HOUSE OF LORDS

Library Note

Welfare Benefits Up-rating Bill (HL Bill 78 of 2012–13)

The Welfare Benefits Up-rating Bill implements an announcement by the Chancellor in the 2012 Autumn Statement that increases in certain working-age welfare benefits and tax credits would be limited to 1 percent, rather than increasing them in line with inflation. This Library Note is intended to provide background information in advance of the Bill's second reading in the House of Lords on 11 February 2013.

The Note examines the background context to the Bill, including the existing statutory framework for uprating social security benefits and tax credits. It describes the Bill's provisions, and looks at which benefits are covered by the Bill, and which are not. It also presents analyses of the Bill's likely impacts, and summarises proceedings on the Bill in the House of Commons.

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1. Introduction

The Welfare Benefits Up-rating Bill (HL Bill 78 of session 2012–13) implements an announcement by the Chancellor in the 2012 Autumn Statement that increases in certain working-age welfare benefits and tax credits would be limited to 1 percent, rather than increasing them in line with inflation. The Bill was introduced in the House of Commons on 20 December 2012. It had its second reading in the Commons on 8 January 2013, and completed all remaining stages on 21 January 2013. The Bill received its first reading in the House of Lords the following day, and is scheduled for second reading on 11 February 2013.

This Library Note is intended to provide background information in advance of the Bill's second reading in the Lords. Section 2 examines the background context to the Bill, including the existing statutory framework for up-rating social security benefits and tax credits. Section 3 describes the Bill's provisions, and looks at which benefits are covered by the Bill, and which are not. Section 4 presents analyses of the Bill's likely impacts, including both savings to the taxpayer and the effect on different groups of claimants. Section 5 summarises proceedings on the Bill in the House of Commons. The Bill was not amended during its passage through the Commons.

The Government has published Explanatory Notes and an Impact Assessment to accompany the Bill. The House of Commons Library published a research paper on the *The Welfare Benefits Up-rating Bill* (4 January 2013, RP 13/01) in advance of the Bill's second reading in the Commons, which contains helpful information about the history of benefits up-rating since the 1970s.

Capping benefit rises at 1 per cent is only one measure amongst a number of changes to the tax and benefits system that the Government has introduced. Further background on the Government's welfare policy can be found in a series of publications by the House of Commons Library which are listed in Appendix 1 of this Note.

2. Background

2.1 Autumn Statement

In his Autumn Statement on 5 December 2012, Chancellor George Osborne announced that he intended to limit increases in certain working-age welfare benefits and tax credits to 1 percent, rather than up-rating them in line with prices. This would be in addition to other reforms to the tax and benefits system already announced by the Government, such as a household benefits cap and the introduction of Universal Credit. Mr Osborne said:

> We have to acknowledge that over the last five years, those on out-of-work benefits have seen their incomes rise twice as fast as those in work. With pay restraint in businesses and Government, average earnings have risen by about 10 percent since 2007. Out-of-work benefits have gone up by about 20 percent. That is not fair to working people who pay the taxes that fund them. Those working in the public services, who have seen their basic pay frozen, will now see it rise by an average of 1 percent. A similar approach of a 1 percent rise should apply to those

in receipt of benefits. That is fair and it will ensure that we have a welfare system that Britain can afford. We will support the vulnerable, so carers' benefits and disability benefits, including disability elements of tax credits, will be increased in line with inflation, and we are extending the support for mortgage interest for two more years.

However, most working-age benefits, including jobseeker's allowance, employment and support allowance and income support, will be up-rated by 1 percent for the next three years. We will also uprate elements of child tax credit and working tax credit by 1 percent for the next three years, although previously planned freezes will go ahead. Local housing allowance rates, which are a central component of housing benefit, will be up-rated in line with the existing policy next April and we will then cap increases at 1 percent in the two years after that. For that measure, 30 percent of the savings will be used to exempt from the new cap those areas with the highest rent increases. The earning disregards for universal credit will also be up-rated by 1 percent for two years from April 2014. Child benefit is currently frozen. It, too, will now rise by 1 percent for two years from April 2014.

Let me be clear: up-rating benefits at 1 percent means that people get more cash, but less than the rate of inflation. Taken together, we will save £3.7 billion in 2015–16 and deliver permanent savings each and every year from our country's welfare bill. To bring all those decisions on many benefits over many years together, we will introduce primary legislation in Parliament in the Welfare Up-rating Bill. I hope that it will command support from both sides of the House.

(HC *Hansard*, 5 December 2012, cols 878–9)

2.2 Statutory Framework for Up-rating

The statutory framework for the up-rating of benefits and tax credits is set out in the Social Security Administration Act 1992 and the Tax Credits Act 2002 respectively. Section 150 of the 1992 Act requires the Secretary of State to review the rates of various benefits each tax year "in order to determine whether they have retained their value in relation to the general level of prices obtaining in Great Britain estimated in such manner as the Secretary of State thinks fit". Where it appears to the Secretary of State that the general level of prices has risen, he must lay before Parliament a draft up-rating order. There is a statutory requirement that certain benefits must be up-rated "by a percentage not less than the percentage by which the general level of prices is greater at the end of the period than it was at the beginning".[1] For a range of other benefits, the Secretary of State is not obliged to uprate them, but has the discretion, "if he considers it appropriate, having regard to the national economic situation and any other matters which he

[1] The benefits which the Secretary of State must uprate include: Attendance Allowance; Guardian's Allowance; Disability Living Allowance; Industrial Death Benefits (existing cases only); Industrial Injuries Disablement Benefit; Carer's Allowance; Incapacity Benefit; Additional Pensions (including SERPS and Graduated Pension); Severe Disablement Allowance; Widowed Mother's/Parent's Allowance; Widow's Pension; Bereavement Allowance.

considers relevant" to uprate them "by such a percentage or percentages as he thinks fit".[2]

There is no statutory requirement for tax credits to be up-rated. Section 41 of the Tax Credits Act 2002 simply requires the Treasury to report each year on whether income thresholds, individual Child Tax Credit (CTC) and Working Tax Credit (WTC) elements (except the childcare element of WTC) and the maximum in-year income rise disregard have "retained their value in relation to the general level of prices in the United Kingdom as estimated by the Treasury in such manner as it thinks appropriate". The report must include a statement of what each amount would be if it had retained its value in relation to prices.

The benefits subject to statutory up-rating were increased annually at least in line with the retail price index (RPI) between the entry into force of the 1992 Act and 2011. Arrangements for increasing tax credits and the benefits with no statutory requirement for up-rating have varied from benefit to benefit and from year to year. The Government announced in its emergency budget in June 2010 that from April 2011 onwards, the consumer price index (CPI) would be used for indexing benefits and tax credits as it "provides a more appropriate measure of benefit and pension recipients' inflation experiences than RPI, because it excludes the majority of housing costs faced by homeowners… and differences in calculation mean it may be considered a better representation of the way consumers change their consumption patterns in response to price changes" (HM Treasury, *Budget 2010*, HC 61 of session 2010–12, para 1.106). This change was controversial in some quarters as CPI has tended to rise more slowly than RPI. For more detailed information, the House of Commons Library Research Paper on *The Welfare Benefits Up-rating Bill* (4 January 2013, RP 13/01) gives a history of up-rating since the 1970s, and the Department for Work and Pensions' *Annual Abstract of Statistics for Benefits, National Insurance Contributions, and Indices of Prices and Earnings* (2011 edition) includes tables showing by how much each benefit has increased since its introduction, and how this compares to different measures of inflation and to average earnings.

The Chancellor's announcement in the Autumn Statement that most working-age benefits would be up-rated by 1 percent was intended to apply for the next three tax years. The increase for 2013–14 is to be introduced under the usual annual up-rating order (see below). The purpose of the Bill is to bring this policy into effect now for the two subsequent tax years (2014–15 and 2015–16) rather than waiting until the usual annual review of benefit levels is carried out in future years.

2.3 Draft Social Security Benefits Up-rating Order 2013

The Government laid the Draft Social Security Benefits Up-rating Order 2013 before Parliament on 28 January 2013. As well as increasing those benefits for which there is a statutory up-rating requirement, it includes provision to uprate by 1 percent the working-

[2] The benefits which the Secretary of State may uprate include: Child Benefit; Council Tax Benefit; Housing Benefit; Income Support; Jobseeker's Allowance (contributory and income-based); Employment and Support Allowance (contributory and income-related); Pension Credit (other than the Standard Minimum Guarantee); Maternity Allowance; Statutory Maternity Pay; Statutory Sick Pay; Statutory Paternity Pay; Statutory Adoption Pay.

age personal allowances of Income Support, Jobseeker's Allowance (income-related and contributory), Employment and Support Allowance (income-related and contributory), Housing Benefit, the Work-Related Activity Group component of Employment and Support Allowance, and the standard rates of Maternity Allowance, Statutory Adoption Pay, Statutory Maternity Pay, Statutory Paternity Pay and Statutory Sick Pay.

