



The Cap Doesn't Fit: Welfare Caps Calls to Action

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 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 or telephone 020 7241 7604.

Introduction

Family Action believes that the Government is right that out of work families should not receive more in benefits than they would receive were one or more members of the household in work. It is for this reason that Family Action supports the Government's proposals for a "Universal Credit" which would ensure that work always pays substantial financial reward for all families.

However, we do not believe that the proposed welfare caps are a good means to achieve this. The proposed caps would act as a blunt instrument, which take no account of household circumstances in determining maximum entitlement to benefits and tax credits.

However, if the caps are to be introduced, we propose the following two measures which would help to ensure that any welfare cap was introduced in a way which was fairer to families:

1) Adjust the cap to take account of household size

At present, the proposed cap takes no account of variation in needs between households. Adjusting the cap to take account of household size and composition, would enable the welfare cap to be implemented in a way which takes account of the varying needs of different families. As introduced at present, the welfare cap would not only penalise children born into large families, but (as outlined in our paper *"the cap doesn't fit"*) it would also introduce a substantial couple penalty into the benefits system.

In order to ensure that the caps reflect household size, we believe the following changes need to be made:

The cap for a family headed by a couple should be around £37 higher than for a single parent household. This would help to remove the couple penalty in the system.

The cap also needs to be variable so that it is £58 per week higher for each additional child in the household. This would help ensure that children would not be penalised for being born into large families, it would also help to ensure that two Lone Parent households would not be penalised for moving in together.

2) Vary the cap to take account of location

As a result of variations in housing costs, benefit receipt varies a great deal depending on where an out-of-work household is based. However, at present the proposed welfare caps take no account of how benefit receipt varies by location.

As explained below, we believe that the welfare caps as currently envisaged, would compound the problems caused by changes to the Local Housing Allowance announced in the June budget, and would further restrict housing availability for many out of work families.

In the 2010 emergency budget the Government introduced a number of measures to limit Local Housing Allowance receipt for families, particularly focussing on families in London, where housing costs are highest.

One of the measures introduced was to universally limit maximum Housing Benefit payments. The limits are to be introduced at £250 per week for a one bedroom house, £290 for a two bedroom house, £340 for a 3 bedroom household and £400 for a 4 bedroom household. Although we believe that these caps are unrealistically low for some areas, and will themselves lead to a large number of households struggling to pay their rent, and in many cases having to move, these caps do recognise that for some families finding housing in the private rental sector at less than these prices would be extremely difficult.

For an out of work couple with 4 children, with eligible rent at the cap of £400 per week, and Council Tax of £20 per week, total benefit receipt would currently be £770 per week. This household would therefore lose £270 in benefits as a result of the welfare cap as currently envisaged. Deducting this from their housing benefit would mean that this household would only receive £130 in help with their housing costs – a shortfall of £270 compared with their rent.

It should be noted that because of high housing costs, many in work households in such areas would also be entitled to Housing Benefit. For instance, this household could earn £30000 per year and still be entitled to £299 per week in Housing Benefit. For this reason, when arguing that out-of- work households should not be entitled to more in benefit receipt than in work households income in work, the Government needs to take into account that in areas with high housing costs, in work households may also receive considerable state support.

To ensure that households can find affordable housing, we believe that the welfare cap needs to be varied to reflect differences in housing costs across the country.

These recommendations have been developed based upon the Family Action report "The cap doesn't fit," which assesses the impact of welfare caps on a range of example families.