



## The cap doesn't fit:

### An assessment of the impact of the proposed welfare cap on a range of example families

#### Headline figures

- A couple with four children and £400 per week rent could lose more than 77% of their disposable income as a result of the changes – leaving them with only £80 per week to live on.
- The welfare caps would affect Couples substantially more than Lone Parents. This would damage incentives to enter relationships and could break up families.

The impact would be particularly great where two Lone Parents decide to move in together. Two Lone Parent households with 2 children each (with £200 rent) would be unaffected by the caps. However, if they move in together and get a slightly bigger property to share (£300 rent), the couple would lose £9000 per year compared to now.

- In cases where this breaks up families or prevents couple formation, this could cost the Treasury money through increased benefit payments. – For the above couple, the Treasury would pay an additional £8800 per year if they decided to stay apart.
- Families with one earner who loses their job will be particularly hurt by the caps. This could cause homelessness amongst hard working families who lose their job through no fault of their own.
- For many out of work families the impact of the welfare caps would be substantially greater than the equivalent impact of the Child Benefit changes (also announced at the Conservative party conference) on high income earners.

## **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](http://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 well and build a stable home. The changes overviewed in this paper would make that job harder by undermining families financial and housing security, and destabilising relationships.

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

## **2) Introduction**

At the 2010 Conservative party conference, the Chancellor George Osborne announced a major change to welfare policy. He proposed the introduction of placing a cap on welfare for out of work households, which – with the exception of households receiving Disability Living Allowance, and War Widows - would limit their maximum benefit entitlement to around £500 per week.

This briefing paper addresses the impact of the changes on several different key groups of model families. This includes an analysis of:

- The impact of the welfare caps on households with high housing costs and large families, who would both be particularly affected.
- The relative impacts on Couples compared to Lone Parents, and the impact on two Lone parent households who move in together.
- The impact on a single earner household, where the earner loses their job.
- The comparative impact of the Welfare caps compared to withdrawal of child benefit from higher rate tax payers.

### 3) Households with high housing costs

The big losers from the proposed reforms would be households with high housing costs.

An out of work couple with 4 children and £120 rent per week, and £15 CT per week, currently receive £485 per week in benefits, and will (just) avoid any impact of the welfare cap.

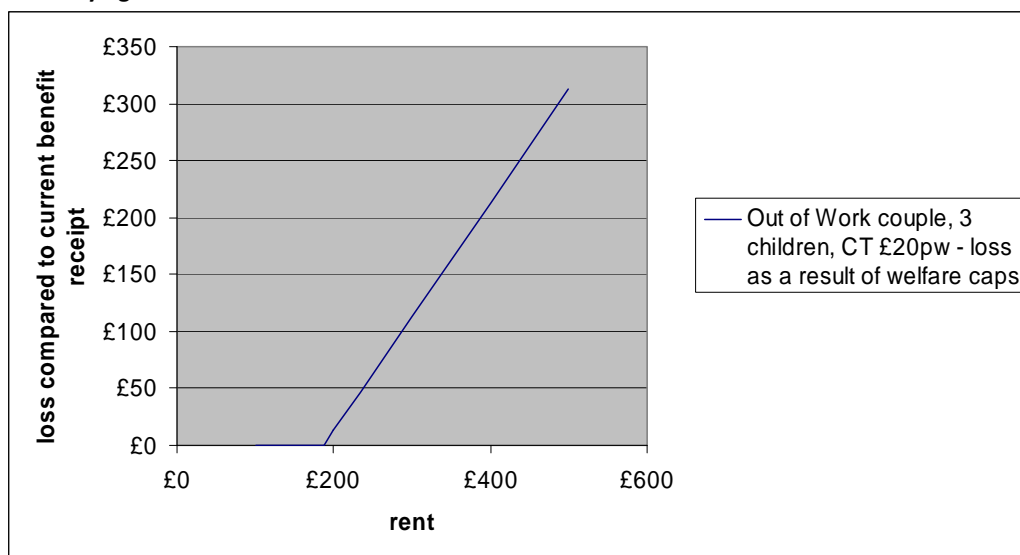
The benefits package they such a family receives is made up of:

