

supporting families since 1869



## “Born broke”

# The impact of welfare measures announced by the Government on parents with new children.

### Key findings:

- The Government is making cuts to a number of key grants and other welfare entitlements for new parents. These include the Health in Pregnancy Grant, the Sure Start Maternity Grant, the Baby element of Child Tax Credit, the (planned) Toddler element of Child Tax Credit, and the Child Trust Fund.
- For the poorest families, these entitlements are worth up to **£1735** over pregnancy and the first year of a child’s life. These potential losses would not be sufficiently offset by above inflation increases in the Child element of Child Tax Credit, and could be compounded by other benefit cuts such as the reforms of Local Housing Allowance, and freezing Child Benefit rates.
- Higher income, working families with new children, could lose many thousands more as a result of changes to income disregards for tax credits and reductions in the childcare element of Working Tax Credit.
- Changes to tax credit income disregards could also lead to substantial tax credit overpayments for many new parents returning to work following maternity leave.

### 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, and to parent their children.

Amongst other services, Family Action runs Perinatal projects which work directly with new parents and parents to be, to tackle issues mental distress and depression. We are concerned that cuts to benefits for new parents could risk compounding mental health problems for many new parents, and pregnant mothers to be, by adding further financial stress to families who are already dealing with the considerable pressures of pregnancy and caring for a new child. As one Family Action Perinatal worker, noted:

“Financial help for new parents is vital to support the additional costs of a new baby. A baby needs love and care, but they also need a bottle, nappies and a pushchair. Many families are struggling day to day to maintain a basic standard of living for their children, taking away supplementary support for new parents will make it much harder for them to provide this.

Our Perinatal service is hugely important to the families we work with, and I fear we will see increases in mothers needing support with budgeting management as well as emotional befriending to deal with the times ahead.”

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) Overview of the importance of financial interventions in the early years, and current financial interventions**

Pregnancy and early years have been widely recognised as key stages at which adverse financial circumstances can have lasting detrimental affects.

For instance, with regard to health inequalities, according to Spencer and Law (2007, p69) “Pregnancy and early childhood are particularly vulnerable stages in the life course at which adverse socio-economic circumstances have lasting effects.”<sup>1</sup>

Pregnancy and early years are also periods of both high financial pressure on parents and parents to be. Reductions in income as a result of mothers taking maternity

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<sup>1</sup> Spencer and Law (2007) “Inequalities in pregnancy and early years and the impact across the life course: progress and future challenges” in Dowler and Spencer (2007) “Challenging health inequalities” Bristol: The Policy Press

leave from work, followed by the initial costs of a new child, and potentially substantial childcare costs associated with returning to work, all contribute to substantial money pressures on parents throughout this period.

New parents using Family Action services have noted a wide range of additional costs when pregnant, and for new children. They not only raised issues of buying essentials including prams, clothes and food, but also additional costs of heating bills, and travel costs for additional visits to the hospital.

The importance of financial interventions in pregnancy and the early years has been recognised in a number of policy developments to provide particular financial support to families in these years.

These interventions include the Health in Pregnancy Grant, the Sure Start Maternity Grant, the Baby element of child tax credit, the (planned) "Toddler" element of child tax credit, and income disregards in the tax credit system (which may particularly help parents returning to work following maternity leave), which mean that new parents are provided with additional support throughout this period.

However, although providing additional support to many parents through increases in the child element of child tax credit, the Government have also announced a number of cuts through the budget and the Comprehensive Spending Review, which will impact on parents with new children.

The key measures particularly affecting new parents include:

- *The Sure Start Maternity Grant will apply to the first child only from April 2011.*
- *The Health in Pregnancy Grant will be abolished from January 2011*
- *The Baby Element of Child tax Credit will be abolished from 2011-12*
- *The planned supplement to Child tax Credit for children aged 1 and 2 from 2012-13 will be reversed.*
- *Government contributions to the Child Trust Fund will be stopped altogether from January 2011*
- *The Tax Credit income disregard will be reduced from £25,000 to £10,000 for two years in 2011-12 then to £5,000 from 2013-14*
- *A Tax Credit income disregard of £2,500 for falls in income will be introduced from 2012-13*
- *Reducing the percentage of childcare costs that parents can claim through the childcare element of Working Tax Credit from 80% of childcare costs to 70%.*

This is a selection of key measures which will particularly affect these families. A wider range of measures (including most of the 21 welfare cuts addressed in our report “pushed towards poverty: 21 welfare cuts for low income working households”) could also affect new parents alongside other groups.

