The Scottish Parliament
Pàrlamaid na h-Alba

SOCIAL SECURITY COMMITTEE

AGENDA

12th Meeting, 2017 (Session 5)

Thursday 25 May 2017

The Committee will meet at 9.30 am in the David Livingstone Room (CR6).

1. **Decision on taking business in private:** The Committee will decide whether to take item 3 in private.

2. **The two child limit in tax credits and universal credit:** The Committee will take evidence from—

   Rob Gowans, Policy Officer, Citizens Advice Scotland;

   Emma Ritch, Executive Director, Engender;

   Jo Ozga, Policy Worker, Scottish Women's Aid;

   and then from—

   John Dickie, Director, Child Poverty Action Group in Scotland (CPAG);

   Deven Ghelani, Director, Policy in Practice.

3. **The two child limit in tax credits and universal credit:** The Committee will consider what further activity, if any, it wishes to undertake on this issue.

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The Scottish Parliament
Edinburgh
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The papers for this meeting are as follows—

Agenda Item 2

SPICe Briefing and Written Submissions	SC/S5/17/12/1

Social Security Committee

12th Meeting, 2017 (Session 5), Thursday 25 May 2017

The two child limit in tax credits and universal credit

Background

1. The Committee agreed previously to hold a session on the impact and consequences of the Department of Work and Pensions / HMRC two child limit as regards child tax credits and universal credit.

2. A SPICe Briefing for this session is attached in **Annexe A**.

Written Submissions

3. Submissions from 4 of the witnesses giving evidence today are in **Annexe B** as follows:

    - Rob Gowans, Citizens Advice Scotland
    - Emma Ritch, Engender
    - Jo Ozga, Scottish Women's Aid
    - John Dickie, Child Poverty Action Group in Scotland

4. Policy in Practice have written a report looking at the impact of limiting child tax credit to two children (attached in **Annexe C**), and also wanted to highlight the following to the Committee:

    This blog outlines our work assessing the cumulative impact of welfare reform *on each individual household* across London. The analysis differs from that previously commissioned by the Scottish Parliament by allowing local authorities to target support before households are impacted by reforms like Universal Credit, and track the impact of reforms on e.g. movement into temporary accommodation, and to evidence the impact of interventions. The analysis is based on Housing Benefit data submitted by each local authority. It would be powerful to replicate this across Scotland, particularly as some powers over welfare are devolved.

Annexe A

Social Security Committee

12th Meeting, 2017 (Session 5), Thursday 25 May 2017

The "two child limit" in tax credits and universal credit

1. Introduction and summary

This paper provides background information for the Committee's evidence session on the policy to limit entitlement to child tax credit (CTC) and universal credit (UC) to the first two children in most cases (the "two child limit"). It explains how the policy works and the exceptions to it, and discusses the Scottish Government's reaction to it and some assessments of its likely impact.

The two child limit restricts entitlement to means-tested benefits to the first two children in a household. The UK Government's rationale for the policy is that it "believes that those in receipt of tax credits should face the same financial choices about having children as those supporting themselves solely through work."[1]

There are exceptions to the two child limit for:

- children born before 6 April 2017 (for a transitional period and then for existing claimants)
- all except the first child in a multiple birth
- children looked after by the claimant from local authority care
- some children in kinship care arrangements
- children born as a result of a non-consensual conception or conceived whilst the claimant was in a coercive relationship ("the rape clause").

The policy applies to UC and CTC, with similar amendments also made to other means-tested benefits (but not to child benefit). Extra amounts of CTC and UC are still included for all disabled children.

The Scottish Government opposes the policy. However, it has not announced plans to attempt to mitigate its effects using powers devolved by the Scotland Act 2016.

Some third-sector organisations in Scotland, including Scottish Women's Aid and Rape Crisis Scotland, have refused to complete the form to claim the non-consensual conception exception, due to their opposition to the policy.

The two child limit is expected by the UK Government to reduce benefit expenditure in the UK by over £1.5 billion a year by 2020-21. The Scottish impact can be estimated to be around £85 million a year by that date. In the longer term, the impact of the policy is likely to be greater. Analyses by Policy in Practice and CPAG/IPPR

[1] Summer Budget 2015, para 1.145

suggest that the two child limit will have a significant impact on child poverty levels in larger families by 2020-21.

2. Background – child tax credit and universal credit

Child tax credit (CTC) is designed to help with the cost of raising children, and is payable to whether the claimant(s) are in or out of work. Parents and carers can qualify for CTC if their children are under 16 or, if they are in non-advanced education or certain types of approved training, up to the age of 20.

CTC is means-tested – the amount a claimant gets depends on their taxable income and how many children are living with them. In addition to a family element for all households claiming before 6 April 2017, the child element is a maximum of £2,780 per year for each child. There are additional amounts for disabled children.

CTC is one of the six benefits that are being phased out and replaced by universal credit (UC). UC was first rolled out to parts of Scotland in November 2013, but is not expected to fully replace existing benefits until 2022.[2]

UC is also a means-tested benefit, although the basis of the means-test is significantly different to that for CTC. However, the structure and amounts of UC are similar, in relation to elements for children. UC includes a higher amount for the first child to replace the family element, and additional amounts for disabled children.

As well as the introduction of the two child limit, another change common to UC and CTC is that the family element was abolished in CTC for those having their first child after 6 April 2017. The UC child element is no longer paid at a higher rate for a first child born after that date.

Child benefit is a separate benefit, which continues to be paid for all children that a claimant is responsible for. It is not means-tested, but is clawed back from high-income households (containing an individual with an income of over £50,000), through an extra tax charge.

3. The two-child limit

This policy was announced by the UK Government in its Summer Budget 2015. From 6 April 2017, entitlement to the child element in CTC and UC is, in most cases,[3] limited to two children unless the third (or subsequent) child was born before that date, or one to the exceptions to the policy applies.

Child Tax Credit

New and existing claimants of CTC cannot claim for a third or additional child **born after 6 April 2017**, unless an exception applies. Eventually the UK Government plans to transfer CTC claimants to UC.

Universal Credit

There is a transitional period until November 2018, during which people with three or more children cannot normally make a new claim for UC and must claim CTC

[2] For further details see SPICe briefing SB 17-09 *The Introduction of Universal Credit*

[3] This is underpinned by sections 13 and 14 of the Welfare Reform and Work Act 2016. The detail and exemptions are set out in The Child Tax Credit (Amendment) Regulations 2017 and The Social Security (Restrictions on Amounts for Children and Qualifying Young Persons) Amendment Regulations 2017

instead. This was announced in July 2016, in a written statement to Parliament by Damian Green. Regulations enable this transitional period to be extended.

Until November 2018, people already getting UC will get support for a third or subsequent child born before 6 April 2017 (or if an exception applies).[4] If two people form a new household, one of them gets UC and they have more than two children, they will get a child element for children born before 6 April 2017 (or if an exception applies). Larger families with a recent UC claim can still make a new claim.

From November 2018, new UC claimants will not get a child element for more than two children – **regardless of when those children were born**, unless an exception applies. However, any child for whom the claimant received support through UC or another benefit within the last six months will still be included in the claim.

Other benefits

Some claimants still receive amounts for children through income support or income-based jobseeker's allowance (rather than CTC or UC). These benefits are also amended to prevent an amount from being paid for a third child born from 6 April 2017, unless an exception applies. The housing benefit (HB) regulations have also been changed to prevent the effect of the policy from being offset by additional entitlement to HB.

The additional amounts of CTC and UC for disabled children will continue to be paid for all children (even if they do not qualify for a child element).

Further detail of how the policy will work in relation to UC is in the the DWP's guide for stakeholders. The DWP have also produced guidance for claimants, and CPAG have also produced an article explaining the two child limit and exceptions to it.

4. Exceptions to the policy

Full support for third and subsequent children will continue to be available in "exceptional circumstances." This includes children cared for under certain kinds of kinship care arrangements, children adopted from local authority care, and multiple births, as well as the exception for non-consensual conception (sometimes referred to as the "rape clause").

Multiple births

An element will be included for every child born as part of a multiple birth except the first one. For example, if a family with two children has twins, then a child element can be claimed for one of the twins. An element will also be included for the first child in a multiple birth if there were previously fewer than two children included in the claim, or another exception below applies.

Grandchildren of the claimant

If a child who is still included in the claimant's CTC or UC claim has a baby, then the claimant can receive an element for the grandchild, even if this is the third or subsequent child in the household.

Adoption from local authority care and kinship care arrangements

[4] For the rules relating to UC, if the claimant is not the natural parent, then it is the date that they became responsible for the child that matters, rather than the child's date of birth. For simplicity this paper uses "born".

An exception will apply for a child adopted from local authority care, no matter how many children the claimant already receives support for. Adoptions from abroad and step-parent adoptions are not included in this exception. If a claimant adopts when they have fewer than two children and later gives birth to a third or subsequent child, an element will only be included if one of the other exceptions applies, or the child is born within ten months of the adoption.

For a claimant to get an additional element for a third or subsequent child who they look after in a kinship care arrangement, either:

- a social worker must confirm on the form to claim the exception that the child lives with the claimant and was likely to be "looked after" otherwise; or
- the claimant must provide evidence that they have one of the following legal orders or entitlements in respect of the child:
    - a kinship care order (which can be granted where the child is at risk of being 'looked after' by the local authority)
    - appointment as guardian
    - a permanence order (which grants one or more parental rights and responsibilities to the claimant)
    - entitlement to guardian's allowance (a reserved benefit paid in addition to child benefit to those caring for orphans).

Non-consensual conception

Guidance to tax credits claimants on exceptions to the two-child limit describes this exception as applying when a child is "likely to have been conceived either:

- as a result of a sexual act which you didn't or couldn't consent to
- at a time when you were in an abusive relationship, under ongoing control or coercion by the other parent of the child."

The claimant must not live with the child's other parent for this exception to apply.

There is no need for a criminal conviction or a prosecution of the person responsible for the abuse. However, unless there is a conviction or an award of criminal injuries compensation, the claimant **must** provide evidence from an "approved person" to qualify for this exception.

According to the list of approved persons this is a healthcare professional, social worker or a support worker from listed specialist organisations. Scottish Women's Aid and Rape Crisis Scotland have refused to act as third-party referrers.[5] Engender's website quotes them as explaining that this is because:

> "to collude with the policy would fundamentally change the relationship between the organisations and the women they are working to support. They also highlight the re-traumatising [e]ffect that the policy will have, and potential implications it will have on the stigma which already surrounds reporting of rape and coercive control."

Whilst Engender highlight that "local women's aid and rape crisis groups are autonomous and may decide for themselves" whether to ask to be added to the list, the only Scottish groups listed as approved at the time of writing are members of the Survivor's Trust network.

[5] Engender (2017) Parliamentary Briefing: Child Tax Credit and Child Element of Universal Credit

While healthcare professionals and social workers are approved third party assessors and could therefore be asked by claimants to complete the relevant form:

> "the Cabinet Secretary for Health and Sport has written to the UK Government to say that [the Scottish Government] will not distribute the Whitehall guidance on the [two child limit], as it stands, to the Scottish NHS."[6]

It has yet to be seen whether members of these professions in Scotland will refuse to complete the form in practice.[7]

The House of Lords Secondary Legislation Scrutiny Committee's report for March 2017 drew the regulations setting out the exceptions "to the special attention of the House, on the ground that they may imperfectly achieve their policy objective." Its concerns included organisations in Scotland refusing to act as third party assessors.

