# Briefing

citizens advice bureau

# The Coalition Budget and CSR 2010

# An analysis of key welfare changes and their impact on low income households

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Myddelton House | 115-123 Pentonville Road | London | N1 9LZ | Tel: 020 7833 2181 | Fax: 020 7833 4371 | www.citizensadvice.org.uk

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# Introduction and summary

In the Comprehensive Spending Review (CSR), the Chancellor announced that £2bn has been set aside to cover the costs of the implementation of a new Universal Credit – a means-tested benefit that will replace most benefits and tax credits for those of working age. We welcome the intention to simplify the benefit system, and to make work pay, and we hope that the universal credit will achieve these results.

We are concerned, however, that the current cuts will make the transition period extremely difficult for some of our clients, causing hardship for many who may spend years trying to recover. Interim arrangements will add to the complexity of the benefit system in the short term, as well as creating a range of problems for government agents trying to manage the changes.

** **We call for clear and transparent information on how the changes will be implemented and what contingency arrangements will be made for the worst affected.****

The impact of announcements made in the CSR cannot be viewed in isolation, but only in conjunction with the budgetary changes in June. The Chancellor's headline approach is to combine a reduction in benefits for all or higher income families with an increase in the child element of child tax credit for those on the lowest incomes. The CSR announcements in October have brought another £7 billion worth of cuts to middle and lower income families, with a total saving from the welfare budget of £18 billion.

We welcome the support provided for pensioners, who have largely been spared from cuts, with a net increase in spending on the state retirement pension and pension credit amounting to £1bn a year. We welcome the retention of other pensioner benefits, including free travel, free eye tests and winter fuel payments.

We welcome the significant increases to the child element of child tax credits, announced in the June budget. We note the further increase announced in the CSR, which will account for an extra 58p a child from April 2011 and 96 p per child the year after. Unfortunately, for many families, this extra will be completely offset by the freezing of working tax credit and/or cuts in tax credit help with childcare costs.

Whilst almost one third - £2.5bn - of the £7bn cuts to welfare in the CSR comes from cutting child benefit from families where there is at least one higher income tax payer, there are some other measures that will have a considerable impact on low income households. £2bn of the £7bn will be taken from means-tested benefits, which necessarily means cuts to families on very low incomes.

We understand that everyone must share the pain of reducing the deficit, but we are very concerned that the impact of these combined measures will cause disproportionate disadvantage for some of the poorest groups in society. Many of these people face multiple disadvantages, for example as poor women, lone parents, disabled people, carers, and those from marginalised minority ethnic communities. Citizens Advice is concerned that the combined impact of welfare and other measures taken under the Coalition Budget and 2010 CSR will increase the vulnerability and inequality faced by these people.

**We urge the government to fulfil its promise to protect the most vulnerable by making sure that they are given the support they need.**

We are further concerned that due regard should be given to the Public Sector Equality Duty in respect of the impact on good relations between groups. Actions should be taken to mitigate any unintended consequences. For example there is the potential that perceptions of disabled people will follow current rhetoric about ‘benefit scroungers’, and attitudes may harden as cuts to benefits for disabled people are interpreted by some sections of the public as evidence of or confirmation that many disabled people are undeserving. This could result in increased hostility towards and harassment of disabled people

The number of cuts and the different ways they impact on recipients is extremely complex, but an obvious outcome is that for those already on low incomes, any financial loss forms a larger proportion of their overall means than it does for those on higher incomes. For some groups, a general erosion of benefit support will have a low impact in the short term, but will become more serious over time. For others (as above), the numbers affected may be low, but the impact could be devastating. We have particular concerns that some of these measures – freezing certain benefits for example - will reduce work incentives for those already experiencing marginal gains from work.

Our main concerns are as follows:

**Cuts to housing benefit (HB),** particularly:

- The loss of the principle that the level of benefit relates directly to actual rent paid

- The impact of the cap to LHA on 15,000 households living in central London
- The effect of raising the age limit to 35 for the shared room rate
- The unfair proposal to cut HB by 10 per cent for people on JSA for more than 12 months

**Reduction and localisation of council tax benefit (CTB),** potentially leading to:

- Allocation of CTB by post-code lottery
- A separate benefit alongside the proposed universal credit

**Cuts to sickness/disability benefits:**

- The 12 month limit on contribution-based ESA, which destroys the principle that those who have paid National Insurance Contributions (NICs) will be protected if they become sick
- The removal of DLA for those in residential care, which will take away independence for those who rely on DLA for transport or a motability vehicle.

**Cuts to tax credits:**

- The cuts to tax credit support for those whose incomes drop in-year
- The reduction from 80 per cent to 70 per cent of childcare costs covered by tax credits
- The change in eligibility rules for couples, who must work for 24 hours instead of 16.

**Other key concerns**:

- The move to up-rate benefits and tax credits by the consumer price index (CPI) instead of inflation rates based on the retail prices index (RPI);
- The cut to child benefit, which destroys the principle of universal benefits, and will be unfair on single earner households on (or just above) the higher tax rate, compared with double income households where each partner earns just below the higher rate;

**This briefing aims to explain the tax credit and benefit changes announced in the budget and the CSR and how they will affect different low income households. The first section lists all the key changes, the next explains what they mean and their impact. We then highlight the combined impact of these changes on child poverty and work incentives. Appendix 2 provides illustrations of the impact of the changes on households in five different situations.**

# List of key gains and losses announced in the budget and the CSR

## Gains

- **Rise in tax threshold by £1,000 from April 2011**: anybody earning more than £7,475 pa will gain £3.84/week (budget)
- **Child tax credit: Increases in the child element of child tax credit (CTC)** of £150 a year or £2.88 a week per child from 2011 and a further £60 a year, or £1.15 a week per child in 2012**.** (budget)
- **Plus a further increase in the child element of CTC £30** (58p per child per week) in 2011 and £50 (96p per child per week) in 2012. (CSR)
- **Pensions: From 2011-12 basic state pension will rise each** year **by the greatest of prices, earnings or 2.5 per cent (the 'triple guarantee')**. (Budget)
- **Pension credit guarantee continues to rise with earnings,** but will include an additional cash increase in April 2011. (Budget)
- **Housing: Discretionary housing payment (DHP) budget to rise from £20 million to £30 million in 2011 and to £60 million from 2012.** (Budget)
- **A further £1million will be given to local authorities to mitigate the impact of the HB changes.** (CSR)
- **Cold weather payments:** temporary rise from £8.50 to £25 will be made permanent from 2011. (CSR)

## Losses

### General

- **Change in basis for up-rating benefits and tax credits to use the consumer price index (CPI) from 2011-12** instead of the retail prices index and the Rossi index - likely to mean a 1.5 per cent real terms reduction in the value of benefits and tax credits each year. (Budget)
- **Overall cap on household benefit payments** paid to workless households of working age, from **2013 -** around £500/week for couple and lone parent households, or £350 per week for single adult households. (CSR)
- **Warm Front:** a reduction of 68 per cent in the Warm Front budget (CSR)
- **New child:** loss of **£190 health in pregnancy grant (from January 2011);** loss of **£545 baby element of child tax credit (from 2011-12)**; and loss of **£500 sure start maternity grant (SSMG)** (only payable for 1st child from 2011-12) Loss of WTC (disregard of £2,500 drop in income). Combined effect could mean a loss of up to **£2,235** (Budget)

### Child benefit

- **Freezing of child benefit for 3 years from 2011-12.** This means a reduction in real terms for two children from £33.70/week in 2010, to £32.14 in 2011/12 and £29.26 by 2013/14. (Budget)

- **Child benefit** will be withdrawn from families with a higher rate taxpayer from **January 2013**. (CSR)

## Housing benefit

- **Local Housing Allowance (LHA) caps and restriction to 4 bedroom rate.** The impact of these caps will be felt across Greater London. (Budget)
- **Reduction in Local Housing Allowance (LHA) rates from October 2011, from 50th to 30th percentile of local rents.** (Budget)
- **The extension from April 2012 of the shared room rate (SRR) to single claimants under 35 (up from 25).** (CSR)
- **From 2013, the Local Housing Allowance (LHA) - which is used to decide the maximum housing benefit that can be paid - is also to be up-rated in line with CPI not local rents.** (Budget)
- **Loss of 10 per cent of housing benefit after 12 months on JSA from 2013-14**: this will affect tenants who are unable to get a job - even through no fault of their own. (Budget)

## Council tax benefit

- Spending on Council Tax Benefit will be reduced by 10 per cent and decisions about who gets support will be localised from 2013-14. (CSR)

## Tax credits

- **The rate at which tax credits are reduced as income rises, will rise from 39 per cent to 41 pre cent from 2011-12.** (Budget)
- **£2,500 of any drop in income will be disregarded for tax credit purposes from 2012-13.** This means that anyone whose income drops by £2,500 or more, will **receive £1,025 less in tax credits** than they would before the change. (Budget)
- **Tax credits childcare costs reduced from 80 per cent to 70 per cent from Apr 2011.** (CSR)
- **Freezing of both basic and 30 hour elements of working tax credit (WTC) from April 2011** (CSR)
- **To receive WTC, couples with children will have to work 24 hours (instead of the current 16) between them, and one must work at least 16 hours, from April 2012.** (CSR)
- **Reducing entitlement to the flat rate £10.50 a week family element of child tax credit**. (Budget)

