Eroding Child Benefit

Summary

Changes made by the 2010 – 15 government eroded the value of Child Benefit and changes already announced by the new government will erode it further over the next five years. This report shows that, as a result, by the time of the next election a family with two children is already likely to be more than £9 a week - £470 a year – worse off, regardless of further cuts that may not yet have been announced.

In 2010/11 Child Benefit was £20.30 per week for a family's first child and £13.40 for subsequent children. The policy on 'uprating' (increasing the benefit to take account of inflation) was to increase the benefit in April by the annual inflation figure for the previous September using the Retail Price Index (RPI) measure of inflation. The 2010/15 government introduced three changes to this policy and the new government has already announced a fourth:

- From April 2011 the policy was changed to uprating by the Consumer Price Index (CPI) measure of inflation instead of RPI.
- But for three years (2011/12, 2012/13 and 2013/14) Child Benefit was frozen and not increased at all.
- And for a further two years (2014/15 and 2015/16) the increase was capped at 1 per cent, even though the CPI measure of inflation was higher than this.
- The new government has announced that Child Benefit will be frozen again for two years (2016/17 and 2017/18).

This report shows the impact of these changes on families' incomes:

- If the old policies had been kept in place, Child Benefit would now stand at £24.30 for a first child and £16.05 for other children (table 3).
    - Instead, it is currently worth £20.70 for a first child and £13.70 for other children (table 2).
- Assuming inflation in line with official forecasts, by 2020/21 it have been raised to £27.35 for first children and £18.05 for others (table 5).
    - Instead it will only reach £21.90 and £14.45 (table 6).

By the time of the next election, a family with two children born before May 2010 will have lost a cumulative total of £3,101.80 (tables 4 and 7).

Introduction

This paper looks at the very real implications of the 2010-15 government's policies on Child Benefit. In the June 2010 Budget Child Benefit was frozen for three years, and uprating policy was changed, with the benefit linked to the Consumer Price Index (CPI) and the previous link to the Retail Price Index (RPI) broken.

Subsequently the government also announced that Child Benefit would be cut for higher rate tax payers and that in 2014/15 and 2015/16 Child Benefit would only be increased by one per cent.

The Full Employment and Welfare Benefits Bill, announced in the Queen's Speech indicates that the current government will take forward their manifesto commitment to freeze Child Benefit again for two years in 2016/17 and 2017/18. We look at the impact of this pledge later in the report.

June 2010 Budget policy changes: Child Benefit frozen and change to CPI uprating and subsequent capping

Child Benefit has traditionally been a universal benefit, paid four-weekly for children up to the age of 16 and some up to 20 if they are in relevant training or education. It is not means-tested and it is not contributory meaning it has not required National Insurance contributions to receive it. Due to its universal status it has had high levels of take up. However since the June 2010 Budget there have been considerable policy changes to the way it is uprated and who is entitled to receive Child Benefit.

The Chancellor George Osborne singled out Child Benefit in the June 2010 Budget when he decided to freeze it - holding it at the same amount and not increasing it - for three years from April 2011. It was then to stay at £20.30 per week for the eldest/only eligible child and £13.40 for other children until April 2014.

The Chancellor also announced a change in uprating policy. Child Benefit, like most other non-means tested benefits and state pensions, had previously been uprated every April in line with the annual RPI figure for the previous September. It was now to be uprated in April in line with CPI, once the freeze ended. The following table shows that RPI has been higher than CPI in all but two of the last 15 years and that on average over this period it has been 0.8 points higher. This has had significant implications for the value of Child Benefit.

