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Rt Hon George Osborne MP
Chancellor of the Exchequer
Her Majesty's Treasury
1 Horse Guards Road
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23 November 2011

Dear Rt Hon George Osborne

Autumn statement: economic growth and child poverty

The Autumn Statement on 29 November 2011 is an opportunity to tackle the major challenges we face. More growth in the economy is needed and child poverty is predicted to begin rising steeply. However, it would be wrong to assume that there is a conflict between the actions needed to promote growth and the actions needed to address the needs of the poorest families - both in and out of work.

Our headline asks for the Autumn Statement, which are explained more fully below, are:

1. **Action to progress towards the child poverty targets**, using fiscal policy to achieve the minimum necessary year on year progress to ensure the 2020 targets remain within reach.
2. **Action to create and protect decent jobs**, and action to improve incentives in Universal Credit, especially through childcare support, improving the taper and improving incentives for second earners.
3. **Sticking to the Fairness Test**, by making sure the wealthiest shoulder the greater burden, scrapping plans to restrict eligibility of child benefit and by once again publishing a distributional impact assessment.

1. Action to progress towards the child poverty targets

1.1. In its programme for government, the Coalition made a clear commitment to the targets to reduce child poverty by 2020. Investment in the Child Tax Credit was announced in the June 2010 Budget and October 2010 Spending Review to protect against an increase in the number of children in relative income poverty. However, the Treasury recognised that the investment would have no impact on reducing child poverty, claiming only that it would prevent measurable child poverty rising for just two years, and in relation to just one of the four dimensions of poverty covered by the targets in the Child Poverty Act.

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- 1.2. The Treasury failed to include the child poverty targets in its business plan for 2011-15. The Autumn Statement is an opportunity to remedy this and to clearly set out the role of the Treasury within the government's broader strategy to meet the targets in the Coalition's programme for government and the Child Poverty Act.
- 1.3. As things stand, the Institute for Fiscal Studies has predicted that child poverty is likely to rise in the current decade so that by the time of the target year, almost all the progress made since 1998/99 will have been reversed (see the table below).

	1998/99	2009/10	2010/11	2020/21	Projected increase 2010/11 to 2020/21
Children in poverty before housing costs	3.4 million	2.6 million	2.5 million	3.3 million	0.8 million
Children in poverty after housing costs	4.4 million	3.8 million	3.5 million	4.2 million	0.7 million
<i>Source</i>	DWP actual	DWP actual	IFS projection	IFS projection	

- 1.4. **We ask that the Autumn Statement includes publication of clear information on those measures that the Treasury believes will deliver progress towards the targets; and that the Treasury quantifies the expected progress in terms of number of children in poverty for at least the period of the current child poverty strategy.**
- 1.5. The single biggest driver that the IFS has cited for the projected rise in child poverty is linking benefit up-rating to CPI instead of RPI. This constitutes a large part of the £18 billion of cuts to the annual benefits budget by 2014, mostly focussed on children and families. We understand that the government is now considering a further cut to the way benefits are up-rated from April 2012, worth at least a £1 billion, based on restricting up-rating to a figure derived from a 6 month average of CPI. This would mean a cut of £43.68 a year for families on JSA or income based ESA.
- 1.6. This would hit families at a time when CPI uprating is already falling well behind the costs of basic essentials. Across the years to 2008-10, CPI rose by a total of 11%, but food went up by 19%, and domestic fuel by 31% (Source: National Statistics). In the 12 months to July 2011, food and household fuel both increase by 6.5% compared to CPI of 4.4%. Since July, families are being hit by electricity rises of around 10% and gas rises of around 15% from the main providers. Low income families are already facing worsening material deprivation and this will be exacerbated if the government makes a further uprating cut.
- 1.7. **We ask that the government applies the standard uprating process rather than making a further raid on the poorest families that would worsen child poverty. If the government wishes to ensure working families do not see worse income increases than out of work families, we recommend this is achieved through improvements to the Working Tax Credit.**

