

7. The contribution of other policies

Benefit levels

Even with rises in parental employment, the 2010 and 2020 targets will not be met without further improvements to financial support for families with children. Much of the financial support specifically directed at children lies outside the responsibility of the Department for Work and Pensions,⁶⁰ although the out-of-work benefits that adults receive also have a significant impact on family income.

Nevertheless, it is worth noting that the Joseph Rowntree Foundation has calculated that it would be possible to reach the 2010 target by spending £4.3 billion per annum by raising the child element of Child Tax Credit from £37 to £48.50 per week and increasing the Child Tax Credit family element by £20 for each third and subsequent child. This raises the question of whether Child Tax Credit is the best contender for future tax credit/benefit spending or whether other tax credit/benefit increases (or combinations) would be desirable.

For example, increasing the Child Benefit rate for second and subsequent children to that for the first child would lift 250,000 children out of poverty at a cost of £1.6 billion. Spending the same amount of money on an enhanced Child Tax Credit family premium for families with three or more children would lift twice as many children out of poverty but would add more administrative complexity to the tax credits system.

There is also the question of the relative value of benefit levels. The decline in the value, relative to earnings, of benefits and tax credits reduces their effectiveness in preventing child poverty.

There is already a commitment to uprate Child Tax Credit in line with earnings up to 2009. Table 5 shows that if Child Tax Credit was uprated in line with earnings to 2010/11, 60,000 children would be lifted out of poverty at a cost of £219 million (2010 prices).⁶¹

⁶⁰ Child allowances in Income Support, Jobseeker's Allowance, Housing Benefit and Council Tax Benefit are being 'migrated' to the Child Tax Credit.

⁶¹ Child allowances in Income Support, Jobseeker's Allowance, Housing Benefit and Council Tax Benefit are being 'migrated' to the Child Tax Credit. There are currently a number of cases which have not been migrated. Child allowances in these benefits are uprated in line with Child Tax Credit and it is implicitly assumed that this policy will continue until migration has been completed.

Increasing benefits above rises in earnings would help offset some of the relative decline in their value in recent years. If Child Tax Credit was uprated in line with earnings plus 5 per cent until 2010/11, 570,000 children would be lifted out of poverty at a cost of £2.8 billion (2010 prices).

Table 5: The impact of benefit uprating on child poverty

	Number of children estimated to be lifted out of poverty	Cost (2010 prices)
Uprate Child Tax Credit in line with earnings to 2010/11	60,000	£219 million
Uprate Child Tax Credit in line with earnings plus 5% to 2010/11	570,000	£2.8 billion

Note: Assumes full benefit and Child Tax Credit take-up.

Ensuring that benefits and tax credits maintain their value in line with earnings should not be viewed as a one-off exercise. For example, failing to maintain the value of Child Tax Credit in line with earnings between 2010 and 2020 would mean that the child poverty rate would be 5.1 percentage points higher in 2020 than it would otherwise be.

Increases to the Child Tax Credit would have the advantage of targeting additional resources at families with children. But the Government will also be mindful of the relative value of benefits for families with and without children and the decline in relative value of adult out-of-work benefits, which is also contributing to child poverty. An across-the-board uprating of benefits⁶² in line with earnings up to 2010 would not be a cost-effective way to tackle child poverty: it would cost around £7 billion per annum and reduce the percentage of children living in poverty by just one percentage point. Selective increases in the value of some adult benefits would be more effective.

Recommendation

26. The Department for Work and Pensions should review its benefit uprating policy and the potential impact on child poverty up to 2020.

⁶² This includes Disability Living Allowance, Widow's/Bereavement Allowance, Maternity Allowance, Industrial Injuries Disablement Benefit, Income Support, Housing Benefit, Attendance Allowance, Incapacity Benefit, Carer's Allowance, Severe Disablement Allowance, Child Benefit, Jobseeker's Allowance and Council Tax Benefit.



Potential benefit reforms

The Department for Work and Pensions has announced that it will be piloting a Work-Related Activity Premium.⁶³ The premium will consist of a £20 addition to Income Support for lone parents who have been out of work for at least six months, have a child aged 11 years or older and are undertaking work-related activity.

