

# Welfare Reform and Child Poverty



**Save the Children briefing - Welfare Reform Bill  
October 2012**

## **Introduction**

In keeping with Save the Children's focus on ending child poverty in Northern Ireland this paper sets out our serious concerns about the impact of the welfare reform proposals on low income families and their children, who are experiencing increasing hardship and income inequality.

We acknowledge the budgetary constraints due to parity arrangements but we urge the need to identify policy variations commensurate with the particular circumstances of Northern Ireland. We suggest that these include the on-going paramilitary violence, high levels of mental ill-health, low wages, inadequate housing and childcare provision and high rates of unemployment and child poverty.

It should also be acknowledged that the proposals represent the biggest change to the welfare system for over sixty years. However, a Northern Ireland welfare reform bill is an opportunity to mitigate the most damaging GB proposals, retain the current exemptions and influence the Department of Work and Pension's design of an IT system fit for purpose. We offer the following comments in the hope that they will influence the shape of the legislation and forthcoming regulations.

## **Background: Scale of the Challenge**

Save the Children's recent findings in the 'It Shouldn't Happen Here' report that 14 % children in poverty say they go without a winter coat and 13 % have stopped asking their parents for anything at all.<sup>1</sup> These findings help convey the reality of children's experiences of poverty in a way numbers do not. However the underlying truth is that low income and inequality matter.

In considering the impact of the proposals it is important to reiterate the extent of the problem:

## **Child Poverty Levels**

Different numbers are used to express how many children are living in poverty but government and the child poverty sector tend to highlight the relative income measure, which is the number of children living in households where household income is below 60% of median income. This is known as the headline measure of child poverty. The figures are derived from the government survey – the Households Below Average Income (HBAI) dataset of the Family Resources Survey.

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<sup>1</sup> Whitham, G., *It shouldn't happen here*, Save the Children, September 2012, available at: [http://www.savethechildren.org.uk/sites/default/files/documents/child\\_poverty\\_2012.pdf](http://www.savethechildren.org.uk/sites/default/files/documents/child_poverty_2012.pdf)

The latest figures show that 21% of children in Northern Ireland were living in relative poverty in 2010/11.<sup>2</sup>

In Northern Ireland, 21% of children live in persistent child poverty, which is more than double the GB rate.<sup>3</sup> More than 12%, or approximately 50,000 children, live in severe poverty.<sup>4</sup>

### **In-Work Poverty**

Approximately half of children living in relative poverty are in families where one parent is working.

It is well known that Northern Ireland is a low wage economy with median earnings for all employees standing at £18,720 – some 10.9% lower than the UK's £21,008, according to the 2011 Annual Survey of Hours and Earnings. There has been an increase in part-time jobs at the expense of full-time work with the median gross weekly part-time earnings £151.6.<sup>5</sup>

### **Unemployment**

The unemployment rate for the period May – July 2012 was estimated at 8.2% or 71,000, up 10,000 over the quarter. Unadjusted figures show that 45.5% of the unemployed have been unemployed for 1 year or more. The figures represent a rise of almost 20,000 since 2009, with the Northern Ireland jobless level moving above the UK average.

They also estimate the unemployment rate for 18-24 year olds at 23.5% – up 5.2 percentage points over the year.<sup>6</sup>

### **Rising Cost of Living**

These cuts are happening at the same as higher living costs, with utility bills in Northern Ireland up by £800 and the average cost of a shopping basket up by 18% since 2008. It is calculated that an average household in Northern Ireland will need to spend an extra £3,500 just to pay the bills compared to four years ago, thus threatening to push more children into poverty.<sup>7</sup>

### **Rising Income Inequality**

Income inequality is predicted to increase by 2020 across the UK. According to the recent Resolution Foundation report, living standards for working age households in 2020 are likely to be substantially lower for those in the bottom distribution, with modelling suggesting a decline in real terms income of around 19% for households reliant on benefits.<sup>8</sup> Only higher income households

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<sup>2</sup> NISRA, 'Poverty in Northern Ireland: 2010/11', available at:

[http://www.dsdni.gov.uk/ni\\_poverty\\_bulletin\\_2010-11\\_release\\_document.pdf](http://www.dsdni.gov.uk/ni_poverty_bulletin_2010-11_release_document.pdf)