5. Scottish Government reaction to the policy

The Scottish Government strongly opposes the two child limit. For example, in response to a topical question about the policy on 18 April 2017, The Cabinet Secretary for Communities, Social Security and Equalities described it as a:

> "heinous policy … completely unacceptable, deeply harmful to women and their children, and a fundamental violation of women's humans rights. … It is anti-women, anti-family and fundamentally wicked."

A Scottish Government press release on 6 April 2017 quoted the Minister for Social Security as stating that:

> "Where we do have control, such as over the Council Tax Reduction Scheme, we are refusing to follow this callous two child cap policy. I've announced today that the Scheme will not have a two child cap - we will not penalise people for having more than two children."

This is the case for most CTR claimants, but further changes to the regulations will be required in order to ensure that CTR is not reduced for claimants who also get UC. Currently, due to the interaction between CTR and UC, those UC claimants also entitled to CTR will receive a reduced amount of support for third and subsequent children if their UC is restricted to the first two children.[8]

Moving a motion criticising the policy on 25 April 2017, the First Minister touched on the possibility of the Scottish Government mitigating the two child limit:

> "First, let us be clear about the fact that the Scottish Government cannot abolish the two-child cap or the rape clause. We do not have the legal power to do so. Given the complexity of tax credits and universal credit, trying to mitigate the impact of these cuts would be significantly more complex than simply compensating people for the bedroom tax.
>
> That is not the only issue. The real issue here is the financial impact of mitigation on other services. …[A]ny decision by the Scottish Government to

[6] Scottish Parliament Official Report 18 April 2017
[7] Scottish Parliament Official Report 25 April 2017
[8] For further information see Committee paper SC/S5/17/5/4 and SPICe Briefing SB 17-24 *Council Tax Reduction*

> mitigate one of these cuts involves taking money that has already been allocated to schools, hospitals and other services."

This speech appears to accept that in principle the Scottish Government has the power to mitigate the effect of the policy. The Minster for Social Security also stated on the BBC's *Any Questions?* on 29 April that the Scottish Government will consider mitigation "if the UK Government would care to give us a share of the £12 billion pounds they intend to save through the rape clause and the two child policy."

Powers that could possibly be used to mitigate the impact of the two child limit

Section 24 of the Scotland Act 2016 devolves the power to top up reserved benefits. This power might potentially allow a top-up payment to be calculated for every claimant getting a UC or CTC award that included children. The Scotland Act 2016 Explanatory Notes describe s.24 at para 192:

> "Exception 5 provides the Scottish Parliament with legislative competence to introduce discretionary top-up payments to people in Scotland who are entitled to a reserved benefit. These top-up payments could be paid on an individual case by case basis or to provide on-going entitlement to specific or all benefit claimants."

However, some larger families may not qualify for CTC/UC due to their level of income with only two children included in their claim, but might have qualified if all of their children were included. In this situation, the top-up power would not seem to be able to mitigate the effect. If there is no entitlement to a reserved benefit, it appears that there would be nothing to top up.

The Scotland Act 2016 also provides a power to create new benefits, but only in areas of devolved responsibility (s.28). That in turn leaves a question as to whether there is an area of devolved responsibility which would be suitable to underpin a new benefit capable of mitigating the two child limit.

6. Estimates of the impact of the policy

UK Government impact assessment

In the impact assessment associated with the proposal of the two child limit produced alongside the Welfare Reform and Work Bill, the UK Government set out the savings anticipated from the change at that point. This took no account of any behavioural responses from claimants (as the savings were calculated compared to a system that continued to pay amounts for all children in the household).

This assessment has been updated, since 2015, particularly as the exceptions to the policy were finalised. The latest expected savings are shown in Table 1.

Table 1 – Estimated impact of the two child policy (UK level)

Savings to the Exchequer (£ millions, nominal terms)	2016-17	2017-18	2018-19	2019-20	2020-21
Limit child element	-	310	765	1,205	1,615
Remove family element	110	230	405	540	645
Target exemptions from child limit	-	-5	-15	-35	-55

Note Equivalent measures to the removal of the family element came into effect for new claims to Housing Benefit from April 2016. Therefore, this measure saved £110 million in 2016-17. The removal of the family element for tax credit and UC claimants came into effect in April 2017; the two child limit comes into effect for UC, tax credits and Housing Benefit claimants in April 2017
Sources HM Treasury Summer Budget 2015 table 2.1, Budget 2016 table 2.2 and Spring Budget 2017 tables 2.1 and 2.2

Source: House of Commons Library (2017) *The two child limit in tax credits and Universal Credit*

As the table shows, the savings are expected to increase over time, as the change applies to more children born after 6 April 2017. Some existing larger families will not be affected at all. It is likely that the savings will continue to rise after 2020-21, as the full effect of the policy will only be realised over a longer time period.

SPICe estimates of the Scottish impact

Geographical analysis of CTC awards (2014-15) shows that 6% of families in receipt of CTC with 3 or more children were in Scotland. The total value of CTC awards to families in Scotland with 3 or more children was 5% of the UK total. This proportion can be applied to some of the figures in the table above, to get a broad indication of the savings that might relate to Scottish families. This is shown in the table below.

Table 2 – Estimated savings as a result of limit to two children for CTC/UC, £m

	2016-17	2017-18	2018-19	2019-20	2020-21
UK	0	305	750	1,170	1,560
Scotland	0	20	40	65	85

Figures are in nominal terms, and rounded to nearest £5m
Source: SPICe estimate based on Table 1 above and the proportion of Scottish CTC claimants and expenditure in 2014/15 (calculated from Personal tax credits: Finalised award statistics - geographical statistics 2014 to 2015)

On this basis, the savings resulting from families in Scotland would be an estimated £20m in 2017-18, rising to £85m in 2020-21. This estimate is of the savings from the two child limit as a whole, so could not be used as an estimate of the cost of mitigating it. For example, any mitigation approach taken which removed the requirement to complete a non-consensual conception form would be likely to cost more, as some Scottish claimants would no longer be entitled to reserved benefits for a child in that situation. Also, no account is taken of the administrative costs of mitigating the policy.

As noted above, the savings from the two child limit can be expected to rise further over time. SPICe has access to Euromod, a microsimulation model. This allows us

to estimate the financial effect of the two child limit on the existing population of Scotland, if there were no exceptions to it.[9]

This can give a broad indication of potential maximum savings from the two child limit in the much longer term – once all children in Scotland are born after 6 April 2017, and assuming that none of them qualify for an exemption. The estimate does not take account of changes to other entitlements which will offset some of the impact, such as the Scottish Government's decision not to amend CTR to include a two child limit.

Another caveat is that at present Euromod cannot be used to model changes to the UC system, which is expected to have replaced CTC by the point the two child limit potentially affects all children and young people in Scotland. Subject to these caveats, this analysis shows that the two child limit might eventually reduce expenditure on social security in Scotland by up to £160m a year.

Scottish Government estimates of the number of claimants affected

In a recent press release, the Scottish Government estimated that by 2020-21 "around 50,000 Scottish households will be affected by the changes to child tax credits, which will be capped at two children."

Other estimates of the impact

Policy in Practice have analysed the impact of the two child limit. The impact of the two child limit to tax credits estimates that, across the UK, 1,000,000 children will be affected by the policy by 2021, and that child poverty will rise by 260,000 (10%) as a result of it. It also estimates that almost 70% of children affected are in low-income working households.

A recent CPAG press release estimates that once UC is fully rolled out, the two child limit will result in up to 200,000 additional children living in poverty in the UK. The press release cites research from CPAG and IPPR, which estimates the overall impact of reforms to UC on different family types (including other changes made since 2013), and estimates that households with three children will be £2,540 a year worse off on average.[10]

The Institute for Fiscal Studies estimated that as a result of the two child limit, 600,000 three child families in the UK will lose an average of £2,500 a year and 300,000 families with four or more children will lose an average of £7,000 a year.[11] They also highlight that the support available for out-of-work families through the social security system, whilst significantly lower than at any time since tax credits were introduced, remains higher than it was in 1997 in real terms, even after the two child limit is imposed.

Suggestions of behavioural impacts of the policy

As noted above, the UK Government's 2015 impact assessment of the two child limit does not take account of the impact of the policy on claimant behaviour. It states that:

[9] The analysis is adjusted to reflect the known underestimation of CTC expenditure by Euromod, and does not take account of possible demographic or behavioural changes over the time period of implementation

[10] CPAG (2017) *Broken promises: What has happened to support for low income working families under universal credit?*

[11] IFS (2017) *Personal tax and benefit changes*

> "If households continue to make the same choices about whether to have a family and family size as they do currently it is estimated that, once the policy is fully rolled out, approximately 3.7 million households will have a lower rate of payment than would otherwise have been the case."

However, it does suggest that there might be such an impact, as "in practice people may respond to the incentives that this policy provides and may have fewer children." The UK Government argued that the restrictions to benefit entitlement will:

> "enhance the life chances of children as they ensure that households make choices based on their circumstances rather than on taxpayer subsidies. This will increase financial resilience and support improved life chances for children in the longer term."

A recent CPAG *Two-child limit briefing* highlights concerns about the impact on parents' choices, including that:

> "The policy risks creating incentives for larger families to separate, and could discourage single parents from forming new 'blended' families. It could also penalise children in separated families who switch the parent they live with – for example to be with siblings, or to remain in their school if one parent moves away."

In recent evidence to the Work and Pensions Select Committee, Turn2Us highlighted an emerging behavioural impact of social security changes, which they were concerned could be increased as a result of the two child limit:

> "The most worrying trend that is emerging is pregnant women asking the call handler to undertake a benefit check to ascertain what they would be entitled to if they continue with the pregnancy, citing that the outcome will help them to decide whether they continue with the pregnancy or terminate it."

Further reaction to the policy is set out in the House of Commons Library Research briefing The two child limit in tax credits and Universal Credit. This includes discussion of concerns raised by the Social Security Advisory Committee, including around the privacy of claimants with an exception for non-consensual conception.

Jon Shaw

SPICe Research

19 May 2017

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The Scottish Parliament, Edinburgh, EH99 1SP www.scottish.parliament.uk

Annexe B

Written submission from Citizens Advice Scotland

The impact and consequences of the two child policy in Child Tax Credits inquiry
Scottish Parliament Social Security Committee

May 2017

Citizens Advice Scotland (CAS), our 61 member Citizen Advice Bureaux (CAB), the Citizen Advice consumer helpline, and the Extra Help Unit, form Scotland's largest independent advice network. Advice provided by our service is free, independent, confidential, impartial and available to everyone. Our self-help website Advice for Scotland provides information on rights and helps people solve their problems.

In 2015/16 the Citizens Advice network in Scotland helped over 310,000 clients in Scotland alone and dealt with over one million advice issues. With support from the network clients had financial gains of over £120 million and our Scottish self-help website Advice for Scotland received over 4 million unique page views.

