Welfare Benefit Uprating Bill

Commons Second Reading Debate – Tuesday 8th January 2013
Briefing from CPAG

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1. Introduction and summary

1.1. Child Poverty Action Group (CPAG) has worked for almost 50 years to prevent and relieve poverty among children and families in the UK. We have particular expertise in the functioning of the social security system through our welfare rights, training and policy work, and each year we publish one of the most authoritative guides to the benefits system, the *Welfare benefit and tax credits handbook*.

1.2. The Bill is a cause of grave concern. The proposal to uprate key in- and out-of-work social security benefits and tax credits by a sub-inflation 1% for the next three years is a policy which, under current conditions, can only increase absolute child poverty, relative child poverty and material deprivation for children. As such, it is incompatible with the government's commitment in the *Coalition Agreement* to take steps to bring down all these dimensions of child poverty to minimal levels by 2020.

1.3. The only polls indicating support for the measure so far have been push polls. Neutral polling finds a majority of the public believes benefits should rise at least in line with inflation. Public opinion also firmly objects to child poverty in a country as wealthy as the UK: British Social Attitudes 28 showed that 98% agree that reducing child poverty is important, and that 79% of respondents believe that it is central government's job to take action to tackle child poverty.

The proposals in the Bill are also strongly opposed by a broad coalition of civil society organisations who expressed their shared concerns in a letter to the Observer immediately following the Autumn Statement. The letter and full list of signatories, can be read here: http://www.guardian.co.uk/theobserver/2012/dec/09/observer-letters-skivers-people-work

1.4. In this briefing we argue the following key points:

- **Social security and tax credits should keep up with the cost of living**. The government argued that it was right to do this last year, and it remains ethically right for the reason previously given by the Chancellor and detailed below.

- **Failing to uprate in line with inflation will increase absolute child poverty, relative child poverty and the material deprivation of children.** The government remains committed to its undertaking in the Coalition Agreement to reduce child poverty, but this is a clearly poverty-producing Bill.

- **The Bill fails the Fairness Test in regard to income distribution.** As the Treasury's own analysis shows, the greatest burden is being put on the poorest, whilst many in the richest half of the population are being given net income increases.

- **The Bill fails the Fairness Test for the working poor, as well as for the jobseeking, caring and disabled poor.** The working and workless poor are often the same people cycling in and out of insecure jobs.

2. Keeping Up with the Cost of Living

2.1. In the 2011 Autumn Statement the Chancellor acknowledged the necessity of protecting the most vulnerable in our society and as a consequence, he chose to uprate most working-age benefits in line with the consumer price index (CPI). In his statement to the House of Commons, he said:

> "I also want to protect those who are not able to work because of their disabilities and those, who through no fault of their own, have lost jobs and are trying to find work. So I can confirm that we will uprate working age benefits in line with September's CPI inflation number of 5.2%. This will be a significant boost to the incomes of the poorest, especially when inflation is forecast to be considerably less than that by next April."

2.2. One year one, the government appears to be reneging on this principle as the following analysis shows. As a consequence, **the Bill will create a double lockout from the cost of living for low paid workers, jobseekers, carers and disabled people.**

2.3. Table 1 summarises the forecasted changes to prices, average earnings and key benefits and tax credits for the following three fiscal years.

Table 1: Projected trends for prices, earnings and benefits 2013/14-15/16

	13/14	14/15	15/16
CPI	2.5	2.2	2
RPI	3	2.6	3.1
average earnings	2.2	3.0	3.9
WTC basic and 30 hours element	0.0	1.0	1.0
Child benefit	0.0	1.0	1.0
Child tax credit, JSA, IS, ESA	1.0	1.0	1.0
Local housing allowance	1.0	1.0	1.0
Universal credit disregards	1.0	1.0	1.0

Sources: CPI and RPI forecasts: OBR, Economic and Fiscal Outlook December 2012; average earnings: OBR Economic and Fiscal outlook December 2012 supplementary table 1.4, benefit upratings: Uprating Bill 2012