<sup>3</sup> Monteith, M., Lloyd, K., McKee, P. *Persistent Child Poverty in Northern Ireland*. Save the Children, ARK and ESCR, 2008

<sup>4</sup> *Delivering Change for Children*, Save the Children, June 2012

<sup>5</sup> NISRA, Monthly Labour Market Report, Department of Finance and Personnel, September 2012, available at: [http://www.detini.gov.uk/labour\\_market\\_report\\_-\\_september\\_2012\\_final.pdf](http://www.detini.gov.uk/labour_market_report_-_september_2012_final.pdf)

<sup>6</sup> NISRA, Monthly Labour Market Report, Department of Finance and Personnel, September 2012, available at: [http://www.detini.gov.uk/labour\\_market\\_report\\_-\\_september\\_2012\\_final.pdf](http://www.detini.gov.uk/labour_market_report_-_september_2012_final.pdf)

<sup>7</sup> McNeilly, C., 'Revealed: how weekly grocery bills have soared in four years', *Belfast Telegraph*, 22 August 2012, available at: [www.belfasttelegraph.co.uk/news/local-national/northern-ireland/revealed-how-weekly-grocery-bills-have-soared-in-four-years-16200579.html](http://www.belfasttelegraph.co.uk/news/local-national/northern-ireland/revealed-how-weekly-grocery-bills-have-soared-in-four-years-16200579.html)

<sup>8</sup> Resolution Foundation, *Who Gains from Growth? Living standards in 2020*, September 2012

see income growth for the decade ahead. It is to be noted that these forecasts are based on modest growth and assume no further cuts to welfare spending.

The report suggests that several factors account for the stark figures, including a loss of middle level jobs and the planned indexation of benefits to the Consumer Price Index rather than the Retail Prices Index measure of inflation, which will result in a lower standard of living for many households, especially those with children.

Predictions suggest child poverty levels could soar to 34% unless there is progressive intervention.

### **Budget and Welfare Cuts**

The 2010 emergency June budget and the October Comprehensive Spending Review (CSR) made a number of changes to welfare benefit, adding to those already announced by the previous government. By 2014-15, it is estimated that spending on benefits across the UK will be £18b less than it is now (in cash terms). The loss to Northern Ireland's benefit recipients will be more than £600m per year by 2014-15.<sup>9</sup>

Moreover, the June 2010 budget and October CSR reduced the block grant to NI by almost £4b, with anticipated heavy job losses in the public sector. Significantly more women in Northern Ireland are employed in low-paid public sector jobs. As such, women will bear the brunt of these public spending cuts, with subsequent devastating impact on the life chances of their children.

The Institute of Fiscal Studies (IFS) established that after London, Northern Ireland will be hardest hit by the impact of tax and benefits changes planned up to 2014-2015. In a report commissioned by the Law Centre NI, the IFS attributed this to two reasons: the high numbers of those in receipt of DLA, especially for mental health disorders, and the high number of families with children who will be adversely affected by cuts to social security.<sup>10</sup>

It is proposed that Universal Credit will be paid monthly as a single payment to one household member designated as 'main applicant', with findings that this will be the man in most families. As well as setting back women's economic independence by generations, the proposal is likely to lead to less money being spent on children. Evidence shows that more money is spent on children via the 'purse' compared to money spent from the 'wallet', particularly in low income households.<sup>11</sup>

### **Government Obligations**

The scale of the challenge would suggest that urgent action is required by the Executive, which has a number of obligations to protect the welfare and best interests of children.

Ministers have a statutory obligation to meet the targets set by the Child Poverty Act 2010, which are reiterated in the Programme for Government 2011-15. The Executive has also agreed the need for an outcomes- based child poverty action plan and an overarching Delivering Social Change framework across all departments. Further, the right to an adequate standard of living is enshrined in the UNCRC.

