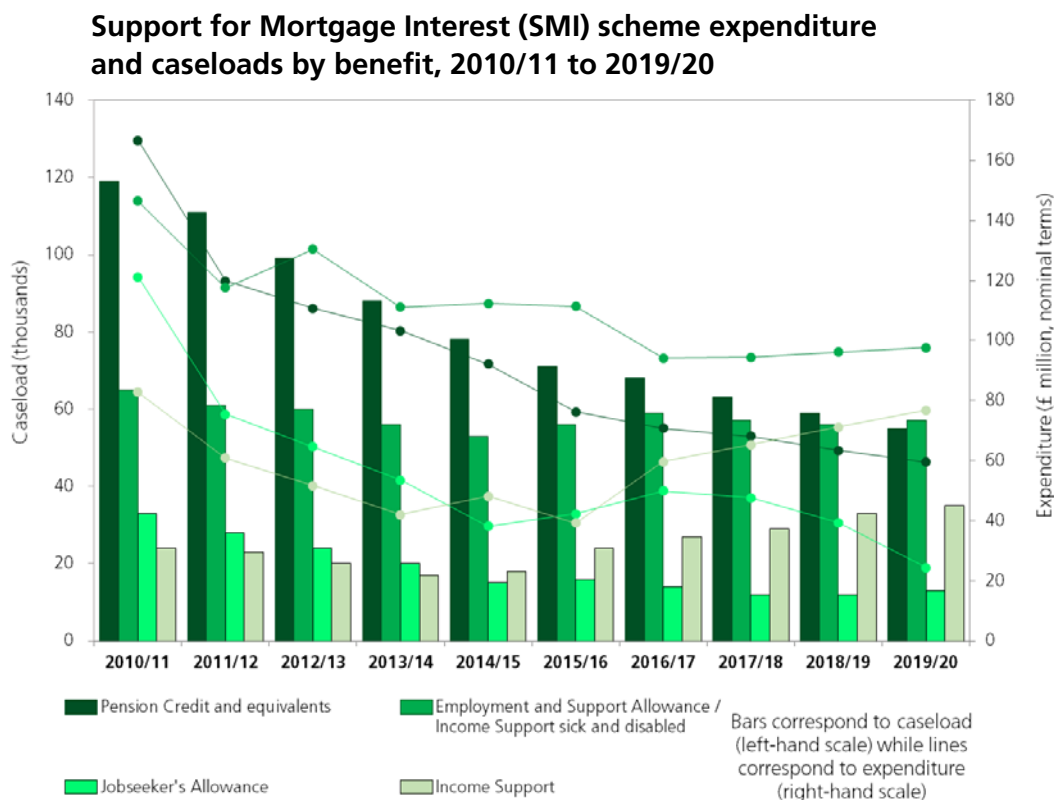
The Labour Government made a number of changes to the SMI scheme from January 2009, as part of a wider package of measures to help people affected by the economic downturn. The “waiting period” for SMI was reduced to 13 weeks and the loan cap increased to £200,000 for new working age claims, and the “standard rate” of interest was frozen at 6.08%. Receipt of SMI was also limited to two years for JSA claimants.

The changes were expected to be temporary but remain in place today, with the exception of the rate freeze. The new Government in 2010 announced that the standard rate would be based on the average mortgage rate published by the Bank of England. The standard rate remained 3.63% from October 2010 until 6 July 2015, when it fell to 3.12%.

The 2010 Government proposed that Universal Credit housing element would include help for owner occupiers which broadly replicated the current SMI scheme. However, SMI would not be payable if the claimant or their partner did any paid work.

Further information on the SMI scheme and its history is given in Library Briefing Paper SN06618, [Support for Mortgage Interest scheme](#).

There are currently around 167,000 SMI recipients in Great Britain, of whom 71,000 claim Pension Credit, 56,000 ESA, 24,000 Income Support, and 16,000 JSA. Total expenditure this year is forecast to be £269 million.¹⁹⁸



Source: DWP, Benefit expenditure and caseload tables

December 2011 call for evidence

In December 2011 the Government launched an “informal call for evidence” on proposals to reform SMI.¹⁹⁹ A number of ideas were put forward, the most radical being a proposal to recoup the SMI paid through a charge on the property, for new claims:

4. Our strategic vision for support for mortgage interest in the future is that it should provide short-term help to people at a time of personal crisis such as loss of employment or relationship

¹⁹⁸ DWP [Benefit Expenditure and Caseload Tables: March 2015 Budget](#)

¹⁹⁹ DWP, [Support for Mortgage Interest: call for evidence](#), December 2011

breakdown and incentivise work. This is because it is only through full-time work that mortgages can ultimately be re-paid.