The Government has published an Explanatory Memorandum and an Impact Assessment to accompany the draft order. The Government Actuary's Department has published a *Report by the Government Actuary on the Draft Social Security Benefits Up-rating Order 2013 and the Draft Social Security (Contributions) (Re-rating) Order 2013* (January 2013.) This assesses the combined impact on the National Insurance Fund of all the changes made by the order, including the 2.5 percent up-rating of the State Pension under the Government's 'triple lock' commitment.

3. Welfare Benefits Up-rating Bill

3.1 Provisions in the Bill

The Bill contains three clauses and one schedule. Clause 1 requires the Secretary of State to make an order up-rating certain social security benefits and payments by 1 percent in the tax years 2014–2015 and 2015–16. Paragraph 1 of the Schedule sets out which benefits are covered:

- the personal allowances for a person or couple used in the calculation of Income Support
- the personal allowances for a person or couple used in the calculation of Housing Benefit
- rates of Child Benefit; and of Statutory Sick Pay, Statutory Maternity Pay, Ordinary Statutory Paternity Pay, Additional Statutory Paternity Pay, and Statutory Adoption Pay
- the age-related amount for contribution-based Jobseeker's Allowance which is relevant for calculating the claimant's personal rate
- the personal allowances for a person or couple used in the calculation of income-related Jobseeker's Allowance
- the contributory allowance of Employment and Support Allowance
- the work-related activity component of contributory Employment and Support Allowance
- the prescribed amounts for income-related Employment and Support Allowance
- the work-related activity component of income-related Employment and Support Allowance

- the standard allowance for a single or a joint claimant of Universal Credit
- the additional amount of Universal Credit for a disabled child or qualifying young person (but only the smaller or smallest of sums specified)
- the limited capability for work element of Universal Credit

(Explanatory Notes, para 30)

Many of these benefits fall into the category of those which the Secretary of State must review annually to see if they have kept pace with inflation, but for which there is no statutory requirement for up-rating.

Clause 2 requires the Treasury to make an order up-rating certain elements of tax credits by 1 per cent in the tax years 2014–15 and 2015–16. Paragraph 2 of the Schedule sets out which elements of which tax credits are covered:

- the basic element, the 30-hour element, the second adult element and the lone parent element of Working Tax Credit
- the child element of Child Tax Credit (including qualifying young people)

(Explanatory Notes, para 37)

Clause 1 and clause 2 both expressly provide that the relevant amounts cannot be up-rated by more than 1 percent. They also provide that the requirement for a 1 percent up-rating does not apply if the Secretary of State (for benefits) or the Treasury (for tax credits) determines that the general level of prices has not risen, or that it has risen by less than 1 percent. In that scenario, the Secretary of State and the Treasury would have discretion over whether to uprate the benefits and tax credits, and by how much, as under the existing statutory framework.

Appendices 2 and 3 to this Note reproduce tables from the House of Commons Library Research Paper on the Bill (*The Welfare Benefits Up-rating Bill*, 4 January 2013 RP 13/01) showing current rates for the benefits and tax credit elements affected by the Bill, how much they would be worth in future years if up-rated by 1 percent, and how much they would have been worth in future years if up-rated by CPI.

Clause 3 makes provision regarding the Bill's territorial extent. The provisions on tax credits and Child Benefit apply to England, Wales, Scotland and Northern Ireland. The provisions relating to other welfare benefits apply in England, Wales and Scotland only, as social security is a devolved matter in Northern Ireland (with the exception of tax credits and Child Benefit).

3.2 Benefits Not Covered by the Bill

The Bill does not affect any benefits for which there is a statutory requirement for up-rating at least in line with inflation. Also excluded from the scope of the Bill are certain benefits which apply to pensioners, disabled people, and young people. The Explanatory Notes to the Bill state:

> … for 2013–14, the Government has decided that the basic State Pension should be up-rated by 2.5 percent as under the 'triple lock' commitment. The Standard Minimum Guarantee in Pension Credit will be increased beyond the statutory minimum of earnings to give an equivalent to the cash increase in basic State Pension, with the cost off-set by an increase in the Savings Credit threshold. Premia paid to pensioner recipients of working-age benefits as listed above will continue to be up-rated to match Pension Credit rates. Premia paid to disabled people receiving working-age benefits as listed above, and the Support Group component of Employment and Support Allowance, will be up-rated by CPI at 2.2 percent. Applicable amounts specified for children or young persons in the working-age benefits as listed above will continue to be up-rated with reference to Tax Credit and Child Benefit rates.
>
> (para 6)

The increases for these benefits for 2013–14 will be implemented in the Social Security Benefits Up-rating Order 2013 currently before Parliament. Any increases for future tax years will be decided at a later date as part of the usual annual review process.

Although the Chancellor announced in his Autumn Statement that increases to Local Housing Allowance (LHA) would be capped at 1 percent for 2014–15 and 2015–16, this part of his package of measures is not covered by the Bill and will be brought in by regulations instead. The calculations in the Impact Assessment accompanying the Bill do not take into account changes in LHA. For further information about LHA and its impact on the amount of Housing Benefit paid to tenants in the private rented sector, see section 10 of the Research Paper on the *Welfare Benefits Up-rating Bill* (RP 13/01) and the Standard Note *The Reform of Housing Benefit (Local Housing Allowance) for tenants in private rented housing* (SN04957), both published by the House of Commons Library on 4 January 2013.

4. Impact

The Department for Work and Pensions published an Impact Assessment on 8 January 2013. It calculated that the up-rating proposed in the Bill would result in savings of £1.1 billion in cash terms in 2014–15 and £1.9 billion in cash terms in 2015–16. This is compared to what it would cost to up-rate the relevant benefits and tax credits in line with CPI, assuming that CPI rises in line with the Office for Budget Responsibility's forecasts. The savings would break down as shown in Table 1 below:

Table 1: Exchequer savings in cash terms for policy covering 2014/15 and 2015/16

Measure	2014–15	2015–16	2016–17	2017–18
Working-age discretionary benefits and tax credits up-rate by 1 percent from 2014–15	£0.9bn	£1.7bn	£1.7bn	£1.8bn
Child benefit up-rate by 1percent from 2014/15	£0.2bn	£0.3bn	£0.3bn	£0.3bn
Total	£1.1bn	£1.9bn	£2.0bn	£2.2bn

(Source: Impact Assessment, Table 2. Savings in UK case terms, rounded to nearest £0.1 billion. Numbers may not sum due to rounding.)

The Impact Assessment noted that: "As a consequence, total Government spending on social security benefits and tax credits is forecast to increase from around £210 billion in 2013–14 to around £218 billion rather than £220 billion in 2015/16" (page 6). However, "if inflation is higher than forecast, then the savings will be higher; if inflation is lower than forecast, then the savings will be lower" (p 4). The Impact Assessment also points out that "savings continue to be made in future years", even if benefits return to increases in line with CPI after 2015/16.

The Impact Assessment also analysed the likely effect on households, although it noted that "it is not straightforward to use administrative data to calculate the overall change in benefit receipt for a household as households may be in receipt of multiple benefits at any one time" (p 6). The DWP assessed that around 70 percent of households would not be affected by the up-rating changes, for the following reasons:

- The Government has continued its commitment to protect pensioner benefits including protecting the basic State Pension through the triple lock.
- In addition, certain disability and carers benefits such as the Disability Living Allowance (DLA) have been protected and will continue to be up-rated by CPI.
- In addition, those not receiving state support are unaffected by this change.

(p 7)

For the remaining 30 percent of households which would be affected by the Bill, the Impact Assessment pointed out that their benefits "will be up-rated in cash terms, rather than frozen, providing an increase in net income". Analysing what the change would be in terms of the difference between an up-rating of 1 percent and an up-rating by CPI, the

Impact Assessment concluded that there would be "an average change of -£3 from this policy which represents a change of around -1 percent of net income". It found that:

> … those further down the income distribution are more likely to see a change in income than those further up the income distribution because, unsurprisingly, a greater proportion of households towards the bottom of the income distribution are receiving benefits. Those not affected in the bottom two deciles are predominantly pensioners and single people without children, of whom around half are under 25.
>
> (p 7)

Table 2 below shows the number of households affected broken down by income decile.