## Disability/sickness benefits

- **ESA(contribution based) – introducing a time limit of one year for entitlement to ESA (CB) for those in work-related activity group, from April 2012.** (CSR)

- **DLA mobility for people in residential care will no longer be paid from 2012/13.** (CSR)

## Comments on general changes

- **Change in basis for up-rating benefits and tax credits to use the consumer price index (CPI) from 2011-12** instead of the retail prices index and the Rossi index - likely to mean a 1.5 per cent real terms reduction in the value of benefits and tax credits each year. (Budget)
- **Overall cap on household benefit payments** paid to workless households of working age, from **2013 -** around £500/week for couple and lone parent households, or £350 per week for single adult households. (CSR)
- **Warm Front:** a reduction of 68 per cent in the Warm Front budget (CSR)
- **New child:** loss of **£190 health in pregnancy grant (from January 2011);** loss of **£545 baby element of child tax credit (from 2011-12)**; and loss of **£500 sure start maternity grant (SSMG)** (only payable for 1st child from 2011-12) Loss of WTC (disregard of £2,500 drop in income). Combined effect could mean a loss of up to **£2,235** (Budget)

**1. Change in up-rating of benefits and tax credits to the consumer price index (CPI). This change is expected to result in a reduction of spending of £5.8bn a year by 2014.**

Most benefits – except the basic state pension - are currently up-rated by the retail prices index (RPI) measure of inflation. Means-tested benefits are up-rated by the Rossi index, which is a variant on the RPI and excludes housing and items such as local taxes, on the basis that these are supported directly. Recent research[1] by the Joseph Rowntree Foundation (JRF) highlighted the huge impact that up-rating policies have over time, both on relative living standards of different groups and on public finances.

The budget introduced consistency by moving to up-rate all non-pensioner benefits by the CPI, but the CPI tends to rise at a lower rate than the RPI. This will mean that the real terms value of benefits will continue to fall compared with average earnings. The budget estimates the change will cut spending on benefits by £5.8bn a year by 2014. In September 2010 the CPI was at 3.1 per cent, which was 1.5 per cent lower than the RPI of 4.6 per cent[2]. Estimates from the Institute of Fiscal Studies (IFS) suggest the difference between RPI and CPI is likely to be closer to 2 per cent each year[3], and JRF Minimum Income Standard research shows that because of their household spending pattern, people on low incomes face much higher inflation rates than the CPI, which means they could fall even more behind [4].

**2. Overall cap on household benefit payments. This measure is expected to reduce spending by £270 million a year by 2014.**

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[1] Sutherland H, Evans M, Hancock R, Hills J and Zantomio F, The impact of benefit and tax uprating on incomes and poverty, JRF, April 2008
[2] www.statistics.gov.uk/cci/nugget.asp?id=19
[3] www.ifs.org.uk/budgets/budgetjune2010/brewer.pdf
[4] www.jrf.org.uk/media-centre/MIS-2010

The overall cap on benefits paid to workless households of working age from 2013 will be around £500 per week for couple and lone parent households and around £350 per week for single adult households, so that no family can receive more in welfare than median after-tax earnings for working households. All DLA claimants and War Widows will be exempt from the cap. The fact that the cap applies regardless of household size or geographical location means that it will inevitably fall hardest on larger families and in areas with high rent levels. This is likely to have a disproportionate impact on households from certain cultural backgrounds, which have a high prevalence of large families. This has been recognised by the Government's Equality Impact assessment, but they are unable to estimate numbers affected, and there are no suggestions for mitigating this impact[5].

Housing Benefit is paid by local authorities, and entitlement is assessed on the basis of a claimant's net income from all sources, including any other benefits and tax credits. Coming on top of the cuts to housing benefit announced in the budget, this cap of £500 a week on household benefits will therefore reduce housing benefit even more for low income families, and is likely to price many of them out of living in London and the south-east of England altogether. If it goes ahead, we expect it to lead to widespread hardship, debt and homelessness. It is difficult to see how this fits with the government's commitment to end child poverty.

For example, a couple with four children currently receiving £350 a week in jobseekers allowance (JSA), child tax credit (CTC) and child benefit (CB), and £25 in council tax benefit, would receive a maximum of just £125 HB per week for rent – ie half the amount of the proposed LHA cap for a one-bedroom property.

A couple with three children where both parents are on Employment and Support Allowance (In the Work Related Activity Group) and currently receiving £344 a week in benefits and tax credits, would receive a maximum of just £156 HB for rent .

**3. Warm Front. Funding for the Warm Front programme for 2010-11 is currently £345m so the announcements made as part of the CSR represent a reduction of 68 per cent in the Warm Front budget.**

Warm Front is the Government's largest scheme designed to combat fuel poverty in the private owner-occupied and rented sector in England. A household in fuel poverty is one where more than 10 per cent of income is needed to heat the home to an adequate standard of warmth, and a vulnerable household is one that contains the elderly, children or somebody who is disabled or long term sick. In 2008, there were around 4.5m fuel-poor households in the UK (up from 4.0m in 2007). In England, there were around 3.3m fuel poor households (up from 2.8m in 2007). Fuel poverty amongst vulnerable households for 2008 stood at

[5] Overview of the impact of the spending review 2010 on equalities; HM Treasury 2010

3.75m households (UK) and 2.7m households (England), both up 0.5m from 2007.

Under the new proposal, the scheme will be phased out as part of the transition to the "Green Deal". In the interim period, Government will fund a smaller, targeted Warm Front programme for the next two years with a budget of £110 million in 2011-12 and £100 million in 2012-13.

This huge reduction is of great concern. Warm Front has been very successful and has helped more than two million households across England since 2000, assisting more than 1,000 homes every day to save energy. On average, Warm Front delivers savings of almost £400 a year on an individual household's energy bill.

Even under the existing financial settlement, the level of demand for Warm Front is so great that the programme has been unable to keep pace. As a result, waiting times have become longer. Citizens Advice Bureaux are reporting many cases where people are deemed eligible for assistance under the Warm Front scheme but are told that they must wait months for installation.

We are deeply concerned that a significantly reduced budget for Warm Front will condemn many more vulnerable people to a lengthy wait to receive much needed help to keep their homes warm. **Such a reduction in funding for the only capital programme in England aimed at addressing fuel poverty also calls into question the Government's commitment to meet its legally binding fuel poverty targets.**

## Comments on changes to Child Benefit

- **Freezing of child benefit for 3 years from 2011-12.** This means a reduction in real terms for two children from £33.70/week in 2010, to £32.14 in 2011/12 and £29.26 by 2013/14. (Budget)
- **Child benefit** will be withdrawn from families with a higher rate taxpayer from **January 2013**. (CSR)

### 1. Freezing child benefit. This change is expected to reduce spending by £975 million a year by 2014.

Child benefit is paid for every child regardless of the income of the household. It is currently £20.30/week for the first child and £13.40/week for the second and subsequent children. Since Child benefit was up-rated in line with RPI, with an effective rate for April 2011 of 4.6 per cent, we calculate that freezing child benefit - based on a 4.6 per cent reduction each year - amounts to a reduction in real terms for two children from £33.70/week in 2010, to £32.14 in 2011/12 and £29.26 by 2013/14.

Although Child Benefit is paid to everyone, freezing it has a higher impact on low income families as it makes up a higher proportion of their income. For families on the lowest incomes in receipt of maximum CTC, however, this loss will be more than offset by the increase in CTC. This will not be the case for families with a baby under one, as they will no longer receive the £545 baby element of CTC, due to be cut in 2011, as mentioned below.

**2. Removal of child benefit from households with a higher rate tax payer. This change is expected to reduce spending by £2.5bn a year by 2014.**

This measure removes the long-established principle of universal entitlement to child benefit as a recognition of the extra costs of taking care of children, experienced by all families. We regret the inequity between a household with a single earner on (or just above) the higher rate threshold, compared with a household where each partner earns just below the threshold.

Mothers who receive child benefit for children under 12 currently receive weekly credits towards their state pensions while they are not working because they are caring for children. We are concerned that mothers who lose their child benefit because there is a higher rate tax payer in the household, will no longer have this protection for a pension in their own right. **We seek confirmation that a simple system will be introduced to ensure that contributions are protected for those who lose child benefit.**

## Comments on changes to Housing benefit (HB)

**UPDATE:** Both the cap and the reduction to the 30th percentile will now come into effect from April 2011. New claimants will be affected by both the cap and the 30th percentile immediately.

However existing claimants will gain up to nine months transitional protection from the date of the anniversary of their claim. But they will lose this protection if they have a change of circumstance such as moving house or a reduction in their household size.

