

Rt Hon Alistair Darling MP
Chancellor of the Exchequer
Her Majesty's Treasury
1 Horseguards Road
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27 November 2009

Dear Alistair

Re: Pre-Budget Report

We are writing to you in the lead up to this year's Pre-Budget Report to urge you to prioritise policies that support low income families. Although we are aware that this year's PBR is being formulated under tight fiscal constraints, this letter outlines a number of proposals that recognise the enormous economic and social costs that inequality, poverty and inadequate services impose upon both individuals and society as a whole, and highlights the importance of safeguarding a child poverty strategy that will shortly be enshrined in the Child Poverty Bill.

The policies we outline below build upon the progress made, but recognise that a different emphasis is now needed – one which recognises the importance of supporting people during both good and bad economic times, whether they are in employment or on benefits. We urge you to use the PBR to provide the financial protection needed for all low income families who are struggling to recover from the recession. We also highlight a number of policy initiatives that are discrepant with the child poverty strategy because they sap already low incomes.

Government statistics published in May 2009 indicated that progress on child poverty had once more faltered. While additional support pledged in the 2007 and 2008 Budgets should lift around half a million children out of poverty by 2010, this will still leave the Government 600,000 short of the target of halving child poverty by 2010. Child poverty is not an insoluble problem - even in a recession. A combination of well targeted investment and political determination can and will lift these children out of poverty. Reducing unacceptably high levels of child poverty will not only enhance child wellbeing, facilitate educational inclusion, improve health and enhance future prospects, but it will generate savings in the long run. Poverty is costly and wasteful. Research undertaken by the Joseph Rowntree Foundation calculates that poverty costs £25 billion a year, including £17 billion that could accrue to the Exchequer if child poverty were eradicated. Furthermore, putting more money in families' pockets is the quickest and surest way to achieve your stated priority to *'put money back into the economy.'*

As the Secretary of State for Work and Pensions, you outlined your Government's 'objective of tackling poverty and providing opportunity for all. Underpinned by a strong and stable economy, we are determined that everyone should share in rising prosperity and that no one should be held

back by poverty of income or poverty of expectation and ambition.’ While CPAG recognises that progress has been made, it is now clear that some did not share in rising prosperity, and yet they are paying a disproportionate price for an economic downturn that was the consequence of excessive greed. Low income families need to know keeping them afloat is as important as protecting banks and businesses. We believe that their financial security is an integral part the UK’s economic recovery.

We therefore ask you to consider the following proposals.

1. Make work pay

The Government’s child poverty strategy was formulated in the belief that work is the best route out of poverty. However, nearly 60% of poor children have a parent in work, a figure that has steadily increased over the last decade. The UK is now at the higher end of the European low pay rate. Tackling in-work poverty is essential if the Government is to make significant progress on the eradication of child poverty. **The following policies would help reduce in-work poverty in the short-term and maximise opportunities for more vulnerable groups to move into employment as and when the labour market recovers.** They also recognise that employers have an important role to play in reducing in-work poverty.

- *Increase the national minimum wage (NMW):* Although working tax credit (WTC) provides a valuable and much needed financial boost, subsidising low wages via tax credits undermines the argument that work provides a route out of a complex benefit system because it draws families into an inherently complex tax credit system which contributes to financial instability. The gradual removal of tax credits when parents work longer hours or their pay increases constitutes a disincentive to progress at work. **An increase in the NMW would place a greater responsibility on employers, and would reduce families’ reliance on complex tax credits.** Good pay and good conditions ensure that young people have a positive experience of employment, and this will result in more of them remaining in and progressing in the workplace. **Young workers should receive the same recognition of their contributions in the workplace as adults:** the NMW should be the same for young people as it is for adults.
- *Increase earnings disregard for means tested benefits*– moving into work triggers the sudden withdrawal of benefits and passported support such as free school meals and free prescriptions, and this means that low paid workers are often no better off in work than they are on benefits. The abrupt removal of benefits contributes to high rates of in-work poverty and poses a major barrier to employment. **Increasing the benefit disregard would not only reduce these problems, but it would obviate the need for families to be drawn into a costly and complex tax credit system.** CPAG suggests, for example, a £93 disregard of earnings for one year on top of basic benefit entitlement. Such a disregard already exists for claimants of income related Employment and Support Allowance.
- *Childcare:* Childcare lies at the heart of the Government’s child poverty strategy. The extension of the free early years’ entitlement to childcare is designed to enhance child wellbeing, while the promise of wraparound childcare for all parents who need it to access employment, underpins the Government’s welfare to work agenda. Ensuring that more poor families benefit from the support on offer, and that all children benefit from higher quality childcare provision, must be a priority. **Ensuring that childcare provision is affordable and available to all families who need it requires a much more flexible, accessible and easy to understand form of support.** For example, a system of grants payable weekly or monthly according to the parent’s particular needs would better reflect complex, insecure and often uncertain working lives. Building childcare support into the working tax credit distorts the tax credit calculation and penalises poorer families who do not receive the childcare element, who thus start to lose maximum child tax credit at a

lower level of income, because of the mechanics of the calculation. This anomaly needs to be reviewed.

