CHILD POVERTY ACTION GROUP

Media Briefing:

Autumn Statement 2013

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1 Key requirements for Autumn Statement 2013

The government must start reducing, not increasing, child poverty. Under the previous government 1.1 million children were lifted out of poverty according to official statistics.

A broad strategy is required to reduce child poverty. This requires progress supporting families with parents in work, and those where parents are jobseekers, carers and disabled people. It requires progress improving work incentives, ensuring that work is a genuine route out of poverty for more families through fair pay, providing sufficient affordable homes, and affordable childcare.

As explained below, action that will protect families and make progress reducing child poverty will also support economic growth and therefore assist in reducing the deficit.

At the Autumn Statement 2013, CPAG believes action is needed on:

A universal rate of support for childcare costs through Universal Credit

- The cost of childcare continues to be one of the biggest barriers to work for single parents and potential second earners in couples. In April 2011 the support that parents could get to help pay for childcare through working tax credit was cut from 80% of childcare costs to just 70% of childcare costs.

- CPAG supports the government's commitment to extend childcare support to all working parents on universal credit (UC). But current proposals target a higher level of support to families with higher earnings. Those UC households in which all parents earn above the personal tax allowance will be able to claim back up to 85% of childcare costs, whereas other working UC families with lower earnings will be able to claim only 70%. The proposal adds complexity and is unfair - over 900,000 families on the lowest incomes will not qualify and entitlement will be obscure to parents who will find it hard to understand what hours they need to work and at what hourly rate in order to qualify. This is assuming they could be in a position to choose their hours and rates of pay. This defies commons sense and has been criticised by many organisations, including the Centre for Social Justice.

ACTION NEEDED:

- **Extend the 85% proportion of childcare costs that can be recovered through Universal Credit to all families, rather than a lower rate for lower earner families as currently proposed.**

Tackling low pay and increasing the National Minimum Wage

- Two-thirds of children below the official relative low income poverty line come from working families. CPAG-JRF research 'The Cost of a Child in 2013' shows that, despite working very hard to support their families, many parents simply cannot earn enough to make ends meet. A couple family, with two children, in which both parents work full time at national minimum wage (NMW), will have a net income sufficient to cover only 83 per cent of their minimum needs.
- The government has adhered to the recommendations of the Low Pay Commission when uprating the levels of the NMW over the past three years, but this has resulted in its real value declining by more than 4 per cent since 2010. **In October, the first report of the Social Mobility and Child Poverty Commission called on the government to increase the real value of the National Minimum Wage.**
- Increasing the real value of the NMW is essential if the government is truly committed to tackling in-work poverty. Given this, we urge the government to move towards a stable settlement with respect to the NMW, and to incentivise more employers to pay the living wage.

ACTION NEEDED:

- **Commit to a timetable for increasing the National Minimum Wage back to its real value prior to 2010.**
- **Examine the case for further real increases to the NMW towards a living wage level; and explore policy ideas that would help employers pay living wages.**

Income tax personal allowances

- Raising the income tax threshold has a much smaller benefit for low earner families than middle earner families. This is due to in-work claims of housing benefit (HB) and council tax benefit (CTB) having tapers that withdraw support as net earnings rise.
- In 2010/11 the income tax threshold was £6,475. The government raised it to £9,205 in 2013/14 and will raise it to £10,000 in 2014/15.
- **While middle earner households stand to gain £705 a year from raising the threshold from £6,475 to £10,000, low earners receiving HB and CTB will only gain £106 as the rest of it will be tapered away.**
- The most recent official figures show that there are close to a million such households receiving housing benefit (HB), and over 800,000 such households that received council tax benefit (CTB) prior to its replacement with local schemes (which generally continue the same problem with similar tapers to CTB). Source: DWP stats Feb 2013.