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<sup>9</sup> Tomlinson, M. and Kelly, G. *Response to Northern Ireland's draft budget, Poverty and Social Exclusion in the UK Project*, 2011

<sup>10</sup> Browne, J. *The Impact of tax and benefit reforms to be introduced between 2010-11 and 2014-15 in Northern Ireland*, IFS Briefing Note 114, December 2010

<sup>11</sup> McKay, A., Thomson, E., and Ross, S. *Child Poverty and Mothers' Employment Patterns*, Women in Scotland's Economy Research Centre and Save the Children Scotland, September 2012

## **Save the Children's Concerns and Recommendations:**

We know that families are feeling the strain of financial hardship and that children are worried about these pressures. We recommend the following as opportunities to mitigate this hardship for the most vulnerable children in our society and to fulfil the obligations under the UNCRC and the Child Poverty Act. We argue that the operational flexibilities suggested below can only happen if DWP and HMRC are pressed to design a multi layered IT system.

### **Making Work Pay?**

It is time to challenge the argument that these reforms will make work pay and that people will always be better off in work.

Modelling work carried out on behalf of Save the Children shows that Universal Credit could have negative impacts on work incentives for many low-income families, especially lone parents working over 16 hours and second earners.<sup>12</sup> The UK government's own impact assessment concludes that 2 million households (including 1.1 million with children) will have lower entitlements.<sup>13</sup>

Save the Children research found that most single parents working 16 hours or more a week will be worse off. A single parent with two children, working full-time on or around the minimum wage, could be as much as £2,500 a year worse off under the new system.<sup>14</sup>

The UK government acknowledged that under Universal Credit couple households will have one shared earnings disregard, resulting in second earners' universal credit payments reducing as soon as they start working. This will weaken work incentives for many second earners and lead to fewer women moving into work. This has potential negative consequences for child poverty because the risk of poverty is reduced by both parents being in work.

The other side of the equation is the importance of work that pays in the first place. It is known that approximately half of all children in poverty live in families where one parent is working, due to the low wage economy and rising income inequality.

We would highlight the strong correlation between child poverty levels and women's employment and income; as a result of recession and austerity measures, women's position in the labour market and their income are decreasing.

We recommend that the Executive:

- Identify the number of Northern Ireland children who will be affected by the lower entitlements
- Press the UK Government for a reduced taper rate and sufficient earnings disregards for second earners so that more working mothers and lone parents see the material benefit of work.
- Incorporate learning from Ofmdfm's mini-job child poverty reduction initiative about the earnings disregard, childcare and other barriers to employment.
- Encourage better pay for low income earners and do considerably more to reduce the barriers to making work pay, especially for mothers.

<sup>12</sup> Whitham G., *Ending Child Poverty: Ensuring Universal Credit supports working mums*, Save the Children, 2012

<sup>13</sup> Department for Work and Pensions, *Welfare Reform Bill Universal Credit: Equality impact assessment*, November 2011, available at: <http://dwp.gov.uk/docs/eia-universal-credit-wr2011.pdf>

<sup>14</sup> Whitham G., *Ending Child Poverty: Ensuring Universal Credit supports working mums*, Save the Children, 2012

## Childcare

Access to affordable, good quality childcare is a key element in a parent's decision to take up and remain in work. The success of Universal Credit in Northern Ireland in meeting the stated aim to make work pay will depend on the provision of adequate, affordable and quality childcare – which should therefore be considered an economic priority.

At the moment, Families in Northern Ireland are paying 45% of their income for childcare for one child, which is the highest amount in Europe. <sup>15</sup>Until recently, low –income working parents could claim support for up to 80% of childcare costs through the childcare element of working tax credit. This was cut to 70% from April 2011, resulting in some families losing as much as £1500 a year. Save the Children research shows that many low income mothers are considering leaving work because they can't afford childcare. <sup>16</sup>

We therefore ask two things:

- for a progress report on the childcare strategy;
- for consideration of support with childcare costs.

For example, the Executive could cost the option of restoring the 10% cut to childcare tax credit within Northern Ireland and budget to meet this shortfall to cover a minimum 80% of childcare costs for all low-income mothers. Perhaps the Social Protection Fund could support this cost.

## Lone Parents

The current GB welfare provisions impose greater conditionality on lone parents, with the possibility of punitive sanctions, including the withdrawal of benefits from 3 months to 3 years. Previous welfare reforms applied in GB were not transferred to Northern Ireland because an adequate childcare infrastructure does not exist. For example, compared to every fortnight in GB, lone parents in Northern Ireland currently sign on for work-focused interviews every 13 weeks.