- **Local Housing Allowance (LHA) caps and restriction to 4 bedroom rate.** The impact of these caps will be felt across Greater London. (Budget)
- **Reduction in Local Housing Allowance (LHA) rates from October 2011, from 50th to 30th percentile of local rents.** (Budget)
- **The extension from April 2012 of the shared room rate (SRR) to single claimants under 35 (up from 25).** (CSR)
- **Loss of 10 per cent of housing benefit after 12 months on JSA from 2013-14**: this will affect tenants who are unable to get a job - even through no fault of their own. (Budget)
- **From 2013, the Local Housing Allowance (LHA) - which is used to decide the maximum housing benefit that can be paid - is also to be up-rated in line with CPI not local rents.** (Budget)
- **Non-dependant deductions (NDDs) to increase, reversing previous freezes – reducing expenditure by £340 million a year by 2014.** (Budget)

- **Social sector - Limiting working age HB entitlement to reflect household size – reducing expenditure by £490 million. (Needs primary legislation)** (Budget)
- **Discretionary housing payment (DHP) budget to rise from £20 million to £30 million in 2011 and to £60 million from 2012.** (Budget)
- **In the CSR, the Chancellor announced a further £1million will be given to local authorities to mitigate the impact of the changes.** (CSR)

There were six separate cuts to the HB scheme announced in the June budget, amounting to a total reduction in spending of £1.8 billion a year by 2014/15. In addition, the CSR announced that single people under 35 will only receive HB at the single room rate, saving another £215 million per year by 2014/15. All changes will apply to new claimants from the date listed above, and to existing claimants from the anniversary of their claim. Two measures have been announced to help mitigate these cuts.

## 1. Local Housing Allowance (LHA) caps and restriction to 4 bedroom rate – reducing expenditure by £65 million a year by 2014/15

This change will be introduced from April 2011, along with the removal of the £15 weekly excess provision (where rent is lower than the LHA rate). The weekly LHA rates will be capped at:

- £250 for a 1 bedroom property,
- £290 for a 2 bedroom property
- £340 for a 3 bedroom property
- £400 for a 4 bedroom property

The impact of these caps will be felt across Greater London but nowhere else at present – although it is difficult to see how they will operate alongside an overall benefit cap of £500 per week, regardless of family size or geography, as currently proposed for 2013. Within London, only Barking and Dagenham, Newham, Redbridge and Havering will be completely unaffected. The 4 bedroom LHA rate for central London (Westminster and parts of Camden and Kensington and Chelsea) is currently £1,000, so some claimants will see a £600 per week fall in their housing benefit when it is reviewed after April 2011. Over 17,000 households in London will lose benefit as a result of the cap and restriction to the 4 bedroom rate, with losses averaging £81 per week. London Councils estimate that around 15,000 households risk losing their homes as a result. The London boroughs likely to receive these families will have to provide housing, schooling, medical and social services with very little notice, and on reduced local authority budgets.

Larger families will be disproportionately affected – both by the restriction to the 4 bedroom rate and by the £400 cap on that rate. Ethnic minority families are over-represented amongst larger households and so will be disproportionately affected. This is acknowledged by DWP in its impact assessment, but the trebling of the DHP budget and the £1million announced in the CSR will have to be shared amongst all families in need, and local authorities will have to make decisions on how to allocate the help, so there are – as yet – no specific measures in place to address the equalities dimension of these cuts.

**We are calling for implementation of the cap to be postponed until at least October 2011**, so that:

a) tenants, including those with fixed term tenancy agreements, have enough notice to find new accommodation if their LHA will not cover their existing rent

b) no-one will face two separate reductions in their LHA rates – from the cap after April 2011 and from the move to the 30th percentile after October 2011

c) local authorities have more time to develop a managed response to avoid unnecessary homelessness, by finding ways to support the many households who may have to move home, or who may fall into debt from large shortfalls.

### 2. LHA to be set at the 30th percentile – reducing expenditure by £435 million a year by 2014

The LHA is currently set at the median of local private rents. This means that LHA rates are set so that 50 per cent of local private rents should fall within the rate. From October 2011, only 30 per cent of local private rents will fall within the LHA rate. These new rates will be used to assess claimants' entitlements on the annual review of their LHA.

This will affect tenants across the country. The Valuation Office Agency has published indicative figures for England, based on current LHA rates for each Broad Rental Market Area (BRMA) and for each bedroom size. Based on their indicative June figures we calculated that average LHA rates in England will fall by £7.73 for a one bedroom property, £9.60 for a two bedroom property, £13.33 for a 3 bedroom property and £24.26 for a 4 bedroom property. Again, it is clear that the pain will not be equally spread across the country, with the indicative October figures showing that LHA reductions for a one room property ranging from zero in Barrow-in-Furness, Scunthorpe, Bedford, Northants Central and Rotherham, to £23.99 in the Inner North London BRMA, and for a 4 bedroom property from £6.16 in Chesterfield to more than £50 in SW Hertfordshire, East Cheshire, the Chilterns and much of London. In some parts of London, the 30th percentile figure will be irrelevant as the caps are already at a level below the 30th percentile in these areas.

The lack of transitional protection means that these caps will be applied to existing claims on their next annual review, meaning that some tenants will suddenly find that their rent is completely unaffordable.

### 3. The extension of the shared room rate (SRR) to single claimants under 35 (up from 25) – reducing expenditure by £215 million a year by 2014/15.

Currently single people aged under 25 have their LHA restricted to a bedroom in shared accommodation, rather than a self contained bedsit or one-bed flat. **The**

**change to be introduced from 2012 will extend this restriction to single people aged under 35 (except for those in the social housing sector or those in receipt of the severe disability premium). Around 88,000 people are expected to be affected – adding to the 75,000 already on this rate. They are expected to lose an average HB entitlement of £45 a week.**

This cut comes despite the fact that the DWP evaluation of the LHA pathfinders in 2005 found that 70 per cent of claimants subjected to the shared room rate restriction faced shortfalls between their benefit and their rent, averaging £27 per week. In comparison, 48 per cent of all LHA claimants currently face shortfalls, averaging £23 per week.

DWP has recently published research comparing the housing choices made by households in low paid work with those out of work and receiving HB. This research did not find any "in work" single people living in shared accommodation where they would currently be entitled to a 1 bed under the HB rules (because they are aged over 25). In other words, the research published this month does not support the stated rationale for this change, that it will 'reflect the housing expectations of people of a similar age not on benefits'.

**For example**: based on the market price, the current LHA rate for a 1 bedroom flat in outer east London is £165, which will fall to £160 after cuts announced in the budget. If someone cannot find shared accommodation, they are likely to have to pay the 1 bedroom rate, but will only receive HB at the SRR of £69. The LHA rate for a 1 bedroom flat in West Cheshire is currently £104, which will fall to £98 following the budget cuts. The SRR is currently £62.50.

People in this group who become unemployed will have to move quickly to avoid serious rent arrears and debt – if they can withdraw from their tenancy agreements without incurring penalties.

Furthermore, in some parts of the country shared accommodation is hard to find. It will be hardest for claimants with disabilities - especially those with serious mental health problems but who don't qualify for the severe disability premium - to find a suitable house-share. A quick survey on a national website advertising accommodation[6] found 176 advertisements for shared accommodation in Sheffield, at a rate of between £50 and £60 per week, but only 9 of these would accept HB claimants. In London, 8 of 204 advertisements would accept HB claimants. In Sunderland, only 1 (of 8 overall) would accept HB claimants. Many advertisements stipulate a professional person, which reinforces our concern that it will be hardest for claimants on low incomes, or with disabilities, to find a suitable house-share.

**** We urge the government to re-consider this measure in light of its likely impact on the most vulnerable people **.**

### 4. HB award reduced to 90 per cent after 12 months for claimants of JSA – saving £110 million a year by 2014. (Needs primary legislation)

[6] www.spareroom.co.uk

From 2013/14 any claimant on JSA for more than 12 months will have their HB entitlement cut by 10 per cent. This will continue until they have "left the benefit system and been in work for a while".

This seems an unfair measure as it appears that it will apply even where the tenant is fully complying with their JSA requirements to actively seek work. People living in areas where unemployment rates are higher will be disadvantaged simply because of where they live. The cut will fall hardest on those who face disadvantage in the labour market, such as people in poor health or with a disability, who have failed the harsher medical tests for incapacity benefit and employment and support allowance, and have therefore been moved onto JSA. It will also affect lone parents who will have to claim JSA once their youngest child is five. They can restrict their job seeking to fit with school hours but the availability of these jobs may mean that they are more likely to stay on JSA for a longer period.

**** We urge the government to reconsider this measure, and to withdraw it.****

### 5. Index linking of LHA – reducing expenditure by £390 million. (Needs primary legislation)

LHA rates are currently adjusted to reflect actual rents in the area, but from 2013/14 they will be up-rated in line with the CPI.