5. Where there is longer-term dependency on the State, for example, where a claimant is disabled or takes a mortgage into retirement, the Government believes that taxpayers should not in effect be helping people to acquire personal assets through any potential long-term rises in house prices. We are therefore seeking views on an option to put a charge on property in return for long-term payment of support for mortgage interest.

6. A charge on the property, and an additional sum for interest and an administration fee, would be recouped on the death of the claimant or the sale of that property. Alternatively the claimant could choose to pay off the charge at any point. This policy would be fair to taxpayers and enable claimants to remain in their own homes.²⁰⁰

It sought views on whether to use a charge to recoup SMI from the outset of the claim, or allow a period of grace, perhaps two years, which would not be recouped. It added:

43. The Government does not currently propose putting a charge on the properties of those working age people, such as jobseekers, who routinely come on and off benefit as they move in and out of work, as these claims are short-term in nature and putting a charge on a property in these circumstances is not likely to be practical. However, an alternative option would be to consider extending the proposal to cover all recipients of SMI. This would effectively mean abandoning the two year limit in place for claimants who receive SMI with Jobseeker's Allowance or its future equivalent in Universal Credit.

Responses were received from various organisations including:

- [Support for Mortgage Interest informal call for evidence: a response from the Social Security Advisory Committee](#), February 2012
- [Informal call for evidence on Support for Mortgage Interest: Response by Citizens Advice to the Department for Work and Pensions](#), February 2012
- Shelter, [Consultation response: Department for Work and Pensions informal call for evidence: Support for Mortgage Interest](#), February 2012
- Chartered Institute for Housing, [CIH response to Support for mortgage interest relief: DWP call for evidence](#), February 2012
- [Support for Mortgage Interest: Response by the Council of Mortgage Lenders to the Department for Work and Pensions informal call for evidence](#), February 2012
- [Support for Mortgage Interest - Informal Call for Evidence Response by the Building Societies Association](#), February 2012
- National Housing Federation, [Submission: Potential future changes to support for mortgage interest](#), SB.PO.2012.RS.p1, February 2012

Many of the responses from the above organisations emphasised the importance of SMI as a vital "safety net" for homeowners, its role in

²⁰⁰ Ibid, Executive Summary

preventing repossessions, and the need for the Government to proceed carefully when considering reforms to the scheme. The Social Security Advisory Committee (SSAC) underlined the need to consider the wider economic and social costs of any change, the state of the housing market, and the need to ensure that any changes did not undermine other initiatives to encourage mortgage lenders to exercise “forbearance.” The cost-effectiveness of SMI was also noted – a number of responses drew attention to the relative cheapness of SMI compared with the alternatives of dealing with an increase in homelessness and/or providing support for rent through Housing Benefit.

Reactions to the proposal to recoup SMI via a charge on the property were mixed. Most of the above respondents accepted the principle of a charge on the property, for long-term claimants at least (a two-year “grace period” was considered appropriate). However, practical problems were also highlighted, e.g. how to deal with cases where there was insufficient or negative equity. It was also suggested that a charge on the property would mean that a time limit on receipt of SMI for certain claimants could no longer be justified.

Citizens Advice was opposed to the introduction of a charge, which it argued would undermine the effectiveness of the mortgage “safety net” at preventing arrears and repossessions. Shelter was also sceptical, arguing that the proposal set a “worrying precedent”, in effect turning SMI into a system of state-funded loans. Any move in this direction, it stated, carried considerable risks and would need further careful consideration. Shelter also doubted whether a charge would deliver value for money for taxpayers.

The National Housing Federation felt that while it was appropriate for the Government to consider ways of recouping the cost of SMI to the taxpayer, it was far from certain that a charge on the property represented the easiest and most equitable way of doing so. It also argued that, when considering the appropriate form of assistance to provide, it was important to distinguish between those who required temporary assistance with housing needs and those with long-term disabilities who used SMI to purchase a home through shared ownership schemes such as HOLD.²⁰¹ It did not regard it appropriate to impose a charge in the latter.