Table 2: Changes in household receipt per week across the distribution of equivalised income

	Not Affected	Affected	Average change for those affected (£)	Average change for those affected (percent of net income)
Bottom Decile	1.9m	1.4m	-£4	-2 percent
2nd Decile	1.7m	1.6m	-£5	-1 percent
3rd Decile	1.8m	1.5m	-£5	-1 percent
4th Decile	2.1m	1.2m	-£3	-1 percent
5th Decile	2.2m	1.1m	-£3	-1 percent
6th Decile	2.3m	1.0m	-£2	<-1 percent
7th Decile	2.5m	0.8m	-£2	<-1 percent
8th Decile	2.7m	0.6m	-£1	-1 percent
9th Decile	3.0m	0.3m	-£1	<-1 percent
10th Decile	3.2m	0.1m	-£2	<-1 percent
Total	**23.4m**	**9.6m**	**-£3**	**-1 percent**

(Source: Impact Assessment, Table 4. DWP Policy Simulation Model (based on FRS 2008–09, 2015–16 prices. Numbers rounded to the nearest £1, 1percent or 100,000 as appropriate. Figures may not sum due to rounding.)

Looking at the impact on different family types, the Impact Assessment found that:

> … families with children are more likely to be affected than families without children. Lone parents are the family type who are most likely to be affected and also have the highest average change (-£5 per week). This is because they have a lower employment rate than average and also often qualify for in-work support. In contrast, pensioners are the least likely group to be affected, as pensioner benefits

> are protected. There are a small number of pensioner households affected because they are receiving a benefit not specifically designed for pensioners—such as Child Tax Credit if they are responsible for a child.
>
> However, as a proportion of income, single people without children who are affected see a higher change than those families with children. This is because single people without children who are in receipt of benefit are more likely to be out of work than families with children and so their benefit entitlement accounts for a higher fraction of their total income.
>
> (pp 8–9)

Table 3 below shows the average change in benefits for different household types.

Table 3: Changes in household receipt per week by family type for working-age households

	Not Affected	Affected	Average change for those affected (£)	Average change for those affected (percent of net income)
Working age and pensioner couples	0.8m	0.1m	-£2	-1 percent
Couple with children	0.9m	4.4m	-£3	-1 percent
Single with children	0.1m	2.0m	-£5	-1 percent
Couple without children	5.2m	0.7m	-£3	-1 percent
Single without children	8.5m	2.2m	-£2	-2 percent

(Source: Table 5, Impact Assessment. DWP Policy Simulation Model (based on FRS 2008/09), 2015–16 prices. Numbers rounded to the nearest £1, 1percent or 100,000 as appropriate. Figures may not sum due to rounding.)

The Impact Assessment also analysed the impact on households that include someone with a protected characteristic under the Equality Act 2010. It found that:

> On an individual basis, women are more likely to be affected than men with around a third of women (33 percent) affected compared to 29 percent. This difference is likely to be because around 90 percent of lone parents are women, which is the family type most likely to be affected: though this group are likely to receive the greatest cash increase in benefits.
>
> The Government has taken steps to protect vulnerable groups. The Government has protected Disability Living Allowance, Attendance Allowance, the Support

> Group component of Employment and Support Allowance (for those not expected to look for work), disability premia in working-age benefits, and the disabled elements of Tax Credit by up-rating them by CPI to provide protection for disabled people.
>
> … Nevertheless, despite this protection in those households where someone describes themselves as disabled (under the DDA [Disability Discrimination Act] definition), some of whom will not be eligible for a disability benefit, are more likely to be affected [sic] than those where there is not a person who describes themselves as disabled (34 per cent of households compared to 27 percent of households). This is because those who report themselves as having a disability are more likely to qualify for those benefits which are affected by the policy change.
>
> (p 9)

The Government sought to justify the differing treatment of different groups of claimants in the commentary on compatibility with the European Convention on Human Rights contained in the Explanatory Notes to the Bill. It maintained that it was justifiable to up-rate working-age benefits less generously than benefits for pensioners because:

> In the Government's view the two groups of people are not in an analogous situation… pensioner benefits are broadly intended to provide an earnings replacement from the point at which a person retires from paid employment. Once a person starts to draw their pensioner benefits they will generally continue to do so for the remainder of their life. Conversely, where possible (this does not apply to Employment and Support Allowance claimants in the support group), the Government expects working-age benefit claimants to be able to move into the labour market. The Government expects that general their situation would be relatively short term, which means they will be better able to cope with a below inflation increase in benefit.
>
> (para 50)

Similarly, the Government argued that it was justified to treat people in the support group of Employment and Support Allowance more generously than those in the work-related activity group as claimants in the latter group "will be able to move towards the labour market so, again the Government considers they will be better able to cope with a below inflation increase in their benefit" (para 53). Likewise, those claimants of tax credits who had a disabled person in the family should be treated more generously than those who did not because "generally speaking families with someone who is disabled are less likely to be able to improve their economic situation by changing lifestyles, so it is acceptable for up-rating to treat them more generously" (para 60).

The Government's emphasis in these statements is that many of those affected by the Bill could counter the effects of a below-inflation benefits increase by moving into work. However, other analyses of the Bill's impact have highlighted that most of those who would be affected are already in working households. In its response to the up-rating announcement in the Autumn Statement, the Resolution Foundation calculated that:

> … approximately 60 percent of the effect of a three-year below-inflation rise in benefits will hit working households while 40 percent will affect those where no one is employed.
>
> Around 5.8 million families receive tax credits—of whom 4.3 million have someone in work and only 1.5 million are out of work.
>
> (Resolution Foundation press release, 'Autumn Statement hits 'strivers' as wage squeeze is prolonged', 5 December 2012)

The Resolution Foundation described the Government's three-year benefit up-rating policy as "straight-forwardly regressive, with households in the bottom decile facing a 1.2 percent reduction in their post-tax income in 2015–16 as a result". Even taking into account the rise in personal tax allowances, "households in the poorest 10 percent of the population are set to lose around £150 a year (in 2012–13 prices) in 2015–16 compared with a scenario in which these changes had not been made". Applying the up-rating cap to Child Tax Credit and Child Benefit would hit families with children "particularly hard", argued the Resolution Foundation. It calculated that single parents "stand to lose an average of nearly £330 (in 2012–13 prices), or 1.5 percent of post-tax income in 2015–16". Comparing the outcomes of up-rating benefits in line with average earnings, a one-year freeze followed by up-rating in line with CPI, and a 1 percent up-rating for three years, the Resolution Foundation found that:

> … the choice the Government made—a three-year up-rating of 1 percent—results in the biggest losses to households (and therefore generates the greatest savings to Government). It leads to losses roughly twice as large as would have occurred under a one-year freeze (assuming a subsequent return to CPI up-rating). It hits households on lower incomes particularly hard.
>
> In contrast, linking working-age benefits to earnings (across the whole economy rather than the public sector figure quoted by the Chancellor), would boost incomes across the distribution, with those in the bottom half benefitting by somewhere between 0.3 percent and 0.5 percent of their post-tax income in 2015–16. There would however, be a clear fiscal cost.
>
> (Matthew Whitaker, *Resolution Foundation Analysis of the 2012 Autumn Statement*, December 2012)

The Institute for Fiscal Studies (IFS) calculated that a 1 percent up-rating for three years "implies a cumulative 4 percent real cut in the benefits affected", given current inflation forecasts. It pointed out that the actual impact in real terms relative to inflation and to increases in average earnings was not yet known, and commented on the "arbitrariness" of "specifying future benefit changes in nominal terms rather than, for example, relative to actual price or earnings changes". The IFS was somewhat critical of the fact that the real effects of the Bill on benefit rates were therefore as yet unknown and that this "exposes the poorest in society to inflation risk". It also argued that "we ought to" know the Government's view on how benefit rates should be indexed in the longer run.

The IFS calculated that:

> Of 2.8 million workless households of working age, 2.5 million will see their entitlements reduced, by an average of about £215 per year in 2015–16. Of 14.1 million working-age households with someone in work, 7.0 million will see their entitlements reduced, by an average of about £165 per year. Note that this figure includes 3.0 million families who lose only from the cuts to Child Benefit, at an average of about £75 per year (monetary amounts are in current prices).

The IFS analysis emphasised that the impact of the changes to up-rating policy was "only a small fraction of the net 'takeaway' from households resulting from the overall fiscal consolidation". While the main impact of the Bill would be on lower income households, "other elements of the consolidation package have been much more significant, especially for those with the very highest incomes. It is important to see the effects of this Bill alongside other tax and benefit changes, as well as falling real earnings which have hit those in the middle and upper parts of the overall distribution the hardest" (Andrew Hood, Paul Johnson and Robert Joyce, 'The Effects of the Welfare Benefits Up-rating Bill', IFS Observations, 7 January 2013).