This change will have two effects: firstly, it will erode LHA rates over time, as rents generally rise faster than CPI. In the ten years to 2007/8, median rents rose by almost 70 per cent whereas CPI rose by less than 20 per cent. LHA rates will therefore rapidly fall below even the 30$^{th}$ percentile once this measure is adopted.

Secondly, using a national index will break the link with the movement of local rents. Two areas which have similar rent levels when the change is made in 2013, but which subsequently diverge as a consequence of differences in local economic factors, will find their LHA rates stay in step, while actual rents vary.

### 6. Non-dependant deductions (NDDs) to increase, reversing previous freezes – reducing expenditure by £340 million a year by 2014

If a tenant has a non-dependant living with them (typically an adult son or daughter, or elderly relative), a fixed amount is deducted from the tenant's housing benefit, because it is assumed that the non-dependant makes a contribution towards the rent. There are six separate rates of NDDs depending on the declared earnings level of the non-dependant. These rates, which have been frozen since 2001, range from £7.40 to £47.75 a week. From April 2011 there will be staged increases in NDDs to bring them up to the level they would have been had they been fully up-rated since 2001.

We estimate that the top rate will rise from £47.75 to at least £69. NDDs are highly unpopular – they are complex to administer and for claimants to understand, and they are perceived as unfair since they are imposed at the same rate regardless of the rent due. There has long been pressure for reform (if not abolition), but the compromise was to freeze the rates to reduce their impact. Non payment by the non-dependant is common, meaning that they are a frequent cause of rent arrears, as well as family tension and pressure on non-dependants to move out of the family home.

**7. Social sector - Limiting working age HB entitlement to reflect household size – reducing expenditure by £490 million. (Needs primary legislation)**

From 2013/14, working age claimants in the social sector will be treated in the same way as private tenants, with their HB entitlement restricted to the rent for an appropriately sized property.

This should help address under-occupancy in the social rented sector, which is welcome, given the huge demand for social housing. It will be important that social landlords respond by prioritising transfers for under-occupying tenants. However the same pressures may mean that it is impossible for the under-occupying tenant to get a transfer to a property of the right size. If they move to the private rented sector they will, of course, face the LHA cuts outlined above. This cut has been branded as ending security of tenure by the backdoor, as it may make it impossible for tenants to sustain their tenancy. Rent arrears are likely to rise. The size of the anticipated saving suggests that it is expected to affect large numbers of households.

**8. Discretionary housing payment (DHP) budget will rise from £20 million to £30 million in 2011 and to £60 million from 2012. In the CSR, the Chancellor announced that a further £1million will be given to local authorities to mitigate the immediate impact of the changes.**

The cuts will undoubtedly place huge additional demands on local authorities' DHP budgets. While we welcome the extra money, the amounts are tiny in comparison with the £2 billion cuts to HB.

## Comments on changes to Tax credits

- **Child tax credit (CTC) increases. Taken together the increases announced in both the budget and the CSR total £180 above CPI in 2011-12 and £110 above CPI in 2012-13 (extra expenditure in 2014 of £2.56bn)**
- **The rate at which tax credits are reduced as income rises, will rise from 39 per cent to 41 per cent from 2011-12.** (Budget)
- **£2,500 of any drop in income will be disregarded for tax credit purposes from 2012-13.** This means that anyone whose income drops by £2,500 or more, will **receive £1,025 less in tax credits** than they would before the change. (Budget)
- **Tax credits childcare costs reduced from 80 per cent to 70 per cent from Apr 2011.** (CSR)

- **Freezing of both basic and 30 hour elements of working tax credit (WTC) from April 2011** (CSR)
- **To receive WTC, couples with children will have to work 24 hours (instead of the current 16) between them, and one must work at least 16 hours, from April 2012.** (CSR)
- **Reducing entitlement to the flat rate £10.50 a week family element of child tax credit**. (Budget)
- **Reducing back-dating from three months (93 days) to one month. This will save the Government more than £330 million a year directly from low income families – including those in poverty.** (Budget)
- **Reducing the rise in income that a family can experience before their entitlement to tax credits is affected (the income disregard). This measure will reduce spending on tax credits by £420 million a year by 2014/15.** (Budget)

Reducing tax credit entitlement for families on higher incomes will only achieve 20 per cent of the £3.2bn cuts in annual expenditure from 2014, as announced in the June budget. Combined with the further £1.4 billion/year cuts in the CSR announcements, these changes will have a direct impact on low income families.

Apart from the financial losses experienced by low income families as a result of these changes, adjustments to the system are likely to cause extra confusion for claimants who have finally begun to understand the complex rules.

**1. Child tax credit (CTC) increases. Taken together the increases announced in both the budget and the CSR total £180 above CPI in 2011-12 and £110 above CPI in 2012-13 (extra expenditure in 2014 of £2.56bn)**

The increases mean above indexation rises of £3.46 a week for each child from 2011, and a further £2.11 a week in 2012. The child element is currently worth £2,300 per child for all families whose income and circumstances mean that they are entitled to the maximum amount. This would include all families on out of work benefits or working 16 hours on the minimum wage. This increase is very welcome, but if child poverty targets are to be met, increases above CPI would need to continue beyond 2012 - or alternative measures introduced – particularly in the context of other cuts.

As this rise is above indexation and per child, it will provide extra help to larger families. It will also be of most benefit to out-of-work families, as those who are working and receive working tax credits will experience a cut in real terms due to these payments being frozen.

Taken together, however, the freezing of WTC payments, along with the freezing of child benefit and - where relevant - the reduction in help with childcare, will more than offset the relatively small gains from the increase in CTC.

**2. Increasing the rate at which tax credits are reduced as income rises from 39 per cent to 41 per cent. This measure reduces government expenditure by £765 million a year by 2014.**

Increasing the rate at which tax credit entitlement is reduced as incomes rise, means that only those on the lowest incomes will benefit from the announced increase in child tax credit. It will, however, also cut entitlement to working tax credit for households without children. The 2 per cent rise in the rate at which entitlement is reduced as income rises, means that families will lose £20 more than currently for every £1,000 of income above £6,420, or £410 instead of £390. So someone earning £16,420 will lose £200 a year in tax credits. Someone earning £26,420 will lose £400 a year.

**3. Introducing a £2,500 income disregard for households facing a drop in income. The Government will reduce spending by £585 million a year by 2014 at the expense of families who face a decline in their financial position.**

The tax credit system was designed to respond to changes in a family's circumstances, to help them manage a sudden fall in income for example, by re-assessing their award based on their new lower income. This change announced in the budget means that families will not see their tax credit award adjusted unless their taxable income falls by more than £2,500 per year, and only the value of any decrease above £2,500 will be counted. This means that anyone whose income drops by £2,500 or more, will **receive £1,025 less in tax credits** than they would have done before the change. This is because awards fall or rise by 41 pence for every pound rise or fall of income. £1,025 is 41 per cent of £2,500. This may affect people who take maternity leave, or long-term sick leave because they are diagnosed with a serious illness, or if one of a couple is made redundant.

In 2009/10 440,000 families experienced an increased tax credit award – worth on average £38 per week – as a result of a decrease in income[7].

**** We urge the Government to reconsider this measure and to withdraw it. ****

**4. Tax credits childcare costs reduced from 80 per cent to 70 per cent (from Apr 2011) – a measure that will save £385 million a year by 2014.**

Some families can receive help with their childcare costs through the tax credit system. In April 2006, the maximum help available through tax credits increased from 70 per cent to 80 per cent of total costs. The spending review announced that from April 2011, only 70 per cent of costs will be covered. Tax credits - and help with childcare costs in particular - have significantly improved the position of lone parents and second earners in relation to financial gains from working. There are now significant financial incentives for them to move into both part-time or full time work. This contrasts with the position in 1997/8 when moving into

[7] Budget March 2010

part-time work would result in financial losses and much weaker gains from full time work.[8]

This will particularly affect owner-occupiers, as families paying rent will have some of the loss made up by increased housing and council benefit payments. This is because the net income on which their HB/CTB is assessed will be lower.

If childcare costs are £200:

- Families who only receive help with childcare costs through tax credits will lose 10 per cent of their help, or £20 a week.
- Families with a mortgage but in receipt of council tax benefit will lose 8 per cent (10 per cent loss of tax credits but 2 per cent gain in extra CTB help), or £16 a week.
- Families on HB/CTB will lose 1.5 per cent (10 per cent of their tax credits but a gain of 8.5 per cent in additional HB/CTB), or £3 a week.

**5. Freezing of both basic and 30 hour elements of working tax credit (WTC) (from April 2011). By 2014, this change will reduce spending by £625 million a year.**

The June Budget announced that all benefits and tax credits would be up-rated in line with CPI instead of the usual RPI. The rate of CPI affecting April 2011 benefit rates is 1.5 per cent lower than the rate of RPI[9]. The further move to freeze these elements of WTC, instead of up-rating them even by CPI, will mean a loss in real terms of £60 a year, or £1.14p a week, in the basic element, and £24 a year, or 46p a week, in the 30 hour element. These losses together will be compounded to over £260 a year by 2013. Taking account of the fact that to maintain the value of the 2010/11 rate it would need to have been up-rated in line with RPI, the overall loss to a family entitled to both elements would be £391 a year or £7.50 a week by 2013

**6. To receive working tax credit, couples with children will have to work 24 hours (instead of 16) between them, and one must work at least 16 hours (from April 2012). This measure will reduce spending on tax credits by £390 million a year by 2014.**

This measure will particularly affect households who face sudden falls in income if the main earner is made redundant. Continued entitlement to tax credits based on a part-time (over 16 hours) earner is hugely valuable to families at this time.