Table 1: RPI and CPI September increase 2000 to 2014 (% change over 12 months) [1]

	RPI	CPI	Difference
2000	3.3	1.0	2.3
2001	1.7	1.3	0.4
2002	1.7	1.0	0.7
2003	2.8	1.4	1.4
2004	3.1	1.1	2
2005	2.7	2.5	0.2
2006	3.6	2.4	1.2
2007	3.9	1.8	2.1
2008	5.0	5.2	-0.2
2009	-1.4	1.1	-2.5
2010	4.6	3.1	1.5
2011	5.6	5.2	0.4
2012	2.6	2.2	0.4
2013	3.2	2.7	0.5
2014	2.3	1.2	1.1

RPI and CPI are both calculated by measuring the price of a ‘basket of goods’. However, the contents of the baskets and how they are measured is different; for example, CPI excludes some housing costs. There is also a technical difference in how CPI and RPI are calculated; CPI uses a geometric mean, RPI an arithmetic mean. This usually results in a lower measurement of inflation, the effects of which accumulate over time due to compound interest rates[2]. It means people receive lower benefits and state and public sector pensions over time, having a real impact on people’s lives.

However the 2010-15 government claimed that CPI 'provides a more appropriate measure of benefit and pension recipients' inflation experiences than RPI'[3].This change in the uprating policy saved the Exchequer £1.2 billion in 2011/12 and was estimated to save a cumulative £5.8 billion by 2014/15[4].

Subsequently, the 2010-15 government changed the policy on uprating again, and announced in the Autumn Statement 2012 that Child Benefit would only be increased by one per cent in 2014/15 and 2015/16, again below the cost of living on either the forecast CPI or RPI measures[5]. This change was included in the Welfare Benefits Uprating Act 2013[6]. The DWP Impact Assessment of the legislation estimated that capping Child Benefit at one per cent (rather than updating it by CPI) would save £1.1bn in 2014/15 and £1.9bn in 2015/16[7]. Taken together the changes in uprating policy will therefore result in significant savings for the Treasury. Although low inflation may have reduced total savings from the policy the cap has still left families worse off.

Most recently, the Conservative Party announced at their 2014 party conference that should they be elected in 2015 they would freeze Child Benefit again for two years in 2016/17 and 2017/18. This was also included in their election manifesto. We return to the potential impact of this below.

The impact of the 2010 – 15 policy changes

The change in the 2010-15 government's policy to CPI uprating, the freezing and subsequent capping of the Child Benefit uprating have had significant implications for families. Families would have received more Child Benefit over time had the government continued the policy they inherited of using RPI uprating. Instead families and children continue to lose out on Child Benefit due to the 2010-15 government's actions.

Table two below shows what the cumulative impacts of the 2010-15 government's changes have been for the value of Child Benefit.

Table 2: Child Benefit per week under the 2010-15 government's policy of the three year freeze followed by one per cent capping for two years[8]

	First child rate			Subsequent child rate		
Year	Amount (£)	Increase (£)	Increase (%)	Amount (£)	Increase (£)	Increase (%)
2009/10	20.00	-	-	13.20	-	-
2010/11	20.30	0.30	1.5[9]	13.40	0.20	1.5[10]
2011/12	20.30	0	0	13.40	0	0
2012/13	20.30	0	0	13.40	0	0
2013/14	20.30	0	0	13.40	0	0
2014/15	20.50	0.20	1.0	13.55	0.15	1.0
2015/16	20.70	0.20	1.0	13.70	0.15	1.0

Table three shows what the value of Child Benefit would have been without the 2010-15 government's approach. Had Child Benefit continued to be uprated in line with the previous September RPI rates (as per the policy of the 1997-2010 Labour government and previous governments) Child Benefit would currently be substantially higher.