In addition to the proposal to recoup SMI, the call for evidence also set out future options for the loan cap and waiting periods, with the aim of ensuring that any changes were cost-neutral.

There was little enthusiasm for extending the current 13 week waiting period, or for lowering the £200,000 loan cap. Most felt that the temporary measures introduced in January 2009 had been a success, and that changes should only be considered if economic conditions improved. Shelter argued that the 13 week waiting period should be made permanent, and that the £200,000 loan cap should be retained

²⁰¹ Home Ownership for people with Long-term Disabilities

but reviewed regularly. The Chartered Institute for Housing was strongly opposed to a return to the 39 waiting period, arguing that the previous 1995 SMI reforms had been a failure and that Mortgage Payment Protection Insurance (MPPI) had not plugged the gap in provision as was hoped. The CIH thought that the increase in the loan cap to £200,000 for working age claims had been an “appropriate and well targeted response” and that it should be retained, although it believed there might be scope for local or regional variation of the maximum.

No formal response in the light of the call for evidence was given by the Government.

9.2 Budget announcement: replacing SMI with loans

The Summer Budget included three announcements regarding Support for Mortgage Interest:

- from April 2016, the “waiting period” for SMI would increase again from 13 weeks to 39 weeks (its length before the introduction of the temporary measures in January 2009);
- the loan cap would remain at £200,000; and
- from April 2018 SMI would change from a benefit to an interest-bearing loan, secured against the mortgaged property.

Loans would be repaid upon the sale of the property, or when claimants returned to work. Payments would accrue interest at a rate tied to the Office for Budget Responsibility’s forecast of gilts. Net savings of £255 million a year are expected by 2020-21.^{202m},

The Bill

Clauses 16-18 of the Bill provide the legislative basis for loans for mortgage interest. The detailed rules are to be set out in regulations, subject to the negative procedure. As with SMI, only those in receipt of Income Support, income-based JSA, income-related ESA, Pension Credit or Universal Credit will be eligible for a loan. Loans will only be granted if individuals satisfy certain requirements, including that they have received financial advice.

Comment

The DWP’s Delegated Powers Memorandum accompanying the Bill comments that the existing SMI scheme “has become unsustainable,”²⁰³ and the Bill’s Explanatory Notes state that providing help with mortgage interest in the form of a loan rather than a benefit will ensure that the Government “continues to mitigate the risk of repossession while providing better value for the tax payer.”²⁰⁴

²⁰² Summer Budget 2015, HC 264 2015-16, para 41

²⁰³ para 23

²⁰⁴ Bill 51-EN, para 40

Expenditure on SMI has fallen in recent years from a high of £621 million in 2009-10 and is expected to fall further to £237 million by 2019-20 (figures in real terms, at 2014-15 prices).²⁰⁵

At the time of writing there has been little comment on the proposals, but reactions from organisations may well be along the lines of the responses to the December 2011 call for evidence.

Details of how loans for mortgage interest will work will be set out in regulations, but in the Explanatory Notes and Delegated Powers Memorandum there is no mention of transitional protection for existing SMI recipients (the 2011 call for evidence suggested that loans would apply to new claims). Nor is there mention of any “grace period” for new claims.

The decision to retain the £200,000 loan cap will be welcomed by many organisations, but the proposal to increase the waiting period for mortgage interest help from 13 to 39 weeks may receive a less positive response.

²⁰⁵ DWP Benefit Expenditure and Caseload Tables: March 2015 Budget, Table 3b

10. Reduction in social housing rents

Summary

- Social housing rents will be reduced by 1% each year up to 2020
- Resulting in a 12% reduction in average rent levels by 2020-12 compared with current forecasts
- Will reduce social landlords' rental income by £2.5bn in today's prices
- OBR predicts that 14,000 fewer affordable homes will be built over the period
- Extends to England and Wales but will only apply in England

10.1 Background

For social landlords, rental income provides their most important (and largest) source of revenue. Rents pay for the day-to-day management and maintenance of their housing stock and the interest on loan payments. In the face of reduced capital subsidies, developing landlords are increasingly required to find the finance needed from higher rents. Indeed, the introduction by the Coalition Government of affordable rents at up to 80% of market levels was for the express purpose of allowing social landlords to use the additional rental income to fund the development of new housing.²⁰⁶

Around 2.7m social housing tenants are in receipt of Housing Benefit (it is paid to claimants in and out of work) – this means that social landlords' revenue stream is particularly reliant on the Housing Benefit entitlement of their tenants.