** **We call for exemptions for couples where one is unable to work due to disability or sickness.****

During the recession, Citizens Advice bureaux have seen many couples who have hit financial difficulties when the main full time earner is made redundant

[8] Tax credits: improving delivery & choice – a discussion paper, HM Treasury & HM Revenue and Customs, May 2008

[9] http://www.statistics.gov.uk/cci/nugget.asp?id=19

and they find themselves having to depend on the part-time earner. Advisers report that tax credits - based on an annual income - could be very slow to increase following what was a dramatic cut in a monthly income. However in most of these cases, the families were still entitled to WTC as well CTC because the part-time earner worked over 16 hours. The requirement for a couple to work 24 hours (with one working at least 16 hours) would mean families in this situation would no longer be eligible for help. This measure, together with the introduction of a disregard for falls in income (see above), mean that for many families, tax credits will no longer provide vital extra support when they face sudden falls in income.

This will also impact disproportionately on black and minority ethnic groups who make up a significant proportion of couple families with one parent in part-time work and one parent not in work. We welcome the fact that this is recognised by the Government[10] but are concerned about the extent to which this will be mitigated in reality by the additional investment in child tax credit. **In practice, the maximum loss of entitlement to working tax credit will be £73 a week, and the 'mitigation' through increases in the child element of child tax credit above indexation will be only £5.60 per child per week from 2012 (A family would need 13 children for CTC to compensate for the loss in WTC).**

### 7. Withdrawal of child tax credit for higher income families

Almost two million families currently receive just the £10.50 a week family element of child tax credit (depending on their incomes). When a household's gross income reaches £50,000, this element is reduced. From 2011 this family element will start to be withdrawn at a gross income of £40,000 rather than £50,000. Around half a million families will cease to be entitled to tax credits at this point, and from 2012, the flat rate entitlement will end completely.

For some families, £10.50 a week is a small percentage of their overall income, but for families with household incomes of around £25,000 these changes will be more significant, especially coupled with the freeze in child benefit.

### 8. Reducing back-dating from three months (93 days) to one month. This will save the Government more than £330 million a year directly from low income families – including those in poverty.

Families can currently make a claim for tax credits within three months of eligibility and still receive the award from the date they became eligible. This three-months back-dating facility gives families plenty of time to adjust to, and report, a change of circumstances. This is particularly important for reporting the birth of a new child, since the tax credits application form asks for a child benefit (CB) number. Most families therefore wait to apply for tax credits until after they have claimed and been awarded child benefit. (It should be feasible to have a straightforward CB claim put into payment within a month of birth, but this requires the parents to register and report immediately after the birth, and doesn't account for delays)

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[10] Overview of the impact of the Spending Review 2010 on equalities; HM Treasury October 2010

Because tax credits are calculated annually, however, this loss of back-dating facility is much more significant for households who are not entitled to working tax credit when their income is too high. If, for example, one partner in a couple loses their job, or a single person becomes sick and claims statutory sick pay, their income will drop suddenly in-year. Their overall annual income is then likely to average out across the year to mean that they become entitled to tax credits for the whole of the tax year. They therefore have a retrospective entitlement back to April of that tax year. They can at present claim back-dating for three months (so if the loss of income happens in July, they can claim tax credits from April; if it happens in December, they cannot claim back to April, but could claim from October – all of which makes a significant difference to their income as they struggle to adjust). In this case, it is irrelevant how promptly the claimant reports the situation, but as a result of this measure, families will only have an entitlement to one month back-dating. (Scenarios illustrating the significant loss for families in situations like this, are available in the appendix of our separate budget briefing).

**9. Reducing the rise in income that a family can experience before their entitlement to tax credits is affected (the income disregard). This measure will reduce spending on tax credits by £420 million a year by 2014/15**

The income disregard was increased from £2,500 to £25,000 in 2006/07 to reduce the number of families overpaid each year as a result of increases in income. Overpayments fell by about one third and now affect just over one million out of the six million families who receive tax credits every year. Reducing the income disregard to £10,000 is likely to increase numbers of overpayments by 300,000 at the very least, with more people affected by a decrease to £5,000, as explained below.

Reducing the income disregard to £5,000 by 2013/14 will continue to protect most families from being overpaid as a result of pay rises, but will result in overpayments for families where one partner returns to work mid-year, even if they report the change immediately. The change will affect households where a family member returns to work after maternity leave, sickness or unemployment. Statistics for 2003-04 show that 313,000 families who were overpaid saw their income rise by more than £ 10,000 between 2001-02 and 2003-04[11].

The confusion of the early years of the tax credits system badly damaged people's confidence. HMRC should review the impact of the change on overpayment levels. They must also ensure clear and consistent communication about the changes, coupled with high quality administration, to prevent a return to wide-spread overpayments and a further loss in confidence in the system.

[11] http://www.legislation.gov.uk/uksi/2006/963/pdfs/uksiem_20060963_en.pdf

# Comments on changes to disability and sickness benefits

- **ESA(contribution based) – introducing a time limit of one year for entitlement to ESA (CB) for those in work-related activity group, from April 2012.** (CSR)
- **DLA mobility for people in residential care will no longer be paid from 2012/13.** (CSR)

**1. Introducing a time limit of one year for entitlement to ESA (contribution based) for those in the work-related activity group (WRAG). This will affect around 1 million claimants and reduce spending by £2bn a year by 2014.**

There is currently no time limit for receipt of ESA(CB). Under the current proposal, if claimants have no other source of income, and only limited savings, they will be able to claim income-based ESA after 12 months on contribution-based ESA. This new time limit will therefore affect sick and disabled single people with some savings or other income, or couples where one partner works. For example, a couple household where one earns at least £150 and the other is sick or disabled would lose all £91.40 of their ESA – an income drop of almost 40 per cent. A single person with savings of more than £16,000 will be entitled to no benefit after 12 months.

> A northern bureau recently saw a couple where the wife earned less than £200 per week and the husband had already been on ESA(CB) in the WRAG, for more than a year, following a serious accident. He had worked as a manual worker all his life, and was desperate to get work, but had great difficulty walking, used crutches in the house and a wheelchair when outside, so was at a serious disadvantage in the job market. They also had debts and were struggling to live on their current income – before the loss of a further £91.40 when he loses his ESA. Both were already on antidepressants, and he had made a suicide attempt the previous week.
>
> A couple with 4 children visited a bureau in the south west. He had worked all his life until an accident 2 years before, when he had fallen 45 ft and sustained very serious injuries. His wife worked just over 16 hours /week . He was on ESA(CB) in the WRAG. They had a mortgage and were struggling to manage on existing income. Under the forthcoming changes, he will lose his ESA of £91.40/week, and WTC will only partially compensate for this drop in income. The impact is likely to be devastating.

The figure of 1 million includes those currently receiving incapacity benefit (IB), who will be re-assessed for ESA, by 2014. This re-assessment process will result in fewer people receiving benefits on grounds of sickness or incapacity, as the assessment results in more people being found fit for work[12]. Quite apart from the injustice described above, this measure makes it even more important

[12] 66 per cent fit for work. 24 per cent work-related activity group. 10 per cent support group.

that the assessment process allocates people to the right group for their ability. We are likely to see more appeals – which are already at an unmanageable level – as there will be significant implications for claimants' financial future if they believe they should be allocated to the support group, but find themselves in the WRAG. We await Professor Harrington's review of ESA and the Government's response.

**2. DLA mobility for people in residential care will no longer be paid unless they fully self- fund their own care. This will reduce spending by £135 million a year by 2014-15. It is estimated to affect 58,000 people currently in care homes and receiving an average of £33.40 a week.**

DLA enables people living in care homes to maintain some degree of independence. The higher rate mobility component of DLA enables disabled people to access a car through the Motability scheme, which is vital for many people to control their own lives and maintain their independence. Access to the Motability scheme must be retained for this group, in some other way if necessary.