<b>Income Support/ Jobseekers Allowance</b>	<b>£102.75</b>
<b>Child Tax Credit</b>	<b>£187.18</b>
<b>Child Benefit</b>	<b>£60.50</b>
<b>Housing Benefit/Council Tax Benefit</b>	<b>£135</b>
<b>Total:</b>	<b>£485.43</b>

However, a couple with 4 children, £400pw rent and £20pw council tax would currently receive about £770pw in benefits and tax credits (about £40150 per year). Based on a welfare cap of £26000 per year (£500 per week), they would lose more than £14000 per year. This family's income after housing costs would be reduced to just £80 per week.

The following graph illustrates the amount which an out of work couple with 3 children would lose from their current rate of benefit as a result of the welfare caps.

**Chart 1. Loss incurred as a result of welfare caps compared to current benefit receipt for household with varying rents.**



Rental prices are not evenly distributed across the country. In particular, they are considerably higher in London than in other areas of the country, and it is here where the impacts of the welfare caps are likely to be felt most severely.

Households with high housing costs tend to be in the private rental sector. Reductions in numbers of people affected by welfare caps could therefore be achieved by increasing access to social housing.

However, households needn't have enormously high housing costs to be affected by the welfare caps. In particular, they will also affect large families.

#### **4) Large families**

Large in and out of work families typically receive greater benefit income than equivalent smaller households. An out of work couple with 5 children rent of £200 per week and council tax of £20 per week are currently entitled to around £628 per week (£32750 per year) in benefits and tax credits. Despite their relatively low rent for such a large household, this family will lose nearly £7000 per year.

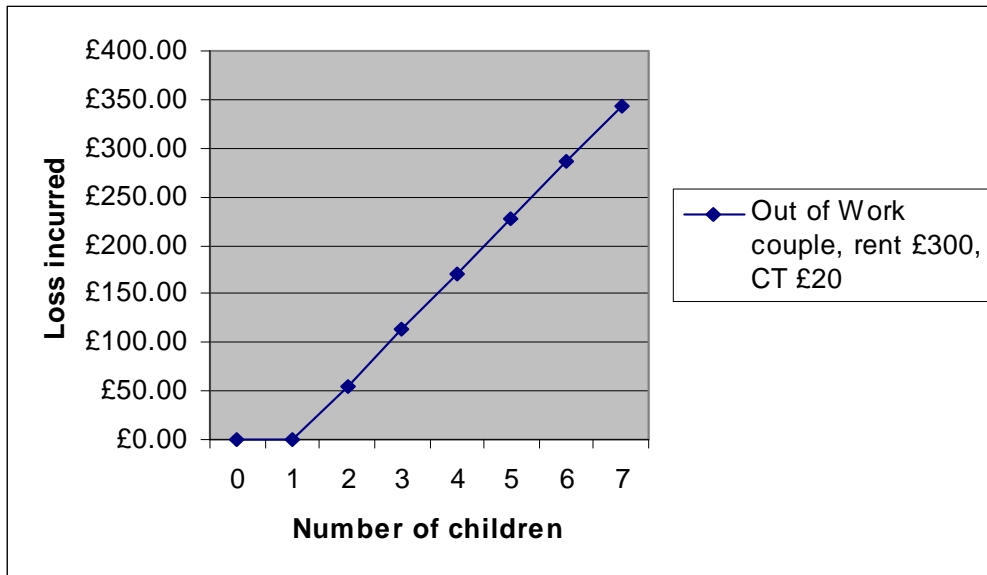
Table 1 indicates the amount of rent different out of work couples would require in order to be affected by the welfare caps, depending on the number of children in their family.

**Table 1: rent level at which out of work couple would be affected by welfare caps, dependent on household size.**

Number of children (couple, CT £20 per week):	Rent (pw) at which household would be affected by welfare cap:
1	£302
2	£245
3	£187
4	£130
5	£72
6	£15

The impact of numbers of children on losses after the implementation of benefit caps is shown in chart 2 (for a family with a rent of £300 per week.)