Without support such as this, some new parents we work with told us that they would have to turn to charities, or their church, for support with the costs of coping with pregnancy and a new child.

*One Family Action service user found she was not entitled to some of the support to which other new parents are currently entitled. She told us that the additional money would have helped to buy a pushchair, cot and clothes. “Without the money it’s really stressful, you have to look out for organisations that can help you with these things.*

Others told us that without support they would have used credit and got into debt, or they would have struggled to pay their heating bills. All of these outcomes would be very bad for both themselves and their young children.

### **3) The Sure Start Maternity Grant will apply to the first child only from 2011-12**

*“From April 2011 the Government will restrict eligibility to the Sure Start Maternity Grant to the first child only”*

*HM Treasury (2010, p34)*

The Sure Start Maternity Grant provides a one off payment of **£500 per child** to new parents. The payment does not affect other benefit or tax credit entitlements.

Households are currently entitled to the Sure Start Maternity Grant under a number of entitlement conditions, but principally they can receive it if they receive an out-of-work income replacement benefit (such as income support or income based JSA,) or if they receive Child Tax Credit at more than the Family Element. This effectively means that although the Sure Start Maternity Grant is means tested, a household can have a relatively high income and still be entitled to it. For instance, a couple with two children, with earnings of £30000, could still be entitled to more than the family element of Child Tax Credit.

### **4) The Health in Pregnancy Grant will be abolished from January 2011**

*“From January 2011, the Health in Pregnancy Grant will be abolished”*

*HM Treasury (2010, p48)*

The Health in Pregnancy Grant provides a one off lump sum payment of **£190** to women who are at least 25 weeks pregnant. (Only one payment is payable even if the expectant mother is expecting more than one baby, e.g. twins.)

As with the Sure Start Maternity Grant, the Health in Pregnancy Grant does not affect other benefits or tax credits.

The Health in Pregnancy grant is not means tested. However, it is conditional on the expectant mother having been provided advice from a midwife or doctor to help them and their unborn child to stay healthy during the pregnancy.

*One Family Action service user living on a low income, noted that when pregnant you are told to eat healthy food, but that the cost of food is high. The Health in Pregnancy Grant helped this service user to buy food for herself, and without it she would have struggled to afford to eat.*

## **5) The Baby Element of Child tax Credit will be removed from 2011-12**

*“From April 2011, the baby element will be removed from the Child Tax Credit”  
HM Treasury (2010, p47)*

The baby element of Child Tax Credit is an additional element of child tax credit, paid to families with at least one child under one (the rate is not increased for additional babies). The baby element increases maximum Tax Credit entitlement by **£545**.

The baby element currently supplements the Family element of CTC, so that, for families with a child under 1, the Family element is worth £1090 instead of the normal £545. As a result, (because of the higher earnings threshold before the family element is withdrawn,) households can have a considerable income and still be entitled to the baby element of child tax credit. A household may have an income in excess of £50000 and still be entitled to the full amount of the baby element.

## **6) The planned supplement to Child tax Credit for children aged 1 and 2 will be reversed.**

The previous Government had announced in the March budget that from 2012, they were to introduce a so called “toddler element” of child tax credit, which would be worth an additional £4 per week (**£209 pa**) for each child aged one or two:

*“the Government announces that, from April 2012, it will provide additional support by increasing the child element of the Child Tax Credit for each child aged one and two by £4 per week.”*

HM Treasury (March 2010, p68)

The June budget reversed this decision, saving an estimated £180 million per year from 2012-13.

*One service user Family Action work with stated that when the baby element of Child Tax Credit ended she really felt it, as it formed a significant part of her budget. Before these cuts, from 2012 parents would have been entitled to some ongoing additional support through tax credits for their children aged one and two, helping with costs in this crucial stage in a child's development.*

## **7) Government contributions to the Child Trust Fund will be stopped altogether from January 2011**

The Child Trust Fund provides a long term tax-free savings and investment account for children born on or after September 2002. The account is accompanied by a voucher from Government to start their fund.<sup>2</sup>

Until recently, this voucher is paid at £250 per every eligible child, and an additional £250 paid to children in some low income families. Children with disabilities are also entitled to additional payments.

In May 2010 the Government announced its intention to reduce and then end Government contributions to the Child Trust Fund. For children born from 3<sup>rd</sup> August 2010, the CTF payment has been reduced to £50 (plus an additional £50 for low income families). From January 2011, children will no longer be eligible for a Child Trust Fund account<sup>3</sup>.