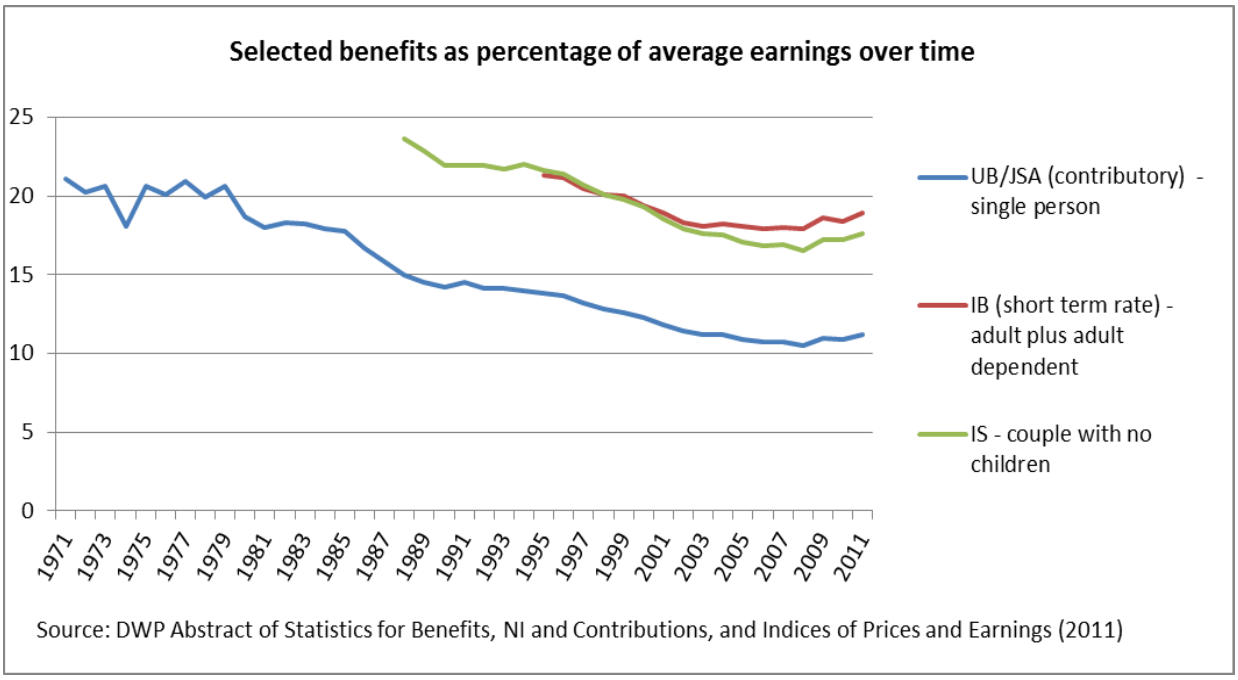
ACTION NEEDED:

- **A rise of around £16 per week in the earnings disregard in Housing Benefit (and supporting local authorities to do the same for council benefit payment support schemes) would ensure**

these low earner households gain the same amount as middle earners; and it would provide a major boost to work incentives.

Social security and welfare benefit uprating

- Analysis by the IFS has already shown that the Coalition's policy of targeting its austerity agenda on the poorest families with children will push up both absolute and relative child poverty by hundreds of thousands of children by the next election.
- A series of decisions making real terms cuts on benefits, by uprating social security benefits, child benefit and tax credits less than the cost of living, are expected to drive up child poverty in future years, and should also be expected to worsen material deprivation for low income families.
- Working age benefits have for many years been uprated well behind the growing wealth of the UK. As the following chart shows, when the relative losses over time from the failure of benefits to rise in line with earnings are considered, the recipients of these benefits have long been getting a very rough deal compared to the rest of the population for the last three decades.



ACTION NEEDED:

- **Raise social security entitlements, welfare benefit and tax credits at a minimum in line with CPI so as to:**
  1) **Ensure that absolute poverty and material deprivation for the poorest families does not worsen.**
  2) **Protect the economy's automatic stabilisers, and protect demand in the economy, as called for by the IMF.**

Universal credit and work incentives for second earners

- The Government started rolling out Universal Credit in a small number of areas in October 2013. It has some people who will be net gainers, but it disguises effective cuts to support that mean it will have many net losers too.
- **Under UC the second earners in a couple will be big losers compared to the current system.** The earnings disregard will be shared by couples, so it will be used up by the main earner, leaving very poor work incentives for second earners. Many families rely on two earners to give themselves a living standard and the risk of child poverty is much lower where both parents work. **19% of couple families with a single full-time earner and the other parent not in work are below the poverty line; but if the partner is in part-time work, only 8% of such families are below the poverty line.**
- Work incentives are also likely to be worse under Universal Credit for single parents working 16 hours or more, partly because the earnings disregard will tend to be less generous than under Working Tax Credit.

