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Rt Hon Alistair Darling MP
Chancellor of the Exchequer
HM Treasury
1 Horseguards Road
London
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14 April 2009

Dear Chancellor

Budget 2009

We write ahead of 2009 budget. You will need no reminding of the difficulty of the economic times, nor of the uncertainty and hardship which rising unemployment means for families. Our key message to you is of the need to put poorer children centre stage in this budget. We believe it is possible to do so whilst reaching other economic objectives. This letter focuses on five issues: meeting your 2010 target to halve child poverty; ensuring financial support reaches families in the recession; the proposed child poverty bill; protecting Jobcentre Plus capacity; and financing.

With this letter I enclose a copy of Child Poverty Action Group's manifesto, *Ending Child Poverty: a manifesto for success*. This publication marks the tenth anniversary of the commitment to eradicate child poverty in the UK and lays out a positive and progressive agenda, with steps CPAG believe are required to get us towards the 2020 objective.

fighting the injustice of poverty

Child Poverty Action Group is a charity registered in England and Wales (registration number 294841) and in Scotland (SC039339).
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Meeting the 2010 target to halve child poverty

The Government has a target to halve child poverty from the position in 1998/99 by 2010/11. **We commend the Government for this commitment, and urge it to stay true to its promise.** As of the latest estimates, 2.9 million children were in income poverty on the Government's key measure. Progress has been made, much of which does not yet show in the figures. The toughest part has already been done, but it is clear a large gap remains. The Government's 2010 target can only now be met by investing in family incomes. We (with other members of the Campaign to End Child Poverty) have been campaigning for the Government to **invest £3 billion in family incomes through children's benefits and tax credits to help meet the 2010 target.** We repeat this call for you to do all it takes to meet the 2010 target to halve child poverty. Commitment to reduce child poverty has been one of the defining features of the past ten years of Government; it would be perverse if just when Government seeks to place the ambitious long term goal into legislation it fails to meet the interim target.

The damage done by poverty to children's health is clear: through lower average birth weight, higher early life mortality, higher chances of becoming disabled and of accidents (both within the home and in poorer neighbourhoods). Because of these costs, and others around children's educational and social development, the long term financial loss to society is high (in remedial service spend and lower tax take). The Joseph Rowntree Foundation suggests a conservative estimate of the costs of child poverty is at least £25 billion per year.¹ Investment in incomes through the increases in the per child payments has been shown to have improved family wellbeing.² Investment in child poverty is socially just and economically sensible. The recession makes the case for action more urgent.

We understand the Government will be considering carefully the amount of demand in the economy, and whether or not to seek to increase this in order to protect employment. CPAG's view is that irrespective of the recession Government needs to keep to the 2010 target. That said, there is a compelling argument to say that investing in family incomes of the sort required to meet the 2010 target has the dual benefit of protecting the families experiencing greatest hardship and, **because lower income families need to spend a higher proportion of their incomes, this is the most cost effective way of injecting demand.**³

Ensuring financial support reaches families in the recession

Non-take up of entitlements to key means tested and disability related benefits remains a serious problem.⁴ Rising unemployment means an increasing number of families will need to have recourse to means tested benefits and greater priority must be put on increasing take up of entitlements. Child Poverty Action Group has been working with the Local Government Association on take up best practice support materials; these can be found at <http://www.childpovertytoolkit.org.uk/Quids-for-Kids>. The **take up taskforce work commissioned by the Government is welcome** and should sharpen minds further about what

¹ See D Hirsch, Estimating the costs of child poverty, Joseph Rowntree Foundation, 2008

² See P Gregg, J Waldfogel and E Washbrook, Expenditure Patterns Post-Welfare Reform in the UK: are low income families starting to catch up? CASEpaper 99, London School of Economics, 2005

³ See for example D Elmendorf and J Furman, *If, When, How: A Primer on Fiscal Stimulus*, The Brookings Institution, 2008. Work on the UK, including that commissioned by CPAG, replicates the finding of high multiplier benefits to the economy through investing in benefits and tax credits.

⁴ See G Preston with M Robertson, Out of reach, benefits for disabled children, Child Poverty Action Group, 2006; Department for Work and Pensions, Income Related Benefits Estimates of Take Up in 2006-07, National Statistics, 2008; HM Revenue and Customs, Child Tax Credit and Working Tax Credit Take up rates 2005-06, 2008

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can be done to assist families. We urge the Government to implement the recommendations and would also support Government in running a national take up campaign. However to maximise take up, more care is needed in the use of public anti-fraud campaigns. We do not dispute Government's need to enforce rules for the small minority who may abuse these, but large public campaigns such as the DWP's 'Targeting Benefit Thieves' over-estimate the problem, fuel stigma and undermine take up by putting rightful claimants off applying for entitlements.⁵ **The timing is wrong for high profile messages on benefit fraud and we suggest Government curtail this campaign.**

The Treasury and the Department for Work and Pensions will be carefully considering the implications of the recession. As well as rising unemployment (which will sharpen minds on just how low current Jobseekers Allowance rates are), **CPAG is concerned about how the benefits and tax credit system will cope with greater fluctuation in working hours following the recession** (for instance where individuals are laid off but retained on short hours). Such greater fluctuation could deny parents access to key tax credits and mean children lose childcare places. We hope that officials are looking at solutions to these problems; in particular thought should be given to the interpretation of the 16 hour rules in working tax credit and in benefits and separately about moving more clearly towards the mini-job⁶ model of a new lower hours threshold or greater earnings disregards.

