



“Pushed towards poverty - 21 welfare cuts For low income working families”

An analysis of the impact of Welfare Cuts announced in the Comprehensive Spending Review on Low Income Working Families

The Government have made much of the importance of ensuring sufficient financial support is provided to low income working households. In the first paragraph of the recent “21st century welfare” paper, the Government stated:

“We want to support people to move into and progress in work, while still supporting those in greatest need.”¹

However, contrary to this assurance, a wide range of welfare reform announcements have been made across the emergency budget in June, and the Comprehensive Spending Review, which will substantially cut many benefits paid to low income working families. When combined with the budget, we have identified as many as 21 key welfare cuts which will affect these households.

This paper briefly summarises the welfare and personal taxation changes announced in the CSR and the budget which will affect these families. It also examines in more detail eight key changes announced in the CSR, and explores how these will affect low income working families.

Family Action is extremely concerned that many low income working families with whom we work, will incur substantial losses as a result of these changes. In many cases our work has helped families overcome emotional and financial problems to enable them to return to employment, and we are concerned that the impact of these changes could undermine already low in-work incomes, and, in some cases, could risk leading to families with which we work, finding employment to no longer be sustainable.

¹ Department for Work and Pensions (2010) “21st Century Welfare”

Key findings and figures:

- Analysis indicates that at least 8 welfare cuts announced in the comprehensive spending review directly hurt low income working families. When combined with cuts announced in the budget, the analysis identifies 21 key welfare cuts will hurt the finances of low income working families.
- Changes to eligibility rules for working tax credits could lead to some couples with one person working 16 hours per week losing up to £3810 per year in Tax Credit entitlement. Indications suggest that the changes could leave them *worse off* in than out of work – and push these families into poverty.
- Changes to the eligibility rules for Working Tax Credit also penalise couples, and could discourage stable families.
- Reductions in help with childcare costs through the childcare element of working tax credit could cost working families up to £30 per week - £1560 per year.
- Freezing entitlements to Working Tax Credits, could lose low income working households £153 from their Working Tax Credit entitlement next year relative to uprating WTC elements with current RPI. By 2013/14 this could increase to £483.
- Making Education Maintenance Allowance and (potentially) Council Tax Benefit discretionary locally managed funds, could lead to low income working households losing eligibility to these important benefits.
- Changes to the contributory Employment and Support Allowance could lead to income losses of up to £91.40 per week for couple households where one member is working, and where the other is too ill to work. The changes could lead to households such as this being pushed into poverty.
- Extending the age threshold for the shared room rate for Housing Benefit will push many low income working households into severe low income poverty. One example shows that single person aged 30, working 30 hours per week and living in an average price privately rented studio flat (£107 per week), could see their income after housing costs fall from £111 per week, to just £75 per week.

1) About Family Action

Family Action has been a leading provider of services to disadvantaged and socially isolated families since 1869. We work with over 45,000 vulnerable families and children a year by providing practical, emotional and financial support through over 100 community-based services across England. Additionally in 2009-2010 we distributed 4,218 grants totalling over £1,104,883 to families and individuals in financial hardship throughout the UK. Family Action won the 2009 Charity Awards Foundation award for effectiveness and jointly with CAB, Gingerbread and our sponsors Barclaycard the 2010 Third Sector Award for best corporate partnership for Horizons, an integrated welfare advice, training and educational grants package for lone parents. Find Family Action on the Web at www.family-action.org.uk.

Family Action works with vulnerable families in the home, providing early intervention services that strengthen families, assisting them to take more responsibility for their lives, parent their children, where appropriate, helping them to move towards employment. The changes overviewed in this paper would make that job harder by undermining the financial security of working families.

We are very happy to further discuss any aspect of this briefing. To contact us please e-mail sam.royston@family-action.org.uk or telephone 02072 417604.

2) Summary of welfare and personal taxation changes announced in the CSR and the budget, which affect low income working households

The CSR and the budget have announced three key changes to welfare and personal taxation which will help low income working families. These changes include

1) Above indexation increases in the child element of Child Tax Credit (CSR and June Budget)

The Government has announced that in 2011/12 the child element of child tax credit will increase by £180 per year above indexation, and by £110 in 2012/13.

*Taking into account changes in indexation, this change is worth an additional £145 per child per year in 2011/12, increasing to an additional **£224 per child** per year by 2012/13.*

2) Increases in the income tax personal allowance by £1000 in 2011/12 (June Budget)

In the budget, the Government announced plans for the income tax personal allowance to increase by £1000 to £7475 in 2011-12. This change will affect households with a worker earning above the current income tax personal threshold of £6475.

*This will gain single worker households up to **£200 per year**, and households with two workers up to **£400**.*

However, as well as these gains, the Government has also announced at least 21 welfare cuts which will affect low income working households. In many cases, these will leave working families worse off overall. The changes include:

1) changing the eligibility rules so that couples with children must work 24 hours a week between them, with one partner working at least 16 hours a week in order to qualify for the WTC (CSR)

This cut will affect low income working couples with children working 16-23 hours per week who can currently claim WTC.