ACTION NEEDED:

- **Pilot second earner and single parent disregards in Universal Credit. Such pilots would only have marginal costs, but there could be substantial gains to the Treasury, and savings to the taxpayer, from ensuring work incentives in UC are optimised.**

2 Child poverty: the facts

Measuring child poverty:

- **There is no single measure of child poverty**, as poverty has several significant dimensions. However, the government does need clear and measurable proxies for determining what progress is made.
- **The Government measures four dimensions of child poverty** for the Child Poverty Act and its targets:
  - **Relative low income** (below 60% median household income)
  - **Absolute low income** (below 60% median household income help constant at baseline year)
  - **Persistent poverty** (3 years or longer living below 60% median household income)
  - **Material deprivation** (from a survey of what families can afford who are below 70% median household income)
- The relative low income measure (adjusted for household size) is often referred to as the **headline measure**, or the **headline rate** of child poverty. This is because it is the most straightforward indicator of child poverty to report and it reflects agreement across all the main UK political parties that reductions in relative child poverty must be a central goal of policy. However, it will give a misleading picture of child poverty if reported in isolation from the other measures at times like now when median incomes are falling. It is therefore essential to report on the other measures too.
- **Before or after housing costs: which figure to use?**

  The relevant figures to use for the '**number of children living in poverty'** are always those measured *after housing costs*, because everyone's lives are lived out after housing costs. The relevant figures to use for '**progress on government targets'** are those *before housing costs*. The Government uses before housing cost figures for the targets for statistical reasons to do with international comparisons.
- **There are 2.3 million children in poverty measured before housing costs and 3.5 million children in poverty after housing costs.** (HBAI 2011/12). In other words, there are 3.5 million children *living in poverty*; and there are 2.3 million children in poverty below the government's relative low income target line for before housing cost poverty.
- More information on UK poverty stats can be found here: http://www.cpag.org.uk/povertyfacts/index.htm

Action on Child Poverty:

- **The most important part of the Child Poverty Act is not the technical definition of the targets (the finishing line), but the section that a comprehensive strategy to be formed to make progress on key areas to meet the targets.** The government is legally required by the Child Poverty Act to have a national child poverty strategy, based on a consideration of a range of factors, to drive progress forwards. These are:

- the promotion and facilitation of the employment of parents or of the development of the skills of parents,
- the provision of financial support for children and parents,
- the provision of information, advice and assistance to parents and the promotion of parenting skills,
- physical and mental health, education, childcare and social services, and
- housing, the built or natural environment and the promotion of social inclusion.

- To see the section of the Act, follow this link.

The relative low income poverty line:

- In 2011/12, the amount of household income below which, *after adjusting for size and composition of household and after housing costs*, a family was considered poor under the relative low income measure was as follows:

    - £264 per week (£13,766 per year) for lone parent with two children aged 5, 14
    - £357 per week (£18,615 per year) for couple with two children aged 5, 14

- Regardless of family size, the **relative low income poverty line** is typically around **£12 per family member per day** for all spending needs after housing costs. For more information, see the government's annual report, Households Below Average Incomes.
- Note that it does not mean that a family in poverty will always have as much as £12 per family member per day; many families fall substantially below this line and have as little as £8 per family member per day.

Progress so far on the 'headline' relative low income target:

Since the baseline year for the Government's target, child poverty under the relative low income measure has fallen by 1.1 million children. The table below shows child poverty actual figures under this measure and projections for the government's target year.