The premium will be available on an opt-out basis – it will be available for lone parents unless they specifically decline to begin to prepare for a return to the labour market by undertaking work-related activity. Such activity will be broadly defined – not restricted to training, for example – and might include such things as taking steps to sort out a debt or manage a health condition. The maximum period of entitlement will be six months. Quarterly work-focused interviews for lone parents whose youngest child is aged 11 or older will be introduced alongside the pilots, as part of a proposed national roll-out.

The premium has the potential to make a difference to child poverty by increasing benefit income while maintaining work incentives. It will take time to pilot the premium and evaluate its impact, so its contribution towards meeting the 2010 target will be limited. Clearly, if eligibility was extended to all lone parents, this would increase the impact on

⁶³ From April 2007, the Work-Related Activity Premium will be piloted in several Jobcentre Plus districts.

child poverty. However, depending on take-up, the payment of the £20 premium could lift between 25,000 and 50,000 children out of poverty (plus the indirect effects of more lone parents moving into work).

Nevertheless, it would seem illogical to restrict eligibility for the Work-Related Activity Premium to lone parents. An additional work-related premium would help to encourage potential second earners⁶⁴ to consider entering work, for example, and would have both a direct and indirect impact on reducing child poverty. Similarly, eligibility for the Work-Related Activity Premium could be extended to partners of benefit claimants.

The Department should also review whether there are further benefit changes that could have an impact on reducing child poverty. Further reforms to Housing Benefit and Council Tax Benefit could, in particular, make a difference. These two benefits are already responsible for lifting 800,000 children out of poverty. Increasing these benefits for in-work families would be a way of targeting extra money on low-income working families in rented accommodation – who face a high risk of poverty and (in some cases) disincentives to work.

The nature of any reform needs to be considered carefully. For example, if the Working Tax Credit was disregarded in Housing Benefit and Council Tax Benefit calculations, 160,000 children could be lifted out of poverty. This would also have a positive impact on work incentives, potentially reducing child poverty still further. Such a proposal would cost £0.5 billion per annum. However, disregarding Working Tax Credit income would increase marginal deduction rates, making it more difficult for some families to escape poverty. Marginal deduction rates⁶⁵ would be less if Housing Benefit and Council Tax Benefit tapers⁶⁶ were lowered, and the most cost-effective approach would be to lower tapers only for families with children, which would be technically feasible but would add to the complexity of the system.

At the very least, steps should be taken to increase the level of awareness that Housing Benefit and Council Tax Benefit can be claimed in work. Research undertaken for the Department has shown that often claimants do not take this into account when calculating whether they would be better off in work and this distorts their decision to move into employment. Jobcentre Plus could play a stronger role in encouraging Housing Benefit take-up and ensuring that parents are aware that they are able to claim Housing Benefit and Council Tax Benefit when they are in work.

HM Revenue and Customs and Jobcentre Plus should also work together to increase parents' awareness of the support they can receive via tax credits if they enter work. This includes doing more to promote the childcare element of the Working Tax Credit and the £25,000 income

⁶⁴ The delivery mechanism might have to be different – few potential second earners are on Income Support.

⁶⁵ The marginal deduction rate is the percentage of each additional £1 of gross earnings that is lost because of increased tax and National Insurance contributions, and changes in entitlement to income-related benefits and tax credits.

⁶⁶ When a claimant's net income is greater than the 'applicable amount' – the weekly amount the Government believes represents a family's basic living needs – Housing Benefit and Council Tax Benefit are reduced by a percentage of the difference. This percentage is called the taper and it is currently 65 per cent for Housing Benefit and 20 per cent for Council Tax Benefit.

disregard which enables couples to keep their tax credit entitlement until the end of the tax year if a second earner moves into work, unless household income rises by more than £25,000.

Recommendations

- 27. On the basis of evaluation evidence emerging from the Work-Related Activity Premium pilots, the Department for Work and Pensions should consider whether to extend the Work-Related Activity Premium to other groups of parents.**
- 28. The Department for Work and Pensions should consider the child poverty impact of other types of reforms, including reforms to Housing Benefit.**

Child support

Given that 42 per cent of children in poverty are living in lone-parent families, maintenance payments ought to play a major role in reducing child poverty. An effective system of recovering child support could make a significant difference to child poverty levels.