*Households could lose up to **£3810** per year² as a result of this change.*

2) reducing the percentage of childcare costs that parents can claim through the childcare element of the Working Tax Credit (WTC) from 80 per cent to its previous 70 per cent level, (CSR)

This cut will affect working Lone Parents, and couples where both partners are in work, who currently claim help through the childcare element of WTC.

*Households could lose up to **£1560** per year as a result of this change.*

3) freezing the basic and 30 hour elements of the WTC for three years from 2011-12 (CSR)

This cut will affect all in-work households claiming Working Tax Credit.

*Households could lose **£483** per year by 2013/14 as a result of this change (and uprating other elements of WTC with CPI rather than RPI), compared to what their entitlement could be if all WTC elements were uprated with RPI³.*

4) Allow social landlords to charge new tenants a weekly rent at between social and market rates for as long as individual circumstances require it. (CSR)

This change will affect in-work households with incomes too high to receive housing benefit.

² Compared to 2010/11 entitlements.

³ Based on extension of September 2010 RPI and CPI rates.

The impact of this change will vary according to rental prices.

5) Changes to Council Tax Benefit (CSR)

The impact of this change is unclear – the CSR says “The Government will reduce spending on Council Tax Benefit by 10 per cent and localise it from 2013-14 while protecting the most vulnerable”. Does this mean they will make it discretionary? If so, then in-work households could lose out.

The potential impact will vary by local council tax rates.

6) Replacement of Educational Maintenance Allowances with locally managed discretionary funds (CSR).

This change could impact on in-work households if their income is considered too high to gain entitlement to EMA as a discretionary fund.

*If working households lost access to EMA this could lose them up to **£30 per week**.*

7) Removal of contributory Employment and Support Allowance after 1 year. (CSR)

This cut will affect couples where one partner is in work and the other is ill and in receipt of ESA. This couple could now lose their support through ESA after one year.

*This could cost working households up to £91.40 per week - **£4766 per year***

8) increasing the age threshold for the Shared Room Rate in Housing Benefit from 25 to 35 (CSR)

This cut will affect working single people between 25 and 35 who are in receipt of Housing Benefit and are currently in privately rented one bedroom accommodation. These people will receive a shortfall on their Housing Benefit.

*Losses will vary depending on rents. However, according to DWP, average maximum Housing Benefit entitlement for a one bed property is £107 per week, and for a room in a shared house, is £69 per week. This would give a loss in income of up to **£38 per week** for a person living in a one bedroom flat, and unable to move to a room in shared accommodation.*

9) From April 2011, Local Housing Allowance Rates will be capped at £250 per week for a one bedroom property, £290 per week for a two bedroom property, £340 per

week for a three bedroom property and £400 per week for four bedrooms (June Budget)

This cut announced will affect working households who are in receipt of the Local Housing Allowance, and with currently eligible rents in excess of the housing benefit caps.

(See 10 for the impact of this change)

10) From April 2011, the five bedroom Local Housing Allowance rate will be removed so that the maximum level is for a four bedroom property (June Budget).

This will affect large working families who live in 5 bedroom properties and are in receipt of Local Housing Allowance.

*The DWP estimate the average loss per household affected by the previous two cuts to be £74 per week - **£3859 per year***

11) From October 2011, Local Housing Allowance rates will be set at the 30th percentile of local rents. (June Budget)

This will affect working families in receipt of the Local housing Allowance.

*DWP estimate that the average loss per household affected by this cut will be £9 per week - **£469 per year.***

12) uprating Local Housing Allowance rates by CPI from 2013-14 (currently uprated with local rents) (June Budget)

This will also affect working families in receipt of the Local Housing Allowance. The impact of this change will increase over time.

The impact of this change will depend on how rental prices increase relative to CPI. However, according to Shelter, between 1997/98 and 2007/08, average rents increased by 70%, but over the same period CPI increased by only 20%⁴.

13) Freezing child benefit rates for three years from 2011-12 (June Budget)

This will affect all households with children eligible to receive child benefit, including low income working households.

⁴ <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmworpen/memo/hb/hb72.htm>

*This could lose a household with two children around **£250 per year** by 2013/14, compared to uprating with RPI.*

14) From April 2012, a disregard of £2,500 will be introduced in the tax credits system for in-year falls in income. (June Budget)

This cut will hurt many low income working households whose income falls (e.g. a member of the household loses their job or has their hours reduced.)

*This cut could reduce household tax credit entitlement by up to **£975 per year affected.***

15) From April 2011, the level of in-year rises of income that will be disregarded from calculations of tax credit entitlement will decrease from £25,000 to £10,000 and from April 2013, this will be decreased further to £5,000. (June Budget)

This cut will affect low income working households who receive a substantial increase in earnings (for instance an additional member of the household enters work and earns more than £5000 per year.)

*This cut could reduce household tax credit entitlement by up to **£7800 per year affected.***

16) Increase the First and second withdrawal rates on Tax Credits to 41% from 2011-12 (June Budget)

This will affect low income working households in receipt of Tax Credits, with earnings above the Tax Credit income threshold.