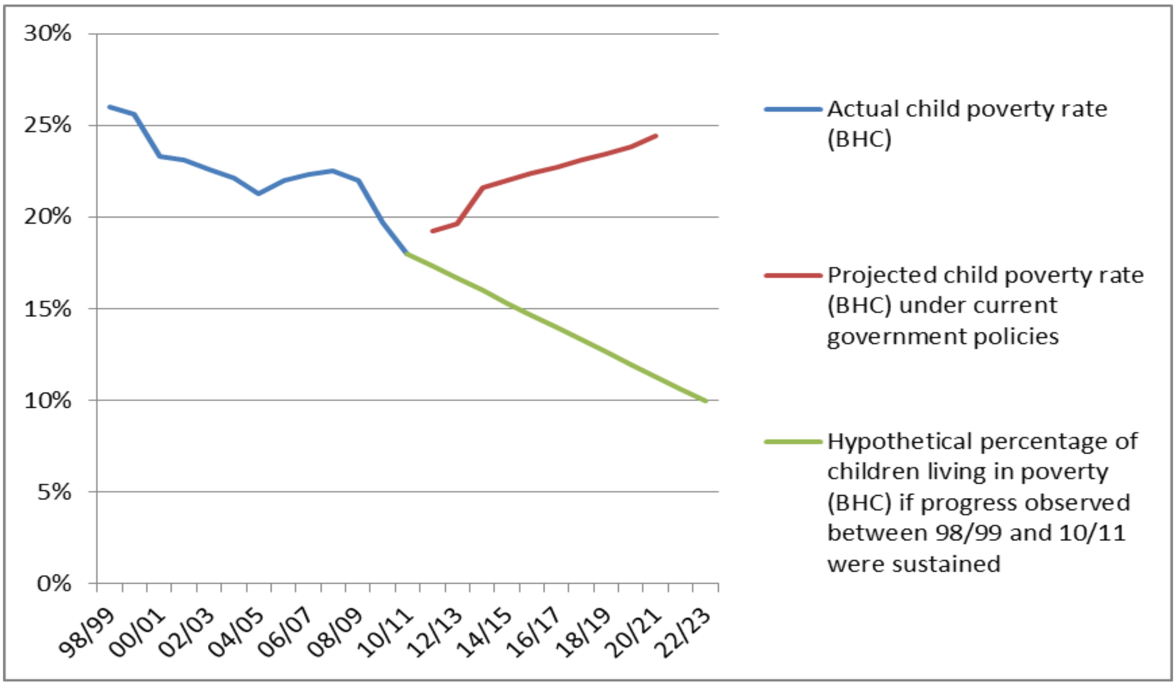
		Before housing costs	**After housing costs**
Baseline year	98/99:	3.4 million	4.4 million
Latest official figures	11/12:	2.3 million	3.5 million
IFS estimate for	*20/21*:	3.4 million	4.7 million
Govt target for	**20/21:**	**1.3 million***	N/A

* 10% of children based on 2011/12 population count

Sources: HBAI 1998/99-2011/12 (rounded figures before housing costs); Child and Working-Age poverty in [Great Britain and] Northern Ireland from 2010 to 2020, IFS 2013.

Historical trend:

The following chart show the changes that have occurred to the level of UK child poverty, both before housing costs (BHC) and after housing costs (AHC) since 1970. It also shows how the government's headline target on child poverty would be reached by 2022/23 if progress in the current decades were to continue at the same rate as progress in the last decade.



Sources: Actual child poverty rates are taken from DWP's Households Below Average Income 2010/11; Projected child poverty rate through to 2020 taken from M Brewer, J Browne and R Joyce, Child poverty and working age poverty from 2010 to 2020, IFS Commentary C121, Institute for Fiscal Studies, 2011; counterfactual figures are taken from M Brewer et al, Child Poverty in the UK Since 1998/99: Lessons from the past decade, Working Paper 10/23, Institute for Fiscal Studies, 2010.

Groups at greatest risk of poverty:

Although **the average risk of a child being in relative income poverty in 2011/12 was 17% (before housing costs) and 27% (after housing costs),** the risk for different groups of children varies greatly according to family type and circumstances.