- *Free school meals:* it is widely accepted that the provision of universal free school meals would remove a financial barrier to employment, have positive educational benefits and help tackle child poverty. A number of free school meal pilots and schemes are being run in local authorities across Scotland and England, and the evidence demonstrates a range of health and educational benefits. **The provision of universal free school meals would not only extend much needed additional support to low income families who may not currently qualify (because they are in work) but it is likely to increase take up among families who already qualify.** The provision of free school meals when sourced locally and prepared in school kitchens generate local jobs, stimulate the local economy, and improve the environment. As a first step towards free school meals for all, and building on the successful pilots put in place by the Government, we urge you to roll out universal free school meals in all primary schools, at an estimated cost of £600 million. Alternatively, we urge you to extend free school meals to families who qualify for working tax credit.
- *Employers:* CPAG believes that if the Government is to fulfil its responsibilities to make work the most effective route out of poverty, then more should be demanded of employers. Some groups continue to face entrenched discrimination, lower pay, poorer work conditions and higher barriers to work. **The Government needs to work with and demand more of employers to ensure that responsibilities to work are matched by a right to a job that lifts people out of poverty.**

2. Increase family income

- *Up-rate benefits and tax credits:* CPAG has long argued that keeping adult benefit levels below the poverty line is counter-productive because it saps overall household income and minimises the impact of additional support for families with children. Unless action is taken to address benefit adequacy, the recent rise in the number of benefit claimants is likely to lead to an *increase* in poverty. **Benefit adequacy should be reviewed as a matter of urgency.**
- *Benefit take up:* **CPAG urges you to increase resources for benefits take up campaigns.** Investing in benefit and tax credit take up work is important to alleviating poverty, particularly in difficult economic times. Research suggests that the most vulnerable groups are least likely to receive their full benefit entitlement or tax credits. We believe that the emphasis on high-profile anti-benefit fraud campaigns is misplaced, because benefit fraud (which is conflated with administrative error) is at an all time low, and counter-productive, because they put people off applying for the benefits to which they are entitled and which they need to keep afloat. At the moment, it is calculated that around £10 billion of benefits remain unclaimed. **Ensuring that more people know about, apply for and receive the benefits and tax credits to which they are entitled would have a significant impact on child poverty levels, and resources should be diverted to fund take up campaigns.**

3. Provide additional support for children who face the greatest risk of poverty

The Government has long recognised the need to support groups of children who face the highest risk of poverty – including children in care, children affected by disability and children from some black and minority ethnic groups. However, focusing additional support on an ever changing list of children who face a high risk of poverty is problematic. CPAG believes that targeting support on larger families and families affected by disability provides an effective way of reducing the risk of poverty among all the ‘at risk’ groups.

- *Larger families:* Research undertaken by the Joseph Rowntree Foundation in 2006 shows that the UK child poverty rate for large families is amongst the highest in the OECD. Households Below Average Income (2007/08) show that the risk of poverty rises from 26%

in families with one child to 43% in families with three children – a slight increase in the risk of poverty over the last year. **At the moment, the UK tax and benefit system favours small families.**

- *Child benefit:* The Government has long recognised the importance of child benefit in reducing child poverty. CPAG proposes that the support for children be more equitably distributed by increasing the rate for the second and later children to that paid currently for the first child. The current rates discriminate against larger families and this change would go some way to help all families with more than one child. The poverty line for a lone parent with two children is £239, and yet current benefit and payments for children total £193.82 (assuming the parent was in receipt of a means tested benefit without any premiums or components). If child benefit was increased as proposed an additional £6.80 would be payable for the second child thus bringing income up to £199.80. **Increasing the level of Child Benefit for the second and subsequent children would reduce poverty among larger families.**
- *Child Tax Credit:* CPAG believes that an additional rate of the child element of child tax credit should be paid for the third and fifth child. Again effectively there is a larger element of support paid for the first child with the addition of the family element which is paid per family. Furthermore, when the childcare element is paid as part of working tax credit it is only paid up to two maximum rates of entitlement and makes no real allowance for the costs of the third and later children. **We believe that increasing the CTC rate and paying it at a higher rate for the third, fifth child and subsequent children more fairly reflects the additional costs of larger families.**
- *Disability:* Although access to disability living allowance (DLA) has a significant impact on family income, because it provides additional support and a passport to additional disability and carer premiums within tax credits - the most disadvantaged families are the least likely to apply for DLA, and are more likely to be turned down or awarded lower rates of DLA than other families. Given that disability and ill-health span all the groups identified by the Government as facing a disproportionate risk of poverty, **increasing take-up of Disability Living Allowance for both children and adults provides an effective way to target additional financial support on many of the most vulnerable families and reduce child poverty.** Increasing eligibility to DLA would have an even greater impact, generating financial support for families who are affected by disability, have additional caring responsibilities, and yet do not qualify for DLA under the current rules. Carer's allowance – at £53.10 a week – fails to recognise the valuable role played by carers, and the additional costs they incur in caring for others. **We urge the Government to review the rate of Carer's Allowance.**

5. Address policies that *reduce* family income

CPAG believes that removing policies which actually reduce family incomes and increase child poverty would make a significant difference to families' lives. We are concerned that some wider legislative initiatives are likely to undermine the Government's commitment to eradicate child poverty, and that some policies designed to reduce child poverty may inadvertently increase it. A number of discrepancies and anomalies within the benefit and tax credit system are penalising some poor families. Resolving tensions, anomalies and contradictions would make a significant difference.