**Chart 2: Loss incurred as a result of introduction of welfare cap at £500 per week for households with varying numbers of children.**



**5) Impact on couples**

**Couple households would be more affected by the benefit caps than equivalent Lone Parent families.**

The proposed cap would introduce a substantial couple penalty into the system. This is because an out of work couple household is entitled to a higher rate of benefit than an equivalent Lone Parent household, in order to take account of the additional adult.

For instance, for the previous case of a couple with 5 children (rent of £200 per week and council tax of £20 per week,) were the household headed by a Lone Parent they would only be entitled to £591 per week. This compares to the couple entitlement of around £628 per week.

Whilst they will still lose out, the Lone Parent will therefore lose around £37 per week less than the equivalent couple household.

**6) Impact of combining two Lone Parent families**

Perhaps the most peculiar outcome of the Housing Benefit caps is the impact on combining two Lone Parent families.

As separate Lone Parents with 2 children each, and rent of £200 each (and council tax of £20), their total benefit income would be £418 for each household - safely below the housing benefit cap. Their benefits package is as follows:

<b>Income Support/ Job Seekers Allowance</b>	<b>£65.45</b>
<b>Tax Credits</b>	<b>£98.84</b>
<b>Child Benefit</b>	<b>£33.70</b>
<b>Housing Benefit</b>	<b>£200</b>
<b>Council Tax Benefit</b>	<b>£20</b>
<b>Total:</b>	<b>£417.99</b>

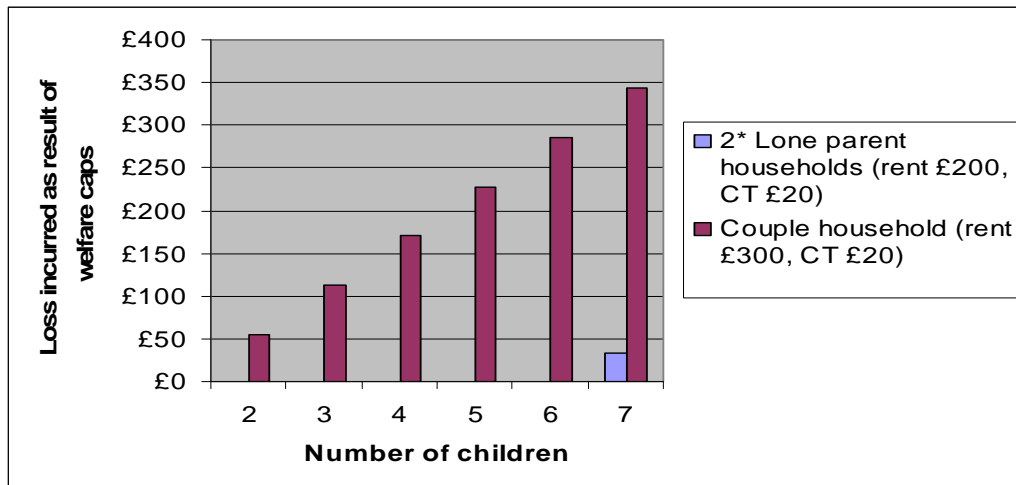
As a couple with four children (even if their rent stays £200 and council tax £20) their total income would be around £570 - this would potentially put them £70 over the cap limits - they would then potentially lose around £3650 per year.

<b>Job Seekers Allowance</b>	<b>£102.75</b>
<b>Tax Credits</b>	<b>£187.18</b>
<b>Child Benefit</b>	<b>£60.50</b>
<b>Housing Benefit</b>	<b>£200</b>
<b>Council Tax Benefit</b>	<b>£20</b>
<b>Total:</b>	<b>£570.43</b>

If their housing costs increase as a result of moving in together (say to £300 a week combined - still a substantial saving over living separately), their benefit income also goes up by £100 to £670 - nearly £9000 over the cap.

The graph below shows how two Lone parent families (each with £200 rental costs) would be affected by Welfare caps, compared to one couple household (with £300 rent). The graph indicates that whilst the Lone Parent households would be unaffected until they had a combined total of 7 children (3 and 4 respectively), the couple household would incur substantial losses from the point they had 2 children.