We have been supportive of the 'in and out of work project' of ensuring Jobcentres, HM Revenue and Customs and local authorities work more effectively together and we are very keen to see both joint working between Departments and these issuing consistent guidance to help new claimants through an obviously complex system. If swelling Jobseeker's Allowance caseloads lead to a lengthening of clearance times, we hope **Government will make use of its ability to make interim payments** whilst applications are processed. Equally, given the National Insurance fund is now in well in surplus,⁷ there is a case for Government to increase the coverage of insurance based Jobseekers Allowance which would remove some families from means testing.

The 2020 legislation

CPAG welcomes the commitment to put the 2020 target into primary legislation. **Well designed legislation can not only galvanise support over a problem which is 'everybody's business' but provides the structure to support more effective policy.** By the same token the law is only as good as the policy it supports; action is needed not just legislation. Government will be keenly aware of the need to ensure the new legislation is sufficiently credible and that future Governments can be held to this promise – a failure to meet the 2010 target will make this challenge immeasurably harder.

We await the publication of draft legislation and the specifics of this are clearly not for the budget. However in thinking through the drafting, we urge Government to provide a sufficiently 'tough' piece of legislation, one which can be used to ensure all parts of Government (including the devolved administrations) work effectively together. Specifically we would like to see a strong, positive role for the proposed expert commission (currently it is proposed to have little budget or staff support and no capacity to carry out research). We suggest the **Commission can be set up**

⁵ A finding found repeatedly in research. For a review see P Dornan, Delivering Benefits in Old Age, Ashgate, 2006

⁶ See K Bell, M Brewer and D Phillips, Lone parents and 'mini-jobs', Joseph Rowntree Foundation, 2007

⁷ See National Insurance Fund Account 2007/08, HC 16, The Stationary Office, January 2009 <http://www.hmrc.gov.uk/about/ni-fund-ac-gb-0708.pdf>. The accounts show the NI fund in surplus to the tune of around £37 billion in March 2008 (the difference between the balance and the minimum funding requirement).

in a way which could help oil the wheels of different parts of the strategy and, through its composition, obtain better buy-in from different interest groups (not just Government). To achieve a more positive role the Commission would need sharper teeth – particularly the ability to conduct specific research, a public profile, and, in developing its strategy, that Government is actively required to respond to Commission recommendations.

The consultation document on the child poverty legislation implied the law could contain a coda subjecting meeting the child poverty promise to some kind of affordability criteria. We understand Government's concern here to be in case its policy were derailed by some kind of extreme or unforeseen event. **We urge Government to remove this unnecessary clause on affordability** (it is not present in the constitutionally similar Climate Change Act). If tackling child poverty is worth doing (and it is), it is worth doing irrespective of the external challenges – this applies just as much now to the position in 2020. To include this clause would weaken the legislation. If Government is set on maintaining this clause, we urge two possible changes to reduce its detrimental impact in a way which fits with Government's argument for its inclusion. First, Government could specify what the circumstances might be in which the commitment was not met (to avoid this becoming a general opportunity to slide off the commitment); simply stating 'affordability' is much too broad. Secondly, if Government is worried about the effect of specific events, it could legislate for a rolling three year target (at an average of 5% child poverty rate), which would then be less vulnerable to unforeseen circumstances.⁸

Protecting Jobcentre Plus capacity

With unemployment rising fast, the role of Jobcentre plus is clearly crucial. **We support you in making the resources Jobcentre Plus needs available to ensure those losing their jobs are given every support possible to help them back into employment.** However, CPAG remains concerned about Government pressing ahead with welfare reform legislation,⁹ based on plans formulated before the recession and which take little regard of its implications. **These plans were drawn up well before the recession and look seriously dated by economic circumstances now: this is the wrong bill at the wrong time.**

CPAG is in favour of parents having additional support to move into employment where they decide this is in the interests of their children, but we see neither the need for nor justice in increasing conditions upon them. CPAG believes current plans misdiagnose the reasons for non-employment (not unwillingness, but barriers to work and a lack of decent jobs) and so offer little prospect of increasing employment rates (especially during the downturn). Instead improving the support parents could access would help avoid the risk of 'parking' parents outside the labour market with which the Department for Work and Pensions is rightly concerned. Investment in your budget in such support would enable parents to undertake meaningful training and preparation for better quality jobs when the economy recovers, addressing the Leitch agenda for a more skilled workforce.