Some of the most vocal critics of the Bill have been child poverty campaigners. The Children's Society calculated that, over the three years of the Government's up-rating policy:

> Nearly 12 million adults with children, and 11 and a half million children are estimated to be in families affected.
>
> Parents affected include an estimated 300,000 nurses and midwives, 150,000 primary schools teachers and 40,000 armed forces personnel.
>
> Based on average earnings for their profession, a single-parent primary school teacher with two children stands to lose £424 a year by 2015. A nurse with two children could lose £424, and an army second lieutenant with three children could lose £552.
>
> The impact on households is likely to be even greater if they are renting in the private rental sector and in receipt of Housing Benefit, or if prices rise faster than expected.
>
> (The Children's Society, 'Briefing from The Children's Society: 1 percent Benefit Up-rating Cap', 8 January 2013)

The Children's Society declared that: "If this Bill is passed, it will make it much harder for millions of children and families across the country to make ends meet". It asked the Government "urgently to reconsider this Bill" (The Children's Society press release, 'Our Statement on the Pending Welfare Benefits Up-rating Bill', 8 January 2013). The Children's Society also questioned the suggestion made by the Government in its Impact Assessment that some employers might cover the cost of reduced pregnancy and maternity benefits, stating that: "There is no evidence to support this" (The Children's Society, *Welfare Benefit Up-rating Bill: Summary Findings from the Government's Impact Assessment*, January 2013).

In its report *The Double Lockout: How Low Income Families Will Be Locked Out of Fair Living Standards* (7 January 2013), the Child Poverty Action Group (CPAG) contrasted the Bill with the 'triple lock' guarantee for pensioners. It asserted that "the Bill creates a double lock-out: it locks out the workers, jobseekers, carers and disabled people receiving the affected tax credits and benefits from a link with either prices or earnings". This, it said: "cuts them loose from the cost of living and the mainstream of society". CPAG also contended that "the policy of real terms welfare downrating will also increase absolute and relative child poverty, with serious consequences for large numbers of children, their families, and indeed for broader society" (p 2). The report's main findings were:

- The Bill is poverty-producing and means that both absolute and relative child poverty will increase.
- Contrary to arguments made by Ministers, welfare spending on workless families has been falling and most Jobseekers Allowance claimants find new jobs within months.
- The Bill puts the economy at risk by failing to protect the economy's 'automatic stabilisers'.
- Contrary to popular perception, benefit fraud is at its lowest ever recorded level and the 'scrounger' stereotype is grossly inaccurate.
- The Government must focus on the root causes of social security and tax credit demand and prioritise progress on full employment, living wages, affordable housing and affordable childcare.

(CPAG press release, 'Double Lockout Bill Cuts Real Support for Jobseekers by 4 percent', 7 January 2013)

Responding to the publication of the Government's Impact Assessment on the day of the Bill's second reading in the House of Commons, Alison Garnham, Chief Executive of CPAG, said it was "simply indefensible that the Government has, at the last minute, published an impact assessment that says nothing about poverty. Absolutely nothing. Whether you agree with the proposed cuts or not, it cannot be right to ignore their impact on child poverty" (CPAG press release, 'Double Lockout Bill—DWP Impact Assessment Ignores Impact on Poverty Levels', 8 January 2013).

Esther McVey, Parliamentary Under-Secretary of State for Work and Pensions, gave the Government's assessment of the Bill's likely impact on child poverty in answer to a parliamentary question. Firstly, she explained that the Government "strongly believes looking at relative income in isolation is not a helpful measure to track progress towards our target of eradicating child poverty". During a recession, the median income tends to fall, and thus the relative poverty line tends to fall. She stated that in 2010–11, 300,000 children moved out of relative poverty "largely due to reductions in median incomes", whereas "absolute poverty remained unchanged". She said "it cannot be right that we can move children out of poverty through a recession", and the Government was therefore consulting on how to define a better measure of child poverty. On the specific impacts of the Bill on child poverty, she said:

> While it is not possible to accurately project the trajectory of household earnings, it is likely that in-work families with children will benefit from the steady earnings growth forecast by the Office for Budget Responsibility. Indeed for some families this increase in earnings may be enough that their income rises in real terms (i.e. after inflation is taken into account) even after the smaller increase in benefits.
>
> Where subject to an up-rating, rates of benefits and tax credits will rise in cash terms. For instance, an out-of-work lone parent with two children receiving income support, child tax credit and child benefit would see a cash increase of around £4 a week over the two years covered by the Welfare Benefit Up-rating Bill. However, because the relative poverty line moves each year in cash terms too, some families will move below this line over the period.
>
> We estimate that the up-rating measures in 2013–14, 2014–15 and 2015–16 will result in around an extra 200,000 children being deemed by this measure to be in relative income poverty compared to up-rating benefits by CPI. As earnings growth and inflation projections change these estimates will change. In addition, these impacts are not forecasts of the level of child poverty and do not indicate what will happen to trends over time. It is misleading to look at the impacts of up-rating in isolation. The Government is investing in tacking [sic] the root causes of child poverty through making work pay.
>
> Work is the best route out of poverty. Universal credit will reduce poverty by making work pay and providing an effective route out of poverty.
>
> (HC *Hansard*, 15 January 2013, cols 715–6W)

Analysing the impact of measures announced in the Autumn Statement, the Citizens Advice Bureau concluded that "the impact of capping the up-rating of benefits will swamp any gains from the change in personal tax allowances for almost all low income households whether in or out of work and many middle income families with children". It gave the following examples:

> A couple with two children earning £26,000 a year and paying a fairly modest rent of £130 a week (£563 a month) will experience a net loss of £1.85 a week from next April, £6.52 the following April and £11.20 in April 2015. A possible rise in the personal tax allowance to £10,000 in perhaps April 2014 would only give them £0.75 a week to offset the loss of £6.52.
>
> People who are disabled are not protected by the fact that disability benefits will be up-rated in line with inflation, because it is likely that most of their income comes from other benefits. For example, a lone parent in the ESA support group who has two children and pays rent of £130 a week, will face a loss of £3.06 in April 2013, £7.34 in April 2014 and £11.62 in April 2015.
>
> (Citizens Advice Bureau, *Autumn Statement: An analysis of changes in household incomes from April 2013*, December 2012, p 7)

Disability charities have questioned the Government's assertion that the Bill protects disabled people's benefits. For example, Disability Rights UK stated:

> We welcome DLA being up-rated at a higher rate than the 1 percent standard proposal for other benefits. We also welcome that some disabled people in the Employment and Support Allowance (ESA) Support Group—for disabled people assessed as being unable to undertake any work-related activity—will also be afforded some protection. However, the Support Group component of ESA payments is worth just £34.05 this financial year. The majority of the payment that disabled people in the Support Group receive is the Basic Allowance component of £71.00 which will be up-rated at 1 percent under Government proposals. This penalises disabled people even in the Support Group with a 1.4 percent up-rating overall (i.e. even the disabled people the Government suggests are protected will experience a 1 percent up-rating on almost 70 percent of their out of work support).
>
> The Government has also acknowledged that all ESA recipients are disabled people. To access ESA requires a rigid 'Work Capability Assessment' process which often fails to identify the impact an impairment or health condition has and leaves disabled people with a lower payment and support package provided through Jobseeker's Allowance.
>
> Most people receiving ESA are in the Work Related Activity Group (WRAG). This group includes people with cancer, learning disabilities and progressive conditions for example. The Welfare Benefits Up-rating Bill proposes this large group of disabled people receive a 1 percent uplift in payments…
>
> 991,000 disabled people were receiving ESA (in the Support Group and WRAG) in 2012 and all would experience the impact of the 1 percent up-rating. Most would lose the equivalent of a loaf of bread and a pint of milk per week (£87.65 per year). This represents a significant proportion of disposable income to an already impoverished and disadvantaged group of UK citizens.
>
> (Disability Rights UK press release, 'Welfare Benefits Up-rating Bill and disabled people', 8 January 2013)

Not all commentators have been opposed to the Bill. For example, an editorial in the *Daily Telegraph* described capping benefit rises as "the moral thing to do". It called Labour's decision to vote against the Bill "defending the indefensible", "supporting the notion that people who are not in work should be more favourably treated than those who are" ('Capping welfare is the moral thing to do', *Daily Telegraph*, 9 January 2013). Writing in the *Express*, Leo McKinstry described the measures in the Bill as "a perfectly sensible proposal", adding that: "In any fair society it cannot be right that benefit claimants are rewarded more generously than those struggling to hold down jobs" (Leo McKinstry, 'Yes it's painful but the welfare bill must come down', *Express* 7 January 2013). Writing on the ConservativeHome blog, Tim Montgomerie commented that the welfare cap policy would "bring real difficult [sic] to many homes" but "It is a policy that, on balance, I think is right. We need to cut the deficit and we need to increase the gap between in-work and out-of-work income" (Tim Montgomerie, 'The benefits squeeze will cause real hardship to many families. It's a necessary measure in difficult times but no Tory should see it as a political ploy', ConservativeHome, 9 December 2012).