Rent convergence policy 2002-2015

Chapter 10 of the Labour Government's Housing Green Paper, [Quality and Choice: A decent home for all](#), (April 2000) focused on the need to develop a fairer system of affordable rents in the social housing sector. A process of rent restructuring began in 2002; the initial aim was to achieve the alignment of social sector rents (in the local authority and housing association sectors) by 2012.

The Coalition Government continued with the rent setting process put in place by the previous Government with (initially) a revised target convergence date for local authorities of 2015-16, subject to a maximum annual rent rise for an individual tenant of the Retail Prices Index (RPI) + 0.5% + £2 per week.

As part of the 2013 Spending Round the Coalition Government announced that "from 2015-16 social rents will rise by

²⁰⁶ The Bill's provisions will not require the reduction of affordable rents which are set at up to 80% of market levels.

CPI + 1 per cent each year for 10 years.” Following this announcement, DCLG sent a [letter](#) to housing bodies on 2 July 2013 in which plans to cut short the policy of converging council and housing association rents were revealed. Social landlords whose average rents had not yet reached target levels were concerned about the implications of the announcement on their ability to repay debt and invest in new and existing social housing stock.

[Draft Guidance on Rents for Social Housing from 2015-16](#) was published in October 2013 followed by a [summary of responses](#) in May 2014. At the same time, the Government published its final policy on rents for local authority owned social housing from April 2015 onwards - [Guidance on rents for social housing](#). The guidance confirmed the Government’s approach of ending rent convergence in April 2015 and the application of a rent increase formula of CPI + 1 per cent for the next ten years. For housing associations the relevant guidance is contained in Annex 3 to the Regulatory Framework (The Rent Standard).

10.2 The Budget announcement: reducing rents by 1%

The Chancellor announced that rents in social housing would be reduced by 1% a year for four years resulting in a 12% reduction in average rents by 2020-21:

Alongside the freeze in working-age benefits, the government will reduce rents in social housing in England by 1% a year for 4 years, requiring Housing Associations and Local Authorities to deliver efficiency savings, making better use of the £13 billion annual subsidy they receive from the taxpayer. Rents in the social sector increased by 20% over the 3 years from 2010-11. This will allow social landlords to play their part in reducing the welfare bill. This will mean a 12% reduction in average rents by 2020-21 compared to current forecasts.²⁰⁷

The ‘subsidy’ referred to in this extract refers to the personal entitlement to Housing Benefit of 2.7m social housing tenants. The measure is forecast to save £1.4bn by 2020-21, primarily in reduced Housing Benefit expenditure.²⁰⁸ Around 1.2m tenants not in receipt of Housing Benefit in the social rented sector are expected to benefit by £700 per year (current prices)²⁰⁹ although some of these tenants may, in due course, be required to pay market (or near market) rents if they earn £30,000 or more (outside of London) or £40,000 or more (within London).²¹⁰

²⁰⁷ [Summer Budget 2015](#), HC 264, July 2015, para 1.140

²⁰⁸ Ibid., Table 2.1 p.73

²⁰⁹ Andrew Hood, [Benefit changes and distributional analysis](#), IFS presentation, 9 July 2015

²¹⁰ Consultation will take place in relation to these ‘pay to stay’ proposals which were also announced as part of the Summer Budget 2015.

The 2.7m tenants in receipt of Housing Benefit in social housing will not gain from lower rent levels but the IFS notes that work incentives for this group could be improved.²¹¹

The Bill

Clause 19 provides the mechanism through which social landlords will be required to ensure that the rents payable by individual tenants reduces by 1% each year between 2016 and 2019. The rent baseline will be the rent payable on 8 July 2015, although the Secretary of State will be able to consent to an alternative 'permitted date.'

Most social landlords adjust their rents annually from 1 April each year. It is envisaged that the first 1% reduction will take place on 1 April 2016 and annually thereafter up to and including 1 April 2019. Provision is made for where landlords apply a different rent year.