There are other specific implications of the welfare reform legislation which should be of concern to the Treasury however:

- Transferring more adults (lone parents and disabled adults) onto Jobseeker's Allowance whilst unemployment is rising will tie up limited administrator time, yet it is unlikely to yield positive outcomes when job vacancies are falling and competition rising.

⁸ See CPAG, Ending Child Poverty: Making it happen. Response to the Child Poverty legislation consultation, 2009 available at http://www.cpag.org.uk/info/briefings_policy/CPAG_response_ChildPovertyLegislation_0309.pdf

⁹ See CPAG's House of Commons report stage briefing, Welfare Reform and Child Poverty, March 2009

- Though we support the new resources made available for Jobcentre Plus in the pre-budget statement we are unclear if these are being used to meet additional need or to plug the hole in existing welfare reform plans.
- Rapidly rising unemployment will be increasing strains on the Treasury through the Annually Managed Expenditure-Departmental Expenditure Limit funding split. We understand DWP's interests in exploring reinvesting benefits savings, but hope the Treasury is taking careful note of how realistic changing this distinction would be in a recession.
- One of the justifications for re-investing benefits savings was to front-load investment in non-state employment services (predominantly private sector). Though there is no evidence the private or voluntary sector outperforms the state,¹⁰ a key argument in favour is to reduce the risk to the state. Recent events have shown just how thin that argument is with contractors arguing over outcome payments as vacancies have fallen¹¹ and the state left to pick up the pieces and carry higher than expected costs.

We support the Government in protecting and building Jobcentre Plus capacity. To do this, it should extend support on a voluntary basis but place other plans on hold. In particular **we suggest Government does not proceed in transferring more lone parents from Income Support to Jobseeker's Allowance before it has evaluated the effects**, and that it does not migrate current Incapacity Benefit claimants onto the new Employment and Support Allowance at this time.

Financing social justice

The state of the public finances clearly leave you with difficult decisions. CPAG urges you keep the focus on child poverty at this time of difficulty. In this budget and in future spending decisions, we assume you will move towards reducing the budget deficit. CPAG urges you to carefully poverty proof any decisions to cut public spending or increase taxation.

The public demand for fairer resourcing of necessary spending is clearer now than before the recession began. In making decisions, we urge you to shift the burden towards those with the broadest shoulders and not to cut vital public services on which many poorer families rely. CPAG sees progressive ways of reducing the budget deficit which we would support you in pursuing:

- **Reverse the inheritance tax cut.** Cuts in inheritance tax, which will cost taxpayers an estimated £1.4 billion in 2010/11, favour a small number of estates that are typically inherited by already rich people. We cannot afford this change and it will actively undermine social mobility by increasing wealth disparities.
- Go further and faster with the top rate of **income tax**. Government proposals to increase taxation on the very highest earners after the next election were met with little criticism. Public support for increasing taxes on the highest earners so they contribute more towards the national budget has increased with the credit crunch and a greater suspicion of the super-rich. Introducing a 50 per cent income tax rate on earnings over £100,000 (a figure, which is four times median earnings) could raise £7.9 billion.
- Make **pension tax relief fairer**. Tax relief on private pensions costs the UK £17.5 billion each year, over half of which goes to those paying the upper rate of tax. It constitutes a

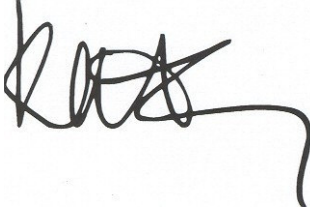
¹⁰ See S Wright, Contracting out employment services: lessons from Australia, Denmark, Germany and the Netherlands, CPAG, 2008

¹¹ See T Helm, 'Unemployment scheme criticised by business groups', *The Guardian*, 5 April 2009

large subsidy to richer taxpayers. Pension tax relief should be capped at the basic rate for all taxpayers.

Rightly, attention will now be focused on the recession. This has obvious and damaging implications for families in the here and now. The recession now hitting hard pressed families is, however, not of their making and should not derail important social policy commitments on achieving greater fairness. There has been a strong public backlash against the unfairness generated by economic policies which tolerated and encouraged damagingly high inequality. While we recognise the gravity of the current crisis, this also presents a once in a generation opportunity to narrow those gaps. In plotting the way out of recession, we urge that Government implements policies clearly and overtly designed to reduce income and wealth gaps in British society and, in doing so to, to create the fairer society the public demand.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kate Green', with a long horizontal flourish extending to the right.

Kate Green OBE
Chief Executive

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