Table 3: Child Benefit per week as it would have been under old uprating policies

	First child rate			Subsequent child rate		
Year	Amount (£)	Increase (£)	Increase (%)	Amount (£)	Increase (£)	Increase (%)
2009/10	20.00	-	-	13.20	-	-
2010/11	20.30	0.30	1.5[11]	13.40	0.20	1.5[12]
2011/12	21.25	0.95	4.6	14.00	0.60	4.6
2012/13	22.40	1.15	5.6	14.80	0.80	5.6
2013/14	23.00	0.60	2.6	15.20	0.40	2.6
2014/15	23.75	0.75	3.2	15.65	0.45	3.2
2015/16	24.30	0.55	2.3	16.05	0.40	2.3

NB. Figures rounded to nearest 5 pence, up or down, as is general Treasury practice.[13]

Table four therefore shows the total amount lost since the 2010-15 government's policy changes to uprating Child Benefit. If the coalition government had not changed the uprating policies, then in 2015/2016 families would receive £4.00 more each week for their first child and £2.75 more each week for additional children than the 2010/11 rates that government has inherited. But instead a family receives 40p more each week than in 2010/11 for a first child and 30p for subsequent children.

A family with two children now receives £34.40 each week compared with the £40.35 they would be receiving if the old policies had been maintained – a difference of £5.95.

Over the current financial year 2015/16 the cumulative loss would amount to £309.40 for a family with two children[14]. In total, since the policy changes to date (ie. before any further freezes) took effect a family with two children have lost out to the tune of £1084.20.

Table 4: Cumulative amount lost due to the 2010-15 government's policies compared with previous policy of annual RPI uprating

	First child	Subsequent child	Family with two children
Year	£ difference per week	£ difference per week	£ difference per year
2010/11	-	-	-
2011/12	0.95	0.60	80.60
2012/13	2.10	1.40	182.00
2013/14	2.70	1.80	234.00
2014/15	3.25	2.10	278.20
2015/16	3.60	2.35	309.40
Cumulative difference 2011/12 to 2015/16			£1084.20

The Impact of the Full Employment and Welfare Benefits Bill

The Conservative manifesto included a commitment to "freeze working age benefits for two years from April 2016" [15] and the Full Employment and Welfare Benefits Bill gives effect to that pledge; Child Benefit is one of the benefits that will be affected.

The Child Benefit figures below are based on the Office for Budget Responsibility's (OBR) more recent inflation forecasts.[16] Table 5 shows what Child Benefit would be worth in 2016/17 had it been uprated by RPI since 2010 and if it were uprated by RPI (in line with previous policy) going forward.

Table 5: Forecasts for Child Benefit per week had it been uprated by RPI since 2011 and not been frozen or capped

	First child rate				Subsequent child rate	
Year	Amount (£)	Increase (£)	Increase (%)	Amount (£)	Increase (£)	Increase (%)
2016/17	24.55	0.25	1.0	16.20	0.15	1.0
2017/18	25.05	0.50	2.1	16.55	0.35	2.1
2018/19	25.75	0.70	2.8	17.00	0.45	2.8
2019/20	26.55	0.80	3.1	17.50	0.50	3.1
2020/21	27.35	0.80	3.1	18.05	0.55	3.1

NB. Figures rounded to the nearest 5 pence

Based on the CPI and RPI forecasts to 2020/21 we can calculate the projected further losses going forward.

Tables 6 shows the implications of freezing Child Benefit uprating for a further two years. This would follow the one per cent cap in 2014/15 and 2015/2016. It would mean the freeze on Child Benefit would re-commence for two years in 2016/17 and 2017/18. Table 6 is based on the assumption that CPI uprating would then be applied from 2018/19 with inflation as per current forecasts.

Table 6: CPI forecasts for Child Benefit per week if frozen for two further years

	First child rate				Subsequent child rate	
Year	Amount (£)	Increase (£)	Increase (%)	Amount (£)	Increase (£)	Increase (%)
2016/17	20.70	0.00	0	13.70	0.00	0
2017/18	20.70	0.00	0	13.70	0.00	0
2018/19	21.05	0.35	1.7	13.90	0.20	1.7
2019/20	21.45	0.40	1.9	14.20	0.30	1.9
2020/20	21.90	0.45	2.0	14.45	0.25	2.0

NB. Figures rounded to nearest 5 pence

The government's policy will mean that there will not be a real increase in Child Benefit until at least 2018/19 and will have the biggest relative impacts for those on the lowest incomes.