5. Proceedings in the House of Commons

5.1 Commons: Second Reading

Introducing the Bill at second reading in the House of Commons, the Work and Pensions Secretary Iain Duncan Smith said that it was about "the renewal of what I believe is a principled welfare state based on affordability, integrity and fairness" (HC *Hansard*, 8 January 2013, col 188). He explained that legislating now for the 1 percent increase in discretionary working-age benefits and tax credits for the future tax years 2014–15 and 2015–16 would "provide certainty for taxpayers, the markets and claimants" (col 189). He emphasised that the benefits paid to certain groups, such as pensioners, disabled people and carers, would still rise in line with prices. He explained that the Government was "trying to get a fair settlement back over the next few years" but "Eventually benefits will go back on to inflation" (col 192).

Mr Duncan Smith characterised the system that his Government had inherited from Labour as "unsustainable and costly"—one which "delivered poor social outcomes, trapping people in dependency" (col 188). He was particularly critical of the amount of money that Labour had spent on tax credits (cols 192–3). He said that "the reality is that the Bill is… about getting the overall welfare bill down and in kilter… the key is that we must reduce the deficit—that is at the heart of the measure" (col 192). Fairness to taxpayers was a key rationale behind the Bill:

> We should bear in mind that 70 percent of all households will not be affected by this legislation. Many of our constituents are taxpayers picking up the bill for all these costs, including the deficit and borrowing that the last Government left us. Over the last five years, following the recession, the gap has grown between what people in employment have been earning and what those on welfare have been getting. Those in work have seen their incomes rise half as quickly as those on out-of-work benefits—10 percent compared with 20 percent. That is not fair to taxpayers. Returning fairness to the system is critical, and it is one area that Labour refuses to acknowledge. Under the previous Government taxes rose, borrowing rose and the deficit rose—and they left those bills for the next generation. It is our job to get that under control. These are not decisions taken lightly or easily, but we have to take them and they are in denial.
>
> (col 195)

He argued that, rather than simply opposing the Bill, "a constructive Opposition would give us a proposal on how they would save that money" (col 196). He dismissed Labour's proposal for a compulsory jobs guarantee for adults who had been unemployed for two years or more, set out by the Shadow Chancellor Ed Balls at the beginning of January and referred to in Labour's amendment to the second reading motion, as "hugely costly", a "bogus programme" and "pathetic" (cols 197–8).[3]

Moving Labour's amendment to decline to give the Bill its second reading, Liam Byrne, the Shadow Work and Pensions Secretary, declared that: "we have a choice between the Tory way and the Labour way to bring down welfare spending. The Tory way is to hit working families; the Labour way is to help people work" (col 201). He drew a contrast between the measures in the Bill and the Government's decision to cut the top rate of income tax:

> … we are learning today who is being asked to pick up the bill for the catastrophic economic failure. It is not Britain's richest citizens, who are now so hard pressed and under the cosh that they are being given a tax cut. From next year, millionaires will have £107,000 more to help them to heat their swimming pools. It is not Britain's millionaires who are picking up the tab; it is Britain's working families. The measures in the Bill are a strivers' tax, pure and simple.
>
> (col 204)

Developing this point, Mr Byrne highlighted figures from the IFS and the Children's Society, according to which working families would lose out under the Bill, even taking into account rises in the income tax personal allowance threshold (col 207). He argued that the Bill:

> … does nothing to create new jobs or remedy the deficiencies of the Work Programme; it does nothing to sort out the chaos in Universal Credit; it does nothing but punish working families that are now losing £9 billion of support under this Government.
>
> … It will mean child benefit rising by 20p a week, maternity allowance by £1.37 and jobseeker's allowance by 72p, while the income of a millionaire will go up as a result of the tax cut by £2,058 a week. How can [the Secretary of State] justify that? He cannot.
>
> (cols 207–8)

Mr Byrne claimed that the Bill would create "a heck of a mess". He urged "the House to oppose the Bill's second reading, to strike a blow for Britain's strivers, to send the Government back to the drawing board, and to demand from them a proper plan to get our country back to work" (col 210).

Throughout the debate, Conservative members continued to emphasise the need to save money and to ensure fairness for the taxpayer. Gavin Williamson, for example, argued that "We recognise that we cannot spend money that we do not have. It is a simple fact and we hope that eventually the Opposition will adopt such fiscal responsibility" (col 212). Kwasi Kwarteng questioned whether it was "right that people on out-of-work

[3] See the Labour Party's news release, 'Labour's compulsory jobs guarantee for the long-term unemployed', 4 January 2013, for full details of Labour's proposal.

benefits should be receiving faster and greater increases in their income than people on very low wages? Is that fair?" (cols 217-8), a thought echoed by many others on the Conservative benches. Similarly, Aidan Burley drew a parallel between public sector pay and the measures in the Bill:

> This is what a local police officer e-mailed me last year when we up-rated benefits by 5 percent:
>
> > "Why has the Conservative Government given a recent rise in benefits money… to the unemployed when nurses, police officers, fire and rescue workers and all other public sector workers have not received a pay rise for over two years?"
>
> It is a fair question, and I do not know the answer. What I do know is that if the rate of inflation is not sufficient to warrant an increase in public sector pay beyond 1 percent in April this year, it cannot be so high as to require an increase in benefits beyond that either.
>
> (cols 238–9)

Julian Sturdy argued that the fundamental purpose of the welfare state needed to be borne in mind:

> An effective and fair welfare system should support those who tragically suffer from difficult medical conditions and those who find themselves in abject poverty. However, benefits that are simply rolled out and increased without question and without regard for the wider economic situation threaten to give our welfare system a bad name... The votes in the House later today must be made with fairness in mind—fairness to those who receive benefits and those whose taxes pay for them.
>
> … The key fact used by the Secretary of State—that over the past five years some benefits have increased by 20 percent while workers have experienced an average pay increase of 10 percent to 12 percent—is enough to set alarm bells ringing. If we are to ensure that our welfare system is a source of pride and not resentment, we cannot justify such increases when wider taxpayers are suffering in a tough economic climate.
>
> (col 244)

Several Conservative MPs argued that the tax credits system had been extended too far under Labour. Aidan Burley noted that: "The Opposition have argued that this up-rating of 1 percent will impact on working people and not just those on benefits. Given that the previous Government made 90 percent of workers eligible as welfare recipients, that is inevitable" (col 239). Marcus Jones argued that a better way to help people on low incomes would be to scale back tax credits and simply tax them less in the first place:

> … in an ideal world it would be fantastic to up-rate working benefits in line with inflation, but in the world of inevitable reality, we all know that that is unsustainable. The creation of the tax credit system unleashed a bureaucratic

> leviathan on the country, and billions have now been spent on bureaucracy: £4 billion has been written off in errors and bad debts already and as we heard today, another £4 billion is likely to go the same way. It is far simpler to put people in a position where they pay less income tax, and I am glad and proud that the Government are doing that.
>
> (col 250)

Labour MPs speaking in opposition to the Bill emphasised that the people it would affect were mostly not "scroungers" or "skivers", but "strivers"—those in work earning low incomes, and unemployed people who wanted to work but were unable to find a job. Several Labour MPs recounted the experiences of their constituents, already living on tight budgets, whose incomes would be affected by the Bill. For example, Julie Hilling said:

> Government Members do not have a clue. What would they like to say to my neighbour Leah, a single mum of two working 16 hours a week on minimum wage? She uses her £101 a week wages to pay her rent, utilities, council tax and other household bills. She uses her tax credits to buy food, clothes, school dinners and her £18-a-week bus fares. What will she cut out when her money will not cover her basics? Should she beg for food at a food bank, stop her children from going swimming, stop heating the house or do what so many other parents have to do at the moment—skip meals just so she can feed the children?
>
> Sixty-eight percent of the people hit by this Bill are, like Leah, in work. They are nurses, soldiers, shop workers, cleaners, teachers, admin workers and care workers. Many are already struggling to make ends meet, and this will put them over the edge.
>
> (col 261)