As this table shows, prices are projected to rise at significantly more than 1% for the next three years. **Delinking benefits from prices will therefore guarantee a fall in the real standard of living for anyone who is reliant on the state for all or part of their income during this period.**

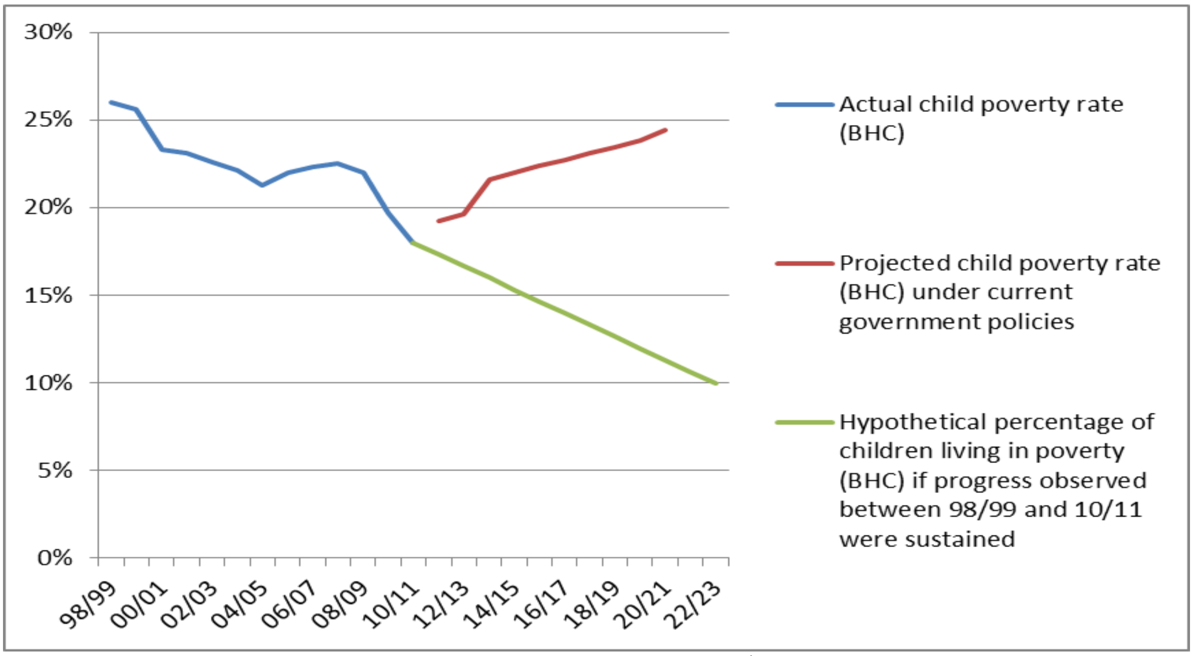
2.4. The government has chosen in the Bill to peg benefit levels to the planned 1% average public sector pay rise over the next three years, without providing any rationale as to why this is the appropriate comparator for benefit levels, which are meant to reflect the most basic costs of living. As Table 1 also shows, average wage growth for the whole economy is forecast to be between 2% to 3.7% over this period. As a result, it is clear that a gap will open up not just with the cost of living, but also between those who rely on the state for all or part of their incomes, and the rest of the population. In the process, the minority will become further disconnected from the majority, and relative child poverty will increase over time.

3. Driving Up Child Poverty

3.1. Previously, the Coalition government has commented in Budgets, Spending Reviews and Autumn Statements on the combined effect of announcements on 'measured child poverty' (the relative low income measure, set at 60% median income). However, in the Autumn Statement 2012, they did not include any information on the effects on child poverty, despite remaining committed to child poverty reduction through both the *Coalition Agreement* and the Child Poverty Act 2010.