Introduction

Citizens Advice Scotland welcomes the opportunity to provide evidence to the Committee. Benefits and tax credits is the largest area of advice provided by Scotland's CAB network, with 227,561 new issues brought to bureaux in 2015/16, representing 39% of advice provided.

Advice on Child Tax Credits is one of the most common issues that clients seek advice on, with 13,363 new issues during the year, an increase of 14% compared with the previous 12 months. A CAB client profile survey in November 2016 showed that 9.3% of clients (1 in every 11) who were given advice on an issue related to Child Tax Credits were from a large family, with three or more dependent children.

The impact of the two child policy

CAS is generally concerned about the restriction on families to only being able to claim Child Tax Credits or Universal Credit for two children.

As the policy applies to additional children born after 6 April 2017, the effect of the limit will affect an increasing number of people over time. Although they will be unaffected unless they have additional children, 101,000 families receiving Tax Credits in Scotland had two children, with a further 51,000 having three or more children, according to the most recently published official figures.[12]

[12] Personal tax credits: Finalised award statistics – geographical statistics 2014 to 2015 – HM Revenue and Customs, May 2016
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525473/cwtc_awards_geog.pdf

CAB evidence shows receiving Child Tax Credits can be essential to prevent families from facing hardship and destitution. Analysis of CAB Child Tax Credit cases from April to October 2016 showed that many of the issues were related to delays in payment caused by clients having their tax credits stopped incorrectly following an investigation by Concentrix, the company contracted by HMRC[13]. These cases showed evidence of clients struggling to get their tax credits claims reinstated and suffering financial detriment as a result. For families with more than two children, the impact of the loss of tax credits has been particularly profound and indicates that restrictions to their Child Tax Credit entitlement have the potential to push them into crisis.

An East of Scotland CAB reports of a client who is a lone parent with four children. Her Child Tax Credit payments have suddenly stopped following claims from Concentrix that another adult lives in the house (the person named was her brother who lives elsewhere, but helps care for the client's disabled son). The client has not received any tax credit payments for seven weeks, and has already sent in documentation three times to show she is a lone parent. HMRC have accepted her mandatory reconsideration request, but told her it could take a further six weeks to consider. The client has recently had to give up work due to physical and mental health issues following a car accident. She has been borrowing from family to pay the rent. The CAB referred the client for a food parcel and helped her make a claim for a Crisis Grant due to her lack of income.

An East of Scotland CAB reports of a client who is married with three young children and is currently on maternity leave. They have a combined income of less than £20,000 per year. The client is challenging an alleged overpayment of tax credits of £1,800, and has repeatedly tried to provide requested information about childcare to HMRC, but has not managed to get through, despite meeting the priority criteria for severe hardship due to their income and three children.

[13] Work and Pensions Committee statement, 13 October 2016, *Concentrix scandal, HMRC and tax credits*: www.parliament.uk/business/committees/committees-a-z/commons-select/work-and-pensions-committee/news-parliament-2015/concentrix-hmrc-tax-credits-statement-16-17/

Impact on Lone Parents

In addition, the proposals will have a particular impact on lone parent families, who will find it difficult to make up the losses through working additional hours, due to having several young children to care for. Almost one third (32%) of CAB clients who sought advice on a Child Tax Credit issue in November 2016 were single parent families, indicating that the benefit is a substantial source of income for this group, who are simultaneously affected by other changes to the social security system.

For instance, the most recently published official statistics show that the groups most likely to be affected by the Benefit Cap are larger families and lone parents, as well as the children who live in the households. This has further increased since the level of the Cap was reduced from £500 to £384.62 per week from November 2016.

According to the most recently published official figures from February[14], 77% of households affected by the Benefit Cap in Scotland represent families with three or more children and 57% comprising a lone parent with three or more children.[15] These households were affected principally through a combination of high rents due to the size of the household requiring a larger home, as well as their entitlement to children's benefits which are not exempted from the cap.

Whilst the Department for Work and Pensions consultation document on exemptions to the two-child policy suggests that *"households will need to think carefully about whether they are financially prepared to support a new child without relying on the tax credits or means-tested benefit systems"* and recognises that *"some parents or carers for children are not in the same position to make choices about the number of children in their family as others are"*[16] it does not recognise that there will be future circumstances where any family who has a third child, may subsequently and unexpectedly require support from tax credits or Universal Credit. This includes situations where families may break up or where there is a loss of income, such as redundancy.

Exemptions to the policy

A small number of exemptions to the two-child limit have been announced, which include:

- Children born in a multiple birth
- Children in kinship care arrangements
- Children whose parents are under the age of 16 living with family

[14] February 2017 figures, Stat Xplore - Department for Work and Pensions https://stat-xplore.dwp.gov.uk/
[15] Ibid.
[16] Exemptions to the limiting of the individual Child Element of Child Tax Credit and the Child Element of Universal Credit to a maximum of two children: Public consultation – Department for Work and Pensions, October 2016 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/561641/exceptions-to-the-limiting-of-the-individual-child-element-of-child-tax-credit-and-the-child-element-of-universal-credit-to-a-maximum-of-2-children.pdf

- Children likely to have been conceived as a result of rape

Citizens Advice Scotland agrees that the above categories should be exempt from the two-child limit, should the policy remain in force.

The final exemption on the list, for third or subsequent children likely to have been conceived as a result of rape, is much harder to evidence than the others. It is also important that this route is as straightforward as possible for people to access, to address a highly difficult and sensitive situation that has arisen as a result of the two-child limit.

Citizens advice bureau advisers are not included in the 'third party reporting' process, and do not in general have specialist expertise in supporting survivors of rape and sexual assault, or reporting rape. In those circumstances, bureaux will refer clients to specialist organisations.

Written submission from Engender

TWO-CHILD LIMIT FOR TAX CREDITS & UNIVERSAL CREDIT EVIDENCE FOR SOCIAL SECURITY COMMITTEE

1.0 INTRODUCTION

Engender welcomes the opportunity to present evidence to the Social Security Committee on the two-child limit. We have been working with other women's organisations in Scotland over the last few years to chart the impact of 'welfare reform', and the ways in which it is widening inequality between women and men.

Analysis of the two-child limit by Child Poverty Action Group calculates its impact as a loss of up to £2,800 every year per child.[17] In addition, it is projected that these deep cuts to social security for families with more than two children will push up to 200,000 more children into poverty, and will impact approximately 510,000 families in 2019-20.[18]

2.0 WOMEN AND SOCIAL SECURITY

Social security cuts and the wider austerity agenda are having a disproportionate impact on women's access to resources, as well as their safety, security and well-being. Over the decade of austerity (2010 to 2020), 86 percent of net 'savings' raised through cuts to social security and tax credits will come from women's incomes.[19] This is due to systemic issues that see women twice as dependent on social security as men.

[17] Child Poverty Action Group. (2017). *Two-Child Limit for Universal Credit: 200,000 more children put in poverty*.
[18] Child Poverty Action Group. (2017). *Social Security Changes – April 2017*.
[19] Women's Budget Group. (2016). *The Impact on Women of the 2016 Budget: Women Paying for the Chancellor's Tax Cuts*.

Women have less access to resources, assets and occupational pensions than men. The pay gap persists at 32.2 percent for women's part-time work in Scotland, and women account for 66 percent of the paid workforce living in poverty.[20] Women's economic independence is undermined by endemic violence against women, which includes domestic abuse and sexual violence. Further, women who experience multiple discrimination are more at risk of extreme hardship, including disabled women, women from minority ethnic communities, rural women, and refugee women, who are all impacted by policy changes and cuts to services in particular ways.

As a result of social security reforms, women have been put at greater risk of deeper and sustained poverty. As one example of this, women who are lone parents will experience an estimated loss of £4,000 per year, a 20 percent drop in living standards, and a 17 percent drop in disposable income by 2020.[21]

3.0 WELFARE REFORM AND WORK ACT

The UK *Welfare Reform and Work Act 2016* received royal assent on March 16, 2016.

Sections 13 and 14 of the Act limit entitlement to the child element of Child Tax Credit (CTC) and Universal Credit (UC) to a maximum of two children in each household. The limit for CTC applies to a third or subsequent child born after April 6, 2017. For UC, the limit applies to all new claims made after April 6, 2017, unless a child element was payable for that child within the last six months. These policies are referred to colloquially as the 'family cap'.

The purpose of the 'family cap' is described as 'behavioural change' in the Department for Work and Pensions' impact assessment of the policy, and a nudge to parents to 'reflect carefully on their readiness to support an additional child'. This was amplified in a response that the Prime Minister gave to a question at Prime Minister's Questions on 26 April 2017, in which she said that "We believe that **people who are in work have to make the same decisions as those people who are out of work**, so that people who are on benefits should have to decide whether they can afford more children, just as people in work have to make such a decision." (Engender's emphasis.)

The Act allows the Secretary of State to introduce exceptions in regulations. In 2017, exceptions to the 'family cap' were introduced by the UK Government, providing that social security for a third or subsequent child would be provided if the child joined a family as a result of 'non-consensual conception' (i.e., rape), sibling adoption, kinship care, or multiple births.

[20] Child Poverty Action Group. (2014) *Poverty in Scotland 2014: The independence referendum and beyond*.
[21] Child Poverty Action Group. (2012). *Ending child poverty by 2020*.

The exceptions came into force on April 6, 2017. They were passed by the UK Government via Statutory Instruments[22] using a negative parliamentary procedure, which allowed for no debate or scrutiny of the policies by the UK Parliament.

4.0 THE 'FAMILY CAP' AND ITS IMPACT ON WOMEN

The 'family cap' will exacerbate women's and children's poverty by reducing family income. Analysis of the policy demonstrates that the two-child limit will mean a loss of up to £2,800 every year per child.[23] In addition, it is projected that these deep cuts to social security for families with more than two children will push up to 200,000 more children into poverty, and will impact approximately 510,000 families in 2019-20.[24]

Though the policy will have an adverse effect on all families who have a third or subsequent child born after April 6, 2017, it will have a disproportionate impact on families where larger numbers of children are more usual, including those from some religious communities, black and minority ethnic families, and refugee families. It will also have a disproportionate impact on lone parents who are women. Lone mothers are most likely to experience poverty, and tend to be more disadvantaged than parents in couple households. In 2015, nine out of ten (91 percent; 128,400) lone parents in Scotland were women.[25] Women make up 95 percent of lone parents receiving Income Support.[26]

In addition to pushing women and their families into further poverty, the 'family cap' exceptions, specifically the provisions surrounding forced disclosure of sexual violence to gain access to social security, will re-traumatise individual women who have survived rape by forcing them to disclose sexual violence at a time and in a context not of their own choosing, on pain of deeper impoverishment. These provisions counter evidence showing that the forced disclosure of sexual violence can exacerbate post-traumatic stress disorder and increase a sense of shame and isolation.

5.0 THE 'FAMILY CAP' AND EQUALITY IMPACT ASSESSMENT

Under the *Equality Act 2010*, there is a duty by public authorities to eliminate discrimination, and advance equality relating to protected characteristics in all of their

[22] Social Security (Restrictions on Amounts for Children and Qualifying Young Persons) Amendment Regulations 2017 (SI 2017/376) and Child Tax Credit (Amendment) Regulations 2017 (SI 2017/387). The Social Security (Restrictions on Amounts for Children and Qualifying Young Persons) Amendment Regulations 2017 have been laid by the Department for Work and Pensions (DWP) principally under the Welfare Reform and Work Act 2016. The Child Tax Credit (Amendment) Regulations 2017 were laid under the Tax Credits Act 2002 Act.