**Chart 3: Relative losses incurred by introduction of welfare caps for 2 Lone parent households, and one combined couple household respectively<sup>1</sup>.**



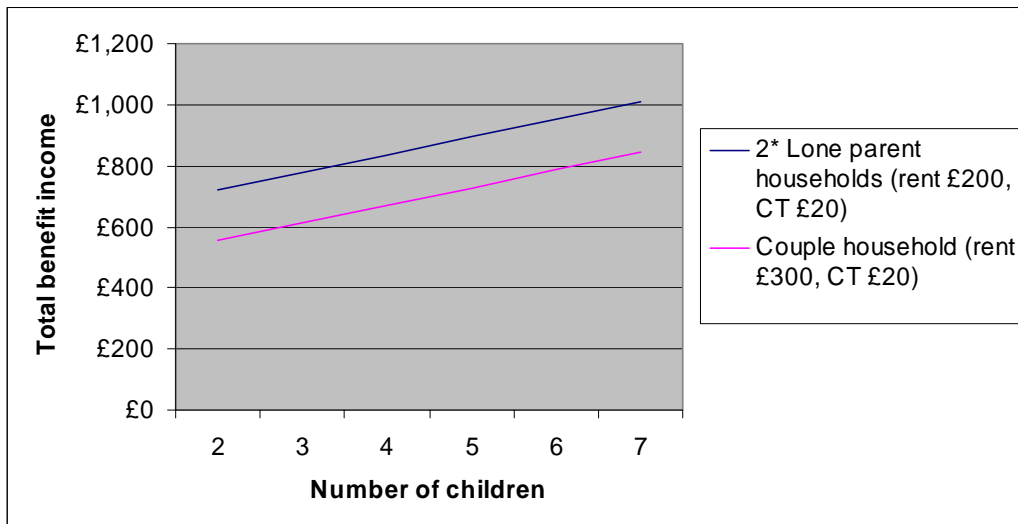
<sup>1</sup> Where numbers of children are odd, calculations assume that one Lone Parent household has one more child than the other (e.g. 5 children assumes one LP with 3 children, and the other with 2.)

This could keep Lone Parent households separate - and as a result could lose the Treasury money in increased benefit payments, since for each couple, like the one above, that decides to stay apart because of the financial implications, instead of paying out £670 per week to one couple, they will be paying £418 to two Lone Parent households - a total of £836 per week.

This is an additional benefits bill of £166 per week – costing the treasury £8650 per year if the family does decide to stay apart.

The graph below shows the difference in benefit income paid to an example couple household compared to two Lone Parent households.

**Chart 4: differences in total benefit receipt for 2 lone parent households compared to one couple household**



### **7) Impact of welfare caps on working families with a single earner who loses their job.**

The proposed welfare caps will have a particular impact on households with one earner who loses their job.

Take for example a couple with 4 children, rent of £300 per week and council tax of £20 per week. One of the parents works 30 hours per week and earns £200. Their current income after housing cost is £444 per week.

If they lost their job, through no fault of their own, their household income would currently reduce to **£350 per week** after housing costs – a loss of £94 per week.

If they lost their job after the introduction of the welfare caps, their income after housing costs would reduce to **£180 per week** – a loss of £264 compared to their in work income.

The introduction of welfare caps would lose this hard working family **£170 per week** compared to their current out of work income.

Such a substantial loss income could prove unmanageable for this family. In some circumstances they may end up losing their home as they are no longer able to afford the rent.