## Comments on other key changes

- **Spending on Council Tax Benefit will be reduced by 10 per cent and decisions will be localised from 2013-14. This will reduce spending by £490 million a year by 2014.**
- **Families with babies under one lose out significantly as a result of the changes announced in the budget.**
- **Lone parents will have to look for work (and claim Jobseeker's Allowance (JSA) rather than income support) when their youngest child is aged five instead of seven.**
- **Freezing the maximum Savings Credit award in Pension Credit for four years from 2011. Around 1.8 million households will be affected and spending will be reduced by £330 million a year by 2014-15**
- **Extending for a further year the temporary change to the Support for Mortgage Interest scheme. 85,000 claimants are likely to benefit from the waiting period remaining at 13 weeks and about 14,000 from the capital limit. It will cost £90 million over the next two years.**
- **Making permanent the temporary increases to Cold Weather Payments. Around 4.2 million households are currently eligible for these payments if triggered by cold weather.**

**1. Spending on Council Tax Benefit will be reduced by 10 per cent and decisions will be localised from 2013-14. This will reduce spending by £490 million a year by 2014.**

Local authorities and the devolved administrations in Wales and Scotland will be given the flexibility to tailor their CTB scheme to meet local priorities and manage spending within lower limits, while protecting the most vulnerable. The precise flexibilities are yet to be determined, but we have serious concerns about the implication that local authorities will have the power to set benefit levels locally – potentially breaking the principle that benefit levels should ensure fair provision across the country. We have two main concerns about this announcement:

**The localisation of decision-making**: there will be an additional element of complexity if local authorities set different entitlement rules for different households groups, or based on different income levels. There is a danger of post-code lottery, and inconsistency between authorities.

We are also concerned that local authorities could deploy the benefit schemes in ways that suit their own spending priorities, rather than based on the need of claimants.

**The relationship between CTB and the new universal credit**: The implication is that help with council tax will be provided separately from the universal credit, which will mean a separate benefit and a different withdrawal rate, which would compromise the simplicity of the new system.

In the current benefit and tax credit system workers face multiple rates of withdrawal of benefits and tax credits. For every extra pound earned, individuals face reductions for tax and national insurance; and then a tax credit taper of 39 – soon to be 41 per cent; and finally an 85 per cent taper (combined 65 per cent housing benefit and 20 per cent council tax benefit) on what is left.

One of the merits of the new system is that there will be a combined withdrawal rate of all benefits and tax credits. If council tax benefit is administered separately, the gains from the new system will be reduced as households face a second withdrawal rate.

**2. Families with babies under one lose out significantly as a result of the changes announced in the budget.**

- Health in pregnancy grant (HiPG) – abolished from January 2011. In pregnancy all mothers will lose the non-means tested, £190 HiPG;
- Baby element of child tax credit – abolished from 2011-12. All qualifying families with babies under one will lose the £545 baby element of child tax credit.
- Sure start maternity grant of £500 (means-tested) - cut from all but first child from 2011-12. This will be a loss for around two thirds of families currently entitled to child tax credits. This loss will hit families differently depending on the age gap/s between their children. For those who would qualify, the grant is typically used to buy equipment for babies. While families may hold on to prams, car seats etc if there is only a two-year gap between their children, those with a bigger gap may have to buy such items again.

In addition, families experiencing a drop in income during a period of maternity leave will see a much smaller rise in their tax credits from 2011. This is because

£2,500 of any fall in income will be ignored when calculating tax credit entitlement.

The increases in child tax credit (£150 per child per year from 2011, and a further £60 a year in 2012) will not be enough to make up for the loss of the above benefits.  For example, a lone parent on income support, or a couple on Jobseeker's Allowance, who have a baby in 2012 would gain £210 a year in extra child tax credit, but lose £1,235 as a result of the changes listed above. A lone parent who was working on a low income and goes on maternity leave will lose £2,260 as a result of the changes.

### 3. Lone parents will have to look for work (and claim Jobseeker's Allowance (JSA) rather than income support) when their youngest child is aged five instead of seven

From October 2010, all lone parents and partners of benefit claimants will have to look for work when their youngest child reaches seven.  The budget announced that from October 2011, parents will be expected to actively seek work and claim JSA when their youngest child reaches age five.  Jobcentre Plus must ensure that all initial Jobseeker interviews are carried out by specialist lone parent advisers to ensure that action plans accurately reflect the parent's childcare needs.  Changes to JSA regulations in 2009 allow a parent to limit their job-search to work that fits around school hours.  These restrictions on availability for work may inevitably extend the time it takes to find an appropriate job.  If they are unable to find a suitable job within a year, they will now face a 10 per cent cut in their housing benefit after 12 months on the benefit, which would very likely force them into financial hardship, poverty and debt.

### 4. Freezing the maximum Savings Credit award in Pension Credit for four years from 2011. Around 1.8 million households will be affected and spending will be reduced by £330 million a year by 2014-15

Savings credit is designed to ensure that pensioners who have an independent income, or who have savings, are not worse off than pensioners on means-tested benefits (it is seen as unfair if those who have provided for their own futures are penalised compared with those who rely on benefits). The savings credit is paid on top of pension credit, and the current maximum awards are £20.52 for a single pensioner and £27.09 for pensioner couples. These levels will be frozen from 2011. While this is a loss in real terms for some pensioners, it will be largely compensated by the other measures to protect pensioners.

### 5. Extending for a further year the temporary change to the Support for Mortgage Interest scheme. 85,000 claimants are likely to benefit from the waiting period remaining at 13 weeks and about 14,000 from the capital limit.  It will cost £90 million over the next two years.

We welcome this extension to the SMI scheme which reduces the waiting period for new working age claimants to 13 weeks and increases the limit on eligible mortgage capital to £200,000, both of which were due to expire in January 2011. We are, however, seeing problems arising from the reduction in SMI from 6.08

per cent to the Bank of England average rate, which was introduced in October 2010.

**6. Making permanent the temporary increases to Cold Weather Payments. Around 4.2 million households are currently eligible for these payments if triggered by cold weather.**

We welcome the decision to provide cold weather payments of £25 to eligible households for each seven day cold spell recorded or forecast where they live.

## Child poverty

Child poverty is when a child lives in a household whose income is below 60 per cent of the median income. According to the latest DWP HBAI[13] statistics for 2008/9, 3.9 million children in the UK currently live in poverty (30 per cent of children in Britain[14]). The 2010 Child Poverty Act sets government targets relating to the proportion of children living in relative low income (target is less than 10 per cent); combined low income and material deprivation (less than 5 per cent); absolute low income (less than 5 per cent); and persistent poverty (target to be set in regulations by 2015).[15]

The Treasury asserts that by increasing the child element of child tax credit above indexation, alongside the freezing of child benefit for three years, the budget will cause no measurable impact on child poverty in the next two years. However, the Treasury calculations are based on modelling these two changes only. In conjunction with other cuts – including housing benefit and benefits paid specifically to families with babies – there is a real risk of an increase in child poverty as a result of this budget. The CSR was based on the same principle of cutting or freezing a range of payments whilst increasing the child element of child tax credit.

Families with children under four face the highest risk of living in poverty, yet it is these families that have been worst affected by the budget. Labour's last budget introduced £4 a week extra in child tax credit for children aged one and two, on top of a system already providing an extra £10 a week for families with a baby under one. This budget has cut all these extra age-related payments even for families on the lowest incomes, including those on out-of-work benefits or in part-time and low paid work. The impact of these cuts in the early years are likely to make it more difficult for these families to catch up and lift their children out of poverty.

## Work incentives

The June budget concentrated on targeting resources on low income families, by freezing payments made to all children – child benefit – and increasing means-

[13] Households below average income
[14] http://www.endchildpoverty.org.uk/why-end-child-poverty/key-facts
[15] http://www.dcsf.gov.uk/everychildmatters/strategy/parents/childpoverty/bill/bill/

tested child tax credit paid to the poorest. Targeted support is achieved through increased means testing, which reduces work incentives, as it means that families lose benefit income for every extra pound of income they earn. Measures announced in Labour's last budget of March 2010 increased by 40,000 the number of households losing more than 90 pence for every extra £1 earned. Treasury figures[16] predict that the Coalition Government's first budget will increase this number by a further 20,000.

Further measures announced in the CSR have cut in-work benefits – freezing WTC, and reducing the childcare element of tax credits.

For those affected by these measures, the incentive to work will be significantly reduced. The case study of a lone parent with two primary school age children working 30 hours a week is discussed in the appendix. This shows that, looking at the complete package of changes announced in the budget and the CSR, by April 2012 She will be £4/wk worse off than now, while if she were on income support, she would be £4 better off than now. When the loss of free school meals and the cost of transport are taken into account, she may well be no better off in work.

A single person living in a self-contained bedsit near their work could lose over half their HB, and will not necessarily be able to find shared accommodation near work within an affordable rate. Even if this person manages the loss of their home, and moves to a cheaper area, the need to travel the distance to work is likely to lead to higher daily costs, potentially resulting in their having to give up the job.