2. Action to create jobs and improve work incentives

- 2.1. A 'work first' approach on welfare demands a 'jobs first' approach on the economy. In his foreword to the Child Poverty Strategy, the Work and Pensions Secretary stated: "First, we must ensure that families can work themselves out of poverty." But the early reductions to joblessness since the end of the recession are now in reverse. We have reached levels of worklessness, particularly for women and young people, not seen for almost two decades. The indications are now that things may get worse before they get better.
- 2.2. The recent announcement to extend free childcare to disadvantaged two-year olds is welcome because it will help protect family budgets, improve child outcomes and school readiness and improve work incentives. The October announcement to provide child care

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support for more parents working in part time jobs means that parents will receive no less childcare support under Universal Credit than they do under Tax Credits today. However, it still amounts to a significant reduction in support for the poorest families who currently receive up to 95.5 per cent of their childcare costs through Housing Benefit. CPAG would like to see additional incentives for parents to work with an increase in the proportion of childcare costs covered, starting with a reinstatement of the 80 per cent limit for support with childcare costs as soon as possible.

2.3. More is needed to improve work incentives in Universal Credit. These will be worse for lone parents and second earners, making it harder for mothers to be better off in paid work and help lift their families out of poverty. Women's entry into the labour market has been a significant driver of improved living standards in recent years. Reducing the taper and improving incentives, perhaps through further disregards, could begin to improve this perhaps unintended policy consequence. But this will require additional funding.

2.4. **We ask that the Autumn Statement address the shortage of jobs that you can raise a family on as well as making improvements to support with childcare costs and incentives to work in Universal Credit. Ultimately, it will be important to review the balance between spending cuts, current revenue streams and taxation to allow for much greater protection of jobs and investment in jobs within the plans for deficit reduction.**

3. Applying the Fairness Test to spending plans and deficit reduction – the case of child benefit

3.1. We understand that the wish to enshrine fairness in the distributional impact of cuts was a driver of the decision to claw back Child Benefit from higher rate tax payers. We believe this is a flawed attempt at fairness as it fails to consider the social policy value of universal Child Benefit.

3.2. It will also introduce deep unfairness into the way we support families as a result of the way it will be withdrawn - two earners under the £42,000 threshold will keep it while single earners just over the limit will not. Given that many such families will lose thousands of pounds this will push more families with children further down the income distribution. Given that Child Benefit replaced both child tax allowances and family allowances, this change means we no longer recognise the costs of children in our tax system - the major cost for families. Britain will be very unusual in the world in not recognising these costs. Scrapping this proposed abolition should come well ahead of reducing taxes for top rate earners in government priorities.

3.3. The Treasury is apparently still considering removing the 50% tax rate. We believe that the government must find more effective ways of targeting the wealthiest than clawing back money only from those with children. It should keep the 50% tax rate and it should work towards the building of a public ethic around payment of taxes for those at the top to aid closure of the tax gap.

3.4. **We ask that the cut to Child Benefit be withdrawn and the 50% tax rate retained.**

3.5. We welcome the practice of publishing distributional impact assessments. On 15th July 2010 you told the Chair of the Treasury Select Committee that you would consider how the distributional impact assessments the government publishes could be improved, bringing into its scope HB, DLA, tax credits and other changes that had not been included previously.

3.6. **We ask that Government continues publishing distributional impact assessments and that they are improved by the inclusion of a more complete range of tax and benefit changes and quantification of service losses as cash equivalents.**

Yours sincerely



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Chief Executive
Child Poverty Action Group

CC.

Rt Hon Danny Alexander MP, Chief Secretary to the Treasury

Rt Hon Nick Clegg MP, Deputy Prime Minister

Rt Hon Iain Duncan Smith MP, Secretary of State for Work and Pensions

Chloe Smith MP, Economic Secretary to the Treasury

Sarah Teather MP, Minister for Children and Families