This will reduce household tax credit entitlement by £20 for each £1000 working households entitled to working tax credit earn over the tax credit income threshold of £6420 per year.

17) Removing the baby element from Child Tax Credit from 2011-12 and reversing the supplement for children aged one and two from 2012-13 (June Budget)

This will affect low income working households with a baby and low income working households with a child aged one or two.

*The baby element is currently worth **£545 per year**. The planned Toddler element would have been worth £4 per week (**£209 per year**).*

18) Remove the 50 plus element in Working Tax Credit from 2012-13 (June Budget)

This cut will affect people over 50 who return to work from benefits. The 50 plus element is currently worth up to £1965 per year.

19) Sure Start maternity grant applies to first child only from 2011-12 (June Budget)

This will affect low income working families who have a second or further child – This is a loss equivalent to £500 per child.

20) Adopting the CPI for the indexation of benefits and tax credits (June Budget)⁵

This cut will affect all in-work households claiming in-work benefits which are affected by the changes (eg Tax Credits, and from 2013-14 Housing Benefit.)

The impact of the change will vary according to household benefits received.

21) Increasing VAT from 17.5% to 20% from January 2011 (June budget)

This tax change will affect all households, but low-income households will be disproportionately affected.

The impact of the change will vary according to household spending.

⁵ It should be noted that the previous Government announced a claw-back of 1.5% against RPI uprating for the year 2011/12 for some (not all) benefits, as a result of above inflation increases for the year 2010/11.) This change is not taken into account in the calculations in this paper which assume standard RPI uprating because of the complexity of doing so. As a result some cuts based on changes in uprating mechanisms may be slightly smaller than the figures given when compared to previous Government policy rather than compared to standard RPI uprating.

3) Analysis of individual changes from the comprehensive spending review:

i) Changing the eligibility rules so that couples with children must work 24 hours a week between them, with one partner working at least 16 hours a week, in order to qualify for the WTC

- *This change will impact on low income working couples with children who are working 16-23 hours per week and who can currently claim WTC.*

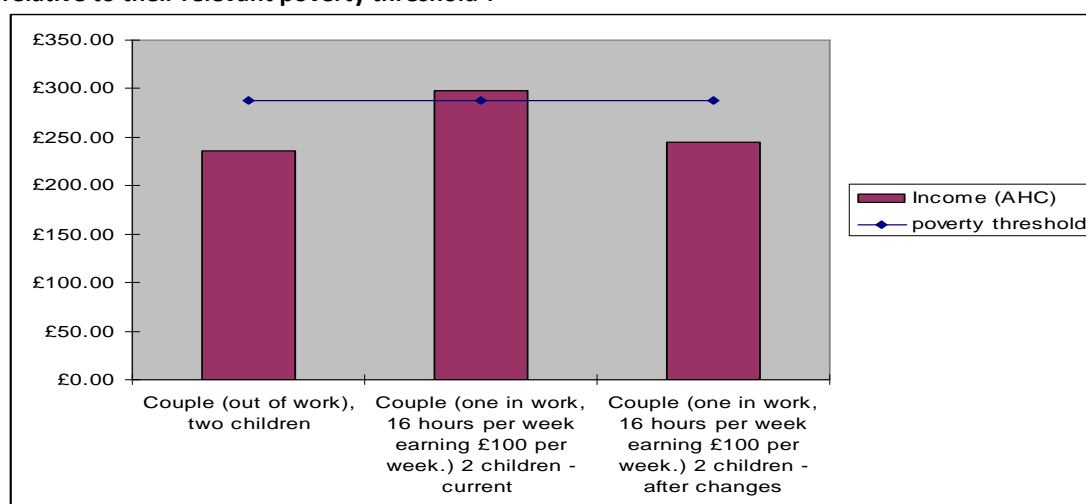
Currently an out of work couple with 2 children (£110pw rent, £15 Council Tax) have an income of £235.29 after housing costs. If one moves into work of 16 hours, with £100 income, their earnings after housing costs go up to £297.53 – the result of a combination of increased earnings, and through additional entitlement to Working Tax Credit.

However, after changes to eligibility to WTC, their income would be reduced to **£245.29** – losing them more than £52 per week.⁶

This means that in work of 16 hours they would only be better off by £10 compared with out of work. After they face the additional costs of their work (such as travel costs) they could be worse off overall in work.

As can be seen in the chart, the changes could also move this family below their current equivalised poverty threshold of £288.40.

Chart 1: After Housing Cost income for couple with 2 children (£110pw rent, £15 Council Tax) out-of-work and in-work of 16 hours before and after the changes. The chart indicates their income relative to their relevant poverty threshold⁷.



⁶ Some low income households could lose as much as £3810 per year as a result of the change (£73 per week).