Abolishing the Child Trust Fund will not directly affect the money families have available to spend on their children (since the money in the child trust fund cannot be used until the child turns 18.) However, it will make it harder for new parents to invest in a savings “nest egg” for their new child, and the change effectively costs them **£250** per child, or **£500** or some low income families (and more for children with disabilities).

*One Family Action service user was not entitled to the Child Trust Fund, because their child was too old to be entitled. They said they wished that they received it. They noted that when they found out that their child had a disability, they started saving money from their Child Benefit for the future. They would have benefited greatly from the assistance provided through the Child Trust Fund.*

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<sup>2</sup>[http://www.direct.gov.uk/en/MoneyTaxAndBenefits/ManagingMoney/SavingsAndInvestments/DG\\_10018527](http://www.direct.gov.uk/en/MoneyTaxAndBenefits/ManagingMoney/SavingsAndInvestments/DG_10018527)

<sup>3</sup> [http://www.childtrustfund.gov.uk/templates/Page\\_\\_\\_\\_\\_1147.aspx](http://www.childtrustfund.gov.uk/templates/Page_____1147.aspx)

## **8) The Tax Credit income disregard will be reduced from £25,000 to £10,000 for two years in 2011-12 then to £5,000 from 2013-14**

*“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.”*

HM Treasury (June 2010, p48)

Although they are paid either every week or four weeks, Tax Credits are based on an annual award, with means testing based upon household income for the whole of the tax year.

At the start of the financial year, the Tax Credit award is based on income details for the previous year. However, during the course of the year, household income may well change. If household income in the current year is the same or lower than the previous tax year, then the award is based in the household income for that year. However, if household income for the current tax year is higher than income in the previous year, then the award is based on the previous year's income, unless that income is more than £25000 less than the current year, in which case, the award is based on the current year income, minus £25000. This is known as the Tax Credit income disregard.

The June Budget announced that the amount of this income disregard will be reduced from £25000 to £10000, and then down to £5000 from 2013-14.

This is likely to have a substantial impact on parents with newborn children, since their household income for tax credit purposes is likely to be substantially lower for the period when they are on Maternity Leave, than when they return to work.

Therefore, if all, or most, of the Maternity Leave is taken in one financial year (e.g. 2013/14), and the mother returns to work for the whole of the following financial year (2014/15), their income may be considerably more in 2014/15, than 2013/14. Under the current system they would receive a disregard of up to £25000 for their income for 2014/15, making it likely that the household would have their income based on the previous year.

Once the disregard has been reduced to £5000, many households which had a parent taking maternity leave the previous year, will find they have an income of more than £5000 more in the current compared to the previous financial year.

As a result, instead of having their income for tax credits based on their income in the previous financial year, it will be based on their current financial year, minus £5000.

As a result of this change, families could lose up to **£8200**<sup>4</sup> compared to current entitlements, for the year affected.

This reduction in the Tax Credit income disregard is also likely to cause an increase in tax credit overpayments, for new parents returning to work following maternity leave.

One key benefit of the current high income disregard is that because Tax Credits are a yearly award, a high income disregard avoids overpayments caused by in-year rises in income. The reduction in the income disregard will mean, for instance, that many parents who return to work following maternity leave in the middle of the financial year, could find they have been paid too much tax credit for the first half of the year, and could therefore find they have to pay back an end of year tax credit overpayment as a result of their change in income.

### **9) A Tax Credit income disregard of £2,500 for falls in income will be introduced from 2012-13**

In addition to a reduced income disregard for increases in income, the Tax Credit system is to introduce an income disregard for reductions in income.

At present (as previously noted), if current year income is lower than the previous year's income, the tax credit award is based upon income for the current year. Following this change, if income in the current tax year is lower than income for the previous tax year, then household income for tax credit purposes will be based on previous year's income, unless this is more than £2500 higher than current year's income, in which case it will be based on current year's income plus £2500.

As with the reduced income disregard for rises in income, this change is likely to have a substantial impact on parents with newborn children, since their household income for tax credit purposes is likely to be substantially lower for the period when they are on Maternity Leave, than when before they leave work for maternity leave.