**8) Comparative impact of the welfare caps and the child benefit caps on low income out of work benefit recipients, and high income earners respectively.**

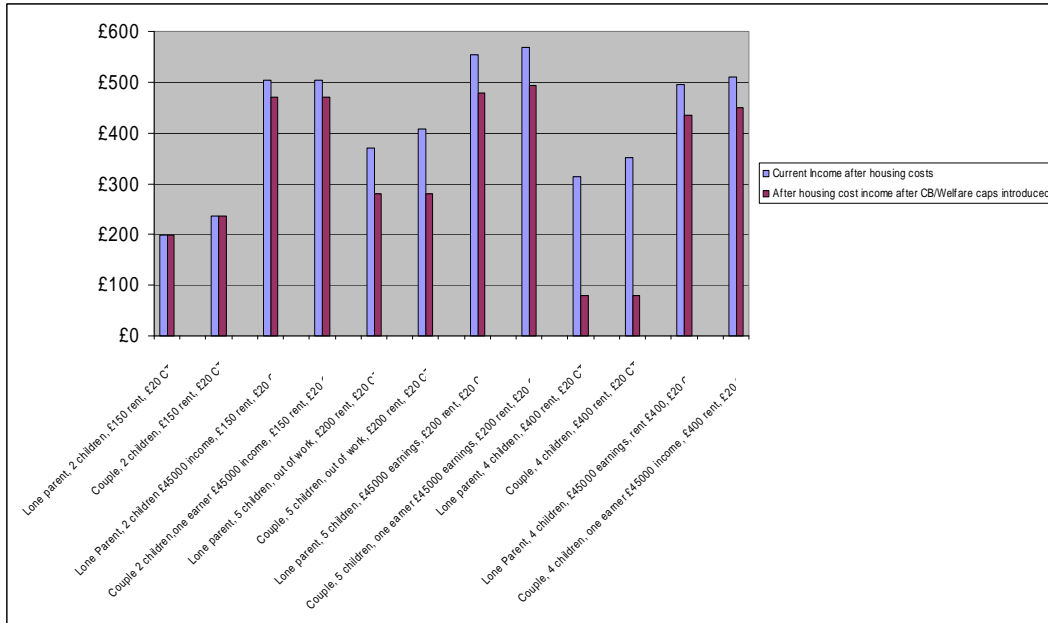
The Conservative party conference launched two major welfare cuts. One was the introduction of welfare caps, the other was the removal of Child benefit entitlement from households containing a worker paying the higher rate of tax.

The charts below compare the impact of the changes on particular groups of out of work benefit claimant households, and households with one earner, earning £45000 per year. The charts can be summarised as follows:

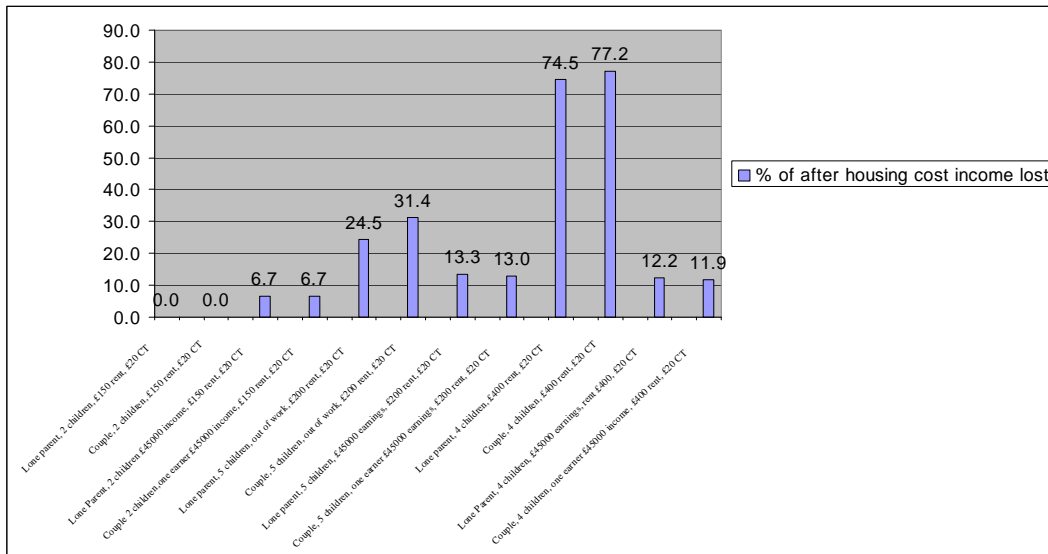
<b>Model Household</b>	<b>Impact of Welfare Caps on household if out of work</b>	<b>Impact of Child Benefit caps on household, if earning £45000</b>
Lone Parent and Couple households with 2 children, rent of £150 per week, and Council Tax of £20 per week	no worse off as a result of the Welfare Caps	Both households lose 6.7% of their disposable income (£33.70) as a result of the Child Benefit changes
Lone Parent and Couple households with 5 children, rent of £200 per week, and Council Tax of £20 per week	Lone Parent and couple households lose 24.5% (£91) and 31.4% (£128) of their disposable income respectively.	Lone Parent and couple household lose 13.3% (£73.90) and 13% (£73.90) of their disposable income respectively.
Lone Parent and Couple households with 4 children, rent of £400 per week, and Council Tax of £20 per week	Lone Parent and couple households lose, 74.5% (£233) and 77.2% (£270) of their disposable income respectively. –They would each be left with only £80 in disposable income.	Both Lone Parent and couple households lose, 12.2% (£60.50) and 11.9% (£60.50) of disposable income respectively.