If we compare what Child Benefit would be worth under the new policy with what it would be worth if it were still uprated by RPI we see the following in Table 7.

Table 7: Amount lost if Child Benefit frozen for two further years then updated by CPI compared with previous policy of annual RPI uprating

	First child	Subsequent child	Family with two children
	£ difference per week	£ difference per week	£ difference per year
2016/17	3.85	2.50	330.20
2017/18	4.35	2.85	374.40
2018/19	4.70	3.10	405.60
2019/20	5.10	3.30	436.80
2020/21	5.45	3.60	470.60
Cumulative difference 2016/2017 to 2020/21			£2017.60

This analysis shows that as a result of the changes introduced in 2010-15 and those announced in the Full Employment and Welfare Benefits Bill, a family with two children will be £9.05 a week worse off by 2020/21, just over £470 per year (£470.60).

The cumulative impact of these reductions in the value of Child Benefit is substantial. Table seven shows that just over two thousand pounds, £2017.60, would be lost by a family with two children between the whole period of 2016/17 to 2020/21 based on the 2015 OBR projections for CPI and RPI. In addition, £1084.20 was lost between 2011/12 and 2015/16.

If we take into account the changes that have occurred and will be put in place by 2020/21 a qualifying family with two children, will experience a cumulative loss of £3,101.80 (adding together the losses in tables four and seven). This is a huge amount for a family to go without as a result of the policy changes.

Should the government's policy change and Child Benefit be frozen for the rest of parliament we would see the following.

Table 8: CPI forecasts for Child Benefit per week if frozen for rest of parliament

	First child rate			Subsequent child rate		
Year	Amount (£)	Increase (£)	Increase (%)	Amount (£)	Increase (£)	Increase (%)
2016/17	20.70	0.00	0	13.70	0.00	0
2017/18	20.70	0.00	0	13.70	0.00	0
2018/19	20.70	0.00	0	13.70	0.00	0
2019/20	20.70	0.00	0	13.70	0.00	0
2020/20	20.70	0.00	0	13.70	0.00	0

NB. Figures rounded to nearest 5 pence

This would result in the following losses for families with two children compared with how much Child Benefit they would have received if it were still uprated by RPI.

Table 9: CPI forecasts for Child Benefit per week if frozen for rest of parliament

	First child	Subsequent child	Family with two children
	£ difference per week	£ difference per week	£ difference per year
2016/17	3.85	2.50	330.20
2017/18	4.35	2.85	374.40
2018/19	5.05	3.30	434.20
2019/20	5.85	3.80	501.80
2020/21	6.65	4.35	572.00
Cumulative difference 2016/2017 to 2020/21			£2212.60

Change in payment of Child Benefit to higher rate taxpayers

In the October 2010 Spending Review the 2010-15 government announced that Child Benefit would be withdrawn from January 2013 through the tax system for households with a higher rate taxpayer. This applies to households where someone earns over £50,000 and who – or whose partner – receives Child Benefit. The intention was that the charge would apply gradually, to prevent a cliff edge. And that people earning more than £60,000 would no longer gain from Child Benefit at all.

For households where at least one individual earns between £50,000 and £60,000 a year child benefit entitlements vary depending on the precise amount of individual earnings. The amount of extra tax paid is one per cent of the amount of Child Benefit received for every £100 of an individual's income above £50,000.

The 2010-15 government said that 90 per cent of all families with children would continue to gain from Child Benefit following this change[17] and calculated in the 2010 Comprehensive Spending Review this policy change would save the following.