Given the lack of progress in childcare provision since these exemptions were made, we ask:

- The Executive should not transfer additional conditionality and sanctions to lone parents in Northern Ireland without ensuring childcare provision and support is available.

## Housing

Northern Ireland's history of direct payment of housing benefit to landlords assists tenants to remain current in payments, even during periods of financial strain. This system supports families and their children as well as the landlords who receive consistent payment. We would also point to the apparent contradiction between two competing priorities – between the need for housing associations to build more social housing and the control of housing benefit levels which will reduce the amount of investment.

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<sup>15</sup> Employers for Childcare, Northern Ireland Childcare Survey 2011, <http://www.employersforchildcare.org/report/archive/2011>

<sup>16</sup> Whitham, G. 'Ending Child Poverty, Ensuring Universal Credit supports working mums', Save the Children 2012

A £30m allocation for discretionary housing payments to foster carers and families with a disabled child was recently announced by the Coalition Government. Clarity is required about whether and how similar discretionary housing payments could be developed in Northern Ireland.

Save the Children recommends:

- Retention of the facility of direct payments of the housing benefit element of universal credit to landlords.
- Social housing deemed to be under-occupied, but has children living there, should be exempt from a reduction in housing benefit.
- Households with children should be exempt from moving to cheaper housing until it is clear that suitable properties are available in the thirtieth percentile of rents. Northern Ireland Housing Executive Stock contains a large proportion of homes which are three bedrooms or more and remain significantly single identity estates.

### **Discretionary Support Policy**

Save the Children research shows that due to lack of access to affordable credit, low income families pay more for their basic goods and services than better-off families, with the calculation that this annual 'poverty premium' amounted to more than £1280 in 2010.

In light of added pressures since 2010 due to job losses, rising costs and the transition to universal credit, Save the Children shares the concerns of others in the sector that the funding will be inadequate to meet the level of need.

Under the proposed Discretionary Support Policy, the Social Fund's crisis loans and community care grants will no longer be treated as 'social security' and their reform will result in the development of a new fund, representing a transfer from Annually Managed Expenditure to the block grant. The proposed policy will also include the Discretionary Housing Payments (DHPs) that are currently delivered through the housing benefit system.

These funds have provided a much needed source of help for families with no access to other loans or credit. DSD research shows the extent of demand – 2010/11 saw 48,000 applications for Community Care Grants totalling £13.75m and 159,000 applications for Crisis Loans totalling £16.41m. More than half of the awards of Community Care Grants are to lone parents. Discretionary housing payment amounts to approximately £3m a year.

We therefore recommend clarity about:

- the budget allocation from the Coalition Government given the need for additional funding for set-up and administration costs.
- the role of the Social Protection Fund.
- ring-fencing the new fund's budget allocation and the separation of the housing element.
- an appropriate appeals process.

We recommend further that:

- DSD take the opportunity to link the replacement scheme to the financial inclusion strategy and reform of credit unions to ensure a more holistic approach to advice services, benefit uptake and access to financial services.

- DSD make the link between the early warning signs provided by applications to emergency payments and the continuum of support available from other agencies including the Children and Young People's Strategic Partnership and the Social Investment steering groups.

## **Disability**

There is a higher incidence of disability in NI than anywhere else in the UK, with 21% of adults and 6% of children having a disability here.<sup>17</sup> Given this higher number, it is accepted that these changes to the welfare system will affect disabled people here disproportionately.

Research shows that disabled children and children with disabled parents are more likely to be severely poor and more at risk of persistent poverty.<sup>18</sup> Furthermore, child poverty rates are underestimated by up to 3% due to the lack of recognition of the cost of disability in the current HBAI survey methodology. The cost of bringing up a disabled child is estimated as being at least three times as much as bringing up a non-disabled child.

The NI Commissioner for Children and Young People (NICCY) has recommended the establishment of an expert group to examine the work capability and Personal Independence Payment (PIP) assessments in order to take into account the particular issues of a region emerging from conflict where the high levels of mental ill health are severely exacerbated by PTSD.<sup>19</sup>

Under the current system, families who are on a low income or out of work and who have a child in receipt of Disability Living Allowance (DLA) are entitled to a 'disability addition' worth £53.62 per week. Families with a child in receipt of the high rate care component of DLA also receive a 'top up addition' worth an additional £21 per week. Under the new system, most families will receive an addition worth less than 50% the current rate, although some severely disabled children will avoid this cut. The changes are likely to cost families up to £1366 a year.