[23] Child Poverty Action Group. (2017). *Two-Child Limit for Universal Credit: 200,000 more children put in poverty*.

[24] Child Poverty Action Group. (2017). *Social Security Changes – April 2017*.

[25] NHS Health Scotland. (2016). *Lone parents in Scotland, Great Britain and the UK: health, employment and social security.*

[26] Engender. (2012). *Multiple Jeopardy: The impacts of the UK Government's proposed welfare reform on women in Scotland.*

functions. This includes advancing women's equality. In England, unlike Scotland, equality impact assessments must be undertaken but do not have to be published. At the time the *Welfare Reform and Work Act 2016* was introduced, the UK Government published what it described as an Impact Assessment, and which briefly considered the impact of the 'family cap' on protected groups. With respect to women, the Impact Assessment noted the following:

> The Universal Credit payment is made to the benefit unit, however on an individual basis women may be more likely to be affected than men. Around 90% of lone parents are women, and a higher proportion of this group are in receipt of CTC. Therefore they are more likely to be affected, in the absence of behavioural change.

This excerpt, which is the only direct reference to women, does not set out any steps that UK Government intended to take in mitigation of this clear gender inequality, and is merely an acknowledgement that vulnerable groups would be disproportionality harmed by the 'family cap'.

The Equality and Human Rights Commission has written to Damian Hinds, Minister of State for Employment, to express its concerns about the policy and the quality of equality impact assessment. It notes:

> The impact assessment published by the Department for Work and Pension for these changes **was not sufficiently detailed to support proper scrutiny of the legislation**. […] There was no evidence provided to support DWP's assumption that the measures will incentivize families to only have two children if they cannot afford to have more.[27]

6.0 INTERNATIONAL EXPERIENCE OF 'FAMILY CAPS'

Research and evidence shows that the implementation of 'family caps' are a failed public policy.[28] In the 1990s, several states in the United States (U.S.) introduced a 'family cap' as part of Clintonian reforms to social security. The broad narrative around the introduction of 'family caps' was that they would encourage 'responsibility' in family planning. The exemptions set out by UK Government substantively mirror those adopted in the US, with one notable exception: women who are attempting to avoid pregnancy by use of contraception that then fails are not exempt from the UK version of the 'family cap'. In the absence of an equality impact assessment or other explanatory materials it is not clear whether the UK Government has simply assumed that women whose contraception has

[27] https://www.equalityhumanrights.com/sites/default/files/letter-to-damian-hinds-child-tax-credits-rape-clause-21-april-2017.pdf

[28] Gutiérrez, E.R. (2013). *Bringing Families out of 'captivity: The need to repeal the Calworks maximum family grant rule.* Berkeley Law. & Donavan, P. (1998). *Does the Family Cap Influence Birthrates? Two New Studies Say 'No'.* The Guttmacher Report.

failed will terminate any pregnancy. This has obvious significant and severe differential impacts on women from some faith and belief communities and women from minority ethnic or cultural communities in which abortion is unacceptable. It will also negatively impact on women who are forced to choose between impoverishment and terminating a wanted pregnancy.

Critically, in evaluations of the impact of the 'family cap', U.S. studies failed to find any relationship between the 'family cap' and a reduction in births.

Instead, the assessment of the U.S. 'family cap' policies found that they pushed families into further poverty, worsened health and social outcomes for children, and increased the risk of homelessness as well as other hardships associated with severe poverty. In addition, women whose social security payments were capped reported higher levels of housing and food insecurity; struggles to pay for transport and utilities; and difficulty in finding funds for basic necessities for her children, including nappies and clothes. As evidence of their failure has mounted, several U.S. states have repealed 'family cap' policies, including Illinois, Maryland, Wyoming, and California.

6.0 THE 'FAMILY CAP', 'RAPE CLAUSE' AND HUMAN RIGHTS OBLIGATIONS

The UK has a wide range of commitments to advance gender equality and eradicate violence against women and girls. These commitments, however, are undermined by social security policies that are developed in the knowledge that they will adversely impact women's rights.

United Nations

In 2013, the United Nations Committee on the Elimination of Discrimination against Women recommended that the UK continuously assess the impact of austerity measures on women's rights.[29] This recommendation was echoed by the Committee on Economic, Social, and Cultural Rights in 2016, which reminded the UK Government that austerity 'measures must be temporary, necessary, proportionate and not discriminatory, must not disproportionately affect the rights of disadvantaged and marginalized individuals and groups and respect the core content of rights'.[30] The Committee further called on the UK Government to conduct a cumulative impact of its austerity measures on the rights of disadvantaged and marginalised groups, including women, children and persons with disability.

These calls by United Nations committees have not yet resulted in action.

European Convention on Human Rights

[29] United Nations CEDAW Committee. (2013). *Concluding Observations on the seventh periodic report of the United Kingdom of Great Britain and Northern Ireland.*

[30] United Nations Committee on Economic, Social, and Cultural Rights. (2016). *Concluding observations on the sixth periodic report of the United Kingdom of Great Britain and Northern Ireland*.

Article 8(1) of the European Convention on Human Rights (ECHR) states that 'everyone has the right to respect for his private and family life, his home and his correspondence.' The exceptions to the 'family cap', however, will create situations where women are forced to disclose information about their private lives and the private lives of their children against their will. It is anticipated that the exceptions to the 'family cap' will breach privacy rights, particularly when women would be forced to disclose rape to access social security for her children.

The Equality and Human Rights Commission, in its letter to Damian Hinds, notes that it:

> [I]s also concerned by the Child Tax Credit (Amendment) Regulations 2017 and the operation of the exemption for children conceived as a result of rape. In our view the exception raises serious issues in relation to a child and mother's right to private life under Article 8 of the European Convention on Human Rights. The exception, which purports to prevent women from being penalised requires, in our view, invasive reporting requirements of intimate details. Children who may not be aware that they were born of rape may well become aware through this process and through the creation of a record.[31]

7.0 FURTHER CONCERNS AROUND THE EXCEPTIONS

There are no third-party referrers currently confirmed in Scotland, to Engender's knowledge. Specialist women's organisations and NHS staff have both declined to act in this capacity because of professional practice and ethical concerns. The DWP has unequivocally stated that it will not be making final decisions on whether exceptions should be awarded in the instance of 'non-consensual conception'.

Engender shares the foundational concerns of Scottish Women's Aid and Rape Crisis Scotland about the exceptions as they currently stand.

Written submission from Scottish Women's Aid

Two child limit for tax credits and universal credit

Written evidence to the Social Security Committee May 2017

1. Introduction

Scottish Women's Aid welcomes this opportunity to provide evidence to the Social Security Committee. Domestic abuse is both a cause and consequence of

[31] https://www.equalityhumanrights.com/sites/default/files/letter-to-damian-hinds-child-tax-credits-rape-clause-21-april-2017.pdf

women's inequality. This is embedded in Equally Safe[32], the Scottish Government's strategy on violence against women and girls, which makes an explicit commitment to addressing women's inequality as a significant route towards preventing and eradicating violence against women and girls. Women experiencing domestic abuse face considerable barriers when trying to leave an abusive partner; many women experience financial abuse and are denied access to independent income, are prevented from working and are encumbered with debt.[33]

2. Women's access to social security

Social security is in itself an important tool for combating domestic abuse: the availability of financial support is a factor that positively influences the ability of women experiencing domestic abuse to leave their abuser. Women's poverty is one of the critical enabling conditions for perpetration of domestic abuse, and social security has always been a sensible investment in prevention. However the 'two child limit' is part of a series of reforms to the social security system that jeopardise women and children's safety by putting at risk their ability to access financial independence. In coalition with Engender and other women's and human rights organisations we have highlighted how cuts to social security and the wider austerity agenda have a disproportionate impact on women. Since 2010, 86 percent of net 'savings' raised through UK Government cuts to social security and tax credits will come from women's incomes.[34] Women who are lone parents will experience an estimated loss of £4,000 per year, a 20 percent drop in living standards, and a 17 percent drop in disposable income by 2020.[35] The introduction of the single household payment of Universal Credit has also increased the likelihood of women's financial dependency.

[32] Scottish Government (2014) Equally Safe, Scotland's strategy for preventing and eradicating violence against women and girls

[33] Women's Aid (2015) Unequal, Trapped and Controlled

[34] Engender (2016) Securing Women's Futures: Using Scotland's New Social Security powers to Close the Gender Equality Gap

[35] Child Poverty Action Group. (2012) Ending child poverty by 2020

The limitation of child tax credits and universal credit to the first two children in each family is projected to drive a further 200,000 more children into poverty, and will affect approximately 510,000 families in 2019-20.[36] The policy will have a disproportionate impact on families with larger numbers of children, including blended families, black and minority ethnic families, refugee families and some religious groups. It will have a disproportionate impact on lone mothers. In 2015, nine out of ten lone parents in Scotland were women. [37] Lone mothers are most likely to already experience poverty, and children in single parent families are twice at risk of living in relative poverty than those in couple families.[38]

Ms A has two children and is pregnant with her third child. She works as a cleaner, part-time, is paid minimum wage and receives tax credits for her two children. Her partner's coercive controlling behaviour included financial abuse that has left her with considerable debts that she is struggling to repay. The impact of the abuse has affected her mental health which has meant she has had to take time off work, reducing her income to statutory sick pay. Her employment is insecure as her employer is unhappy that she's been off sick and will soon be going on maternity leave. Her partner ensured she was isolated so she has no family or friends to support her. Ms A is a Catholic and does not want to consider an abortion.
Case study Shakti Women's Aid

3. The impact of domestic abuse

Sexual violence

The UK Government has justified this policy on the basis that families receiving tax credits or social security should carefully consider whether they can afford additional children and should make family size choices based on their economic circumstances. This ignores real life, where contraceptive methods fail,

[36] Child Poverty Action Group. (2017). Social Security Changes – April 2017.

[37] NHS Health Scotland. (2016). Lone parents in Scotland, Great Britain and the UK: health, employment and social security

[38] DWP (2017) Households below average income, 1994/95-2015/16. Table 4.14ts

relationships break down and new ones are established, and families experience ill-health or unemployment.