3.2. The decision to decouple benefit levels from wages is widely recognised as the most significant policy driving increases in relative child poverty through the 1980s and 1990s, resulting in the UK being ranked as one of the worst performers on child poverty within the OECD by 1997.[1]

3.3. 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. The projection by the IFS, shown in red, includes all measures announced by the Coalition government prior to the Autumn Statement. The IFS are expected to update their projection in light of the further cuts to basic support in early 2013.



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.

3.4. The *double-lockout* from a link with either earnings or prices will drive further increases in child poverty. As a consequence, the number of children living in absolute poverty and suffering material deprivation will rise, while those children in families reliant on out-of-work benefits who already live below this threshold will see their poverty deepen further.

[1] John Hills report

4. Failing the Fairness Test: distributional analysis

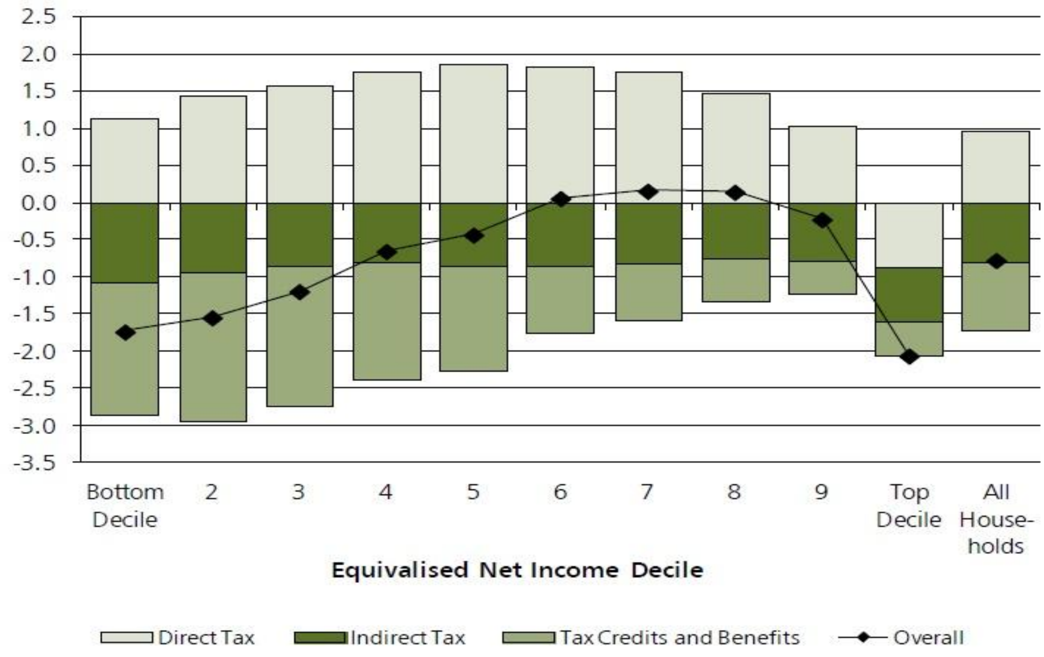
4.1. In his closing statement in the final television debate of the 2010 Election, David Cameron said:

> "I believe the test of a good and strong society is how we look after the most vulnerable, the most frail and the poorest. That's true in good times, but it's even more true in difficult times."

However The Treasury's own analyses of the distributional impacts of the tax and benefit measures they have introduced at each and every Budget, Spending Review or Autumn Statement since the Coalition took office have all shown a largely regressive pattern.

4.2. The Treasury's distributional impact for the Autumn Statement 2012, in which the uprating cap at 1% was one of the central measures, is reproduced below. You can also find the full assessment of the impact on households here: http://www.hm-treasury.gov.uk/d/as2012_distributional_analysis_impact_on_households%281%29.pdf

Chart 1.B: Cumulative impact of modelled tax, tax credit and benefit measures as a per cent of net income by income distribution (2013-14)