- £590m in 2012/12
- £2,420m in 2013/14
- £2,500 in 2014/15[18]

However, subsequent OBR figures indicate that the tax on Child Benefit is raising less than the 2010-15 government expected[19], perhaps because of the complexity of the arrangements which have been put in place or because of the stagnation of earnings growth over recent years. But savings are likely to remain substantial, as OBR figures show that of those affected families where one earner takes home £50 - £60k around a third have stopped claiming Child Benefit.[20]

Changes to Child Tax Credit

The Child Benefit cuts have to be considered alongside the large cuts to Child Tax Credit, the main means-tested benefit for families with children. When previous Conservative governments cut or froze Child Benefit this was often justified on the grounds that means-tested benefits for children were not affected, so the poorest families would be protected – as the value of their Child Benefit fell, so their means-tested benefits would rise.

The picture has been more complicated this time. The 2010 Budget announced one significant enhancement of Child Tax Credit and other reforms that reduced its value. The positive move was that the child element of CTC was increased by £150 above inflation from April 2011 (and the October Comprehensive Spending Review increased this to £180). At the time, the Chancellor announced that there would be a further £60 above-inflation increase in April 2012 (and the CSR increased this to £110). In his 2011 Autumn Statement the Chancellor withdrew the promised second round of increases.

The 2010 Budget also announced that, like Child Benefit, Child Tax Credit was to be uprated in line with the CPI. It has been estimated that, by 2016, this cut alone will eat up the entire value of the increase in the child element[21]. The CTC has also, like Child Benefit, been subjected to the 1 per cent cap.

The 2010 Budget also raised the 'taper' (the rate at which CTC is cut as earnings rise) from 39 to 41 per cent, so low-paid families with children keep less of any increase in earnings. In addition, the baby element of CTC (for children under 1) was abolished and the toddler element (for children aged 1 and 2) that the previous government had planned for 2012 was cancelled.

In addition, the government is gradually replacing the Child Tax Credit with Universal Credit, which is less generous for some groups, especially disabled children. CTC includes a disabled child element worth £3,140 and a severe disabled child element worth an additional £1,275. Universal Credit, by contrast includes a disabled child addition paid at lower and higher rates and worth £1,513 and £4,415 respectively: a severely disabled child has the same total entitlement, but less severely disabled children lose out to the tune of more than £1,600.

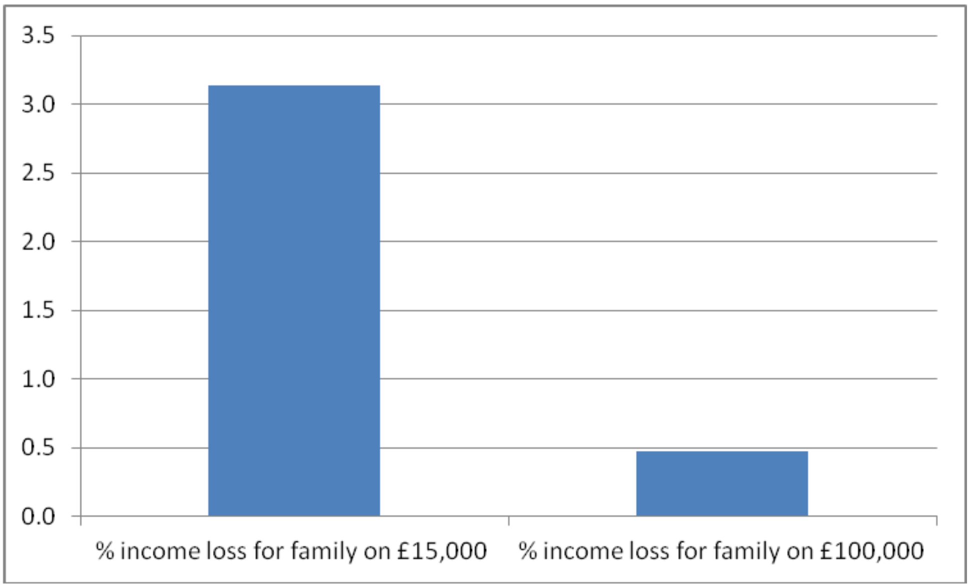
These are, of course, the cuts that have already been made. On 22 June the Prime Minister announced that billions of pounds will soon be cut from the CTC budget. One option for the cuts that has been widely discussed has been to reduce the CTC child element to the real value it had in 2003/4. According to the Resolution Foundation, low-paid families with two children would lose £1,690 a year and two-thirds of the cuts would be paid by the poorest 30 per cent of families.[22]

