



END CHILD POVERTY once and for all

MEDIA BRIEFING: 2005 Pre-Budget Report

December 2005

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CPAG and ECP representatives will be available for policy and political comment before and after the Pre-Budget Report.

To arrange an interview please contact CPAG's Press Officer Alex Belardinelli on 020 7812 5216 or 07816 909302.

INTRODUCTION

- The Child Poverty Action Group (CPAG) – together with Children in Wales and the End Child Poverty coalition – are calling on the Chancellor of the Exchequer Gordon Brown to make ending child poverty the top priority of his Pre-Budget Report on 5 December.
- The Government is committed to halving child poverty by 2010 and ending it by 2020. Next March figures will be published showing whether or not the interim target of reducing child poverty by a quarter from 1998/99 to 2004/05 has been met.
- We welcome the progress that has been made so far: since 1998/99, 600,000 children have been lifted out of poverty (measured as below 60 per cent of median income after housing costs). However, 3.5 million or 28 per cent still live below the poverty line. We believe that poverty denies children dignity and the fundamental right to a decent childhood.

KEY RECOMMENDATIONS

If progress towards halving child poverty by 2010 is to be made, the Government must deliver significant resources and policy improvements. The key recommendations from our PBR submission to the Treasury are:

- 1. Where parents want to and are able to work they should be supported to do so by removing barriers to employment, not forced by loss of benefits.**
- 2. Though work provides a route out of poverty for those able to take it up, low paid work does not and so increasing the employment rate alone is not an adequate solution to child poverty.**

Well-paid work can provide a route out of poverty, but this is not available to all. In 2003/04 52% of children in income poverty lived in a household with one or more adult in work. The route to increasing employment while ensuring an adequate return for parents that protects their children from poverty lies in increased efforts on skill development and more effort to increase wage rates through the national minimum wage and the tax credit system.

- 3. Tackling child poverty means providing safety net benefits at (or above) the level of the poverty line. The poverty gaps within the system currently need to be narrowed and eliminated if child poverty is to be truly eradicated.**

The average risk of child poverty is 28 per cent for all GB children. For families in receipt of income support the risk of poverty is 74 per cent or three out of four children. For families in receipt of Jobseeker's Allowance (JSA) the risk of child poverty is 80 per cent or four fifths of children.

These statistics suggest that benefits, which often pay an amount below the poverty line, do not lift families out of poverty. Table 1 illustrates some of these 'poverty gaps' – the amount by which the safety net currently pays *less* than the poverty line. The poverty gaps are the cash difference between the poverty line and the safety net expressed as a percentage of the poverty line.

Table 1: Poverty gaps in April 2005, the poverty line and value of the safety net (weekly figures) – CPAG analysis of official figures.

	Poverty line (£)	Safety net (£)	Poverty gap (%)
Couple, aged 25 years, no children	193	88.15	54.4
Single aged 25 years, no children	106	56.20	47.1
Couple both aged 25, child (4 years old)	228	148.13	35.1
Single aged 25, child (4 years old)	141	116.18	17.7
Couple both aged 30, two children (5 and 11)	284	192.03	32.4
Single aged 25, two children (5 and 11)	197	160.08	18.8
Couple both aged 40, four children (8, 11, 13, 15)	416	279.83	32.7
Single aged 40, four children (ages 8, 11, 13, 15)	329	247.88	24.6

4. Government should address its future uprating formulae. The combined value of the safety net must keep track with growth in median income or progress made in tackling child poverty may slip back, particularly for the most vulnerable children.

A key reason for the poverty gaps shown in Table 1 is the relative value of income support (IS) payments for adults. The single adult rate of IS has fallen from 13.4% of average earnings in April 1997 to 11.0% in April 2004. We support recent policy focus of targeting income at children, but children live in families and overall household income has an impact on children's lives. Increases in child tax credit are being undermined by a failure to deal with the inadequacy of IS. The reason for the falls in the relative value of IS against wages is the practice of uprating it by price inflation, an index which has tended to rise more slowly. Had IS kept up with wages growth from 1997, in 2004 the single rate would have been worth £67.79, £12.14 more than it actually was, and the couple rate would have been worth £105.97, £18.67 more than it was.