The policy fails to take into account the reality of many women's lives where sexual violence, including rape, is used by perpetrators to control, subjugate and shame women. Sexual violence as a component of domestic abuse is common; indeed, it is estimated that one in four women may experience sexual violence by an intimate partner in their lifetime.[39]

The impact of sexual violence can profoundly affect the physical, emotional, mental and social well- being of victims. It is associated with a number of health consequences, including: unwanted pregnancy, gynaecological complications such as vaginal bleeding, fibroids, chronic pelvic pain and urinary tract infections, sexually transmitted infections including HIV/AIDS, depression, post-traumatic stress disorder, and suicidal thoughts and behaviour.[40]

Pregnancy coercion

Many women experiencing domestic abuse are not able to exercise power over decisions on how many children they have or when they have them**.** Women's control over pregnancy and child birth is often severely constrained. Perpetrators of domestic abuse seek to control women's reproductive autonomy by forcing a woman to become pregnant or carry a pregnancy to term when she does not wish to or, conversely, to end a pregnancy against her will. Or through contraception sabotage by intentionally interfering with a woman's attempts to prevent pregnancy, for example hiding or destroying contraceptive pills or damaging a condom, or stopping her from accessing family planning services.[41]

4. Exceptions to the family cap: child born as a result of non-consensual conception

Provisions within the Welfare Reform and Work Act 2016 allow for exemptions to the two child limit. These include multiple birth, adoption, kinship carer and non-

[39] World Health Organisation (2014) Intimate Partner and Sexual Violence Fact Sheet

[40] ibid

[41] Silverman J G, Raj A (2014) Intimate Partner Violence and Reproductive Coercion: Global Barriers to Women's Reproductive Control.

consensual conception. This later exemption, commonly known as the 'rape clause.' forces women to disclose intimate personal details of sexual violence, to the Department of Work and Pensions, in order to obtain financial support for that child. The application form, NCC1 4/17, requires women to name the child and to declare that this child was conceived as a result of rape.[42]

Human rights violation

The exemption raises serious issues about women and children's right to private life under Article 8 of the European Convention on Human Rights. In April 2017 the Equality and Human Rights Commission wrote to the Minister for Employment:

"This exception, which purports to prevent women from being penalised, requires, in our view, invasive reporting requirements of intimate details. Children who may not be aware that they were born of rape may well become aware through this process and through the creation of a record.
We consider there to have been a failure to fully consider the impact of the implementation of this exemption, including the potentially traumatic process for having eligibility assessed and the risk of re-traumatisation upon survivors of rape."

Risk of trauma

Women experiencing domestic abuse are more likely to suffer from depression and post-traumatic stress disorder and are also more likely to self-harm or attempt suicide. PTSD is one of the most commonly diagnosed mental health issues for women who have experienced domestic abuse. [43] Requiring women to revisit trauma, to disclose this information at a time not of her choosing to DWP officials and a third party verifier will further traumatise women.

Requirement to no longer live with the perpetrator

The exemption additionally requires a woman to no longer be living with the perpetrator of the abuse in order to receive payment. This demonstrates failure to understand the nature of domestic abuse and appears to blame and financially

[42] https://assets.documentcloud.org/documents/3700744/nnc1.pdf

[43] Scottish Women's Aid (2010) Information Paper 5: Impact of domestic abuse on women's mental health

penalise a victim if she has not left an abusive partner. Many women do not leave because it is too dangerous for themselves and their children to do so. Women are at significant risk at the point of separation from an abusive partner; in a recent analysis, 76% of women killed by their ex-partner or ex-spouse were killed within the first year that followed their separation.[44] This requirement additionally penalises women with health issues where their carer is also their abusive partner.

Lack of privacy protection

There is also serious concern that women receiving money for a third child will be identified as a victim of rape, for example when providing proof of income for other benefits such as council tax reduction, free school meals or clothing grants. The DWP has acknowledged this possibility:

> "Award notices will not state the reason for the exception. We do accept that an inference may be drawn as to the reason for an exception being in place, this risk is unavoidable, given the limited range of exceptions in place but we believe that this risk is outweighed by the financial benefit to the claimant in being granted the exception."[45]

It is also possible that the child themselves will be made aware of this information, or a new partner or family member will become aware of the payment for a third child and, given the limited number of exceptions, deduce the circumstances.

Evidence base

Engender has highlighted the failure of similar welfare programs in the USA which were designed to limit family size.[46]

These also included 'domestic violence waivers' for welfare payments. Research found that women were reluctant to apply for these because of a mistrust of

[44] Women's Aid (2016) The Femicide Census

[45] House of Commons Library Briefing Paper Number 7935, 10 April 2017

[46] Engender (2017) Parliamentary Briefing: Child Tax Credit and Child Element of Universal Credit

welfare agencies,[47] fear of reprisals from ex-partners, fear of losing their children, requirements for independent corroboration, and feelings of shame, humiliation and embarrassment. The privacy deprivations associated with the process discouraged many women from seeking assistance. This meant women and their children missed opportunities to collect other, less stigmatizing forms of public assistance, such as food stamps and medical assistance. [48]

Comparison with other DWP exceptions and third party verification

The UK Government has compared the rape clause application and third party verification process to existing DWP models, citing as an example the exemption for women who have experienced domestic abuse from job seeking conditionality for a limited period.

This comparison is inaccurate and misleading. The Jobseeker's Allowance Domestic Violence Easement (JSA DV Easement) and the Destitute Domestic Violence Concession (DDV Concession) were developed as part of the Department for Work and Pension's contribution to the wider 2010 cross-government strategy Violence Against Women and Girls. The DDV concession was agreed after extensive campaigning by women's groups and the application and verification processes were developed in collaboration with these organisations. As a result these policies are both informed by an understanding of the nature and impact of domestic abuse and with the intent of supporting women. The JSA DV Easement, for example, exempts women from having to look for work for a limited period when she leaves an abusive partner. "Recognising that women need time to focus on priorities like organising new accommodation or arranging alternative schooling for dependent children without having to also focus on meeting their job-seeking conditions." [49]

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[47] Naomi Stern (2003).Battered by the System: How Advocates Against Domestic Violence Have Improved Victims' Access to Child Support and TANF, 14 Hastings Women's L. R. 47

[48] Models for Safe Child Support Enforcement Vicki Turetsky, Susan Notar (1999) Center for Law and Social Policy

[49] https://www.gov.uk/government/publications/jobseekers-allowance-domestic-violence-easement-and-destitute-domestic-violence-concession-implementation-rr843

Neither of these exemption processes is invasive. They do not require a woman to provide intimate personal details in order to obtain a social security payment for her child.

For all of the reasons outlined above Scottish Women's Aid and Rape Crisis Scotland have stated that they will not act as third party verifiers for the exemption for children conceived as a result of rape.

> I have clients who had children as a result of sexual violence in their marriage or relationship and I am aware how delicate this area is. Women experience a huge sense of guilt and shame. They are very apprehensive to disclose it even to their support workers. Some women do not identify sexual violence within marriage as abuse and believe it's their duty to have sexual intercourse with their partners. There is always coercion, manipulation and blame from their abusive partners which keeps women trapped in those beliefs even after they have separated. I believe it there would be a serious risk of re-traumatising women to fill in a form confirming they'd been raped for the purpose of tax credits. It's not something as a support worker that I could ask a woman to do.
> Women's Aid support worker

Written submission from CPAG

May 2017

CPAG in Scotland welcomes the opportunity to provide evidence to the Social Security Committee on the impact of the two-child limit for child tax credits and the child element of universal credit.

1.0 Pushing 200, 000 more children into poverty.

1.1 Working on behalf of the one in four children in Scotland growing up in poverty, we are concerned that the two child limit for universal credit and tax credits, brought in from 6th April, will have a significant detrimental effect on many families across Scotland and the rest of the UK, and push more children into poverty.

1.2 Analysis by CPAG and IPPR indicates that once universal credit is rolled out, the two-child limit will in itself result in an additional 200,000 children being pushed into poverty across the UK.[50]

[50] 'Broken promises: what has happened to support for low income working families under universal credit'.

1.3 This figure assumes all households have moved on to universal credit and utilises IPPR's tax-benefit modelling which uses latest available data from the UK Family Resources Survey to assess the fiscal and distributional impact of changes to the tax and benefit system.

2.0 What does the two child limit mean for families' incomes?

2.1 Families who claim tax credit or universal credit, which have a third or subsequent child born after 6 April 2017, will no longer be able to claim a child element for this child or any future children.

2.2 Four exceptions were announced during the passage of the Welfare Reform and Work Act 2016: if the third or subsequent children are part of multiple births; adopted; being looked after by families and friends; or conceived through rape or in a coercive relationship.

2.3 The child element is worth up to £2,780 per year (£232 per month) and until now has been payable for all children in low- income families to help protect them from poverty.

2.4 Families who make a new claim for universal credit will only receive the child element of universal credit for two children per family, even if the children were born before April 2017.

3.0 Impact of the two-child limit on families already at risk.

3.1 The two-child limit will impact on families already at risk of poverty either in work through low wages and underemployment or out of work. The total award made to out of work families is already limited by the benefit cap. (The benefit cap was reduced to £20,000 from November 2016).

3.2 The number of children living in poverty in Scotland is increasing. More than one in four (260,000) of Scotland's children are officially recognised as living in poverty, compared to 22% (220,000) in 2014/15[51]. This is a level significantly higher than in many other European countries.[52]

CPAG, 2017. http://www.cpag.org.uk/content/broken-promises-what-has-happened-support-low-income-working-families-under-universal-credit

[51] Latest 2015/16 Poverty and Income Inequality in Scotland figures, Table A1: Relative Poverty in Scottish Households 1994/5 to 2014/15, http://www.gov.scot/Resource/0051/00515392.pdf

[52] International comparisons are for 2014 on a before housing costs basis under which 14% of Scotland's children live in poverty. *Poverty in Scotland 2016* see Chapter 5 Figures 5.3, p78 and 5.6, p82

3.3 70% of children living in poverty in Scotland have at least one parent or carer in work,[53] with low wages and underemployment contributing to rates of in-work poverty.[54]

3.4 The largest group of those affected by the two child limit will be working families with three children. Latest available statistics show that 51, 000 families across Scotland[55] (872,000 families across the UK) with more than two children claimed tax credits in 2014/15.[56]

3.5 Families with three or more children are already at a higher risk of poverty. Across the UK, 39% of children in families with three or more children already live in poverty after housing costs, compared with 26% of those in families with two children.[57]

3.6 Of these claimants, 65% were working families and 68% had only three children. A similar number of families can be expected to be affected by the two-child limit in the future (not immediately, as most children born before April 2017 will be protected as long as their family remains on tax credits or universal credit).

3.7 A family with two children, where both parents work full time for the minimum wage, already falls 12% short of the income that the general public regards as necessary for a minimum acceptable standard of living.[58] Families with three or more children, if not entitled to any additional tax credit or universal credit payments, will clearly fall much further behind than this.

4.0 Concerns about the Two Child Limit

4.1 The two-child limit breaks a fundamental basic principle of the rights of the child which should underpin the social security system, as well as the link between the assessment of a child's needs and the support they receive.

4.2 Under this policy, some children in a family will receive less support than their siblings, simply because they are younger.

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[53] Poverty and Income Inequality in Scotland in 2015/16, Table A7 In-work Poverty (relative AHC) in Scotland 1998/99 to 2015/16; http://www.gov.scot/Resource/0051/00515392.pdf

[54] Wages, the Labour Market and Low Pay, Stephen Boyd, page 211, Poverty in Scotland 2014, The Independence Referendum and Beyond, Edited by John McKendrick, Gerry Mooney, John Dickie, Gill Scott and Peter Kelly

[55] Child and Working Tax Credits Statistics Finalised Annual Awards in 2014-15, Geographical Analysis. HMRC 2016. Table 1 D
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525473/cwtc_awards_geog.pdf

[56] Child and Working tax Credit Statistics, UK: Finalised Annual Awards in 2014-15. HMRC, 2016.
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/525464/cwtc_awards.pdf

[57] Households below average income (HBAI) statistics 2015/16, Table 4.5db.DWP, 2017.
https://www.gov.uk/government/collections/households-below-average-income-hbai--2

[58] Hirsch, D. The cost of a child in 2016'. CPAG,2016. http://www.cpag.org.uk/cost-of-a-child-2016

4.3 The UK government consultation stated the policy was intended to encourage families to 'think carefully about whether they are financially prepared to support a new child without relying on the tax credits or means-tested benefit systems'.[59]

4.4 The UK government policy intention assumes that all families will be financially secure for 18 years and ignores the fact that any family can be hit by redundancy, illness, separation or widowhood, leading to a significant loss of income.