Save the Children recommends:

- The NI Executive should take every step to explore opportunities to introduce protective measures that will mitigate the impacts of welfare reform on disabled children.

## **Best Interests of the Child in Universal Credit**

We suggest that the best interest of the child principle should be the organising principle for assessing policy variations and on this basis we suggest the following:

- Designate the person with main caring responsibilities as the main applicant for universal credit.
- Provide choice of payment method rather than enforced monthly payment. While we welcome the recent statement by the Secretary of State that fortnightly benefit payments will continue for some claimants, we would argue that this should be a matter of choice for all.

<sup>17</sup> DHSSPS, *Physical and Sensory Disability Strategy and Action Plan 2012 – 2015*, DHSSPS, 2012

<sup>18</sup> Monteith, M., Casement, E., Lloyd, K., McKee, P. *Taking a closer look; child poverty and disability*. ARK, Family Fund and Save the Children, 2009

<sup>19</sup> Horgan, G., Monteith, M. *Welfare Reform Making Children Visible*, NICCY, 2012

- Retain existing exemptions that protect lone parents' children from the obligation on their parents to undertake employment or work-related tasks that are not in the best interests of the child.

### **Establish an Expert Working Group**

We have recommended exceptions in payment frequency, exemptions for lone parents and for certain groups in housing provision. We share the concern of many in the sector that the transition to on-line applications represents a fundamental problem with the design of universal credit - due to lack of broadband in many rural areas and the limited access of low income families to the internet across Northern Ireland. In light of the NICCY suggestion to establish an expert group to examine the PIP assessments in order to take into account the particular circumstances of a country emerging from conflict where the high level of mental ill health are exacerbated by PTSD, we suggest that this group should be expanded to examine the additional recommendations above.

### **Demonstrate how the proposals contribute to ending child poverty**

As a first step the draft legislation and forthcoming regulations should be assessed against the obligations under the UNCRC and Child Poverty Act, including how departmental decisions will contribute to improving outcomes for children and ending child poverty by 2020. These decisions incorporate funding allocations and spending and we would argue that they must include the Social Investment and Social Protection Funds, as well as the Discretionary Support Policy and forthcoming decisions on passported benefits and rates rebates.

### **Communication strategy**

Given the significance and depth of change to the circumstances of the most vulnerable in our society, we call on the Executive to develop and initiate a robust communication strategy for the public. DSD should begin to communicate accurate details about the proposals in order to provide meaningful information and prepare claimants for the biggest change to the welfare state in 60 years.

### **Conclusion**

We call for government to retain its commitment to the best interests of the child, as established in the UN Convention on the Rights of the Child, to the Child Poverty Act 2010 targets, to encourage employers to pay the living wage, to let parents keep more money before benefits are withdrawn and to provide help with childcare and living costs for low-earners. Despite the sheer scale of the challenge, we argue that it can be done – 89 constituencies in UK have already met the headline target for 2020 by having child poverty rates of 10% or lower.<sup>20</sup>

The economic meltdown was not caused by the poorest families and their children – growing consensus agrees that it was caused by the huge increase in income inequality. It is a scandal that they are being asked to bear the brunt of austerity cuts and the recession. There is further consensus that the financial shock has led to private, corporate and public deleveraging with a resulting lack of demand which is holding back economic recovery. This points to the 'business case' for providing low income families with additional financial support which they are more

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<sup>20</sup> [http://www.lboro.ac.uk/service/publicity/news-releases/2012/02\\_Child-Poverty.html](http://www.lboro.ac.uk/service/publicity/news-releases/2012/02_Child-Poverty.html)



inclined to spend locally. This in turn will help kickstart the economy and create the foundations of a more equal and cohesive society.

All the research shows that unequal societies are likely to lead to more social distress, social unrest, ill health and economic decline. It took a lot of effort to end the most recent Troubles – the Assembly must make the effort commensurate with the challenge to ensure they never happen again. We suggest priority must be given to boosting benefits and low wages, improving skills and raising women's employment.

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