Many members cited research by organisations such as the IFS, the Children's Society, the Resolution Foundation, CPAG and others on the likely impacts of a 1 percent up-rating. For example, Ian Mearns quoted Unison figures estimating that the Bill would cost an average family with two children more than £1,000 by 2015–16. He argued that the change in personal tax allowances "will do little to offset the shortfall in the income of working families" and cited CPAG research, according to which "a working family eligible for both housing and council tax benefit will gain only 13p a week—13p!— as a result of the extended personal allowances". This was, said Mr Mearns "a slap in the face for the working poor and children" (col 221). He also pointed out that the prices of essential food items and energy bills were currently rising faster than inflation. He argued that such price hikes had a greater effect on those on low incomes or on benefits:

> … a real-terms cut will have a much greater impact on low-income households than on higher-income households because basic living costs make up a greater proportion of their income. Even when a cut is proportional to income, it is often felt more acutely by a household on a lower income, as a greater proportion of its income is spent on essentials such as food, fuel and clothing.
>
> … How on earth are the low paid and those out of work supposed to heat their homes and feed their families if their benefits are not increased in line with

> inflation? Families are already having to make difficult choices between heating and eating.
>
> (col 221)

Derek Twigg set the Bill in the context of other Government policies which had already had an impact on the incomes of people receiving the benefits that would be affected by the Bill, such as changes to Housing Benefit and Council Tax Benefit. This, he said, would "greatly increase the suffering in my constituency and others where the poorest and the weakest will be the most badly hit" (col 232). He also highlighted the Government's change from RPI to CPI as the indexing measure for benefit up-rating; after ten years, he said, benefits up-rated by CPI would be worth only 86 percent of what they would have been if they had been increased in line with the RPI, which represented "a major cut" (col 233). Steve McCabe noted that although the Bill talked about "up-rating", a 1 percent rise over three years was the equivalent of a 4 percent real terms cut, for people who were "already struggling". He claimed it was "no wonder people are being driven into the arms of payday loan sharks" (col 240).

Several speakers highlighted the effects of the Bill on the wider economy, as well as its likely impact on household incomes. Steve McCabe noted that: "Income transfers for those on modest incomes… are recognised through developed economies as exactly the kind of fiscal stimulus needed when recessionary pressures are highest, but the Chancellor is doing the exact opposite" (col 240). Hywel Williams (Plaid Cymru) argued that: "People on low incomes tend to spend locally and to spend all their money… Working tax credit reductions will suck demand out of local economies and make matters even more difficult for small business struggling to survive in the recession" (col 228).

Others questioned the premise on which the Bill was founded. Debbie Abrahams (Labour) maintained it was a "myth" that welfare benefits had increased more than average earnings. Average earnings had risen by 36 percent since 2002, she said, whilst Jobseeker's Allowance had gone up by only 32 percent (col 236). Caroline Lucas (Green) pointed out that the "lavish 20 percent increase" in benefits spoken of by the Government meant that in cash terms, Jobseeker's Allowance had risen from £59.15 a week in 2007 to £71 a week in 2012. This was, she said "hardly a princely increase". Over the same period, the 10 percent increase in average earnings meant that someone on an average wage would have received an increase of around £11 in their weekly take-home pay each year for the last five years. She continued:

> That is not enough and I oppose the public sector pay freezes, but it is still nearly four and a half times more in hard cash terms than the £2.50 annual increase for those on JSA. It is therefore an outrageous and disingenuous attack on people
>
> who are seeking work to suggest that they are getting more than people who are in work when, in cash terms, they have got more than four times less.
>
> (col 265)

Sarah Teather (Liberal Democrat), the former Minister for Children and Families, also suggested that supporters of the Bill were being disingenuous. In a speech which was praised by several other opponents of the Bill, she enumerated ways in which the Bill's fairness could be questioned:

> … many of those affected by the Bill are actually in work; many are the same group who have already had a negligible pay rise and are already bumping along at the bottom of the poverty threshold. For me, that is the first of a number of disingenuous comparisons used to argue for the fairness of the Bill. The first is that those affected are out of work, when many more are in fact in work but on low pay…
>
> The second disingenuous point is about percentages themselves, which fail to take into account the cuts to housing benefit that families in my constituency will be experiencing in the next six months or so as the changes filter through. There are also the changes in April to council tax benefit; they will affect the same families affected by the up-rating provisions in the Bill.
>
> The third point is whether percentages mean anything at all. Whatever goal posts are used to measure the percentage change in benefit across time, it is clear that the monetary value of rising average wages is significantly more than that of benefits. Percentages do not buy milk, bread or school uniforms—pounds and pennies buy those things, and it is in pounds and pennies that people will experience a cut.
>
> … The fourth disingenuous point is probably that cutting the incomes of those at the bottom of the income threshold will help boost the economy. All the evidence says that money put into the pockets of those at the bottom of the income spectrum is most likely to be spent. That is precisely why my party argued so hard during negotiations to ensure that we raised the threshold of tax on the lowest paid.
>
> (cols 215–6)

Ms Teather's Liberal Democrat colleagues Simon Hughes and Greg Mulholland supported the Bill, given the current economic situation. Mr Hughes said that: "This is a difficult decision, but the Government have got the balance right in these difficult times" (col 206). Mr Mulholland did "not want to see any reduction in benefits unless absolutely necessary". His party had made clear it would not accept changes such as a freeze or reduction in benefits, but this Bill represented "a temporary measure which can and will be reversed as and when the economy improves" (cols 247–8).

Winding up for the Opposition, Cathy Jamieson, the Shadow Economic Secretary to the Treasury, said:

> The true character of the Government has been exposed. There are tax cuts for millionaires while millions of working people pay the price for their economic failure. We need real welfare reform—Labour's jobs guarantee—that is tough and fair, and that works. We do not need an unfair attack on striving families trying to do their best from this out-of-touch and failing Government.
>
> (col 268)

Sajid Javid, Economic Secretary to the Treasury, argued that the savings made by the Bill were "crucial", given that the Government was currently spending nearly £1 in every £3 of tax revenue on welfare. The fact that benefits had risen by a greater percentage than average earnings since the financial crisis was:

> … not fair on taxpayers. It is not fair for my working constituents to pay out more to sustain welfare benefits at the exact time they are facing pressures to stretch their wages further. Nor is it fair to benefit claimants if we ensnare them in a position where it pays to claim benefits rather than to get out and find work.
>
> (col 270)

He accused the Opposition of wanting to "spend billions increasing benefits while people up and down the country face pay freezes". He pointed out that Labour had supported a 1 percent pay rise for public sector workers, but "they do not think it is right to have the same restraint—a rise of 1 percent—applied to benefits and tax credits. The Government was, in his opinion, taking "sensible, measured steps to put right the economic mess that the Labour party left behind". He commended the Bill to the House (col 271).

Liam Byrne's amendment—declining to give the Bill a second reading, and suggesting the introduction of a compulsory jobs guarantee funded by limiting the amount of tax relief on pension contributions available to high earners—was defeated by 328 votes to 262 (col 271). The House divided on the question that the Bill be now read a second time; the Bill was given its second reading by 324 votes to 268 (col 275). There was also a division on the programme motion which proposed that the Bill be referred to a Committee of the Whole House; that the committee and remaining stages be taken on one day; and that there be time limits on the committee and remaining stages. The programme motion was passed by 322 votes to 261 (col 280).

5.2 Commons: Committee Stage

The Bill was considered by a Committee of the Whole House on 21 January 2013. Stephen Timms, the Shadow Minister for Employment, moved an amendment which would have removed the reference to up-rating by 1 percent in clause 1 of the Bill. It would therefore have obliged the Secretary of State to "make an order by statutory instrument increasing each of the relevant sums", without prescribing by how much the benefits should be increased.

Mr Timms observed that the Government did not need to introduce primary legislation to implement its policy of restricting up-rating to 1 percent.[4] He claimed that the Chancellor had designed the Bill for party political reasons, to "boost his party's standing". It was, he said, "ridiculous to announce now—before we know anything about the future course of inflation—by how much benefits will be up-rated in more than two years' time". In Labour's view, "up-rating should be in line with inflation and assessed, as

[4] As explained in section 2.2 above, a 1 percent up-rating could have been introduced for each future tax year as part of the annual up-rating order process, but it would not be possible to introduce a 1 percent up-rating *now* for the years after 2013–14 without new primary legislation.

it always has been, at the end of the preceding year" (HC *Hansard*, 21 January 2013, col 52). When questioned as to whether CPI, RPI or some other mechanism should be used to measure inflation, Mr Timms said that was "a matter to be announced at the appropriate time" (col 53). Condemning the Bill as "incompatible" with the Government's aim of eradicating child poverty, he maintained that three years of a 1 percent benefits up-rating would "increase child poverty by an additional 200,000" on top of the increase of 800,000 children in poverty by 2020 predicted by the IFS. He described this as "a devastating blow", which would "undo all the progress of the last 15 years" (cols 53–4).