A case from CPAG's early warning system

The client and his wife have three children. Recently the client's wife suffered a serious injury. She is in hospital and he has had to reduce his working hours to look after the children. This has left the family with less income, and the children's mother may not be able to work again. Their father hopes to increase his working hours again in the future but in the meantime tax credits are vital for the family to manage.

4.5 The exception for children conceived through rape or coercion acutely highlights the fundamental failings of the policy. It risks causing women trauma and humiliation, as they have to obtain a third party statement that their circumstances are consistent with conceiving in this way.

4.6 The devastating impact on family and child wellbeing, through the significant psychological harm caused to the mother[60] is compounded by the risk of serious privacy breaches, as both family members and authorities which require proof of income could easily deduce the circumstances.

5.0 The latest in a series of changes to Universal Credit.

5.1 The two child limit, introduced on 06th April, is the latest in a series of policy changes brought in by the UK Government following the introduction of universal credit in October 2013.

5.2 Administered by the DWP, the coalition government estimated in 2010 that "as many as 350,000 children and 500,000 working adults could be moved out of

[59] 'Exceptions to the limiting of the individual Child Element of Child Tax Credit and the Child Element of Universal Credit to a maximum of two children.' Public consultation. DWP. 2016. https://www.gov.uk/government/consultations/universal-credit-and-child-tax-credit-exceptions-to-the-2-child-limit

[60] https://www.theguardian.com/society/2017/apr/09/rape-clause-in-family-welfare-cap-harms-mothers-and-children

poverty by these changes [Universal Credit's introduction], by virtue of the changes to entitlement and increased take-up of benefit".[61]

5.3 The foreword to the 2010 White Paper by the then Secretary of State, Ian Duncan Smith, stated that Universal Credit would "cut through the complexity of the existing benefit system to make it easier for people to get the help they need, when they need it".[62]

5.4 A succession of changes to the new benefit have resulted in a system which is less generous than the system it is replacing and will not move children and families out of poverty as originally estimated. The analysis by CPAG and IPPR of these changes suggest that: "were Universal Credit to be fully implemented by 2020 (ignoring transitional protection and any possible dynamic effect), there would be up to a million more children in poverty following the cuts than there would have been had the 2013/14 system been retained".[63]

5.5 This is a significant deviation from the original policy intention of the 2010 White Paper. The Office of Budget Responsibility has confirmed that "universal credit is now less generous on average than the tax credits and benefits system it replaces". [64]

6.0 **Conclusion**

CPAG believes the new UK government must end the two child limit as a matter of urgency. This would prevent child poverty rising by around 200 000, and save survivors of rape the trauma, indignity and loss of privacy of applying for the 'rape exemption'.

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[61] "Universal Credit: Welfare that Works", 2010, p5. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48897/universal-credit-full-document.pdf

[62] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48897/universal-credit-full-document.pdf

[63] "Broken promises: What has happened to support for low income working families under universal credit", p. 10. http://www.cpag.org.uk/sites/default/files/Broken%20promises%20FINAL%20for%20website.pdf

[64] Office of Budget responsibility: Welfare trends Report, October 2016, p. 26. http://budgetresponsibility.org.uk/docs/dlm_uploads/Welfare-Trends-Report.pdf

Policy in Practice

The impact of the two-child limit to tax credits

A BRIEFING PAPER BY
POLICY IN PRACTICE

Deven Ghelani
Giovanni Tonutti

APRIL 2017

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Executive Summary:

From 6th April 2017, Child Tax Credit (CTC) support available to families across the UK will be limited to the first two children. This measure will affect all households with two or more children that have an additional child after this date.

The government's objectives in introducing the policy are to:

- reduce public deficit and rebalance the welfare spent
- restore fairness in the benefit system between those receiving benefits and those paying for them, with families relying on public support to make the same financial decisions as those supporting themselves solely through work

This short paper provides an independent assessment of the impact the policy will have and clearly highlights the cost of this measure for the large number of children that will be born into low-income families.

Key Findings:

- Over 1 million children will be hit by this policy by the end of this parliament.
- 2.1m families are at risk of being affected by this policy change should they have another child.
- 70% of these families are in work, reflecting the original intention of Child Tax Credits; to provide financial relief to low earners.
- 104,000 third or additional children will be born to this cohort of households in the next twelve months.
- 8,000 children born this April will miss out on support of up to £2,780 a year.
- Based on the average cost of raising a child, low income families that have a third child will have to make-up a difference of up to £1,737 a year.

This means that as a result of this policy:

- Over a quarter of a million children (256,000) already in poverty today will fall deeper into poverty as a result of this policy.
- 266,000 additional children will be living in poverty by the end of this parliamentary term alone. This represents an increase in child poverty of more than 10%
- 609,000 children in other ordinary working families (low to middle income households) will be pushed closer to the poverty line.

Limiting Child Tax Credit to two children: Analysis by Policy in Practice						
	Households with 2+ children		Households	Average No.	Children impacted	
	Share	Number	losing CTC	of Siblings	2017/18	2019/20*
Household in poverty	23.2%	487,200	24,128	3.5	84,448	256,000
Households at risk of poverty	20.9%	438,900	21,736	3.2	69,555	266,000
Just about managing households	55.9%	1,173,900	58,136	3.5	203,476	609,000
Totals	**100.0%**	**2,100,000**	**104,000**	**3.4**	**357,479**	**1,131,000**
*2019/20 analysis takes into account other policy reforms including NLW, UC, Inflation and Benefit Freeze						

This policy is set to save the government £1bn per year by 2020. The behavioural impact of the policy remains unclear; it is difficult to know how many potential parents are aware of the changes and whether this new legislation will mean low income households are less likely to have more than two children. In the coming months, Policy in Practice will be tracking these and other outcomes as part of a project following over half a million low income households across London.

We do know that the costs of poverty are significant, that children who grow up in poverty have lower productivity as adults and have a higher risk of unemployment. There are also immediate costs to public services that support families on low incomes. Policy in Practice estimates that policies such as the Pupil Premium and Free Early Years Entitlement for two year olds will cost an additional £270m per year by 2020 as a result of the increase in child poverty. We also expect additional pressures on housing services, as some families already struggling to pay their rent are in the same position with another mouth to feed.

Within the wider context of welfare reform, this policy represents another cap on the amount of public spending on welfare. It adds to measures which include a freeze on benefits, tighter limits on housing support and the introduction of an overall benefit cap. These policies move away from the needs-based principles on which the British welfare system is based.

The Government wants to restore fairness to the benefit system. This is a worthy aim, but the cost of this policy will ultimately fall on children in the families affected. The government will need to develop alternative strategies to improve the outcomes of children. The impact of growing up in a family that struggles to provide basic necessities will mean this policy is likely to have financial and social consequences well into the future.

Introduction

This paper provides an independent assessment of the impact of an imminent change in benefit policy, effective from 6th April 2017, which limits eligibility for Child Tax Credit.

The next section of this report outlines the policy detail. This is followed by an assessment of the policy objectives behind this measure: to ensure people on low incomes face the same choices as people on higher incomes and to reduce public deficit, discussing its implications within the wider context of welfare reform.

We then present our analysis of the policy on families likely to be affected over the course of this parliament. We estimate the number of households potentially affected and the impact that a reduction in support will have on child poverty, and the depth of poverty, using the relative income measure of poverty. To consider the overall impact of the policy we also estimate what some of the additional costs could be from an upward demand for local services due to the increasing number of children in need.

The analysis clearly highlights the cost of this measure in terms of life chances for increasing number of children born into low-income families. It remains unclear the extent to which this new legislation will mean low income households are less likely to have more than two children. It is questionable whether many potential parents are aware of how the changes will affect them, with limited publicity of the measure, ahead of its implementation.

Policy overview

From 6th April 2017 the amount of Child Tax Credit (CTC) support available to families across the UK will be limited to the first two children. This measure will affect all households with two or more children that have an additional child after this date. The amount of support no longer available to 3rd children is worth up to £2,780 a year. Support for the first child (if born after 6th April) is also reduced by £545 per year. This measure is excluded from our analysis because affected families will continue to receive support.

Families currently receiving CTC for three or more children will not face any loss in support, however should they have an additional child, their CTC entitlement will remain the same. If a third or additional child is born with a disability, families will still be entitled to receive the disability element of CTC.

There are a number exemptions to the upcoming changes in CTC rules. These include:

- children born to the claimant in a multiple birth, other than the first child;
- children adopted from Local Authority Care;
- children living in a long term formal caring arrangement (including children born to parents under the age of 16, or otherwise likely to be in local authority care)
- children likely to have been born to non-consensual conception

The exemptions have been the subject of much controversy, with the Social Security Advisory Committee having raised a number of concerns related to privacy and safety over what has been called the 'rape clause'[1]. An additional administrative issue means that families with more than two children will not be able to claim Universal Credit until November 2018. They will have to make a claim under the tax credits system.

[1]The Social Security (Restrictions on Amounts for Children and Qualifying Young Persons) Amendment Regulations 2017. The National Archives. Available here: http://www.legislation.gov.uk/uksi/2017/376/made

The Government's Objectives

The legislation limiting Child Tax Credits to two children was announced together with a set of other measures aimed at reducing the overall welfare bill, by the Cameron and Osborne government as part of the 2015 Summer Budget.

In the policy impact assessment published in July 2015[2], the Treasury set out two key objectives in bringing forward this policy change that are summarised below:

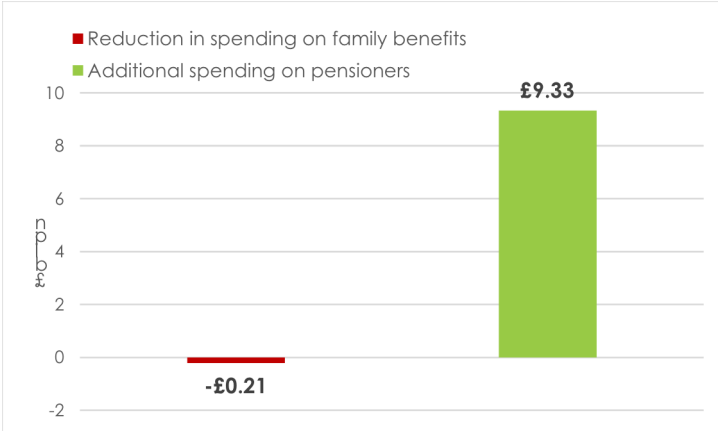
- to reduce public deficit and rebalance the finances of the welfare state
- to restore fairness in the benefit system, between those receiving benefits and those paying for them, with families relying on public support to make the same financial decisions as those supporting themselves solely through work

Objective 1 - Reducing public deficit

The introduction of the two-child limit to Child Tax Credits and Universal Credit is expected to save a total of £315 million in 2017/2018, rising to £1 billion by 2019-2020[3]. Through this measure, the Office for Budget Responsibility estimates that by the end of this parliamentary term expenditure on family benefits[4], currently at £42.5 billion, will decrease by £210 million.