[16] http://www.hm-treasury.gov.uk/d/junebudget_complete.pdf

# Appendix 1: glossary of acronyms

| | |
|---|---|
| AHC | after housing costs |
| BHC | before housing costs |
| CB | child benefit |
| CPI | consumer prices index |
| CSR | comprehensive spending review |
| CTB | council tax benefit |
| CTC | child tax credit |
| DHP | discretionary housing payments (funds available to LAs to help with housing costs) |
| DLA | disability living allowance |
| DWP | department for work and pensions |
| ESA(CB) | employment and support alllowance (contribution-based) – ie based on national insurance contributions |
| ESA(IB) | employment and support allowance (income-based) – ie means-tested |
| HB | housing benefit |
| HBAI | households below average income |
| HiPG | health in pregnancy grant |
| JSA | job seekers allowance |
| LA | local authority |
| LHA | local housing allowance (HB paid for privately rented accommodation) |
| NDDs | non-dependant deductions |
| NICs | national insurance contributions |
| PC | pension credit |
| Rossi | This is a measure of inflation, defined as the all-items retail prices index excluding rent, mortgage interest payments, council tax and depreciation costs. |
| RPI | retail prices index |
| SRR | shared room rate |
| SSMG | sure start maternity grant |
| SSP | statutory sick pay |
| WRAG | work related activity group for ESA claimants – ie too sick to work at present, but expected to progress towards work |
| WTC | working tax credit |

# Appendix 2: scenarios showing the impact of the budget and spending review changes on specific households

The following scenarios show the how the budget and spending review changes will impact on specific households. All of the scenarios highlight how changes to benefit positions will diminish their income.

1 **A working lone parent with two primary school aged children, childcare costs and living in private rented accommodation**. The net result of changes to benefits reduces her weekly disposable income from £280 to £233 by April 2013. It is likely that she will be forced to move to cheaper accommodation further away from her work, increasing travel and child care costs and disrupting the children's lives.

2 **A working lone parent with two primary school aged children, childcare costs and a mortgage**. She is very little better off working 30 hrs/week than if she was in receipt of Income Support (IS) or Jobseeker's Allowance (JSA) Her weekly disposable income will be reduced from £246 to £241 by April 2012. Her work incentive has been diminished by the cut in the childcare support from tax credits and the freezing of working tax credit elements.

3 **Couple with 4 young children and one earner who had his hours cut to 20 a week**. A number of changes affect this family. By 2013 when the cap on total benefit income is introduced, they will be £138 worse off in real terms than in 2010 and well below the poverty line.

4 **A 30 year old man in private rented accommodation, despite working a 40-hour week lives below the poverty line even before the budget and CSR changes**. By 2012 his disposable income will have dropped from £110 to £63 in real terms.

5 **A couple both earning, until the higher earner falls seriously ill and becomes reliant on Statutory Sick Pay (SSP) and Working Tax Credit (WTC)**. As a result of all the changes they will be £67 worse off in real terms after the budget and CSR changes, and will be pushed below the poverty line.

The following calculations are only approximate and so have been rounded to the nearest pound.

## 1. Lone parent with high rent, with primary school age children in low paid work with child care costs - shows the impact of the HB cap

### The present situation

Lone parent with 2 children aged 5 and 7 – she is working 25 hours/week and has childcare costs of £100/week when averaged over the year including school holidays. She earns £150 /week (£7820/yr). She lives in north London in a privately rented 2 bedroom flat. She pays rent of £329/week (the average market rent for that area) and council tax of £20/wk. After she has paid her housing costs and her childcare costs she is left with a disposable income of £280/wk.

### After the budget and spending review

The following changes will affect her income

- Rise in tax threshold by £1,000 (gain of £3.84/person/week)
- Increase in child element of CTC of £180/year above CPI or £145 above RPI (gain of £2.78/child/week) from Apr 2011 and further £78/yr above RPI or £1.51/wk from April 2012[17]
- The rate at which tax credits are reduced as income rises, will rise from 39 per cent to 41 per cent
- Change in basis for up-rating benefits and tax credits (assume 1.5 per cent drop in real terms) and freezing of some elements of WTC (assume a further 3.1 per cent drop in real terms)[18]
- Childcare element of tax credits covers 70 per cent of childcare costs instead of present 80 per cent
- Child Benefit frozen
- CTB is going to decrease
- The HB cap will apply

### From April 2011

The net result of the increases in the child element of Child Tax Credit (CTC) are likely to be more or less balanced out by the freezing of child benefit and also freezing the basic element of WTC and the change in tariff income from 39 per cent to 41 per cent. The decrease of 10 per cent in the amount of childcare costs covered by tax credits will be offset by an increase in Housing Benefit (HB) /Council Tax Benefit (CTB)(before the cap is considered). Ignoring the cap on HB, she will have a small increase of about £2 overall. From April 2012 she will be about £1 better off than now, and from April 2013 will suffer a loss of about £8 unless things change.

The huge change for her, however, will be the cap on HB: She will lose £39 in HB. She will be left with a disposable income of £243/week in 2011, £242 from April 2012 and £233 from April 2013.

If she has to move home, she will be further away from her work, which will mean higher travel costs, and the children will face the disruption of moving school and leaving their community. They will also need to be in childcare for longer to allow for the mother's longer travel period, meaning the 10 per cent reduction in cover for childcare costs will be more significant.

## 2. Lone parent as above, with a mortgage instead of renting

### The present situation

Lone parent with 2 children aged 5 and 7 years working 30 hours for £180 /week. She pays childcare of £100/week . She has a mortgage of £80/week and pays

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[17] http://www.statistics.gov.uk/cci/nugget.asp?id=19
[18] ibid

council tax of £20/week. At present, after she has paid her housing costs of £100, she is left with £246/week to live on. After she has paid her transport costs and for school meals for her children, she is likely to be very little better off than on IS or JSA and earning £20 (when she would have a disposable income after housing costs of £218).

### After the budget and spending review

The following changes will affect her income

- Rise in tax threshold by £1,000 (gain of £3.84/person/week)
- Increase in child element of CTC of £180/year above CPI or £145 above RPI (gain of £2.78/child/week) from Apr 2011 and further £78/yr above RPI or £1.51/wk from April 2012[19]
- The rate at which tax credits are reduced as income rises, will rise from 39 per cent to 41 per cent
- Change in basis for up-rating benefits and tax credits (assume 1.5 per cent drop in real terms) and freezing of some elements of WTC (assume a further 3.1 per cent drop in real terms)[20]
- Childcare element of tax credits covers 70 per cent of childcare costs instead of present 80 per cent
- Child Benefit frozen
- CTB is going to decrease

### April 2011

Overall the CTC increase will be offset by the changes in WTC and Child Benefit. The £10 loss of help with childcare costs will only be partially offset by the gain from the rise in the tax threshold and an increase in CTB of £2. Overall she will be about £4 worse off and will have a disposable income in real terms of £242 – not a huge change but significant when her work incentive is so small. (Those on JSA or IS will see a real terms increase of about £4, owing mainly to the child element increase.)

### April 2012

The freeze in Child Benefit means she will be now be about £5 worse off - a disposable income in real terms of £241. (Those on JSA or IS will have a real terms increase of about £4 compared to now)

### April 2013

As no extra increases have been announced for the child element of CTC for 2013, the continued losses by freezing of some elements, and up-rating by CPI not RPI of others, mean that unless changes are announced, her disposable income in real terms will drop to £231 (£15 drop in real income). This would certainly destroy any financial work incentive. Those on IS will see a drop of £1 in their income.

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[19] http://www.statistics.gov.uk/cci/nugget.asp?id=19
[20] ibid

## 3. Couple with 4 young children - the effect when the working partner's hours are cut

Couple with 4 children. They live in the South East of England and pay rent of £180 and council tax of £20. One partner looks after the children, the other works full-time but has his hours reduced to 20 when the firm had problems. He is now earning £120/wk.

### The present situation

They would be entitled to some WTC and full CTC and also HB/CTB. After paying their housing costs, they would be left with a disposable income of £438/week .

### After the budget and spending review

The following changes will affect their income

- Stopping of WTC for couples working less than 24 hours/wk between them
- Changing of Local Housing Allowance (LHA) rates from using 50th percentile to 30th percentile
- Cap in maximum benefit for non working families
- Increase in child element of CTC of £180/yr above CPI or £145 above RPI (gain of £2.78/child/wk) from Apr 2011 and further £78/yr above RPI or £1.51/wk from April 2012[21].
- Change in basis for up-rating benefits and tax credits (assume 1.5 per cent drop in real terms) and freezing of some elements of WTC (assume a further 3.1 per cent drop in real terms)[22]
- Child Benefit frozen
- CTB is going to decrease

### From April 2012

Their disposable income will drop to £377 (a drop of £61). There is such a large drop because they are receiving almost full HB/CTB, which will be reduced. This would push them close to the poverty line for a family of their size.

### From April 2013/14

Their disposable income will be £373. After a welfare cap is applied (we are assuming that families working insufficient hours to be eligible for WTC will be counted as not in work) their disposable income in real terms after housing costs will drop to £300. This will be £138 lower than their present income and below the poverty line for this family[23].

If they tried to move to find cheaper accommodation, they would be unlikely to find a property cheap enough anywhere in the South East not to be caught by the

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[21] http://www.statistics.gov.uk/cci/nugget.asp?id=19
[22] ibid
[23] DWP, Households below average income : an analysis of the income distrution 2008/09, May 2010

benefit cap of £500, which means he would have to travel too far to his job to be able to keep it.