Proportion of children living below relative poverty line for different household circumstances:

	Before Housing Costs	After Housing Costs
Lone parent	22 %	43 %
Workless households	40 %	67 %
At least one parent working	13 %	20 %
Three or more children in family	25 %	36 %
One or more disabled adult*	23 %	35 %
Social rental tenants	29 %	49 %
Private rental tenants	18 %	46 %
Asian/British Asian ethnicity	35 %	46 %
Black or Black British ethnicity	30 %	47 %

*Figures for households with disabled adults would be somewhat higher if disability benefits for care and mobility needs were counted separately to general household finances. Source: HBAI 2011/12

Material Deprivation

The material deprivation survey asks families what items and services they can afford. It is an important dimension of poverty and there are targets for its reduction under the Child Poverty Act. It ensures that it is not only income that is measured and addressed by the government's child poverty strategy, but that a picture is also formed of the lives children and families are living and the proportion of children who have to do without basic needs being met.

Items and services in the material deprivation survey of families	% of children living in homes that cannot afford it
Make savings of £10 a month or more	42 %
Keep up with bills	10 %
Keep the house warm	11 %
Home contents insurance	21 %
Replace broken electrical goods	25 %
Replace worn out furniture	35 %
Hobby or leisure activity	5 %
Somewhere outdoors to play	9 %
A one week holiday away from home each year	37 %

Source: Department for Work and Pensions, HBAI 2011/12 (after housing costs)

3 Living standards in crisis and the economic consequences

The cuts to social security, and the 'automatic stabilisers', carry a major economic risk as well as a social risk. But the government has failed to conduct a proper assessment of that risk.

Impact on family living standards and decent childhoods

The impact on families is to further the decline in living standards that has been comprehensively researched by the Resolution Foundation.

Child Poverty Action Group has commissioned research with the Joseph Rowntree Foundation on the growing financial challenges that parents are facing meeting a minimum standard for their children's needs. The report The Cost of a Child in 2013 found that:

- **The minimum necessary cost for raising a child rose by 4 per cent in 2013**, while the minimum wage rose by 1.8 per cent, average earnings by 1.5 per cent, benefits for families and children by just 1 per cent, and child benefit did not rise at all.
- **The value of both child benefit and child tax credit relative to the costs of raising a child decreased from 2012 to 2013**. Many low-income families also saw cuts in housing support with the introduction of changes such as the 'bedroom tax' and benefit cap.
- **Minimum wage families faced a growing shortfall for the spending their children need.** Families working full time on the national minimum wage had only 83 per cent (couples) and 87 per cent (lone parents) of the minimum income needed to support their families.
- **Families receiving out of work benefits faced even greater shortfalls of income.** Couple families received only 58 per cent of the income required to cover minimum costs, while lone parents got 61 per cent.

Child Poverty Action Group believes it wrong to view economic performance detached from living standards. The economy is there to serve people, and if living standards are falling the economy is failing in its fundamental purpose.

We always put our children first in family life, and we should do in national life as well. No economy has unlimited resources, and decisions must be made on what to prioritise. Unfortunately children have been a low priority in many decisions made so far by the current government.

Short term economic problems: restricting economic growth

It is likely that cuts to support for the incomes of the poorest families significantly contributed to the failure of the economy to grow between late 2010 and the start of 2013. This is because of the negative multiplier effect – a kind of domino effect in the economy that results from families having less money to spend in their local shops and services; local employers and their employees then suffer as a consequence.

The International Monetary Fund published research in 2012 in their report *World Economic Outlook, October 2012: Coping with High Debt and Sluggish Growth*, demonstrating that the negative multipliers, and the damage caused to economic growth, have been much worse than the UK government estimated would be the case.

Long term economic problems: costs of child poverty to the economy

In 2013 Child Poverty Action Group commissioned an update of research by Donald Hirsch of Loughborough University for the Joseph Rowntree Foundation on the cost to the economy of the UK's high levels of child poverty. It found that **the UK's high rate of child poverty cost the economy around £29 billion a year**. Of this, around £21 billion is a cost to the Exchequer.

This results from extra public expenditure on services (e.g. health, children's services, personal care and disability services, welfare to work services, policing), and lost productivity as a result of factors like low educational attainment and worse health.