Figure 1 shows that this trend contrasts starkly with the expected increase in spending on pensions. In the same period, the amount of the social security budget spent on pensioners is forecast to increase by almost £10 billion, rising from £97.2 billion to £106.5 billion.

Figure 1: Change in welfare spending by 2020



Interestingly, as a proportion of total social security spending, the share assigned to pensions is expected to increase by more than 1% by 2020, rising from 44.5% to 45.7%. During this period expenditure on family benefits is set to decrease by around 1.3%, from 19.4% to 18.1%. These figures signal the strong commitment by the government to pursue deficit reduction through tightening spending on working age benefits while ring-fencing pensions.

Within the wider context of welfare reform, the change in CTC legislation represents another cap on the amount of public spending on welfare, adding to similar measures such as the extension of the local housing allowance system to both the private and social rented sector and the introduction of an overall benefit cap. Through these measures the government is

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[2] Welfare Reform and Work Bill: Impact Assessment of Tax Credits and Universal Credit, changes to Child Element and Family Element. UK Parliament. Available here: http://www.parliament.uk/documents/impact-assessments/IA15-006E.pdf

[3] Summer Budget 2015: policy costings. HM Government. Available here: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/443195/Policy_costings_summer_budget_2015.pdf

[4] Office for Budget Responsibility, Economic and fiscal outlook – November 2016. OBR. Available here: http://budgetresponsibility.org.uk/efo/economic-and-fiscal-outlook-november-2016/

setting a limit to the amount of support available to low-income families, moving away from the needs-based principles on which the modern British welfare system was developed. Later in this report we look at some of the costs this policy is likely to have on other parts of the public sector.

Objective 2 - Restoring fairness in the welfare system

The Government views this measure as a means of restoring fairness in the system, forcing households on benefits to be confronted with the same financial decisions as those that are not. Parents relying solely on their earnings have to consider the additional cost of caring for an extra child when making the initial decision of whether to have more children. This policy change ensures that those that are dependent on benefits have to do the same.

Further, the Treasury points to the added value of an active decision by affected households in terms of positive effects on overall family stability. It is argued that the new legislation will improve the life chances of children, by ensuring that households will base decisions on their circumstances rather than on welfare support, increasing the financial resilience of the family[2].

This policy objective to restore fairness in the welfare system is rooted in the assumption that changes in benefit regulations will change the family planning decisions of affected families. Conversely, the Treasury admits a lack of evidence in support of the idea that family planning decisions are made on the basis of available welfare support[5].

For people to make different decisions, they need to be aware of policy changes, in this case families planning to have another child needed to be aware of the change in policy up to nine months before the policy came into effect. Without an awareness of this policy it is difficult to see how it could have any impact on a family's decision to have a child.

Evidence on the impact of this policy on birth rates will help to inform future policy, and what can be done to best improve the life chances of children. With no change in birth rates, the cost of this policy will be borne by those children who will miss out on support, often going to families struggling to provide basic necessities.

Policy in Practice will be tracking the changes in demographic and economic circumstances of half a million low-income households across London, this will allow birth rates and other outcomes, including movement into work, or the need to move home, to be tracked at scale, both before and after this policy takes effect[6].

The Money Advice Trust[7] estimates the cost of providing for a child under 16 is around £2,448 per year. With no support from Tax Credits, low-income families with three or more children will only be able to rely on £711.60 a year from Child Benefit to support their youngest child, having to make-up a difference of £1,737 between their needs and their benefit entitlement.

After the changes to CTC legislation, households that have a third or additional child will have to bridge a gap of £1,736 per year in their finances (either through their earnings or by budgeting), in order to support their extra child.

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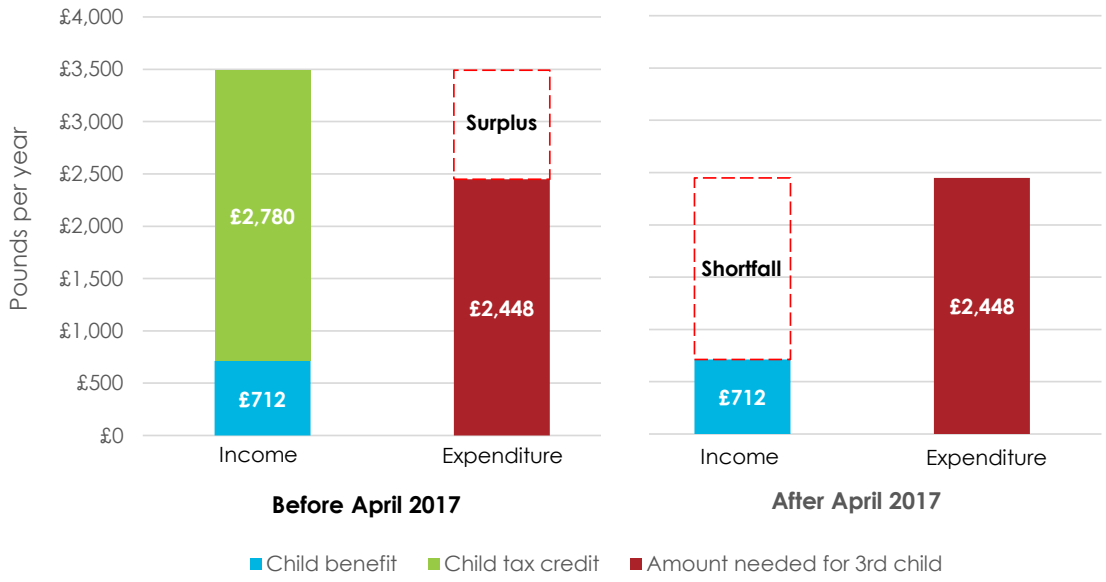
[5] Welfare Reform and Work Bill: Impact Assessment of Tax Credits and Universal Credit, changes to Child Element and Family Element. UK Parliament, p.5. Available here: http://www.parliament.uk/documents/impact-assessments/IA15-006E.pdf

[6] For more information about this project, visit http://policyinpractice.co.uk/low-income-londoners/

[7] Common Financial Statement. Money Advice Trust. Available here: http://www.cfs.moneyadvicetrust.org/

Figure 2: The benefits received for a third child versus the cost, before and after April 2017



The graph above shows that, after these changes, many families are going to struggle to support their additional child. This will have a knock on impact on the newborn child, and their siblings. The Joseph Roundtree Foundation[8] has found that children who grow up in poorer families underachieve in school, limiting their opportunities in later life.

The Effects on Child Poverty

Having discussed the key objectives and exposed some of the inherent contradictions of the new changes to CTC regulations, this section shifts its focus to assessing the impact that the new legislation will have on households affected.

Families at risk and numbers of children affected

Based on national data collected yearly in the Family Resource Survey (FRS)[9], Policy in Practice found that a total of 2.1 million families are at risk of being affected by this policy should they have another child. These are all families currently receiving Child Tax Credits or households eligible for the child element of Universal Credit.

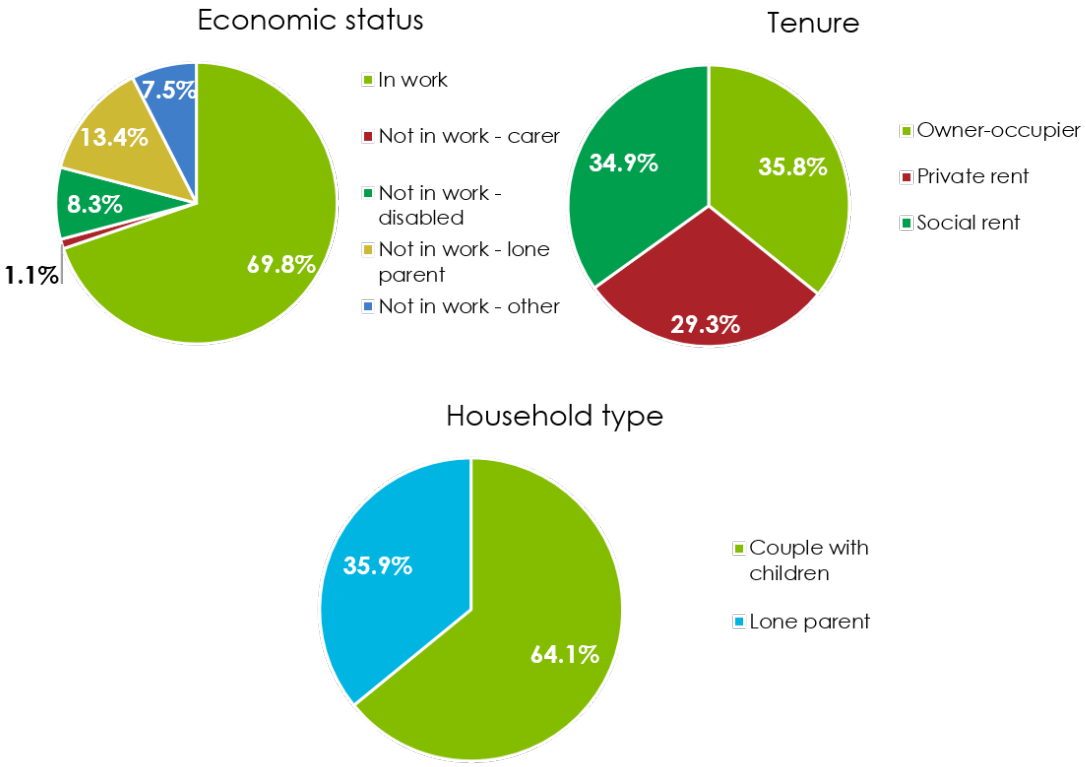
Interestingly, almost 70% of these families are in work. This reflects the original intent of Child Tax Credit as a benefit introduced to provide financial relief to low earners. Only 7.5% of this group are unemployed households facing low barriers to work, with the remaining 22.7% being out-of-work families with disability, parenting or caring responsibilities.

[8] Poorer children's educational attainment: how important are attitudes and behaviour. Joseph Roundtree Foundation. Available here: https://www.jrf.org.uk/report/poorer-children%E2%80%99s-educational-attainment-how-important-are-attitudes-and-behaviour

[9] For a comprehensive account of the methodological approach of this analysis, see Annex I

The average income (including benefits and earnings) of these families is £26,268 pounds per year. 35.9% of this cohort are lone parents, and just below two thirds of them are tenants.

Figure 3: Characteristics of households at risk



Looking at data for the last year, we identified 104,000 third or addition children born within this cohort of households. If we assume that a similar number of children will be born in the year ahead, then our analysis finds that an estimated 104,000 children born between now and April 2018 will miss out on up to £2,780 of tax credit support. In the month of April, we can expect approximatively 8,000 newborn babies affected by this policy change.