Responding to Mr Timms' amendment, Martin Horwood (Liberal Democrat) described the Labour Party as "absolutely pathetic" for declining to support other amendments intended to tie benefit increases to the level of inflation or average earnings (col 54). Steve Webb (Liberal Democrat), the Minister for Pensions, challenged Mr Timms to "say where, if not from these measures, he would find the £3.5 billion" the Bill was predicted to save (col 56). Stephen Timms countered that the Bill was being introduced in a context of rising unemployment, which was forecast to cost an additional £3 billion in benefits. He declared that: "What the Minister and the Chancellor should be doing is putting in place policies that will reduce unemployment, not see it rise" (col 57).

Charlie Elphicke (Conservative) supported the Bill as a necessary measure, alongside the introduction of Universal Credit, to:

> … ensure that work pays… and ensuring an extra incentive for those who are out of work and on benefits to go into work. We do that by not continuing with the over-generous benefits or over-up-rating of benefits, as compared with what people in work have received, that we have seen in recent years.
>
> … the measures in clause 1 are really important because we need to do all we can to ensure that people who are not in work achieve their potential, get into work, do really well and achieve great success in their lives.
>
> (cols 58–9)

Some Labour members objected to this line of thinking. Toby Perkins pointed out that "60 percent of those affected by the clauses we are discussing today are in work". He said that the Bill was "making precisely those hard-working people on low and middle incomes worse off by being in work" (col 58). Ian Mearns also observed that:

> In some parts of the country, there is no work; in others between a dozen and 20 people—or even more in some places—wait for each vacancy. In such places, where people have no real opportunity to get work anywhere near their own locality, there must be decent welfare so that they can sustain themselves, their families, and, most important, their children.
>
> (col 60)

It was, he said, "the ultimate insult to ordinary people's intelligence, to say that in order to incentivise those at the top end of the economy we have to pay them more, while incentivising people at the bottom end by paying them less" (col 61).

Later in the debate, Frank Field (Labour) praised Mr Timms' amendment: "It seeks to tear the heart out of this Bill, and it should tear the heart out of the Bill, because it is a terrible Bill". Mr Field accepted that further welfare reform was necessary, that "there is a real problem in this country with incentives to work", and that the deficit needed to be tackled. However, the Bill would, he said, "crush some decent people, who find it impossible to live on the levels of income that we lay down". He believed that the electorate would not judge the Bill to be fair (cols 102–4).

John Redwood (Conservative) was generally supportive of the Bill, but cautioned that if the Government was going to "pursue and sustain the policy of very low benefit increases for the next period, it is important that two other conditions are met". Firstly, he argued that "every action should be taken to keep inflation down", for if it suddenly rose "this would become a much tougher and crueller policy than Ministers have in mind". Secondly, the policy would be "much easier to sustain if more jobs are flowing into the economy" (cols 66–7).

Caroline Lucas spoke to an amendment she had tabled with Hywel Williams and Dr Eilidh Whiteford (SNP), which would have required the benefits covered by the Bill to be up-rated annually in line with RPI. Ms Lucas argued that it was "a fiction that benefit levels are too high", and said that her amendment was "an attempt, at least, to neuter what I believe is a cruel and callous Bill by restoring the historic link between benefits and tax credits and the retail prices index" (col 69). This was, she said, "the very minimum safety net that must be in place" (col 70). She would have preferred a requirement for benefits to rise in line with the higher of retail prices or average earnings, but had "deliberately tabled a more modest amendment that would just restore the link to RPI because I wanted to press the Committee to provide that minimum protection in the face of this Bill, and had hoped that such an amendment would garner more support". In particular, she expressed disappointment that the Opposition was not supporting her amendment (cols 71–2).

Richard Graham (Conservative) pointed out that over recent years, prices had risen faster than average earnings. He therefore wondered whether Ms Lucas's amendment would "act as an incentive to work, or to retreat back to benefits as fast as possible". Ms Lucas rejected this line of thinking, saying she did "not believe that most people have to be pushed into work by cruel incentives", but rather that "the vast majority want to work, contribute and feel part of wider society" (col 70).

Speaking to the amendment later in the debate, Eilidh Whiteford highlighted the fact that a below-inflation up-rating of benefits would represent a real-terms cut in the incomes and living standards "of those who already live in the most straitened circumstances and will continue to do so for the next three years". If the OBR's inflation predictions were correct, the policy would result in a 4 percent real-terms cut in tax credits and benefits by 2015, but, she continued: "That is a very big 'if': the OBR's crystal ball has not been very effective to date and it has not been good at predicting inflation". If inflation were "higher than the guesstimates from the OBR" then "the impact on low and average-income households will be greater than we predict today". She argued that that was why the link between welfare payments and the cost of living must be preserved. She accepted that neither RPI nor CPI was a perfect measure for capturing the impact of inflation on low income households, which were disproportionately affected by rises in food and energy prices. However, RPI, the measure referenced in her amendment, "includes some housing costs and is more likely to reflect the actual inflation that poor people experience". She concluded by saying that the amendment would "make this deeply flawed Bill slightly less iniquitous and slightly less unfair, and would ensure that the very poorest families do not carry a disproportionate share of the burden in tough economic times" (cols 106–8).

Andrew George (Liberal Democrat) spoke to an amendment tabled in his name and that of other backbench Liberal Democrat MPs. This amendment would have required the benefits covered by the Bill to be up-rated annually in line with the rise in the general level of earnings. Mr George observed that on occasion benefits had risen more quickly than wages. He believed that "in straitened times such as these, a principle should be established whereby that should not happen and that average wages should be the marker against which future benefit rises are set" (cols 74–5). His amendment would, he argued, achieve the purpose of the Bill "as the Secretary of State articulated it when he introduced it—to ensure that benefits would never rise faster than average wages", without introducing an "inflexible and somewhat arbitrary" 1 percent cap on up-rating. He described the 1 percent figure as "one big weakness of the Government's proposal" because it took no account of what might happen to prices, especially to volatile food and energy prices, between now and 2016. If a 1 percent figure were introduced, he argued that: "We cannot say with confidence that we will not need to introduce further primary legislation to revise that figure in 2016" (cols 75–8).

Charles Kennedy (Liberal Democrat), who had also put his name to this amendment, maintained that ensuring benefits would not rise at a higher rate than earnings was "a responsible position in relation to the wider issue of the deficit—and deficit reduction policy" (col 85). He saw aspects of the Bill itself as "insidious", a "political device… which emanates in particular from the personage of the Chancellor of the Exchequer, aided and abetted by the Prime Minister" and which was intended to "open up a philosophical divide" between the Conservatives and the Labour Party (col 86).

Alan Reid, another supporter of this amendment, described it as a "fair compromise between the need to cut the deficit and the need to provide a safety net for those dependent on welfare benefits". In particular, "setting the increase to the rise in average earnings, rather than a fixed rate of 1 percent, would mean that as the economy grew, the level of growth in the economy would be paid to those on benefits, as well as those in work". Highlighting the difficulties caused to people on low incomes by rising food and energy prices, he criticised the Government for having "no contingency plans for a scenario in which prices rise by more than expected" (cols 92–3).

Concluding the debate, Steve Webb rejected the suggestion that "the Bill is simply a political device". He argued that legislation setting out the Government's plans for future years was necessary to provide the certainty and credibility that would allow the Government to keep interest rates under control. The Bill's purpose was "tackling the vast, sprawling deficit", he said. He continued:

> We are talking about a Bill and related measures that will eventually save about £3 billion a year. Labour was borrowing £3 billion a week, so we would need, say, 50

> of these Bills to tackle just one year of Labour borrowing. That is the scale of the situation.
>
> … We have a target for 2015–16 of £10 billion of spending reductions. We have not yet found that £10 billion. Even with this Bill, we are on about £6 billion, and without the Bill and related measures we would be down to about £3 billion. The challenge for Opposition Members who have said that taking money away from benefits takes spending power out of the economy is that so do other forms of spending cuts. If the money comes not from benefits but from local government, that will be money out of the local economy; if it comes from infrastructure projects, that will be money out of the local economy. There is not a free way of finding money without any impact.
>
> (col 112)

Mr Webb dismissed Labour's amendment as "incoherent". Removing the reference to 1 percent would "take something out and put nothing in its place. It would remove the heart of the Bill but gives no guidelines on whether the figures should be below inflation or above inflation, below earnings or above earnings" (col 112). He also rejected Caroline Lucas and Eilidh Whiteford's amendment as "fantasy land"; not only would it wipe out the savings made by the Bill, but "in a single year it would cost £2.6 billion more than the current plan", he said (col 113).