5. We recommend government seriously considers the level of Child Benefit, and gives particular attention to redressing the lower rate of the benefit for subsequent children.

Recent problems with the means tested child tax credit reinforce the importance of Child Benefit. Child Benefit is universal, politically well supported and popular with parents. It is well functioning: simple, highly taken up and good at ensuring a constant stream of resources get to the principal carer. Though Child Benefit was significantly increased in value for the first child in 1999, before and after then it has slid in real value (as against average earnings).

Child Benefit is a valuable element of income provision for children and though expensive to increase, we believe there is a strong political case for doing so. In particular the difference between first and subsequent child rates fails to maximise the impact child benefit could have on reducing child poverty since the risk of poverty is higher in larger families. (The current rate of CB is £17.00 pw for the first child and £11.40 pw for each subsequent child).

6. We are concerned that the Department of Work & Pensions lacks the capacity to effectively deliver its welfare reform programme in both the CSA and in Jobcentre Plus. We call on the Treasury to ensure both that the DWP delivers a programme which supports lower income families and that it has adequate resources to deliver this.

Welfare rights advisers are reporting to us the problems that they are having in dealing with delivery agencies such as Jobcentre Plus and HM Revenue & Customs. We are concerned that these problems will continue and that they might worsen with the job cuts in both the DWP and HMRC following the Gershon review on efficiency savings. Problems with delivery could be compounded if the Green Paper on welfare reform announces further expansion of programmes like Pathways to Work without extra resources to support their implementation.

7. Tax credits are key to tackling child poverty and we support them in achieving this aim, but to do so they must be made to work much better in the interests of lower income families and tackling child poverty.

We support the extra resources for poorer families that tax credits have brought. However, we are concerned about the well-documented problems with the administration of tax credits and the impact that recovery of overpayments has had on families with children.

To that end, CPAG has published a short action plan to help improve the operation of tax credits. Its recommendations include:

- An amnesty on all overpayments that arose in 2003/4 and 2004/5 where fraud has not been proven.

- Introducing a right of appeal against overpayment decisions.
- No automatic recovery of overpayments.
- Fair recover of overpayments so that tax credit awards are not wiped out altogether leaving families in extreme hardship.
- Improved communication and advice for claimants.
- Encouraging take up of tax credits.

For more on tax credits, please see the case studies section below.

- 8. We urge the Treasury to make more of, and develop analysis, around the costs of poverty to society. We also call on government to be more open about its own ambitions for reducing child poverty – and about what more is needed to reach the 2020 target.**

CASE STUDIES: TAX CREDITS

During Summer 2005, CPAG conducted research on the impact of tax credits on low-income families. Please find below a selection of quotes from CPAG's interviews, which you may use. Names and other potentially identifying details have been changed.

LAURA

Laura is a self-employed artist and lone mother to two daughters, Alice and Chloe. Laura has claimed Working Tax Credit and Child Tax Credit since she transferred from Working Families Tax Credit in 2003. Since Summer 2004 she has experienced several drops in her tax credit award. Numerous conversations to the helpline have not resolved the situation.

Laura says: 'I don't know whether I'm getting what I'm entitled to, I've got no idea if I got in the past what I've been entitled to and I've got no idea whether next week they're going to chop loads more money off.'

In early July she was struggling to make sense of the correspondence she had just received. She explains, *'six award notices just for June... for 7, 9, 10, 27, 27 and 30 June. I don't know why... These two are the same date but the figures are completely different... it's the same period on the notice but different figures.'*

While welcoming the extra money from tax credits, Laura points out that problems with them are exacerbated by the lack of help for claimants: *"It's a really fantastic thing that they brought in it's sort of empowered me socially, financially, economically. But I think they've got to sort this out because it's not right... They were so reluctant to resolve it when I said it wasn't fair and that I'd been misled, it was really hard work getting it resolved.'*

Despite the problems, Laura values the support tax credits have given to her family: *'It makes it easier for me to go to work... I'm glad I've got the choice to go to work and get these benefits and I think it's good for Alice and Chloe, socially and stuff. It's really great that Alice can go to nursery and mix with other kids and I can get on and do something and earn some money as well.'*

SARAH

Sarah is a public sector worker and lone parent to her young son Alex. Sarah had experienced several lump sum overpayments which she has repaid without other long term financial effects on her family.