If the demographic composition of the households 'at risk' is reflected within those 104,000 families likely to have a third or additional child in the next twelve months, then 72,500 children who will miss out on support will be born in a household with a least one parent in work, and 37,300 children will be born in a lone parent household.

The rise in child poverty

The Office for National Statistics figures on relative poverty show that households in the UK need an extra £286 a month, per extra child, to remain above the poverty line[10]. Currently that sum is covered by the support received through Child Tax Credits (£232 per month) and through Child Benefit (£59 per month for second or additional children). With the limit of Child Tax Credit Support to two children, families affected by this reform will thus face a monthly shortfall of £227 each month (£286 cost per child, less £59 Child Benefit).

Policy in Practice projections estimate that, due to the reduction in support available for large families on low-incomes, an additional 21,900 households are likely to fall below the

[10] Based on people, population and community. ONS. Available here: https://www.ons.gov.uk/peoplepopulationandcommunity/ and economic and fiscal outlook. OBR. Available here: budgetresponsibility.org.uk/efo/economic-fiscal-outlook-march-2017 :

relative poverty line in the year ahead, bringing an additional 70,000 children to the 2.3m currently living at below 60% of median income.

If the same birth rate is maintained in the years leading up to 2019-2020, then we expect to see a total of 266,000 additional children living in poverty by the end of this parliamentary term. This represents an increase in child poverty of more than 10% from the current national figures.

Our analysis estimates that in the same time period, a total of 256,000 children living in families already below the poverty line will be pushed deeper into poverty. Similarly, the changes to CTC entitlements effective from April will bring 609,000 children living in ordinary working families (low to middle income households) closer to the poverty line.

Summing these together, over 1.1 million children will be hit by this policy by the end of this parliament.

Limiting Child Tax Credit to two children: Analysis by Policy in Practice						
	Households with 2+ children		Households	Average No.	Children impacted	
	Share	Number	losing CTC	of Siblings	2017/18	2019/20*
Household in poverty	23.2%	487,200	24,128	3.5	84,448	256,000
Households at risk of poverty	20.9%	438,900	21,736	3.2	69,555	266,000
Just about managing households	55.9%	1,173,900	58,136	3.5	203,476	609,000
Totals	**100.0%**	**2,100,000**	**104,000**	**3.4**	**357,479**	**1,131,000**
*2019/20 analysis takes into account other policy reforms including NLW, UC, Inflation and Benefit Freeze						

The cumulative impact of welfare reforms

This number is likely to increase further when other changes in welfare policy are taken into account, as shown in Welfare Reform Roadmap below.

Policy in Practice finds that the combined effects of the freeze of benefit rates, the roll out Universal Credit and higher living costs, including rents, will make low-income families worse off by £2,500 a year in 2020[11]. Larger families in work and in the private rented sector will be among the hardest hit[12].

[11] 'Just About Managing' families hardest hit by welfare reforms in 2020. Policy in Practice. Available here: http://policyinpractice.co.uk/just-managing-families-hardest-hit-welfare-reforms-2020/

[12] The cumulative impacts of welfare reform: a national picture. Policy in Practice for the Local Government Association. To be published in April / May 2017.

While this report focuses on the damaging effect of the new Child Tax Credit rules on families and on child poverty, the overall picture for the living standards of low income households is likely to be bleaker.

Costs of child poverty

It is acknowledged by many organisations that there is both a financial and a human cost of poverty. Personal suffering is not the only consequence, there is a huge monetary cost of child poverty that some have attempted to measure. The Child Poverty Action Group (CPAG) report that the cost of child poverty was as high as £25 billion a year in 2008 and £29 billion in 2013[13]. Much of this cost stems from evidence that children who grow up in poverty have lower productivity as adults and have a higher risk of unemployment. This may be due, in part, to the finding that those who grow up in poverty struggle to gain the same level of education as those that do not[13].

There are certain immediate costs of poverty that are less difficult to measure than the future costs. The CPAG found around half of the (£29bn) cost arises from the need for additional public spending. This includes extra education costs due to the Pupil Premium and the extension of free early year's entitlement to two year olds in low income families. Loughborough University[14] estimated that, in 2013, the cost of these services amounted to £1.9 billion and £0.8 billion respectively. With a projected increase in child poverty of 10% in the coming three years, the total costs of these services is likely to rise from £2.7 billion to £3 billion.

The immediate need for other services is likely to increase with higher numbers of children falling into poverty. Local authorities and other organisations involved in the provision of welfare services at the local level, who already face funding pressures, will face an increase in the demand for housing, personal budgeting services and food banks. For some households, the growing gap between households' income and expenses will increase rent arrears and general indebtedness, leading to increasing homelessness and widespread financial difficulties.

Conclusion

Limiting Child Tax Credits to two children is intended to make the system fairer, while reducing benefit spending. However, while the principle behind the policy is clear, its measures of success have not been well defined.

Policy in Practice will assess the consequences of this policy through rigorous scrutiny of the outcomes for those it affects. We will be tracking changes in demographic and economic circumstances for over half a million low-income households across London. This will allow for birth rates and other outcomes, including movement into work, or the need to move home, to be tracked at scale, both before and after this policy takes effect[15].

Policy in Practice was founded to make government policy simple to understand, to help people make the decisions that are right for them. We know that if the government wants to change behaviour, it needs to communicate policy to the people that may be affected. If people are unaware of these changes, there is even less chance that people will take policy into account when making decisions.

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[13] An estimate of the cost of child poverty in 2013. CPAG. Available here: www.cpag.org.uk/content/estimate-cost-child-poverty-2013

[14] An estimate of the cost of child poverty in 2013. Loughborough University. Available here: http://www.cpag.org.uk/sites/default/files/Cost%20of%20child%20poverty%20research%20update%20(2013).pdf

[15] Low income Londoners and Welfare Reform, Policy in Practice funded by Trust for London. For more information about this project, visit http://policyinpractice.co.uk/low-income-londoners/

If, as seems likely, fertility rates do not change significantly, the costs of this policy will ultimately fall on children in the families affected. The impact of growing up in a family that struggles to provide basic necessities will mean this policy is likely to have financial and social consequences well into the future.

For this policy to be a success, the government needs to define what success looks like. This needs to be both through the expected change in fertility rates they hope this policy will have, and through improvements in life chances and outcomes they expect for children growing up in families affected.

We believe that if the government persists with this policy, it will need to develop alternative strategies to improve life chances for children over the long term. The consequences of failing to do so will be long term fiscal costs, and social consequences that will be felt across the next generation.

Annex I - Methodological Approach

The quantitative analysis presented in this report was carried out using information from the Family Resources Survey 2014/15.

We identified all households with two or more children currently in receipt of Child Tax Credit or potentially eligible for Universal Credit as reported in the survey, and found 2.1m households at risk of being affected by this policy.

In the previous year, we observed 104,000 third or additional children born to this same cohort of low income households. It is fair to assume that a similar number of births are likely to be recorded again in the period between April 2017 and April 2018, based on ONS demographic projections that show a yearly increase in the UK population of 0.7%[16].

To assess the impact that this policy has on child poverty, we use relative income poverty (i.e. 60% of median income). Based on the ONS 2015 figures of median income[17], we set the current poverty line at 60% of £26,826 per year, or £16,092 per year. This figure applies to households composed of two adults with no children, and it takes into account all sources of income, including benefits. Having equivalised this figure for different household sizes[18], we apply it to the cohort of 2.1m families 'at risk'. We find that 23.2% of these families are already below the poverty line, while 76.8% are not.

The ONS figures on relative poverty show that households in the UK need an extra £286 a month, per extra child, to remain above the poverty line[10]. Currently that sum is covered by the support received through Child Tax Credits (£232 per month) and through Child Benefit (£59 per month for second or additional children). With the limit of Child Tax Credit Support to two children, families affected by this reform will thus face a monthly shortfall of £227 each month.

Among the group of households 'at risk', We identified 487,000 households (23.2%) of households in poverty, 440,000 households (20.9%) with a monthly income of less than £227 above the poverty line and 1,176,000 households (55.9%) with a monthly income more than £227 above the poverty line.

Limiting Child Tax Credit to two children: Analysis by Policy in Practice						
	Households with 2+ children		Households	Average No.	Children impacted	
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Household in poverty	23.2%	487,200	24,128	3.5	84,448	256,000
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*2019/20 analysis takes into account other policy reforms including NLW, UC, Inflation and Benefit Freeze						

The average number of children per household in each cohort was 3.5, 3.2 and 3.5 respectively. We therefore estimate an additional 69,000 children will be living in poverty by April 2018. These are children living in families with monthly income of less than £227 above the poverty line. If they had an extra child their family would be pushed into relative income

[16] Overview of the UK population: March 2017. ONS. Available here: https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/articles/overviewoftheukpopulation/mar2017

[17] Nowcasting household income in the UK. ONS. Available here: https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/datasets/nowcastinghouseholdincomeintheuk

[18] Households Below Average Income (HBAI) Quality and Methodology Information Report – 2013/14. DWP. Available here: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/437251/households-below-average-income-quality-methodology-2013-14.pdf

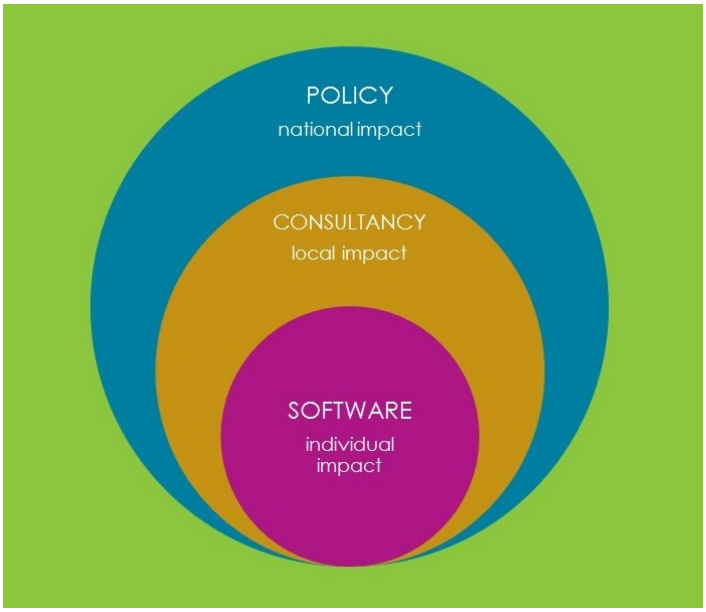
poverty as a result of the drop in Child Tax Credit support. This would affect all children in the household, not only the newborn.

We apply the same methodology to derive the number of children pushed deeper in to poverty and the impact on low to middle income households with children in the years leading up to 2020.

About Policy in Practice

Policy in Practice was founded to make the welfare system simple to understand, so people can make the decisions that are right for them.

We are a team of policy experts, led by one of the architects of Universal Credit. We believe government services can be help people toward greater independence if they are simple for people and organisations to understand.



Our software models how the policies of four government departments combined affect households on low incomes. This helps people to understand how government policy affects them, so that they can make better decisions and lead more fulfilling lives.

Our household level analysis can pinpoint how each household in a local area is affected by all policy changes, now and in the future. This helps local authorities to target resources, meet their statutory obligations and spend money more effectively.

We empower people to take control, and support them to independence.

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