



CPAG submission to the Treasury Select Committee on the Pre Budget Review

6th December 2005

Child Poverty Action Group
94 White Lion Street
London N1 9PF
www.cpag.org.uk

Following the Chancellor's Pre-Budget Review (PBR) statement, we write to set out some comments on yesterday's announcements, to inform your evidence sessions with Treasury official and with the Chancellor. CPAG's interest focuses on the official pledge to eradicate child poverty by 2020, and to halve it by 2010. We set out recommendations for PBR in a submission to the Chancellor which we enclose with this commentary.

We welcome the emphasis within the companion Treasury/Department for Education and Skills document *Support for parents: the best start for children* on children's life chances. We welcome the implementation and funding of the Russell Commission recommendations on youth volunteering. However, efforts should be made to ensure that the most disadvantaged young people – from black and minority ethnic communities, disabled young people, and young people leaving care – are consulted with, kept informed about, and benefit from opportunities to participate in volunteering initiatives both in this country and abroad.

We note with disappointment the continued price linked uprating of both child benefit and income support, which will continue to reduce their relative worth (as against average earnings). This effect is particularly acute for those families with no parent in work – perhaps because of disability – where pre-existing poverty gaps (the gap between the level of financial support available through the benefits and tax credit and the poverty line) will continue to grow. If the safety net pays many families less than the poverty line, child poverty cannot be truly eradicated and we would like to see further action to combat benefit inadequacy.

We await further detail about the proposals around training for teenagers (involving the piloting of training wages), what will emerge from the Leitch review of skills and from the proposed further pilots of the New Deal (including personal action plans and compulsory work focused interviews). There are two separate policy drives:

- an improvement in skills - which is critical both to economic development and to ensuring that wages are adequate to escape poverty
- the continued drive to raise the employment rate towards 80 per cent.

CPAG is very supportive of policy which seeks to help individuals who are able into decent jobs. Many face serious barriers to paid work yet want to be able to do so – the key for these groups is to overcome the barriers. However we continue to be concerned about a 'work-first' approach which encourages parents into employment – irrespective of the quality of work. We are particularly concerned that utilising benefit conditions to encourage people to access employment may simply encourage people into unsuitable and unsustainable jobs, increasing the churn rate at the lower paid end of the labour market and doing nothing to reduce child poverty. We would stress the need to provide support, not threats to help people access employment. Key to that support is investing in education and training for all.

Turning to the primary focus of this submission, tax credits. Well-publicised problems with the tax credit system have caused CPAG to argue for significant reform to current delivery (as outlined in 'First Steps to tax credit reform' – key points of which were reiterated with our pre-budget submission, both of which are attached with this letter). We are also aware of the separate inquiry the Committee is holding into the administration of tax credits and we reiterate here issues that are pertinent to that inquiry.

In 'First Steps to tax credit reform' CPAG called for

- An amnesty of overpayments that arose in 2003/4 and 2004/5.
- Introduction of a right of appeal against overpayment decisions
- No automatic recovery
- Fair recovery of overpayments
- Improve communication and advice to claimants
- Encourage take up of tax credits

We strongly welcome the generality of changes announced by the Chancellor and Paymaster General yesterday. Although these do not achieve all of what we have asked for yet, they go a considerable way towards reaching our objectives. Briefly, the Chancellor announced (paraphrased from box 5.2 page 97 of the report)

- Increase from April 2006 in the disregard for increases in income between one tax year and the next will rise from £2,500 to £25,000
- Automatic limits on recovery of excess amounts (in year overpayments) paid where awards are adjusted in-year following a reported change. These limits will be the same as the current limits on cross-year overpayment recovery
- Underpaid awards will be adjusted to the correct entitlement, but an outstanding lump sum held over until the renewals point and then paid if still applicable
- Stricter rules of reporting changes of circumstances (shorter time period and more changes which must be reported)
- Deadline for returns of end-of-year information will be brought forward from September to August
- From 2007, HMRC will contact key groups of tax credit recipients to collect up-to-date income information before the start of the new tax year.

These changes signify a welcome desire to reduce the level of overpayments. The document estimates these will reduce the extent of overpayment by value by a third). In general we are very supportive of this aim. The clawback of overpayments causes families administrative problems and, potentially, hardship. We are particularly supportive of the move to protect family incomes where an overpayment is discovered in-year (a so-called 'excess payment'). Previous policy placed many families in serious hardship where an in-year overpayment had been discovered, and the computer is set to recover within the financial year, irrespective of the amounts of lost award this means for the family. Placing limits on recovery of in-year overpayments is very welcome.

Less welcome is the holding back of lump sums following an underpayment until year end. Though we recognize the wish to count this against any possible overpayment, we also argue that, following falling income and an underpayment, families may have a particular debt or urgent need which a lump sum payment could assist with. We also seek clarification that such an end of year payment would be disregarded as income for other benefits.

There remain several outstanding issues we would draw the committee's attention to:

- *Appeal rights:* there is no statutory right of appeal against a decision to recover an overpayment. We feel government should urgently address an issue which strikes against natural justice, contrary to the Ombudsman's recommendation to consider appeal rights and practice elsewhere in the benefits system.
- *Recovery rates:* We strongly welcome the proposed harmonization, but also note that further protection is necessary to avoid the current jump in rates from 10 to 25 per cent. HMRC has discretion to use lower recovery rates if these are causing hardship – a discretion it does not seem to use.
- *A pause before recovery.* In her statement the Paymaster General notes

I am still considering whether there is more that can be done to alert claimants about the recovery of an overpayment before HMRC starts to collect it.

A reasonable pause prior to recovery is vital. In order to allow claimants to understand what has been done, to challenge where appropriate, and to adapt to a different level of income. We are glad HMRC is investigating this and strongly urge that this is put in place.

- *Hardship payments.* We recommend the Committee investigate the effectiveness of this important system, since take up rates for additional (hardship) payments appear low. We would also seek clarification for what these changes mean for that system.
- *Complexity and communication.* We appreciate the work ongoing in HMRC to improve communication with claimants, particularly around new award notices from April 2006. We urge that this activity be stepped up to place claimants in the position where they are better able to understand (and challenge if appropriate) the processes being applied to them. We are particularly concerned about the extent and quality of information sent to claimants where they have been overpaid and argue this should be much improved.
- *Overpayments:* Finally we also note that in making these changes the Chancellor has reduced the probable extent of overpayments and thus the cost to the Treasury of these (beyond next year). We hope to see this investment, together with the additional required to reach the halving target, will be re-invested in Britain children – the opportunity to do this will be the forthcoming spending review.

About CPAG

CPAG is the leading charity campaigning for the abolition of poverty among children and young people in the UK and for the improvement of the lives of low income families. CPAG aims to: raise awareness of the extent, nature and impact of poverty; bring about positive income policy changes for families with children in poverty; and enable those eligible for benefits and tax credits to have access to their full entitlement.

Dr Paul Dornan
Child Poverty Action Group
94 White Lion Street
London N1 9PF
tel: 020 7837 7979
fax: 020 7837 6414
email: pdornan@cpag.org.uk