⁷ Equivalised poverty threshold for couple with two children aged under 14 is £288.40 after housing costs (based on HBAI 2008/09 and using OECD companion scale to equalise AHC results.)

ii) reducing the percentage of childcare costs that parents can claim through the childcare element of the Working Tax Credit (WTC) from 80 per cent to its previous 70 per cent level.

- *This change will affect working families who are in receipt of the childcare element of Working Tax Credit. It will particularly affect households who are not entitled to Housing Benefit, so do not receive additional support through this benefit.*

A Lone Parent with two children aged 1, working 30 hours per week and earning £200, with childcare costs of £200, and council tax of £15 (but with no rent costs since she owns her own home outright), would currently have an income after housing costs of just over £315 per week.

After the introduction of changes to the calculation of childcare costs, this will reduce to just over £299 – a loss of £16.

Families could lose as much as £30 per week from their childcare tax credit entitlement (based on maximum eligible childcare costs of £300 per week.)

Households which are entitled to Housing Benefit will be less affected by the changes. For example, a Lone Parent with two children aged 1, working 30 hours per week and earning £200, with childcare costs of £200, and with rent of £80 and Council Tax of £15, currently has an income of £281.54 after housing costs.

Following the reductions in help with childcare costs announced in the budget, this will reduce by just £3 to £278.55.

Summary of impacts for different combinations of benefit receipt:

- ***For households in receipt of Housing Benefit and Council Tax Benefit, for each £100 of childcare costs, the change will lose these families £1.50***
- ***For households in receipt of Housing Benefit, for each £100 of childcare costs, the change will lose these families £3.50***
- ***For households in receipt of Council Tax Benefit, for each £100 of childcare costs, the change will lose these families £8***
- ***For households in receipt of neither Housing Benefit nor Council Tax Benefit, for each £100 of childcare costs, the change will lose these families £10, (families with £300 per week of childcare costs could therefore lose £30 per week.)***

iii) freezing the basic and 30 hour elements of the WTC for three years from 2011-12 (and uprating other elements with CPI rather than RPI)

- *This change will affect all households in receipt of Working Tax Credit. In the annual year to September, RPI was 4.6% and CPI 3.1%.⁸*

At present the basic rate for WTC is £1920 and the 30 hour element is £790. If increased by RPI of 4.6%, in 2011/12, the basic rate would be worth £2008 (an increase of £88), and the 30 hour element would be worth £826 (an increase of £36). At the same rate, by 2013/14, the basic rate would be worth £2197, and the 30 hour element would be worth £904.

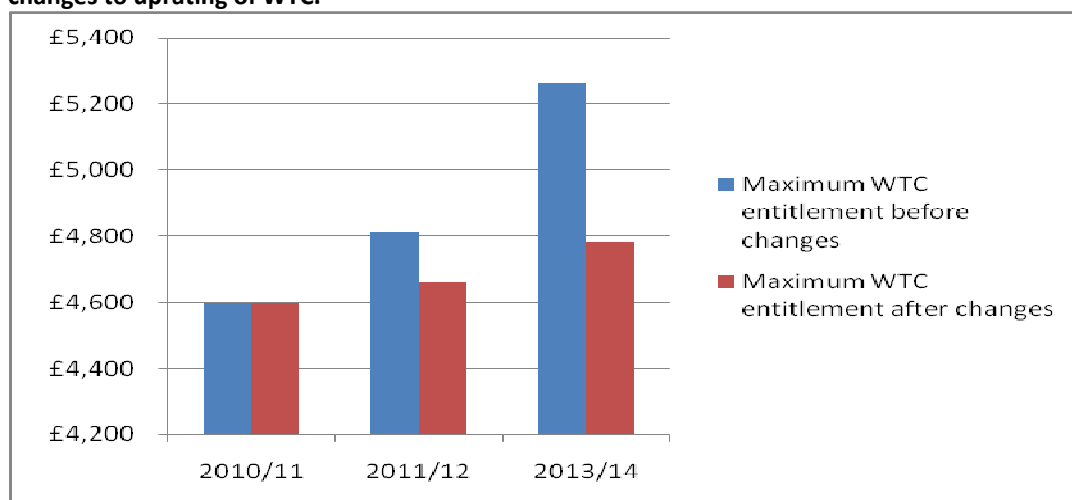
The couple/ lone parent rate (currently worth £1890 per year) will still be uprated, however, following the June budget announcements, this element will be uprated by CPI rather than RPI.

A couple with no children and no disabilities, would currently have a maximum entitlement to working tax credit of £4600. Based on uprating the value of all elements of WTC based on current RPI, their entitlement next year would be £4812. Including changes announced to WTC in the CSR and in the budget in June, their actual maximum entitlement to WTC will be £4659. This is an effective loss of £153 next year.

This widens by 2013/14, when their maximum entitlement would be £5264 (were RPI maintained at 4.6% for the following 2 years). This compares to an entitlement of £4781 if basic and 30 hour element are frozen, and couple rate uprated by CPI (at 3.1%). This is a loss of £483 per year, compared to freezing WTC at current rates.