Currently only a minority of families are receiving maintenance payments: 22.8 per cent of lone-parent families and 4.4 per cent of couple families. But in these cases, maintenance is making a difference, reducing child poverty rates by as much as 13.9 per cent in lone-parent families and 2.5 per cent in couple families.⁶⁷ The Department estimates that child maintenance payments currently lift a total of 100,000 children out of poverty.⁶⁸

However, a more effective system could deliver much more. Child support delivers 25 per cent of Austria's child poverty reduction, 24 per cent of Switzerland's, 18 per cent of Sweden's and only 2.9 per cent of the UK's.⁶⁹

The Henshaw Review⁷⁰ proposed changes to the child support system that would allow parents to make their own arrangements for child maintenance, removing the compulsion for parents with care on benefits to apply for child support. The review also proposed a higher level of maintenance disregard in benefit calculations and the introduction of new sanctions.

The reforms could have a significant impact on child poverty if:

- they result in greater co-operation between couples in agreeing and paying maintenance arrangements;
- there is a significant increase in the disregard of maintenance income in benefit calculations; and
- the impact on work incentives is small.

⁶⁷ Bradshaw J, 2006, *Child Support*, Joseph Rowntree Foundation, p 7.

⁶⁸ Department for Work and Pensions analysis of the *Family Resources Survey 2004/05*.

⁶⁹ Jun Rong Chen, quoted in Bradshaw, 2006.

⁷⁰ Henshaw D, 2006, *Recovering child support: routes to responsibility. Sir David Henshaw's report to the Secretary of State for Work and Pensions* (Cm6894, July 2006), Department for Work and Pensions.

It is very difficult, if not impossible, to estimate with precision the possible behavioural impacts of the changes proposed. The removal of the requirement for parents with care on Income Support to comply with the Child Support Agency may, in itself, prompt some behavioural change. An increase in the level of maintenance income disregarded in benefit calculations would also increase the incentive for the non-resident parent to pay.⁷¹ Currently, fewer than 15 per cent of lone parents on Income Support are receiving any child support. However, with good levels of information and guidance available to parents and improved incentives to pay maintenance, compliance should increase. A wide range of settings, including Children's Centres, existing family support services and advice agencies, need to be involved in proactively engaging parents and providing information, guidance and support. Jobcentre Plus will also have a significant role to play in providing access to advice for parents claiming benefits.

In addition to wider access to information and guidance, tougher sanctions for non-compliance will be necessary. But a wider message that financial support for children after separation is a universal obligation needs to be reflected throughout policy.

An increase in the disregard of maintenance income in benefit calculations would ensure that more maintenance flows directly to the parent with care and would therefore have an immediate impact on child poverty. The impact would be greatest if a 100 per cent disregard was introduced, but any significant increase of the disregard would be an effective way of tackling child poverty as it would particularly benefit those on the lowest incomes.

Increasing the level of out-of-work income by raising the disregard in Income Support could in principle discourage some lone parents from entering employment, although this effect could be partially reduced by having a full disregard of maintenance income for Housing Benefit and Council Tax Benefit (thereby increasing in-work income). However, child support maintenance is an uncertain source of income and as such lone parents will not automatically factor this into their decisions to move into or out of work. In order to maintain work incentives, Jobcentre Plus advisers also need to ensure that all parents with care know that they can retain any maintenance they might receive when they are employed more than 16 hours a week. This should be reflected when advisers undertake better-off calculations.

Recommendation

29. Reforms to the child support system should aim to achieve the maximum impact on child poverty and, to this end, a significantly higher disregard of maintenance income in benefit calculations should be introduced.

⁷¹ Evidence from the United States suggests that this would be the case. See: Miller C, Farrell M, Cancian M and Meyer D R, 2005, *The interaction of Child Support and TANF: evidence from samples of current and former welfare recipients*, New York, Manpower Demonstration Research Corporation (MDRC) online, available: www.mdrc.org/publications/397.full.pdf.