As can be seen, for small households with low housing costs, the measures announced at the Conservative party conference would affect higher rate tax payer households, and would have no impact on out-of-work households. However for larger households, particularly those with high housing costs, the impact of the announcements will have startlingly severe effects on out of work families. In the case of one model family outlined, the welfare cap would lose them more than 77% of their disposable income – this would leave a couple with four children only £80 per week in disposable income.

**Chart 5: disposable household income before and after Child Benefit changes and Welfare caps announced at the Conservative party conference**



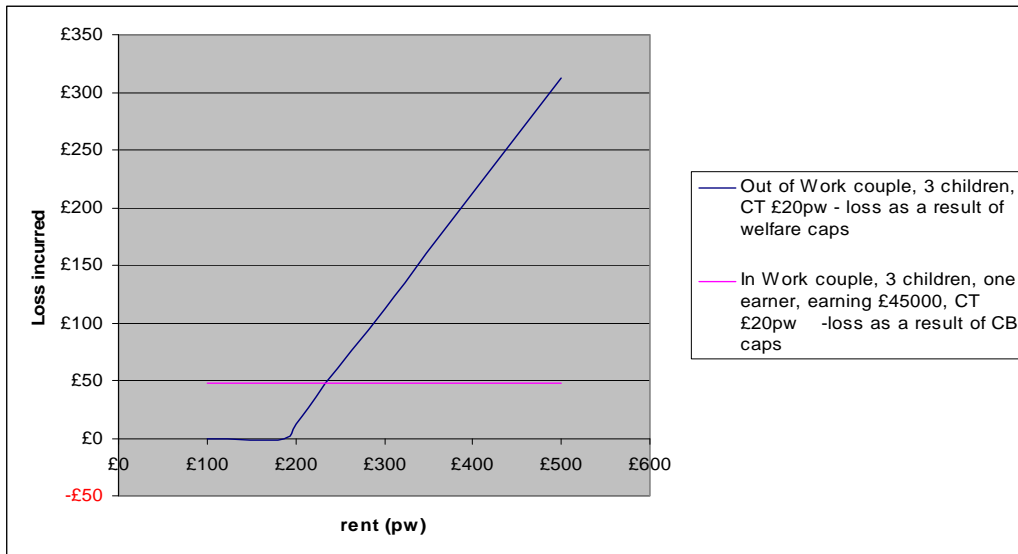
**Chart 6: % of disposable income lost as a result of child benefit changes and welfare caps announced at the Conservative party conference**



The final graphs show the relative impact of the welfare changes announced at the Conservative party conference, on households with differing rents and numbers of children respectively. As can be seen, whilst the impact of the welfare caps compared to child benefit caps is low for households with low rents and small numbers of children, the impact is considerably greater for larger families with higher rents.

It should be noted that for many of the example families given, the households with earnings of £45000 per year are also entitled to substantial amounts of in-work benefits (including Housing Benefit).

**Chart 7: Income losses resulting from welfare caps and child benefit changes (by rent)**



**Chart 8: Income losses resulting from welfare caps and child benefit changes (by number of children in household)**