## 4. A person under 35 years living in private rented accommodation

Man aged 30 years, works 40 hours /week for just above the minimum wage earning £240 /week (£12,500/yr). (£202 net inc) . He lives in a 1 bedroom flat costing him £125/week - the cheapest accommodation he can find in that area - and council tax of £20/week.

**The present situation (before the budget and spending review changes)**
He gets WTC of £6.50 and HB of £46.04. After housing costs of £145 (£125 rent and £20 c tax) he is left with a disposable income of £110/week. This is below the after-housing-costs poverty level for a single adult.

If he lost his job, his income would drop to JSA of £65.45 and his rent and council tax would be paid in full through HB/CTB

**After the budget and spending review changes**
The following changes will affect him:

- Single people aged under 35yrs now only eligible for shared room rate of HB (average effect likely to be reduction of £45 in HB for this group)
- The rate at which tax credits are reduced as income rises, will rise from 39 per cent to 41 per cent
- Change in basis for up-rating benefits and tax credits (assume 1.5 per cent drop in real terms) and freezing of some elements of WTC (assume 4.6 per cent drop in real terms)
- Rise in tax threshold by £1,000 (gain of £3.84/person)

**April 2011**
He will lose £5 WTC but gain £4 from the tax changes. Overall he will be about £1/week worse off
Disposable income of £109/week

**April 2012**
If he has to move at this point and the only property he can find is at the same rent (see details in our CSR response about lack of shared accommodation for people on HB)
He would no longer be entitled to any WTC (because his income rises with inflation and takes him out of entitlement).
Assuming his HB Local Housing Allowance (LHA) rate will be at the predicted average drop of £45 for under 35s moving from a 1 bedroom flat to shared accommodation - he will lose all but £2 of his HB.
He will have a disposable income of £63/wk – taking into account his travel costs to work, despite working a 40-hr week, he would be living on an income considerably less than the minimum income allowed in unemployment benefit, and below the severe poverty level for a single adult[24].

[24] DWP, Households below average income : an analysis of the income distrution 2008/09, May 2010

**Loss of job**
**April 2011**
If he lost his job and claimed JSA then in real terms (assuming a 1.5 per cent drop in real terms /yr), he would have a disposable income of £63.50 – his council tax may be paid in full through CTB (it is not yet clear how CTB will change).

**April 2012**
If he lost his job in April 2012 then his JSA will have a real terms value of £62.50, and his rent will have a shortfall of £45, leaving him with a disposable income of £17.50.

Clearly if he was not able to find another job fairly quickly and could not find somewhere cheaper to live, he would be in serious danger of falling into rent arrears and becoming homeless.

## 5. A couple when one becomes seriously ill

**The present situation**
Couple in late fifties – he earns £400/week before tax (£20,860) = £312/wk after tax; she earns £150/ week (£7,820) = £140/wk after tax. He left school at 16 and has worked and paid contributions ever since. They own their own house and have a joint income of £453/week. They pay council tax of £20 – leaving them with a disposable income of £433/wk. He has a stroke and is left with difficulty walking, his speech and memory are affected and he gets tired very quickly. He claims Statutory Sick Pay (SSP) and Working Tax Credit (WTC) but their income is greatly reduced and it is difficult for them to adjust to this drop in income – they use up their savings in the first year whilst adjusting.

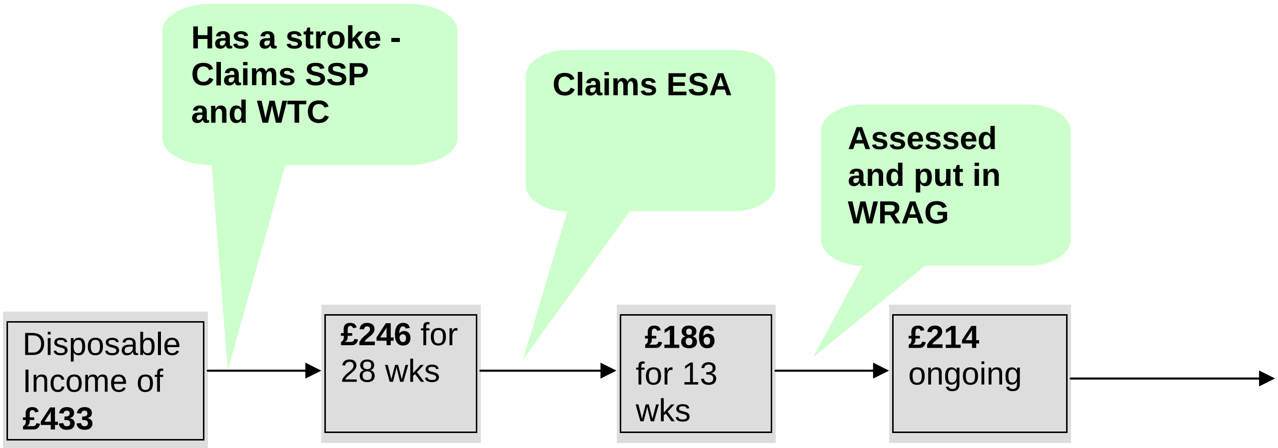
**After the budget and spending review**
The following changes announced in the budget and in the spending review have been taken into account in calculating the effect on couples such as these

- Rise in tax threshold by £1,000 (gain of £3.84/person)
- £2,500 of any drop in income will be disregarded for tax credit purposes (loss of £20/wk)
- The rate at which tax credits are reduced as income rises, will rise from 39 per cent to 41 per cent
- Change in basis for up-rating benefits and tax credits (assume 1.5 per cent drop in real terms) and freezing of some elements of WTC (assume 4.6 per cent drop in real terms)
- Contribution based Employment and Support Allowance (ESA) will stop after one year for those in the work-related activity group (WRAG) (loss of £91)

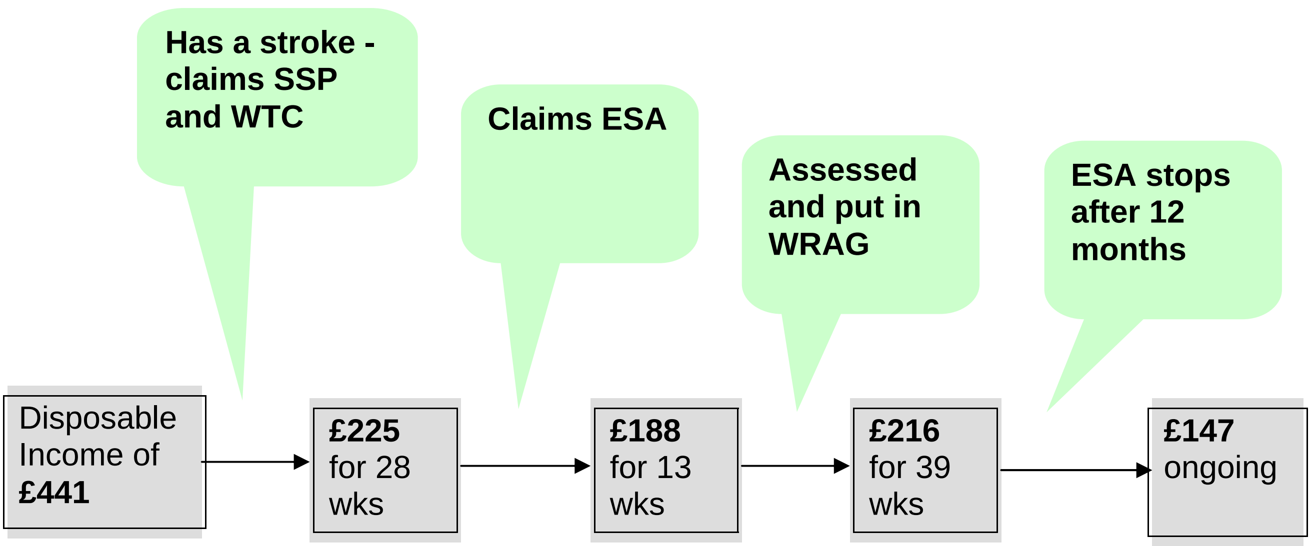
As can be seen from the "before and after" diagram below, the changes lead to significantly less money (£21 in their case) to help cope with the very difficult first few months that he is ill. They will then take a further cut of £67 (over 30 per cent of their income) a year later, when their savings are depleted. This will push them £59 below the poverty line and is likely to be devastating. It is hard to see how it is fair that people who have worked hard all their lives should bear such a disproportionate burden of the cuts.

**The diagram overleaf illustrates this example.**

## Present position (before the budget and spending review changes)




## After the budget and spending review changes




## Difference between current situation and after changes

| | | | | |
|---|---|---|---|---|
| **£7.70 better off** as a result of the tax changes | **£21 worse off** as a result of several WTC changes | **£2 better off** tax change offsets uprating change | **£2 better off** tax change offsets uprating change | **£67 worse off** as a result of ESA stopping after 1 yr |