The following chart shows how the changes affect maximum Working Tax Credit entitlements for this household:

Chart 2: Maximum working tax credit entitlement for couple with no disabilities, before and after changes to uprating of WTC.



⁸ benefits are uprated based on inflation rate in year to September.

Overall impact of changes to Tax Credits announced in the budget and the CSR

These are not the only changes to the Tax Credit system which were announced in the CSR, and a number of changes were also announced in the budget. To summarise, announced changes to the Tax Credit system include:

- *Freezing of WTC basic rate and 30 hour element for three years from 2011/12 (CSR)*
- *Removal of the baby element (from 2011/12) and the toddler element (from 2012/13) of CTC (June budget)*
- *Uprating of CTC child element by £180 above CPI increases in 2011/12, and by £110 above CPI in 2012/13 (June budget + CSR)*
- *Increase in Tax Credit tapers from 39 to 41% from 2011/12 (June budget)*
- *Tapering away Family Element of CTC immediately after other elements, and at taper rate of 41% from 2012/13 (June budget)*
- *Increase all other elements by CPI rather than RPI from 2011/12 (June Budget) (in calculations, RPI assumed at 4.6% and CPI 3.1% based on inflation for year to September 2010. CTC family element and baby element is not uprated in either scenario, since this has not been uprated for a number of years)*
- *Reduction in entitlement to assistance with childcare from 80% to 70% from 2011/12 (CSR)*
- *Changes to the income disregards for Tax Credits (changes beginning in 2011/12).*

Some out of work households with children will benefit overall next year because of the increases in the child element of child tax credit. This change is worth £145 per child in 2011/12 (the £180 increase above CPI indexation, minus the difference between RPI and CPI rates.)

However, not all out-of-work families will benefit from the changes. In particular, loss of the baby element (worth £545 per year) and the toddler element (which was to be introduced in 2012/13 and was to be worth £209 per year), will outstrip the benefits of the increases in the child element of child tax credit for many families with babies and toddlers.

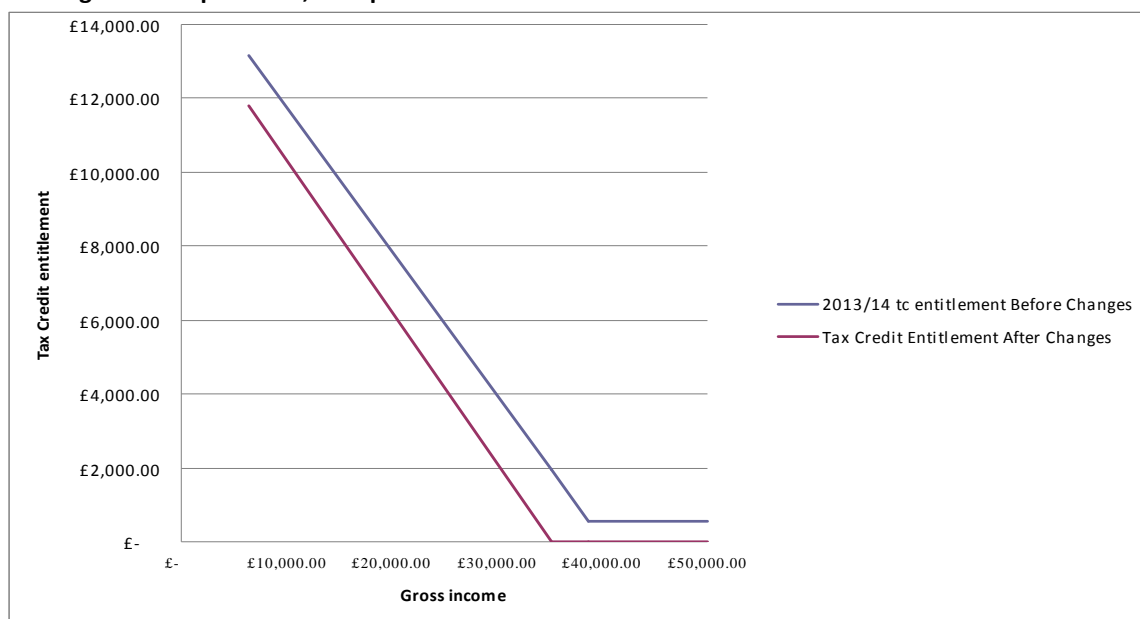
In addition, many low income working families are likely to incur substantial losses from the changes. This is because they will (i) receive less help with their childcare costs (ii) lose out from freezes to the basic rate, and 30 hour element of WTC, and by the uprating of other elements with CPI rather than RPI (iii) lose out as their earnings rise because of the increases in the tax credit tapers from 39% to 41% of gross income.

For instance, a Lone parent, working 30 hours (earning £12420), with 1 child aged 6 months, and £100 childcare costs, could see their tax credit entitlement cut⁹ by around £1190 in 2011/12 as a result of the changes (particularly the changes to help with childcare costs, the removal of the baby element, and the increased tax credit taper rate) relative to what it would be without the Tax Credit changes announced by the Government.