Provision is also made (19(4)) in relation to the calculation of rent for a tenant whose tenancy commences during the four year period. Social landlords were initially concerned that they would be prevented from converting a vacant social tenancy to an affordable rent letting as this involves a rent increase (of up to 80% of market rents). DCLG has reportedly confirmed that associations will not be prevented from converting void social units to affordable rent units. Further clarification on the mechanism for conversions in light of the new rent policy is expected as the Bill progresses through Parliament.²¹²

Clause 20 makes provision for exceptions to the rent reduction requirement. For example, reductions will not apply to rents payable by residents in low cost homeownership and shared ownership properties. The Secretary of State will have regulation making powers to introduce other exemptions.

Clause 21 will give the Regulator of Social Housing the power, by direction, to exempt a private registered provider from the rent reduction requirement. Such an exemption will only be granted where compliance with the requirement would jeopardise the provider's financial viability. The Secretary of State will have regulation making powers to prescribe other circumstances in which an exemption may be granted. Directions issued by the Regulator will require the Secretary of State's consent.

The Secretary of State will have power to issue a direction to exempt a local authority from the rent reduction requirement if he considers that compliance would result in the authority being unable to avoid serious financial difficulties.

Directions issued under clause 21 may provide an exemption from compliance for the full period or a limited period and may provide for a full or limited exemption.

²¹¹ Andrew Hood, [Benefit changes and distributional analysis](#), IFS presentation, 9 July 2015

²¹² "Rent cut will not stop social homes becoming affordable," *Inside Housing*, 15 July 2015

Clause 22 provides for enforcement of rent reductions by the Social Housing Regulator – providers who fail to comply may be subject to action taken under Chapters 6 or 7 of Part 2 of the [Housing and Regeneration Act 2008](#).

Comment

Housing associations have been proactive in seeking out alternative sources of funding. They have, in large part, been successful in doing so due to investors' assumption of a steady rental income – this has also enabled associations to borrow at a reasonable rates to invest in new housebuilding. In [A Plan For Homes](#), launched on 13 July 2015, the National Housing Federation (NHF) calls on the Government to offer, inter alia, greater flexibility in setting rents within an overall envelope in order to achieve “genuinely affordable rents while creating the most effective income stream.” With this and other measures, the NHF claims associations could develop 120,000 new homes per year.²¹³

In this context, the requirement to reduce social housing rents was unexpected, particularly as a ten-year rent policy (to operate from 2015-16) was announced in May 2014 with a stated intention of enabling social landlords to plan for future investment:

At Budget 2013, the Government signalled its intention to set out, in the Spending Round, a rent policy to apply for ten years from 2015-16. This commitment was in recognition of the benefit of long-term certainty to landlords, in helping them to plan for future investment – and so provide more new affordable homes, improve existing affordable homes, and provide good services to their tenants.²¹⁴

Development of affordable housing

The announcement has been greeted with some dismay by social landlords who are now modelling the impact on their business plans. The Office for Budget Responsibility (OBR) is predicting a reduction in housing investment as a result of the measure:

...the 1 per cent a year reductions in social sector rents for four years from April 2016 announced in this Budget will directly reduce social landlords' rental income. We expect that this will reduce their ability and willingness to invest in housing, so we have lowered our forecast for residential investment, proportionate to the expected reduction in rental income. The effect is to reduce the level of private residential investment by around 0.7 per cent by the end of the forecast period, which is broadly consistent with a reduction in housebuilding of 4,000 in 2020-21. Over the forecast period, our assumptions suggest around 14,000 fewer affordable homes will be built. We do not expect private sector house-builders to offset this effect to any material degree.²¹⁵

The National Housing Federation is estimating a more significant reduction in development:

²¹³ [A Plan For Homes](#), NHF, 13 July 2015

²¹⁴ [Guidance on rents for social housing](#), DCLG, May 2014, para 1.10

²¹⁵ OBR, [Economic and Fiscal Outlook](#), Cm 9088, July 2015, para 3.84

Our own estimates suggest that the reduction will result in a loss of almost £3.85bn in rental income over the four years. Simply dividing this by the average build cost in the 2011-15 programme of £141,000, suggests that at least 27,000 new affordable homes won't be built as a result of the change. This of course assumes the lost income wouldn't be matched by any government grant or used to leverage in private finance, so the actual total could be higher.²¹⁶

The withdrawal of the ten-year approach to rent setting has, according to affected landlords, resulted in a lack of confidence in the sector which, in turn, could affect credit agencies' confidence.²¹⁷ The rating agency for 44 social landlords, Moody's, has reportedly said that the measure has had an adverse impact on the sector's traditional stability:

The agency said: 'A traditional credit strength of English [housing associations] has been the predictability of the policy environment and the sector's strong ties to government. This stability has been eroded by the sudden removal of the rent-setting formula, which was preceded by limited consultation...