Due to the extra income and help with childcare from tax credits Sarah is able to continue working whilst bringing up her young son: *'When the tax credits came out the help with childcare made quite a difference from having to spend most of my wages on it... Maybe I'm an idealist but creating a society where everyone can participate is better for everybody including the children. Tax credits go some way to doing this. I mean, I think the system has flaws but if it were ten years ago I think my situation would be very different. I probably wouldn't be able to afford to work...tax credits give me more income which is very empowering'*.

Sarah feels her life has vastly improved since claiming tax credits: *'I don't feel as guilty anymore. It's allowed me not to work as much and provided my family with a better quality of living. I feel it's improved the work life balance for me.'*

With tax credits topping up her income Sarah is able to work around her son: *'If we didn't have tax credits I'd be working fulltime and probably an evening or two a week as well. That would obviously impact on the time I spend with my son. I wouldn't be able to work as flexibly, for example from September once my son's at school I'm going to be working a fulltime week and having school holidays off. I couldn't afford to do that without tax credits.'*

Sarah has generally found the helpline to be useful: *'I haven't been fobbed off by anyone, they've even said they need to look into it and they'll call me back and they have.'* However, she is worried that she may suffer from the problems that other people have experienced: *'There's always the concern that next year there'll be a problem and I'll have another overpayment. As you get used to a certain income your expectations raise and you learn to budget that money in. If they took my tax credits away now or lowered it I'd be in dire straits really because I've budgeted with it.'*

BRONWYN & MARK

Bronwyn and Mark have three children, girls Theresa and Hannah, and a boy, Tyrone. Both parents work, Mark full-time and Bronwyn part-time, in a supermarket. The family received a £4,000 overpayment, the recovery of which placed the family in severe hardship.

At first, tax credits helped Bronwyn to work and look after her children: *'They said if you go to work this many hours they'll give you help and that was really good because when the kids were little it meant I didn't have to work loads of hours.'*

However, a large overpayment which was recovered without any notice, consultation or investigation, caused the family severe hardship, as Bronwyn explains: *'The money got stopped but we never got told why or how much, nothing. Within one month our working tax credit had just stopped... Mark was having £30 taken out of his wages each week and then they dropped the child tax credit by £30. After a couple of months ...we got a letter saying we owed £4000... They don't even think about whether you can afford to pay this much back or whether they should take the whole lot, they just leave you to cope with it.'*

Bronwyn continues: *'When we realised it was stopping for long-term we had to start living to what means we had then; we started paying our bills weekly. We cut down on everything, school dinners – the kids had to have pack lunches. We just went without for ages until about now when we are starting to get back on our feet again.'*

Having experienced a sudden loss of their tax credits the family will never quite feel secure in their budgeting, despite it now being based around minimal child tax credit and their own salaries, as Mark says: *'Even now it could change and you rely on it you know. If they take that away it's hard.'*

EVE

Eve is a lone parent, and works part time. She has one daughter, Lucy. Eve and Lucy have faced severe hardship following the recovery of an overpayment, which Eve has been trying to resolve for two years.

For parents like Eve who are on low-incomes and therefore rely on getting money in each week, a delay or a drop in tax credit payments can cause real hardship: *'As of last September I should have been getting £90 a week but it went down to about £55. It had a huge impact, it had already deteriorated quite a lot anyway because of mistakes they'd made with extra payments, but then when it went down even more there was no way I could live on it.'*

Eve adds: *'A few weeks ago for some reason they had to go into my award to do something to it and then instead of my money going into the bank on a Friday it didn't go in until the next Wednesday. I'd gone into pay for my goods in a shop and it refused my card and that was pretty embarrassing... No forewarning, no apology, no nothing. You're supposed to just accept the fact that your money was a couple of days late, which it can't be when you are operating hand to mouth and relying on that money going in every Friday. To suddenly not have it go in and to not be able to buy any food that weekend was really awful.'*