Although the maximum tax credit entitlement for a couple with 2 children aged 5, working 30 hours per week, is higher for 2011/12 after the changes the Government have brought in, it is nearly £100 lower by 2013/14, as a result of the freezes on WTC and because of the changes to indexation of (non frozen) benefits and tax credits by CPI¹⁰.

In addition, as incomes increase above the income threshold, the gap between tax credit receipt before and after the changes are widened. The following chart shows the estimated 2013/14 tax credit entitlements for a Lone Parent with 1 child aged 6 months, working 30 hours per week, with £100 childcare costs, and with variable earnings starting from £6420 (therefore receiving maximum tax credit entitlement). The chart indicates that for this family, because of the loss of the baby element of CTC, and because of reduced help with childcare costs, their maximum Tax Credit entitlement is lower after the changes announced by the Government in the budget and the comprehensive spending review. In addition, as a result of the increases in tax credit tapers, as their income increases, the gap between their 2013/14 entitlement before and after the changes widens.

Chart 3: Predicted 2013/14 Tax Credit entitlement for Lone Parent, one child aged 6 months, working 30 hours per week, £100per week childcare costs



⁹ relative to their 2011/12 entitlement without the changes announced.

¹⁰ Estimates of Tax Credit rates for 2013/14 are based on RPI and CPI rates being maintained at September 2010 rates.

iv) Allowing social landlords to charge new tenants a weekly rent at between social and market rates for as long as individual circumstances require it.

- *This change will affect working households moving into housing in the social rented sector.*

Assuming rents are kept below levels eligible for Local Housing Allowance receipt, this measure will almost solely impact on working families, since out of work households, with little savings, will typically be entitled to receive full housing benefit to help with their rent.

Working households could be heavily impacted by this change. For instance, a Lone Parent with 1 child, working 30 hours per week and earning £300 (around £15600 per year), with no childcare costs, £60 per week rent and £15 council tax, currently has an income of **£263.27** after housing costs.

If their rent were to increase to £100 per week, this family's income would reduce to **£235.23** – a loss of around £28.

The higher a claimant's eligible rent¹¹ and council tax, the higher the income point at which they will exit receipt of Housing Benefit. This is illustrated in Table 1:

Table 1: Earnings threshold at which no HB is received for a lone parent with 1 child working over 30 hours, with varying rent

	Threshold at which £0 HB is received.
Lone Parent aged 25, 1 child aged 2, £130 rent	£485 pw (approx)
Lone Parent aged 25, 1 child aged 2, £90 rent	£310 pw (approx)
Lone Parent aged 25, 1 child aged 2, £63 rent	(No HB when working for 30 hours at minimum wage)

As a result of this, this change risks moving families back into receipt of Housing Benefit, and may therefore lead to them incurring very high “marginal tax rates” (the rate of deductions from earnings through tax and benefits incurred on earning an additional £1 of income.)

For instance, for the previous case of a Lone Parent with one child earning £300 per week, with no childcare costs, and council tax of £15 per week:

- Where the rent is £60, earning an additional £1 increases their income from £263.27 to £263.57 (an increase of 30p).

¹¹ ‘eligible rent’ is the amount of a claimant’s rent used for the purpose of calculating their maximum HB (CPAG 2009; p211).

- Where the rent is £100, earning an additional £1 increases their income from £235.23 to £235.34 (an increase of just 11p).

Higher marginal tax rates reduce the financial incentive for working families to progress in work by working longer hours, or by achieving a higher rate of pay.

v) Changes to Council Tax Benefit

- *This change could affect low income working households in receipt of council tax benefit.*

In the CSR, the Government announced changes to the way that families will receive assistance with their Council Tax Benefit.

The details of the changes have not been laid out, – the CSR only says:

“The Government will reduce spending on Council Tax Benefit by 10 per cent and localise it from 2013-14 while protecting the most vulnerable”.

It is unclear what this means. At the moment, Council Tax Benefit is a non-discretionary, means tested benefit. Out of work families without other income will typically be entitled to full help with their council tax, in-work households on a low income may still be entitled to some assistance, but this will be reduced dependent on income.

The proposal to reduce spending on Council Tax Benefit and to localise spending, raises the fear that, at worst, the changes could create the possibility of Council Tax Benefit becoming a locally administered discretionary fund.

Were this the case, not only could it create the “postcode lottery” which the IFS warn of¹² potentially, it may also penalise low income working families.

The impact of the changes on in-work households will depend upon the eligibility criteria which might be used by local authorities in determining access to Council Tax Benefit. In many cases, eligibility for discretionary benefits depends upon receipt of out-of-work benefits such as Income Support or Job Seekers Allowance. Were this to be replicated for Council Tax Benefit, many vulnerable in work families could lose access to this important benefit. This would reduce their income, and could potentially push such families into in-work poverty.

¹² <http://www.ifs.org.uk/budgets/sr2010/welfare.pdf>

vi) Replacement of Education Maintenance Allowances with locally managed discretionary funds.