'In the past, Moody's has viewed the sector's close relationship with government as credit positive due to a settled and supportive policy environment. This is no longer the case, with changes in government policy creating a more challenging operating environment for [housing associations].'²¹⁸

The overriding concern of housing commentators is that the potential adverse impact on housing development comes at a time when there is a general consensus over the need for additional housebuilding to tackle the UK's housing shortage and associated affordability issues. While supporting the Government's aim of reducing expenditure on Housing Benefit, social housing providers and their representative bodies believe that this is best achieved through increasing housing supply, rather than by reducing their rent levels and restricting access to housing support. Responding to the Summer Budget, Terrie Alafat, CEO of the Chartered Institute of Housing (CIH), said:

Action to restrict entitlement to benefits is at best a stop gap measure and at worst increases poverty and misery for already poor and vulnerable people. Long-term, effective action would focus on increasing our housing supply not further restricting access to our already insufficient and inadequate supply of homes.

Cutting housing benefit simply penalises people who are struggling to afford a place to live, rather than tackling the root cause of the problem. Freezing working age benefits for four years fails to reflect the reality of the housing crisis – we have failed to build the number of homes we need for decades, which means the cost of housing and therefore the housing benefit bill is going up.

We know the government wants to tackle this issue, and housing professionals across the UK are ready to work with them on the solutions that could make a real difference. But we're concerned that some of the measures announced today are going to make it

²¹⁶ [Summer Budget 2015 Briefing](#), National Housing Federation (NHF), 10 July 2015

²¹⁷ "Scrapping of rent formula to reduce building," *Inside Housing*, 10 July 2015

²¹⁸ "Moody's: Rent cut could cost sector 7% in revenue," *Inside Housing*, 13 July 2015

more difficult for them to play their part in building the new homes we need and supporting people into work or training.

Social landlords built almost 60,000 homes in 2014/15 and have also made significant investment in employment and training support. We understand the government's desire to manage the cost of the housing benefit bill – but undermining their income by cutting social housing rents by one per cent a year over the next four years is going to make it much tougher to build new homes at a time when we desperately need to do so.²¹⁹

To date, there has been little reference from the sector to the Government's aspiration that the policy's impact should be absorbed through efficiency measures rather than cuts to development programmes.

Potential reclassification of housing associations

The Government's announcement of an intention to extend the Right to Buy to assured tenants of housing associations²²⁰ had already raised questions around the ongoing status of associations as private not-for-profit businesses. This, together with the rent reduction policy, has led the OBR to identify a risk of housing associations being reclassified as public sector bodies with consequent implications for the treatment of their debt:

The level of PSND can be affected by classification decisions that move institutions across the boundary between private and public sectors in the National Accounts. One classification uncertainty that may be relevant to future forecasts relates to housing associations. At present, these are classified in the private sector, so their income, spending and debt do not feature in our forecast. But there is a risk that Government policies – including the social rent measure in this Budget and the Right-to-Buy proposals that are not yet firm enough to be included in this forecast – could prompt the ONS to reconsider this classification. If housing associations were to be classified as part of the public sector, their approximately £60 billion of debt would be added to PSND while the social rent reduction policy announced in this Budget would increase rather than reduce PSNB because the full amount of the rent reduction would then reduce public sector income, and outweigh the housing benefit and other expenditure savings.²²¹

²¹⁹ [CIH responds to the Summer Budget 2015](#), 8 July 2015

²²⁰ Measures are expected to be included in a forthcoming *Housing Bill*.