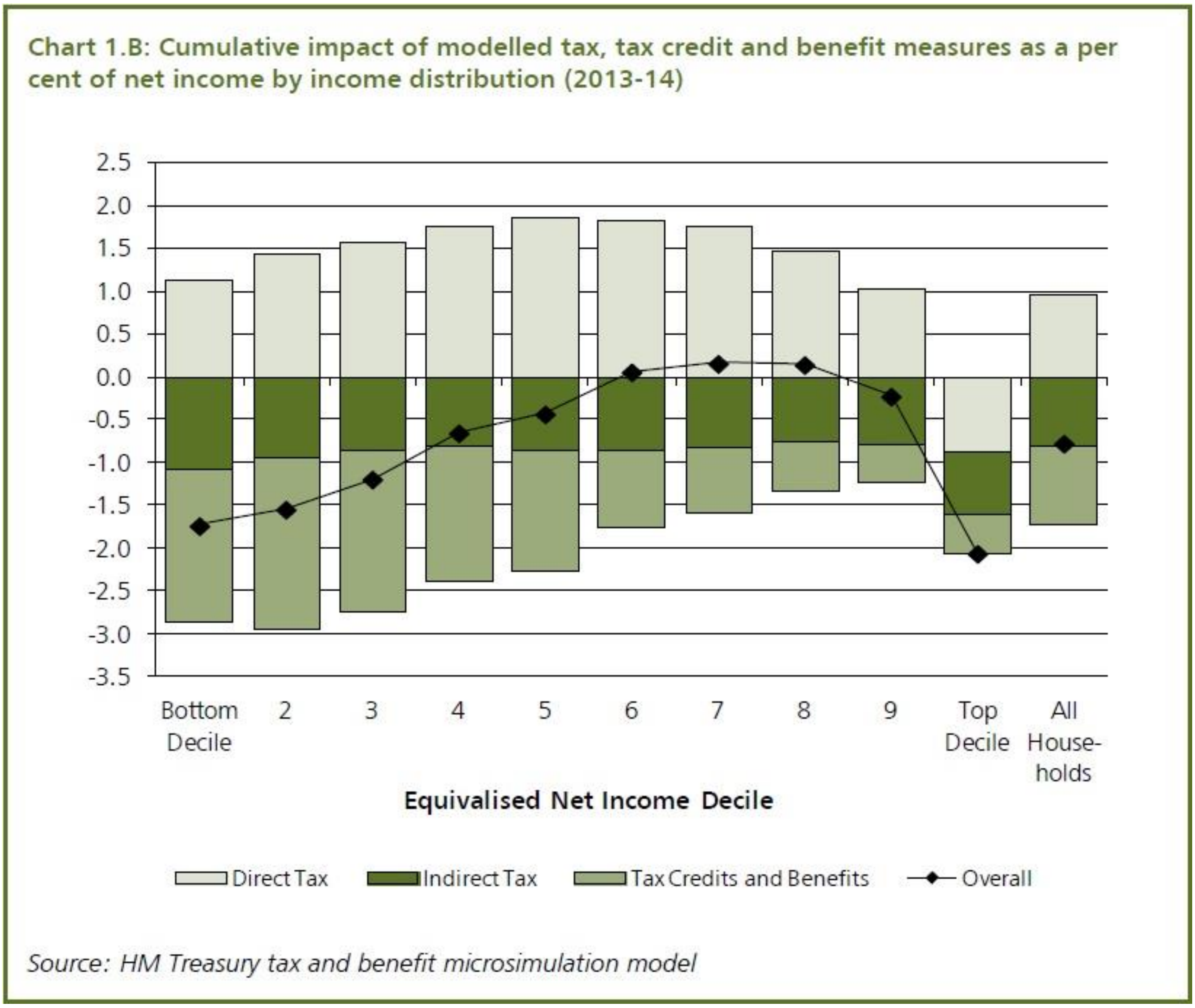
By taking an approach to deficit reduction that relies heavily on cutting support for low income families, the coalition is in danger of allowing the economic costs of child poverty to continue and worsen. In the medium to long term, this will hinder rather than help to reduce the deficit.