Conclusion

In summary, under the 2010-15 government a benefit that had been universal and uprated by RPI has been substantially cut in real terms by the change to CPI uprating; frozen at zero per cent for three years and had an uprating cap imposed of one per cent for two years. These are considerable changes for families, especially those on low incomes; despite the withdrawal of Child Benefit from higher rate tax payers, most of these changes reduce the incomes of all families with children by the same amount, the percentage drop in income, however is much larger for poor families. The financial implications of these changes will accumulate further over time leaving families with less.

The following chart shows the comparative loss for families on a low and higher income of the changes in Child Benefit policy. It uses the figures on what Child Benefit would be worth in 2020/21 if it were still uprated by RPI compared with what it is projected to be worth taking into consideration the capping and freezing by the 2010-15 government and the four changes that have been announced to date under the current government.

Chart 1: Percentage forecast loss in income Child Benefit by income bracket as a result of previous and currently announced changes in Child Benefit compared to its value had RPI uprating continued



The changes to Child Benefit policy have not been in a vacuum; the 2010-15 government also cut other social security benefits and tax credits, so low-income families will be feeling the impact of these changes considerably, real wages have been decreasing and while employment rates are rising there are still too many insecure jobs. The previous government said their changes to social security benefits were about fairness and that CPI was a more appropriate measure. We strongly question this approach. The TUC continues to call for the lifting of the current one per cent cap on Child Benefit and the reversal of the policy on CPI uprating. Unions reject any future freeze on social security benefits and call for the restoration of Child Benefit as a universal benefit, available to all families across the UK. All children should receive this benefit and it should not be diminishing in availability or value.

The new government is already legislating to implement its manifesto pledge to freeze Child Benefit again for two years in 2016/17 and 2017/18. This would mean a family with two children would in total lose more than £2017.60 in Child

Benefit between 2016/17 and 2020/21 compared with what Child Benefit would be worth if it were still uprated by RPI.

Table 10 below shows in summary the financial implications for families of the 2010-15 government's policy changes that took effect in 2011/12. It shows the amounts of Child Benefit that families would receive each week according to the various uprating policies discussed above: the 2010-15 government's move to CPI uprating plus the freeze and capping; CPI uprating without freezing and capping and the continuation of the previous policy of RPI uprating. It also indicates the projections going forward based on recent 2015 OBR data. The table does not take into account the further two year freeze.

Table 10: Child Benefit received each week by different uprating variables

	£ amount received for first child per week		£ amount received for subsequent child per week	
	CB uprated by RPI	**CB uprated by CPI plus freezing & capping for two years** [23]	**CB uprated by RPI**	**CB uprated by CPI plus freezing & capping for two years**
2010-15 government's policy announced				
2010/11	20.30	20.30	13.40	13.40
Policy takes effect				
2011/12	21.25	20.30	14.00	13.40
2012/13	22.40	20.30	14.80	13.40
2013/14	23.00	20.30	15.20	13.40
2014/15	23.75	20.50	15.65	13.55
2015/16	24.30	20.70	16.05	13.70
Projected figures using OBR data				
2016/17	24.55	20.75	16.20	13.70
2017/18	25.05	21.00	16.55	13.90
2018/19	25.75	21.35	17.00	14.10
2019/20	26.55	21.75	17.50	14.40
2020/21	27.35	22.20	18.05	14.65

Table 10 highlights the impact on families of the change in the last coalition government's policies announced in 2010. It shows how much more families would be receiving now and in the future if the policy of annual RPI uprating had continued, or even if CPI without the freeze or cap were used. And we saw earlier that by 2015/16 a family with two children have already lost £1084.20 since the policy changes took effect (table four); a shocking statistic.