- *Revise welfare reform plans.* Welfare Reform plans are predicated on a stable economy and rising employment. **Increasing benefit conditions at a time of rising unemployment will reduce incomes, is unlikely to increase job entries and will impose additional bureaucratic burdens on a pressurised Jobcentre Plus.** CPAG does not believe the Government should apply greater conditions until it can demonstrate adequate rights to support are in place (including affordable childcare and specialist health care support). Plans to abolish Income Support and move carers to Jobseekers Allowance

should also be reconsidered. Society has accepted that carers and parents are already in work, albeit unpaid, and it is inappropriate and demeaning to imply they need to seek employment. Those who do want to work should receive high quality support to help them access high quality jobs.

- *Benefit sanctions:* Research on the impact of sanctions suggests that they have a negative impact on the health and wellbeing of children and are at odds with commitments to eradicate child poverty. **Research findings also indicate that the imposition of sanctions generates considerable financial hardship, without necessarily increasing employment levels.** We urge Government to take a pragmatic and lenient view on the imposition of benefit sanctions at this stage, and to clearly and publicly evaluate the impact of conditionality policies on employment and child poverty levels.
- *Employment and support allowance:* High rates of poverty in households affected by disability are driven by significant additional disability-related costs alongside barriers to paid employment. **Although the replacement of Incapacity Benefit by the Employment and Support Allowance (ESA) was designed to increase the number of disabled people moving into work, statistics on access to ESA are a source of concern.** 69% of ESA claimants who are assessed under the Work Capability Assessment are being found fit for work. This represents a huge increase on the comparable figure for Incapacity Benefit claimants assessed under the PCA of 30%. It is also a substantial increase on the DWP's own evaluation of the WCA, which suggested that 39% of claimants would fail the new test. Even more worryingly, the DWP began a review of the WCA, before any of the above figures were known, with the objective of increasing the disallowance rate by 10 percentage points. Given that the disallowance rate is already 20 percentage points higher than the DWP expected, the rationale for further changes is hard to understand. We ask that this review be halted. Clearly the new system is not working as anticipated, and action must be taken to protect a vulnerable group of people.
- *Tax credits - under and overpayments:* The existing policy of not making good immediately an underpayment of tax credits is unhelpful at a time of recession when pay and earnings may be falling. A person on tax credits who has an income which fluctuates *below* the previous year's income will incur both under and over-payments. In contrast, a person whose income fluctuates *above* previous year's income up to £25,000 does not incur overpayments. **CPAG argues that underpayments should be made good immediately – as was the case before 2007 - and that some of the advantages of the £25,000 disregard that benefits people whose income is rising are transferred to those whose income is fluctuating below their previous year's income.** The current system is likely to increase levels of indebtedness and hardship, and increase child poverty.

6. Reduce inequality

Despite a raft of policies designed to reduce poverty, Britain remains one of the most unequal countries in the developed world. **Inequality not only exacts a huge financial cost because it generates costly health and social problems, but research suggests that it has a devastating impact on child wellbeing.** While ongoing bail outs for the banks may be needed to stabilise the economy, it is vital that the Government takes the opportunity to ensure hard-pressed families also receive the support they need to survive the recession, and flourish in its aftermath.

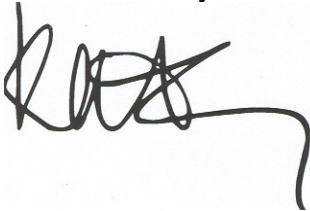
Progressive taxation and redistribution will reduce both poverty and the costs of poverty which impact on everybody. Robust redistributive measures will send out a clear signal that the Government is prepared to support struggling families as well as floundering banks. We are concerned that an understandable preoccupation with fiscal savings (encapsulated by the Public Finance Bill) may drive policies that generate savings to the Exchequer in the short-term, but

these may, over time, prove to be false economies. Increasing families' income and reducing inequality will not only make a significant difference to the lives of millions of children now, but it will generate much needed, long-term savings.

Taxes are not adequately progressive and the poorest families pay a higher proportion of their incomes in tax than richer families. The TUC have highlighted tax loopholes being exploited for tax avoidance to the tune of £25 billion every year. In addition to redressing those anomalies, there are a series of revenue raising measures Government could choose to take to provide the necessary additional resources needed for tackling child poverty, including reversing Inheritance Tax cuts, and introducing the 50% tax rate on incomes at a lower level of income.

CPAG believes that robust policies that tackle child poverty and reduce inequality by increasing taxation at the top, enhancing incomes at the bottom, and ensuring that work really does provide a route out of poverty for everybody, will enable the Government to fulfil the many pledges it has made to children living in poverty, and provide dynamic and lasting solutions to the economic recession.

Yours sincerely



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