- *This change could affect low income working households with a young person aged 16-18 who is currently entitled to EMA.*

The Comprehensive Spending Review has also brought forwards plans to replace the Education Maintenance Allowance with locally managed discretionary funds.

The Education Maintenance Allowance, is a benefit which is paid to young people aged 16,17 and 18 in low income households, to help them to continue with their education.

Like Council Tax Benefit, at present, EMA is not a discretionary benefit, and at present young people in low income working households can claim EMA to help them with to continue with their studies. Entitlement to EMA is means tested as follows:

Table 2: EMA entitlement by household income (from Directgov¹³)

Your household income (financial year 2009-10):	How much EMA your child could get
up to £20,817 per year	£30 per week
£20,818 - £25,521 per year	£20 a week
£25,522 - £30,810 per year	£10 a week
more than £30,810 per year	no entitlement to EMA

As with Council Tax Benefit, as a discretionary locally managed fund, there is a risk that low income working households may lose entitlement, with eligibility restricted to the most vulnerable out of work households. Depending on how the change is implemented, this could again detract from the financial benefits for a household, of someone moving into work.

¹³ http://www.direct.gov.uk/en/EducationAndLearning/14To19/MoneyToLearn/EMA/DG_066951

vii) Removal of contributory ESA after 1 year.

- *This change would affect couples where one is ill and in receipt of Contributory ESA, and where the other is in work.*

The CSR has introduced plans to remove contributory ESA from households claiming the benefit for more than one year.

At the moment, people who have paid sufficient national insurance contributions, and who claim ESA as a result of being too sick to work, are entitled to receive contributory ESA (ESAc). Unlike means tested ESA, household income is not taken account when calculating entitlement to ESAc. This means, in particular, that households with one partner in work, and where the other is too ill to work, can gain some additional income to support their household.

Although some other groups will be affected, this change will largely affect couple households where one partner is in work, and the other is claiming Employment and Support Allowance.

For instance, take a couple, one working 30 hours per week and earning £250, the other receiving contributions based ESA (Work Related Activity Group). Rent £60 per week, Council Tax £15 per week. Their overall income package is as follows:

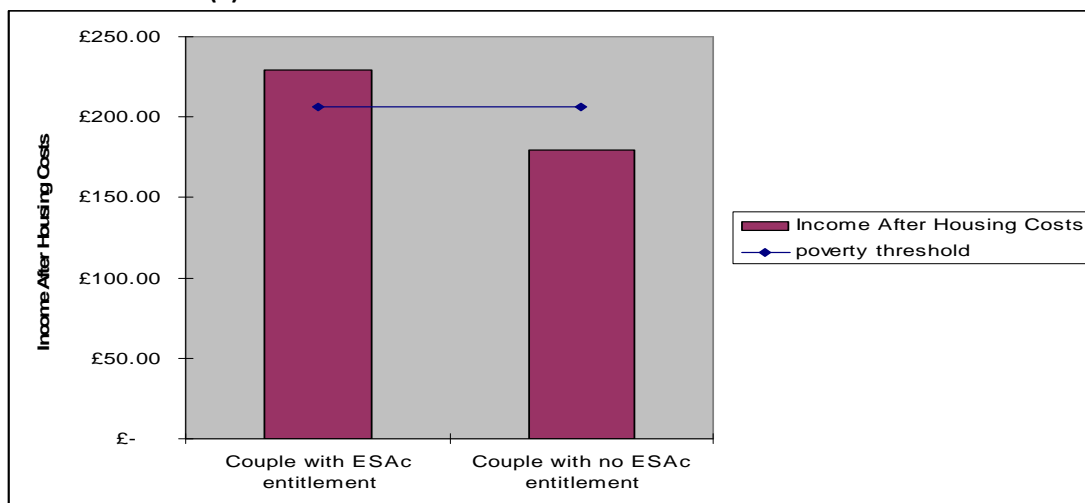
Net earnings	£209.44
Working Tax Credit	£3.22
ESAc	£91.40
Rent	-£60
Council Tax	-£15
Total =	£229.06

However, if the partner who is ill were not entitled to ESAc, their overall income would be reduced as follows:

Net earnings	£209.44
Working Tax Credit	£38.86
Housing Benefit	£6.38
Rent	-£60
Council Tax	-£15
Total =	£179.68

This change loses the couple around £50 per week, and, as illustrated in the chart below, moves them substantially below their equivalised poverty threshold of £206 per week.

Chart 4: Income after Housing Costs for couple (no children), rent £60pw, CT £15 pw, one in work earning £250 per week, the other ill and in one case, entitled to ESA(C) and in the other, with no entitlement to ESA(C)



In this case the household lose £50 because of gains in Tax Credits and Housing Benefit, however for some households, the loss could be as much as £91.40 per week.

viii) increasing the age threshold for the Shared Room Rate in Housing Benefit from 25 to 35

- *This change will affect single people aged 25-35 who are in receipt of Local Housing Allowance, and who are privately renting a property of one or more bedrooms.*

The CSR announced plans to increase the age threshold for the Shared Room Rate in Housing Benefit from 25 to 35. This will affect single people in private rental sector accommodation, who are currently living in a one bedroom property.