In 2020/21, under the previous policy (RPI uprating) Child Benefit would be worth £27.35 a week for the first child in a family and £18.05 for subsequent children. As a result of the 2010-15 government's policies to date it would be worth £22.20 and £14.65 respectively in 2020/21.

Table 11 shows that families will continue to lose out due to the freeze in Child Benefit under the new government's reforms.

Table 11: Impact of government freeze in Child Benefit 2016/17 and 2017/18 based on OBR data

	£ amount received for first child per week	£ amount received for subsequent child per week
	CB frozen, i.e. no uprating for two more years	CB frozen, i.e. no uprating for two more years
2016/17	20.70	13.70
2017/18	20.70	13.70
2018/19	21.05	13.90
2019/20	21.45	14.20
2020/21	21.90	14.45

Notes

[1] Consumer Price Inflation Reference Tables, September 2014 http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-323601

[2] http://touchstoneblog.org.uk/2010/06/the-difference-between-an-arithmetic-mean-and-a-geometric-mean-and-why-it-matters/

[3] HMT Budget 2010 p.34

[4] The CPI - uprating benefits and pensions, House of Commons Library, November 2011 http://www.parliament.uk/briefing-papers/SN05830/the-cpi-uprating-benefits-and-pensions

[5] Autumn Statement 2012, December 2012, HMT p. 68 Budget 2013

[6] http://www.legislation.gov.uk/ukpga/2013/16/notes

[7] Welfare Benefits Up-rating Bill Impact Assessment, January 2013 p. 1 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220198/welfare-benefits-up-rating-bill-ia.pdf

[8] Annual April increases are based on the previous September's indexation figure http://www.hmrc.gov.uk/manuals/cbtmanual/cbtm02120.htm. Due to negative RPI in the relevant period the government uprated Child Benefit by 1.5% - See 2010 Benefit Uprating, House of Commons Library, February 2010

[9] Due to negative RPI in the relevant period the government uprated Child Benefit by 1.5% - 2010 Benefit Uprating, House of Commons Library, February 2010

[10] Ibid.

[11] Ibid.

[12] Ibid.

[13] Welfare Benefits Up-rating Bill Explanatory Notes, December 2012, p. 4 http://www.publications.parliament.uk/pa/bills/cbill/2012-2013/0116/en/130116en.pdf

[14] Figures based on 2015/16 RPI calculations

[15] http://issuu.com/conservativeparty/docs/ge_manifesto_low_res_bdecb3a47a0faf?e=16696947/12362115#search p.28

[16] OBR, Economic and fiscal outlook March 2015, p. 87 http://cdn.budgetresponsibility.independent.gov.uk/March2015EFO_18-03-webv1.pdf The calculations use the annual projections in lieu of the September CPI and RPI projections.

[17] HMT Budget 2012 p.30

[18] HMT Comprehensive Spending Review 2010 p. 12

[19] OBR, Economic and Fiscal Outlook, March 2014, p. 109 http://cdn.budgetresponsibility.org.uk/37839-OBR-Cm-8820-accessible-web-v2.pdf

[20] OBR, Welfare Trends, October 2014, http://budgetresponsibility.org.uk/wordpress/docs/Welfare_trends_report_2014_dn2B.pdf.

[21] *Guide to Welfare Reforms*, Church Urban Fund, 2013, p. 4. Accessed at http://www.cuf.org.uk/sites/default/files/PDFs/Research/Guide%20to%20Welfare%20Reforms%202010%20-%202017,%20CUF,%20March%202013.pdf on 22 June 2015.

[22] "Assessing the proposal to cut £5 billion from Child Tax Credit", David Finch, Resolution Foundation Blog, 14-6-15, http://www.resolutionfoundation.org/media/blog/assessing-the-proposal-to-cut-5-billion-from-child-tax-credit/

[23] i.e. the last government's policy of a one per cent cap in 2014/15 and 2015/16