Eve's experience of an overpayment shows the lengths some claimants have to go to in order to resolve a problem with tax credits: *'I actually went to a solicitor last October because my payments had dropped so much... I got the solicitor to write to them and she's not once had a reply.'*

Eve then asked her local MP to help her *'I wrote to my MP he found the same thing that I found; you write and you don't get an answer so you write again and then you get something saying you'll be hearing from us but you don't know what that's in response to because there's so much that they haven't answered.'*

In frustration having tried to resolve her case for almost two years and having had no success, either by herself or with help, Eve eventually contacted the adjudicator: *'It was about a four month wait to get my complaint looked at because they've got such a lot of tax credits complaints to deal with, but once she took it on it got sorted really quickly. They've given me more compensation and paid me back the amount they said I'd been overpaid. It's nice to have but I'd much prefer not to have all that stress and for things to go smoothly in the first place.'*

ANNA

Anna is married with two children, one boy and one girl, Frankie and Cassie. Anna works part time in the public sector. Following an overpayment, the family's award was stopped, a process that Anna successfully appealed against to reinstate the award.

Like many claimants, Anna assumed that her award was correct because she had provided all the necessary information to HMRC, *'When the extra money came into the bank, I automatically thought it was correct because they had all the correct information. I checked it and it had our income right so I assumed I was being paid the right amount.'*

However in Summer 2004 Anna received a notice that she had been overpaid £2000. This was recovered automatically and left Anna and her family with no tax credits at all for nine months. Anna challenged the overpayment but heard nothing from HMRC.

Recovery of the overpayment continued while the case was looked at (this policy was changed in November 2005 with recovery of overpayments temporarily suspended if, and only if, the claimant disputes it). For Anna and her family this meant that the family's entire award was suspended for over six months: *'Without the extra help from tax credits we did have to cut down on what we were spending. £40 doesn't sound like much but it would have covered our electricity bill for the month. I had to cut back on food. I don't buy a lot of clothes anyway... food was where I had to save.'*

Nine months later HMRC wrote to say that her appeal had been successful: *'In May 2005 we received a letter telling us we wouldn't have to pay it back because it was their fault and they had all the correct information.'* Anna adds: *'I suppose we've got some money out of it but overall I think health and stress wise it hasn't done us any good whatsoever... I'm not at all confident in the system – there have been too many mistakes.'*

The annual design of the tax credit system requires HMRC to finalise awards at the end of every tax year, something which Anna found difficult to manage: *'That's the bit that confused me because I'm dealing with the here and now and they're dealing with the past – you just think why? It's even more confusing because sometimes it's two tax years ago income.'*

ALISON

Alison is a lone parent with two daughters, Katy and Emma. She works for her local hospital. Alison experienced a stop in her tax credit award due to an overpayment of £2,000, having trusted what the helpline told her.

Alison says: *'They kept putting my income down as £6,000 even though I'd told them it was up to £14,000, they've even had my P60. In April 2004 they changed my income to the correct amount for a while then suddenly it went back down to £6,000 for no reason.'*

Although Alison assumed that HMRC were correct, her trust in them has now been dented: *'If you're given something by the Revenue you take it for granted you just assume it's correct... I don't trust them, how could I trust them? I'd always be thinking 'oh oh, when am I going to have to pay that back' because I've checked the whole way along with this, called them and asked if it's right. They've always said it was correct then now I'm in this situation where they're saying they've overpaid.'*

Paying back the £2,000 overpayment has caused Alison real financial difficulties: *'Tax credits made it easier for me to go back to work because they were supposed to be helping me. But they didn't. I thought "oh yeah, great it should work out really well" that was October 2003 and it's still not sorted, I'm still struggling and I'm in debt.'* She goes on to say: *'They've really mucked me up, I'm getting no help and now they say I owe them £2000 pounds. Well, how has that helped me back into work? I didn't have that debt when I started work; they've given it to me.'*