

Rt Hon Alistair Darling MP  
Chancellor of the Exchequer  
HM Treasury  
1 Horse Guards Road  
London SW1A 2HQ

3 March 2008

### **Re: Budget 2008**

I write to you ahead of the March budget with suggestions for progress towards achievement of the government's visionary goal of eradicating child poverty. Some simple facts:

- The target to halve child poverty is set for 2010/11 – any changes which can bear on this target will have to have impact before or in that financial year.
- In 2005/06 child poverty figures stood at 2.8 million by the Government's preferred measure. Though policy has certainly reduced poverty, in the year to 2005/06 child poverty rose.
- The official target (BHC) of halving child poverty (halving between 1998/99 and 2010/11) implies the number of children in poverty should be 1.7 million in two years time.

The 2010 target is both morally right and economically sensible. However we are off-track to achieve it and there is no recovery plan in place. CPAG understands the fiscal position is challenging but we urge that child poverty remains a key priority. Current policy appears to be stalling at best and reversing at worst. To meet the 2010 target and retain credibility for the 2020 ambition, we urge greater efforts, and as members of the Campaign to End Child Poverty CPAG calls on the government to increase spending on tackling child poverty by £4 billion per annum now.

### **Investing to support families**

The latest IFS estimate is for an additional £3.4 billion per year spent through tax credits to give a 50:50 chance of halving child poverty.<sup>1</sup> This is a helpful figure but modelled estimates have been wrong before and we urge the government to invest £4 billion in better supporting family incomes, including through **child benefit**.

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<sup>1</sup> See Institute for Fiscal Studies, The IFS Green budget, January 2008

CPAG remains a strong proponent of child benefit, a simple, effective and extremely popular form of support for families. We would like to see you use the opportunity to raise the rate and the value of child benefit, particularly for second and subsequent children. Increasing the rate for younger children to that of the first child would cost £1.7 billion to lift 250,000 children out of poverty and benefit millions more. It would also be popular, sustainable and support work incentives.<sup>2</sup>

Around one million poor children are affected by **disability**, their own, a sibling's or that of a parent. That means that policy which seeks to improve the circumstances of disabled people is likely itself to be progressive. Improving the rate of Disability Living Allowance, Carers Allowance and the proposed Employment and Support Allowance for disabled parents is important, but so too is take up. Disability Living Allowance take up has been estimated at between 40 and 60%.<sup>3</sup> We are pleased that the Department for Work and Pensions is giving attention to improving take up and that this is mentioned in the PSA delivery agreement. CPAG recommends further action to boost take up of disability benefits - including more take up campaigns, pre-populated forms and run-ons when DLA is downrated.<sup>4</sup>

We understand the focus given to **tax credits** and support the redistribution these have brought. Though CPAG's key priority is to see greater investment in child benefit, we recognise the role child tax credits have to play. Targeted investments in tax child tax credit might include increasing the per-child amount, introducing a large family premium (targeting large families) or extending the baby element (targeting families with younger children). Greater investment in the tax credits will reduce child poverty, and CPAG will warmly welcome additional investment, but increasingly relying on child tax credit comes at the cost of greater means testing with resultant complexity and work disincentives.

There have been a number of proposals recently about adding a couple premium to working tax credit. Though we recognise the logic to add a couple premium (in line with income support/ Job seekers allowance), and CPAG would welcome additional resources focused on children, this would not be our priority for investment to reduce poverty. Children in lone parent households still face a high risk of poverty, and attention should not be directed from them.

CPAG supports many of the reforms made to the tax credit system in the 2005 pre-budget review. However we continue to have very serious concerns about the administration of the system. The bad press tax credits continue to be susceptible to (at both national and local level) around ongoing problems and slow speed of rectification discourages entitled families from claiming and it arms the critics. In particular, CPAG remains concerned about the low

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<sup>2</sup> F Bennett with P Dornan, Child benefit: fit for the future, Child Poverty Action Group, 2006

<sup>3</sup> 40-60% - check

<sup>4</sup> See G Preston with M Robinson, Out of Reach, benefits for disabled children, Child Poverty Action Group, 2006

quality of service, the slow speed of responding to and resolving difficulties and poor communications received by the poorest families.<sup>5</sup> CPAG is very worried about the scope for, and treatment of, overpayments for poorer families either because of changing circumstances or because fluctuating incomes (and subsequent reassessment) leave families unprotected by the £25,000 disregard. We continue to believe an independent right of appeal should exist covering the recovery of overpayments and are concerned about the lack of offsetting of an (unclaimed) entitlement against an overpayment.<sup>6</sup>

CPAG would also welcome a more open HM Revenue and Customs culture which, we feel, would improve policy making and delivery - in particular here we call for the same role and statutory basis for the Social Security Advisory Committee in relation to tax credits as it has with the Department for Work and Pensions.