At the moment help with rent for a private rental sector property for single people aged over 25 is limited to the average rental price for a one bedroom property in their local area. The change announced in the CSR will mean that single people between 25 and 35 will no longer be entitled to help equivalent to the local average rent of a one bedroom flat, but for a room in shared accommodation.

This will reduce their average maximum help with rent from £107 per week, to £69 per week¹⁴. This will mean that single people between 25 and 35 currently living in one bedroom properties, and who are unable to move to cheaper accommodation, will lose an average of £38 from their maximum housing benefit entitlement.

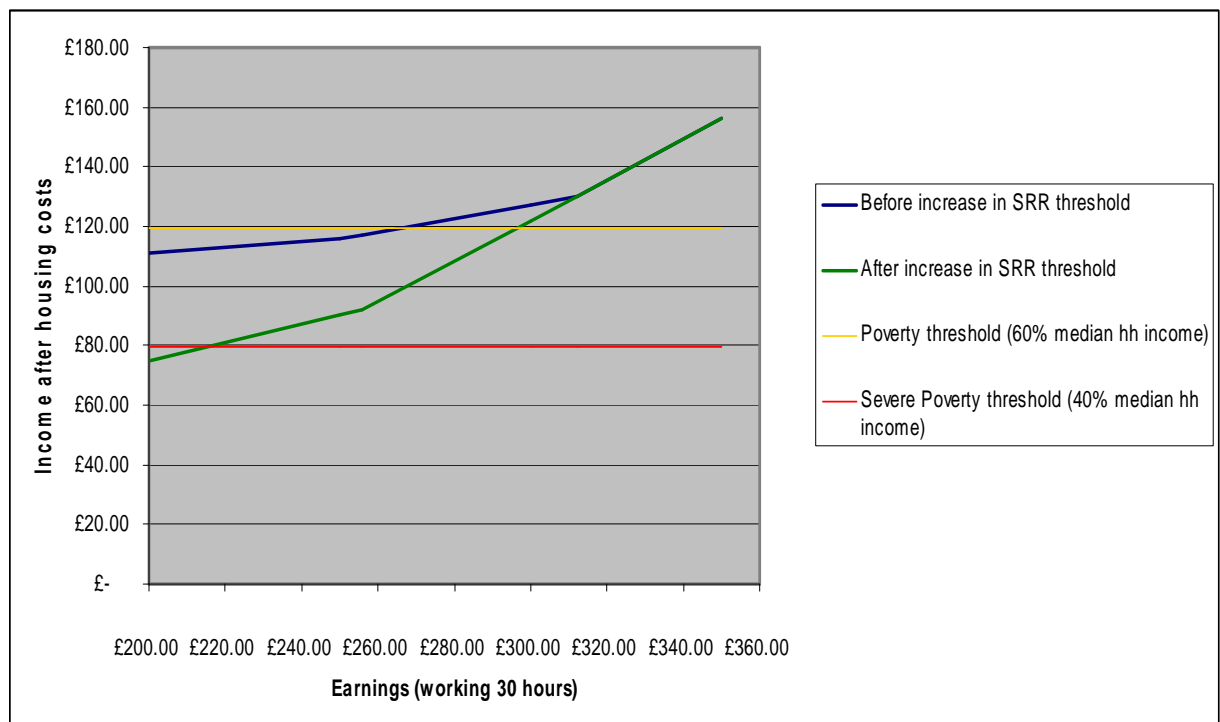
¹⁴ Based on data from DWP (2010) “*impacts of Housing Benefit proposals: Change to the Local Housing Allowance to be introduced in 2011-12*” DWP

Since Housing Benefit is a means tested benefit, claimed by many low income working households, this will severely undermine the disposable income of many low income single working people.

The following chart illustrates the impact of these changes on a low income worker working 30 hours per week, with rent of £107 per week and council tax of £15 per week, and with wages varying from £200 to £350.

The chart shows that working 30 hours per week and earning £200, the household is in poverty both before and after the changes. However, the chart shows that the change to the SRR moves the household into severe poverty¹⁵ when they have earnings of £200 per week, and the claimant needs to earn considerably more to work themselves out of poverty.

Chart 5: Impact of increasing the threshold for the Single Room Rate for a single person (age 30), working 30 hours, with rent £107pw and Council Tax £15 per week. The chart indicates household income relative to their equivalised poverty and severe poverty thresholds.¹⁶



In some areas, the difference between the Single Room Rate and the one bedroom rate is considerably greater than the average of £38 used here. For example, in inner North London, the average price for a one bedroom property is £245, for a room in a shared house it is £107.

¹⁵ Less than 40% equivalised median household income.

¹⁶ Equivalised poverty threshold for single adult with no children is £119.48 after housing costs. Their severe poverty threshold (less than 40% of equivalised median household income) is £79.65. (based on HBAI 2008/09 and using OECD companion scale to equalise AHC results.)