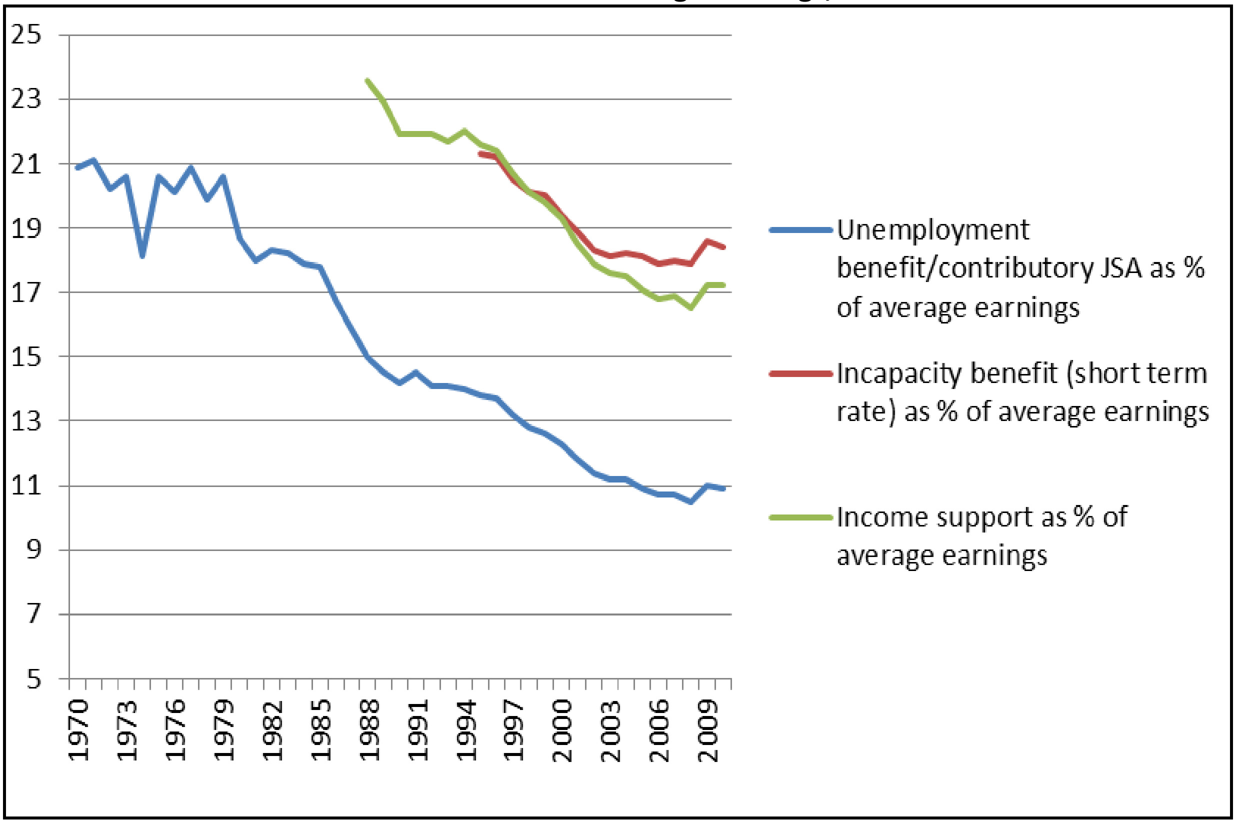
Source: HM Treasury tax and benefit microsimulation model

4.3. As the above chart shows, there is plenty of capacity for measures that would have asked for a greater contribution from those in deciles 6 to 9 in the top half of the population. **So the Treasury's own analysis has shown that the specific measures in the Autumn Statement are regressive, and they are not necessary; other measures could have been taken that genuinely meet the commitment made by The Chancellor at the 2010 Spending Review that those to ensure that those that those with *the "broadest shoulders should bear the greatest burden*".**

5. Failing the Fairness Test: 'strivers' and benefits relative to earnings

5.1. The government has claimed the uprating cap at 1% is 'fair' with reference to the fact that benefits have risen at a faster rate than average earnings for the last four years. What is obscured in this argument is the fact that, since 1979, benefits have risen at a significantly lower level than wages. Table 2 shows, for example, that the value of unemployment benefit (and its successor, job seekers allowance) fell from almost 21% of average earnings in 1979 to under 11% by 2010.