For example, if all, or most, of the Maternity Leave is taken in one financial year (e.g. 2013/14), and the mother was in work for the whole of the previous financial year (2012/13), their income may be considerably more in 2012/13, than 2013/14. Under the current system their income for tax credit purposes in 2013/14, would be based on their income for that year. Following the change their income for 2013/14 will either be based on income for 2012/13, or income for 2013/14 plus £2500 (whichever is lower.)

This change will lose households up to **£1025**<sup>5</sup> for the year affected.

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<sup>4</sup> Taking into account increased tax credit taper rate (from 39% to 41%) announced in the June Budget.

<sup>5</sup> Taking into account increases in the Tax Credit taper rate announced in the June budget.

**10) Reducing the percentage of childcare costs that parents can claim through the childcare element of Working Tax Credit from from 80% of childcare costs to 70%.**

In the Comprehensive Spending Review, the Government announced that they would reduce the maximum rates of assistance with childcare costs through the childcare element of Working Tax Credit:

*“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 in April 2011, saving £385 million a year by 2014-15”*

HM Treasury (October 2010, p68)

This change is particularly likely to affect parents who return to work following Maternity Leave.

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.)*

This change could lose households up to **£1560 per year** (£30 per week.)

## **11) The impact of spending cuts affecting new parents: an example case:**

The following illustrative case illustrates the impact of changes in the budget and the CSR on a middle income family with both partners in work. A middle income family is chosen because it illustrates the potential impact of the changes to income disregards in the tax credit system.

Lower income and particularly out of work households may lose less in cash terms, however, the loss of grants and additional tax credit elements for new parents is likely to mean they still face substantial overall income losses for the first couple of years of their children's lives. For instance, the combined potential value of the Sure Start Maternity Grant (£500), the Health in Pregnancy Grant (£190) the Baby element of Child Tax Credit (£545), one year of the Toddler element of Child Tax Credit (£209), and the Government contribution to the Child Trust Fund (£500), is worth £1944 - £1735 of this is cuts over the course of pregnancy and the first year of the child's life alone<sup>6</sup>. These potential losses would not be sufficiently offset by above inflation increases in the Child element of Child Tax Credit, and could be compounded by other benefit cuts such as the reforms of Local Housing Allowance, and freezing Child Benefit rates.

**Beth and Andrew<sup>7</sup> are a couple, with one child aged 1. Andrew is in work earning £12000 per year, and Beth is also in work, earning £15000. The couple own their own home.**

### **11.1. Before the changes in the Budget and the CSR:**

Beth becomes pregnant in September 2012 and leaves work for maternity leave near the start of April 2013 (at the start of the new financial year). Beth plans to stay off work for the whole of the following year.

<sup>6</sup> The remainder being the toddler element of child tax credit.

<sup>7</sup> Beth and Andrew are an illustrative example only, not a real case.

At this point the couple

- Claim the Health in Pregnancy Grant worth £190
- Adjust their tax credit award based on a lower income estimate. Since their income is predicted to be lower for the year ahead, their tax credit award is adjusted upwards.

Beth has her baby just two weeks later. At this point the couple:

- Adjust their circumstances for tax credits to take account of their new child. Their award of tax credits now includes the baby addition to the family element, worth £545.
- Claim the Sure Start Maternity Grant worth £500
- Open a child trust fund account for their child, with a £250 voucher contribution from the Government
- Claim Child Benefit for their second child.

The following April (2014) Beth returns to work. At this point the couple:

- Notify tax credits of their increased predicted income for the coming tax year. However, their tax credit award is not adjusted downwards, since their income estimate is less than £25000 more than their income for the previous tax year.
- The couple lose the baby element of tax credits when their new child reaches the age of one. However, they gain the “toddler” element for a child aged one or two.
- Since both partners are in work, the couple require childcare for both their children, and they pay £200 per week in childcare costs. As a result, they claim the childcare element of working tax credit.

### **11.2. Taking into account the changes in the Budget and the CSR:**

Beth becomes pregnant in September 2012 and leaves work for maternity leave at the start of April the following year. Beth plans to stay off work for the whole of this year.

At this point the couple

- Are no longer entitled to the Health In Pregnancy Grant (*loss of £190*)
- Adjust their tax credit award based on a lower income estimate. Since their income is predicted to be lower for the year ahead, their tax credit award is adjusted upwards.

However, since the introduction of an income disregard into the tax credit system, £2500 of their drop in income is disregarded for tax credit purposes. As a result, the couple lose £1025 (taking into account changes in tax credit tapers) relative to prior to the introduction of the changes.