²²¹ OBR, [Economic and Fiscal Outlook](#), Cm 9088, July 2015, para 1.30

11. Territorial extent and application

		England	Wales		Scotland		Northern Ireland	
		Extends to E & W and applies to England?	Extends to E & W and applies to Wales?	Legislative Consent Motion required?	Extends to Scotland?	Legislative Consent Motion required?	Extends to Northern Ireland?	Legislative Consent Motion required?
1	Full Employment: reporting obligations	Yes	Yes	No	Yes	No	Yes	No
2	Apprenticeships reporting obligation	Yes	No	No	No	No	No	No
3	Support for troubled families: reporting obligation	Yes	No	No	No	No	No	No
4	Workless households and educational attainment: reporting obligations	Yes	No	No	No	No	No	No
5	Social mobility commission	Yes	Yes	No	Yes	No	Yes	No
6	Other amendments to Child Poverty Act	Yes	Yes - in part	No	Yes - in part	No	Yes - in part	No
7	Benefit cap	Yes	Yes	No	Yes	No	No	No
8	Review of benefit cap	Yes	Yes	No	Yes	No	No	No
9	freeze of certain social security benefits for four tax years						No - social security benefits, Yes	
		Yes	Yes	No	Yes	No	Child Benefit	No
10	freeze of certain tax credit amounts for four tax years	Yes	Yes	No	Yes	No	Yes	No
11	Changes to child tax credit	Yes	Yes	No	Yes	No	Yes	No
12	Changes to child element of universal credit	Yes	Yes	No	Yes	No	No	No
13	Employment and support allowance: work-related activity component	Yes	Yes	No	Yes	No	No	No
14	Universal credit: limited capability for work element	Yes	Yes	No	Yes	No	No	No
15	Universal Credit: Work-related requirements	Yes	Yes	No	Yes	No	No	No
17-20	Loans for mortgage interest	Yes	Yes	No	Yes	No	No	No
19-22	Social housing rents	Yes	No	No	No	No	No	No

Appendix: comparison of frozen benefit rates and tax credit elements with CPI-indexed increases, 2016-2020

		2015-16 (rates frozen to 2019-20 inclusive)	What benefit rates and tax credit elements would have been if not frozen at 2015-16 levels (HoC Library calculations based on OBR forecasts of CPI inflation)									
			2016-17			2017-18		2018-19		2019-20		
			£	£	£ diff. vs. 2015-16	£	£ diff. vs. 2015-16	£	£ diff. vs. 2015-16	£	£ diff. vs. 2015-16	% diff. vs. 2015-16
Child and Working Tax Credit												
CTC Child element	per year	2,780	2,780	0	2,815	+35	2,865	+85	2,915	+135	+4.9%	
WTC Basic element	per year	1,960	1,960	0	1,985	+25	2,020	+60	2,055	+95	+4.8%	
WTC Couples and lone parent element	per year	2,010	2,010	0	2,035	+25	2,070	+60	2,105	+95	+4.7%	
WTC 30 hour element	per year	810	810	0	820	+10	835	+25	850	+40	+4.9%	
Child Benefit												
First child	per week	20.70	20.70	0.00	20.95	+0.25	21.30	+0.60	21.70	+1.00	+4.8%	
Each additional child	per week	13.70	13.70	0.00	13.85	+0.15	14.10	+0.40	14.35	+0.65	+4.7%	
ESA, Income Support, JSA (income-based)												
Personal allowances (selected rates):												
Single under 25/lone parent under 18	per week	57.90	57.90	0.00	58.60	+0.70	59.60	+1.70	60.70	+2.80	+4.8%	
Single 25+ / lone parent 18+	per week	73.10	73.10	0.00	74.00	+0.90	75.30	+2.20	76.70	+3.60	+4.9%	
Couple (both over 18)	per week	114.85	114.85	0.00	116.25	+1.40	118.25	+3.40	120.40	+5.55	+4.8%	
ESA: Work-related activity component <i>(not available for new claims after April 2017)</i>												
	per week	29.05	29.05	0.00	29.40	+0.35	29.90	+0.85	30.45	+1.40	+4.8%	
Jobseeker's Allowance (contribution-based)												
Under 25	per week	57.90	57.90	0.00	58.60	+0.70	59.60	+1.70	60.70	+2.80	+4.8%	
25 or over	per week	73.10	73.10	0.00	74.00	+0.90	75.30	+2.20	76.70	+3.60	+4.9%	
Universal Credit - Standard allowances												
Single under 25	per week	57.90	57.90	0.00	58.60	+0.70	59.60	+1.70	60.70	+2.80	+4.8%	
Single 25+	per week	73.10	73.10	0.00	74.00	+0.90	75.30	+2.20	76.70	+3.60	+4.9%	
Couple, one or both over 25	per week	114.85	114.85	0.00	116.25	+1.40	118.25	+3.40	120.40	+5.55	+4.8%	
CPI uprating factor (September of previous year - OBR forecast as at July 2015)				0.0%		1.2%		1.7%		1.8%		

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