The updated research estimated that if **rises in child poverty projected by the IFS were to take place, then the cost of child poverty to the economy would be at least £35 billion by 2020.**

But if we continue to make progress to the 2020 goals that the government is signed up to on child poverty, the UK will generate a 'social dividend' with lower costs to the exchequer and with more revenue flowing into the exchequer. This would help reduce the deficit and promote a stronger economy.

For more information read the research summary.

4 Deficit reduction options and fairness for families



The table above was produced by HM Treasury and it analyses the impact on households for the year 2013/14 of the decisions taken by the Coalition up to and including the Autumn Statement 2012. It is from the Treasury's distributional impact analysis for last year's Autumn Statement, and can be found on page 5 of HMT's official Impact on Households report.

The analysis by the Chancellor George Osborne's department demonstrates two important points:

1. **The current deficit reduction approach does not meet the Fairness Test. Some people in the top half of the income spectrum are actually net gainers, whilst all households in the lower half are significant losers.**

2. **There are other choices about how to deal with the deficit; and the cuts to welfare benefits and tax credits are not necessary.**

For the first point, it is certainly true that the richest 10% of the population are shouldering the greatest burden as a proportion of income. But after that the reality is very different. The rest of the chart is pretty much completely regressive.

Families from the poorest half of the population are shouldering a greater burden than 4 out of every 5 families in the richest half of the population. This is not the common understanding of fairness.

For the second point, the government's own analysis proves that there is tremendous room for manoeuvre by increasing the proportion of income contributed from deciles 6, 7, 8 and 9. Given that their incomes are much larger than the lower deciles, a relatively small proportionate rise in their contribution could allow for a much larger fall in the contribution from the lower deciles (as a proportion of their income).

NOTE TO JOURNALISTS:

In the Autumn Statement 2013 documents, look for a chapter, annexe or supplementary document named: ***'Impact on households: the distributional impact'*** or something similar.

This will show you the Treasury's analysis of whether the poorest or the richest are carrying the greater burden from the government's tax and spending measures.

Here is how HMT presented the information at last year's Autumn Statement:

- Link to Autumn Statement 2012 distributional impact analysis

5 Autumn Statement letter to the Chancellor from Child Poverty Action Group

The following letter was sent to the Chancellor on 27 November 2013. CPAG is now making the content of the letter public through the publication of this briefing. We are happy for journalists to quote the content of the letter.

Rt Hon George Osborne MP
Chancellor of the Exchequer
HM Treasury
Horse Guards Road
London
SW1A 2HQ

27th November 2013

Dear Chancellor of the Exchequer

Child poverty and Autumn Statement 2013

Thank you for the letter we received from you in July reiterating your commitment to reducing child poverty and confirming the government's support for the Child Poverty Act 2010.

As we approach the Autumn Statement, Child Poverty Action Group (CPAG) would like to draw your attention to three key areas where we believe the government could do more to help low-income families manage the high cost of living.

1. Childcare and universal credit

Despite popular perceptions, forthcoming research from CPAG shows that low-income parents have an overwhelming desire to work, both in order to improve their family finances and to set a good example for their children. However, the research also shows that those on low, and often sporadic, wages frequently struggle to cover the high costs of childcare.

In 2012, CPAG welcomed the government's commitment to extend childcare support to all working parents on universal credit (UC). In addition, we were pleased by the announcement in March this year that funds would be found to provide additional levels of childcare assistance for some claiming UC. However, in our view, the proposal to end-load this new support by targeting it at only those households in which all parents earn above the personal tax allowance (PTA) is neither an effective nor efficient way of supporting low-income families to work.

To begin with, evidence shows that low-income parents already struggle to understand childcare entitlements and the introduction of a new income-rule will make the system even more obscure for many parents. Second, linking higher levels of childcare support with the PTA does little to improve work incentives for the majority of the UC distribution. And third, the proposed two-tier system clearly rewards those working at higher hourly rates rather than those working the hardest: a family with two earners both working at the median wage would qualify for additional support under the new scheme once they both work 17 hours, for example, while a couple with one partner working full-time and the other working at national minimum wage for 30 hours a week will not be eligible for any extra help.