Beth has her baby just two weeks later. At this point the couple:

- Adjust their circumstances for tax credits to take account of their new child. The couple gain some Tax Credits as a result of above indexation increases to the child element of child tax credit, however, this does not come close to offsetting the £545 they lose, since they are no longer entitled to the baby addition.
- Because they already have one child, the couple are no longer entitled to the Sure Start Maternity Grant (*a loss of £500*).
- The couple are no longer entitled to a Government contribution to the Child Trust Fund (*a loss of £250*).
- The couple receive less Child Benefit than they would prior to the changes, as a result of the three year freeze of child benefit from 2011-12

The following April Beth returns to work. At this point the couple:

- Notify tax credits of their increased predicted income for the coming tax year. Unlike prior to the changes, their tax credit award is adjusted downwards, since their income estimate is more than £5000 more than their income for the previous tax year.
- The couple retain the above indexation increases in the value of Child tax Credit. However, the couple are no longer entitled to the toddler element of child tax credit, (*a loss of £209*).
- Since both partners are in work, the couple require childcare for both their children, and they pay £200 per week in childcare costs. As a result, they claim the childcare element of working tax credit. However, they are only entitled to help with 70% of their childcare costs, rather than 80% as prior to the changes.

### **11.3. Overall impact on household income**

The calculations below model the sum total of the changes implemented by the Government on household income for Beth and Andrew. (Calculations are only approximate, and are simplified, but are indicative of the scale of the issue.)

In 2012/13 (the first year of their new baby's life) household income (net of council tax) prior to the introduction of the changes is estimated at approximately £26518, after the changes household income is reduced to £23790, a loss of around £2728.

In 2013/14 (when their baby reaches the age of 1), their income (net of council tax and childcare costs) prior to the introduction of changes is estimated at approximately £30515, after the introduction of the changes announced by the Government this reduces to £25526, a loss of £4989.

The total loss over the course of two years is estimated at in the region of £7717.

Whilst the loss is much greater in the second year than the first year, much of this change is the result of income losses as a result of the reduced tax credit disregards for income increases.

In many respects the losses incurred in the first year seem particularly unfair. This is because, not only do they lose several grants and additional payments to support their new child, but also, as a result of the tax credit income disregard on falls in income, although their earnings are reduced, they receive less tax credits to "top up" their reduced income, than they do under the current system.

#### 11.4. Estimated Household Income Calculations<sup>8</sup>

	Before Changes		Following Changes	
	Tax Year 2012/13, Couple 2 children, (aged 0 and 1), husband in work earning £12000, wife on Maternity leave April 2012-April 2013 (earnings in work £15000).		Tax Year 2013/14, Couple 2 children (aged 1 and 2) husband in work earning £12000, wife in work earning £15000. Childcare £200 per week.	
net earnings (husband)	£	10,350.00	£	10,350.00
net earnings (wife)	£	-	£	12,390.00
SMP	£	5,588.00	£	-
Tax Credits	£	8,497	£	16,944.00
Health In Pregnancy Grant	£	190.00	£	-
SSMG	£	500.00	£	-
Child Trust Fund	£	250.00	£	-
Child Benefit	£	1,923.00	£	2,011.00
Childcare costs	£	-	-£	10,400.00
Council Tax	-£	780.00	-£	780.00
<b>Total</b>	<b>£</b>	<b>26,518.00</b>	<b>£</b>	<b>30,515.00</b>
			<b>£</b>	<b>23,790.00</b>
				<b>£</b>
				<b>25,526.00</b>

<sup>8</sup> \*NIC deducted from SMP at 12% of earnings above £139 (based on thresholds for 2011/12). For simplicity, SMP is based on current rates, and has not been updated from current rates for calculations.

\*Tax and National Insurance assumptions based on assumptions for tax and NI liabilities for 2011/12 before and after changes announced as highlighted in the June budget. The key difference between the two is caused by the £1000 increase in personal allowance for Income Tax announced in the June 2010 budget. For simplicity, no further uprating of personal allowances for 2012/13 or 2013/14 included.

\*Uprating of TC elements and Child Benefit assumed at current rates of inflation (RPI = 4.6%, CPI = 3.1%) for each year included. For simplicity, the previous Government's plans to clawback 1.5% against RPI uprating for 2011/12 for some (not all) benefits (to pay for above inflation increases in 2010/11) is not taken into account.

\*In calculating TC income, for period where mother is on maternity leave, £100 per week disregard for SMP is taken into account