Table 2: Value of benefits to average earnings, 1970-2010



Source: DWP Abstract of Statistics for Benefits, NI and Contributions, and Indices of Prices and Earnings, 2010

5.2. Table 2 also shows that the above-average earnings upratings of the last four years have had limited effect on the relative value of benefits over the long term, highlighting how difficult it is to correct the damage done to the value of benefits by year on year under-indexation. Three years of benefit upratings that are linked to neither prices nor average earnings will lock in both real and relative losses for low income families and individuals which it will take a great deal of effort to remedy in the future.

5.3. Analysis shows that around 60% of the savings made as a result of the proposed sub-inflation uprating will fall on those in who are in work and in receipt of tax credits, housing benefit and other forms of state support.[2] While many are wedded to the notion that there is a group of hard working 'strivers' who throw 'those with their blinds down' into sharp relief, in truth, the

[2] Resolution Foundation

vast majority of those who rely on benefits and tax credits for part of their income have worked, are in work, or will be back in work very shortly in the future.

5.4. In addition, the **changes being made to the personal tax allowance will do little to offset the shortfalls those in work will incur as a result of the new method of uprating**. Extending the threshold potentially leaves basic rate taxpayers £47 better off in 2013/14. But for low-income working families, much of this gain evaporates as other forms of support are tapered away in response to their higher post-tax income. While those further up the income scale will keep the full £47, a working family eligible for both housing and council tax benefit will gain only £7.05 a year – which is just 13p a week extra – as a result of the extended allowances.

6. Secure Futures – financially sustainable social security

6.1. If we want secure futures for ourselves and our families, we need a financially secure social security system. But cutting benefit entitlement does not deliver this because it does nothing about the real drivers of social security need, or child poverty.

6.2. Child poverty alone is estimated by the Joseph Rowntree Foundation to cost the economy £25 billion a year, so we cannot afford to increase child poverty and create more social and economic costs for the next generation who will be left to pick up the pieces.

6.3. Failures in the labour market and housing market are the main drivers of working age poverty and people needing to access state support. In the post-war period up to the late 1970s, wages typically accounted for 60% of GDP. Since the 1980s this has fallen, so that wages now account for only around 53% of GDP. Worse still, this shrunken pot is share less equitably. Recent research by KPMG shows that there are 5 million workers who are paid less than a living wage – that is one in every 5 UK workers.

6.4. Underemployment and job insecurity are now major problems with the labour market too. Research by the TUC has found that since 2008 there has been a doubling of the number of people who are involuntarily in part-time work. They find that the total number of people unemployed in Britain – wanting more hours of work than their employer can give them – is now 3.3 million.

6.5. Official figures published by DWP in the Households Below Average Incomes report for 2010/11 show that there are 2.3 children in relative income poverty when measured before housing costs, but there are 3.6 children living in relative income poverty when measured after housing costs. Figures published by DWP also show that in-work housing benefit claims have double since 2008; and more than 90% of new housing benefit claims in the last two years were now in-work claims.

6.6. A fourth factor that needs a similar level of prioritisation is the availability of high quality and affordable childcare. Being able to access and afford childcare of a high enough standard to satisfy parents' wishes for the wellbeing and development of their children is the make or break factor for millions of lone parents and second earners in couples. Research by the Daycare Trust shows how expensive childcare has become.

6.7. **Therefore, the effective and sustainable way of keeping total social security costs at an affordable level is to make progress towards full employment, living wages, affordable housing and affordable childcare.**

END OF BRIEFING

About CPAG

CPAG promotes action for the prevention and relief of poverty among children and families with children. To achieve this, CPAG aims to raise awareness of the causes, extent, nature and impact of poverty, and strategies for its eradication and prevention; bring about positive policy changes for families with children in poverty; and enable those eligible for income maintenance to have access to their full entitlement.

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