### **We need better jobs, not just more jobs**

By the Government's preferred child poverty measure 55% of children in poverty had a parent in paid work; employment is not a secure route out of poverty.<sup>7</sup> Many people are barred from the labour market and should be given access to it, CPAG supports the 80% employment rate goal, but more employment needs to mean better employment if it is to tackle poverty.

To facilitate this we support many aspects of the package of support which has been developed through the new deals, the childcare strategy and the in-work credit. We also agree with the emphasis which has been placed on skills investment. As well as much more effort to build and sustain decent childcare, we need to see much more employer engagement ensuring they take up their 'responsibilities' to provide good quality jobs, not just their 'rights' to a ready supply of labour, and we support the recommendations of the London Child Poverty Commission in relation to employers' roles in upskilling low-paid and junior workers, and in offering more flexible opportunities to parents<sup>8</sup>.

CPAG believes recent political and press debate on **welfare reform** to be stigmatising and counterproductive – talking up the size of a tiny group who abuse the system tars all claimants and it undermines public willingness to support families. We also urge great caution on increasing the role of conditions and benefits sanctions (through for instance changes for lone parents and disabled adults). CPAG opposes greater sanctions because they lower family incomes, and there is little evidence that they actually work - often people do not understand them (shown by DWP research<sup>9</sup>), and greater

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<sup>5</sup> See for instance Health and Parliamentary Ombudsman, 'Tax credits: Getting it wrong?' <http://www.ombudsman.org.uk>, HC 1010, October 2007. CPAG's experience as second tier adviser bears this experience out.

<sup>6</sup> where couples break up, because there is no provision for offsetting one award against an overpayment some lone parents may have to repay HMRC an overpayment even though they may well have been entitled to unclaimed tax credits as a lone parent.

<sup>7</sup> Figures are from the Department for Work and Pensions', *Households Below Average Incomes publication 2005/06, 2007*

<sup>8</sup> London Child Poverty Commission, *Capital Gains*, 2008

<sup>9</sup> M Mitchell and K Woodfield, *Qualitative research exploring the pathways to work sanctions*

conditionality will undermine claimants' trust in the key mechanism to support entrance to work, the personal adviser.

CPAG also has concerns over the large scale contracting out implied by the Freud review. CPAG does not object to generating additional capacity though we see no reason why the private or indeed scaled up voluntary sector should intrinsically be better at this than Jobcentre plus. Contract design needs to ensure services are open and consistent across the country, and that people are placed in good, sustained employment. Increased use of the voluntary sector (potentially as subcontractor of welfare to work services) seems attractive in reaching 'hard to serve' groups, but there is little evidence this ability to innovate would survive contract driven scaling up, and may put at risk the sector's independent advocacy role.

### **A government committed to eradicating child poverty cannot continue to let children in families without employment fall further behind**

It is shameful that though government is committed to eradicating child poverty, three quarters of children in workless households – where government is largely responsible for provision of financial support – are in poverty. If the 80% employment rate aspiration is reached, many of the 20% of the remaining working age workless adults will be parents. Government can and should tackle the problem of inadequate benefits. Not only is the failure to address the falling relative value of income support/ job seekers allowance (which undermines the increases in the tax credits) damaging, it is short sighted – poverty undermines health and morale, it drives people away from employment, not closer to it. We urgently suggest that a review is put in place of the levels of out of work benefits and an uprating policy established as recommended by the Work and Pensions select committee's recent report<sup>10</sup>.

### **To reach 2010....**

Fundamentally the 2010 target is about improving family incomes: through employment income, social transfers or child maintenance. CPAG believes that though meeting the 2010 target is challenging, it is entirely achievable and we urge government to take steps to ensure we are as close to the target as possible by 2010. In particular we urge:

- Increases in redistribution to families, particularly through child benefit and child tax credits;
- Better gains from work (through higher minimum wage, working tax credit and welfare to work delivering improved retention, progression and flexibility);
- There is a moral and pragmatic case to improve support for families without a parent in work - it protects children and keep parents closer to the labour market.

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*regime*, Research report 475, Department for Work and Pensions, 2008

<sup>10</sup> House of Commons Work and Pensions Select Committee, *The best start in life? Alleviating deprivation, improving social mobility, and eradicating child poverty*, Second Report of Session 2007-08

In conclusion, while we note that there will be further opportunities for investment before 2010, every day that this is delayed makes it harder to reach the 2010 target and undermines confidence in the government's commitment. CPAG hopes and trusts you will not run this risk.

Yours sincerely

Kate Green OBE  
Chief Executive