Given these (and indeed other) shortcomings, we urge you to consider whether a further £200 million can be found at this point in time to ensure that all low-income families on UC receive support with 85 per cent of their childcare costs in the future, thereby increasing work incentives across the board as well as maintaining the simplicity of the new UC system. There may, for example, be savings that could be made by adjusting the tax-free childcare scheme which, as proposed, will benefit parents earning up to nearly £300k with the costs of childcare for all their children. Money could also be found by reducing the earnings ceiling or limiting it to two children only as is the case for UC.

2. Tackling low pay

CPAG's annual research 'The cost of a child' shows that despite working very hard to support their families, many parents simply cannot earn enough to make ends meet. Indeed, this year's publication shows that a couple family with two children in which both parents work full time at national minimum wage (NMW) net an income sufficient to cover only 83 per cent of their minimum needs. It is not surprising, then, that in-work poverty is a growing phenomenon: the government's latest poverty statistics show, for example, that two thirds of children living in poverty in the UK today have at least one working parent.

Increasing the real value of the NMW is essential if the government is truly committed to tackling in-work poverty. While we recognise that the government has adhered to the recommendations of the Low Pay Commission when uprating the levels of the NMW over the past three years, we also note that its real value has declined over by more than 4 per cent in this period. Given this, we urge the government to move towards a stable settlement with respect to the NMW, and to incentivise more employers to pay the living wage.

We remain concerned that the government's key policy designed to assist working families – that of increasing the personal tax allowance – benefits those on higher earnings rather than those who are most in need of support. Critically, low income families that gain in the first instance from the policy see much of its value evaporate as other benefits they receive are adjusted accordingly. Any additional income the 56 per cent of families who will be in receipt of universal credit receive as a result of larger personal allowances will be tapered away at 65%.

We remain convinced that the money required to fund any further extension of the personal allowance threshold could have far higher poverty reduction impacts if invested in other ways. If the government does extend personal tax allowances further up the income scale, however, we ask that you consider changing the disregards for housing benefit, council tax benefit and, in the future, UC, to ensure that low-income families all are able to keep the full value of raised thresholds.

3. <u>Child benefit</u>

There is a longstanding recognition in advanced economies like the UK that wages alone cannot protect against child poverty, a truth confirmed by our 'The cost of a child' research. As a result, family benefits will always be a critical and necessary supplement to earnings during the expensive childhood years.

In the light of this, CPAG remains profoundly concerned about decisions made by the government in the course of this parliament that have eroded the real value of child benefit. This vital source of support for low- and middle-income parents alike will have lost almost 15 per cent of its worth by 2015/16 as a result of the three year freeze and subsequent two years of 1 per cent uprating. In practical terms, if the real value of child benefit had been protected since 2010, it would now be worth £38.29 rather than £33.70 a week for a family with two children, leaving them over £220 short this year alone.

There is robust evidence that putting money in parents' pockets benefits children: it improves their health outcomes, their education outcomes and their subjective sense of well-being. Given this, we urge you to reconsider the government's treatment of child benefit. Rather than let its value wither away over time, we ask you to consider restoring its value by linking it once again to prices, a move which would provide real support for families with the cost of living.

Comparative studies show that adequate family benefits are essential to addressing child poverty. CPAG is deeply concerned by the plan announced in last year's autumn statement to place a nominal limit through an AME cap on the working-age social security spend from 2015/16 onwards, thereby locking down social security spending in the medium term.

As the government moves into the planning period for its next child poverty strategy we hope you will consider each of these points carefully. In our expert view, ending child poverty relies on a judicious mix of policies, from enabling low-income parents to work to providing adequate family benefits through the social security system. We hope you will consider the evidence carefully, and place the exchequer's full weight behind policies which will reduce, rather than increase, child poverty.
We would be very happy to meet your ministers or officials to discuss these proposals further, and we await your Autumn Statement with interest.

Yours sincerely

Alison Garnham
Chief Executive, Child Poverty Action Group

6 Contact information

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END OF BRIEFING