Mr Webb described Andrew George's amendment as the "most credible [and] coherent", but even so, he identified a number of problems with it:

> The first relates to the specifics of the amendment, which links benefit increases in 2014–15 and 2015–16 to whatever amount average earnings grow by. Based on the forecasts—I accept that that is what they are—that would mean an above inflation increase in the second of those two years, because we think that average earnings in a couple of years' time will be more than CPI, as is the case in many normal years. At a time when we all agree that money will be tight, my hon. Friend is suggesting that an above inflation benefit increase in the second of those two years should be a priority. I do not think it should be.
>
> … Secondly, this is not intended as a wrecking amendment, but it would have that effect. We estimate that it would wipe out virtually all the Bill's savings. Although I understand that my hon. Friend shares my concern about the impact on people on low incomes, that money would have to be found elsewhere. I do not believe that there is a painless way of finding that money or that the social security budget would be exempted from finding it.
>
> (col 114)

Given the difficulties of making savings, particularly in welfare expenditure, Mr Webb defended the Bill's approach:

> We have already had to do some very difficult things on welfare spending in the Parliament whereby we have targeted particular benefits and identified particular issues, and a relatively small number of people have faced large cash losses. This is

> a different approach. It is a gradual approach that will create much smaller losses, but for much larger numbers of people. At a time when we are trying to find savings from this budget, I believe that spreading the pain relatively thinly across a larger group, rather than focusing on a smaller one, is the way to go.
>
> (col 114)

Mr Webb urged the Committee to reject the amendments and support the Bill. The Committee divided on Stephen Timms' amendment, which was defeated by 312 votes to 238 (col 119). Although Caroline Lucas and Andrew George had wished to test their amendments (cols 127–8), there was no time remaining under the programme motion. The Committee voted by 307 votes to 243 in favour of clauses 1 to 3 standing part of the Bill and the schedule being the schedule to the Bill (col 123).

5.3 Commons: Report and Third Reading

At the conclusion of committee proceedings, the Bill was reported with no amendments and no further debate. The third reading debate took place directly afterwards. Iain Duncan Smith returned to the themes of affordability and fairness. He said that introducing the Bill was "not something that, at the start, we would have wanted to do", but Labour had left the Government "a legacy of disaster and spending that was out of control, and our priority must be to get that back under control" (HC *Hansard*, 21 January 2013, col 128). He again criticised Labour for the amount they had spent on tax credits in an attempt to meet what he described as "an arbitrary target" on child poverty. Setting a target for there to be no children in households with an income of 60 percent or less of the median was, he maintained, "a recipe for nightmare problems and excess spending", and his Government planned to "go into full public consultation about a better way to measure real child poverty" (col 130).

Mr Duncan Smith assured the House that it was his "genuine intention" to create a fairer society. He said that he and his Liberal Democrat colleague Steve Webb had:

> … worked hard to ensure that what we do to get the deficit down through universal credit and the other reforms—even those for pensions—will improve the lot of the poorest in society. If we take the figures on that relative income point across the period covered by the spending review, we can see that some 350,000 children net will be lifted out of poverty, even if we take into account the effects of this Bill.
>
> (col 131)

He reminded the House that his Government was "raising more in tax from the wealthiest than [Labour] ever planned to throughout the whole of their spending programme". He was critical of the Opposition for voting "against every single measure to reform and reduce the overall spending on welfare so we can get the deficit under control", without making alternative suggestions as to where savings might be found (cols 131–2). He concluded by saying: "We do not take this course of action lightly, but we know that if we were to go on borrowing at the rate that the last Government would have, we would punish the poorest" (col 133).

Hugh Bayley (Labour) raised the issue of the gap between private sector rents and the level of housing benefit, particularly where the broad rental market area used to determine benefit levels covered a number of towns. There had not been time to discuss a new clause tabled to the Bill which would have required the Department for Work and Pensions to undertake an annual analysis of the gap between the level of housing benefit and private sector rents. He asked Mr Duncan Smith how the Government would respond if the proposal were raised in the House of Lords. Mr Duncan Smith said that analysis of local housing allowance and housing benefit was "an ongoing process" for his Department (col 133).

Liam Byrne spoke to oppose the Bill's third reading. He declared that:

> … never in my years here have I seen so much taken from so many so fast. It is a disgrace that the Government should have rammed the Bill through this House in just two weeks. I hope that the other place will have listened hard to our debates today and seen how little time has been granted to us in the Commons to debate measures that will hurt thousands and thousands of our constituents.
>
> (col 133)

Describing the Bill once again as "a strivers' tax, pure and simple", he highlighted the impact it would have on working families, disabled households, child poverty and working mothers (cols 134–5). In conclusion, he argued:

> What the Government should have been doing tonight is bringing us measures to bring down unemployment, long-term unemployment and youth unemployment, and to save this country the cost of failure. Instead, the debate on this Bill has shown a Government and a Secretary of State who are hellbent on making savings and clearing up the cost of the failure of a rising unemployment bill by taking that money from working people…
>
> (col 136)

The Bill was given its third reading by 305 votes to 246 (col 136).

Appendix 1: Further Reading—House of Commons Library Publications on Welfare Reform

Measures to Reduce Housing Benefit Expenditure – An Overview, 31 December 2012, SN05638

The Household Benefit Cap, 28 December 2012, SN06294

2013 Benefit Up-rating, 19 December 2012, SN06512

The 2012 Autumn Statement, 5 December 2012, SN06485

Personal Independence Payment: An Introduction, 13 November 2012, SN06422

Universal Credit: An Introduction, 9 November 2012, SN06469

Localising Support for Council Tax, 26 October 2012, SN06101

Social Security Benefits and Tax Credits for People Under 25, 13 July 2012, SN03973

Time Limiting of Contributory Employment and Support Allowance from 30 April 2012, 25 April 2012, SN06305

Child Benefit for Higher Income Families, 16 April 2012, SN06299

Changes to the Working Tax Credit Hours Rules for Couples with Children from April 2012, 26 March 2012, SN06267

The 2012 Budget, 21 March 2012, SN06262

2012 Benefit Up-rating, 23 December 2011, SN06172

Welfare Reform Bill: Reform of Disability Benefits, Housing Benefit, and Other Measures, 4 March 2011, RP11/23

Welfare Reform and the Universal Credit, 16 February 2011, SN/SP/5782

Disability Living Allowance Reform, 14 February 2011, SN05869

2011 Benefit Up-rating, 20 December 2011, SN0585

June 2010 Budget: 29 June 2010, SN05605

Appendix 2: Benefits Affected by 1% Up-rating Rates, 2013–14 to 2015–16

			Up-rated by 1 percent per year (b)						**If up-rated by CPI instead (c)**		
	2012–13		2013–14		2014–15		2015–16		2013–14	2014–15	2015–16
	£ per week	Percent incr compared with 2011–12	£ per week	*Compared with CPI up-rating (£pw)*	£ per week	*Compared with CPI up-rating (£pw)*	£ per week	*Compared with CPI up-rating (£pw)*	£ per week	£ per week	£ per week
ESA/Income Support/JSA (income based) personal allowance											
Selected rates:											
Single under 25/lone parent under 18	56.25	5.2 %	56.80	*-0.70*	57.35	*-1.65*	57.90	*-2.40*	57.50	59.00	60.30
Single 25+/lone parent 18+	71.00	5.2 %	71.70	*-0.85*	72.40	*-2.05*	73.10	*-3.00*	72.55	74.45	76.10
Couple (both over 18)	111.45	5.2 %	112.55	*-1.35*	113.70	*-3.15*	114.85	*-4.55*	113.90	116.85	119.40
Jobseeker's Allowance (contribution-based)											
Under 25	56.25	5.2 %	56.80	*0.70*	57.35	*-1.65*	57.90	*-2.40*	57.50	59.00	60.30
25 or over	71.00	5.2 %	71.70	*0.85*	72.40	*-2.05*	73.10	*-3.00*	72.55	74.45	76.10
Employment and Support Allowance											
ESA personal allowances – see above											
Work-related Activity component	28.15	5.2 %	28.45	*-0.30*	28.75	*-0.75*	29.05	*-1.10*	28.75	29.50	30.15
Child Benefit											
Eldest child	20.30	0.0%	20.30 (a)	*0.00*	20.50	*-0.35*	20.70	*-0.60*	20.30 (a)	20.85	21.30

Each subsequent child	13.40	0.0%	13.40 (a)	*0.00*	13.55	*-0.20*	13.70	*-0.35*	13.40 (a)	13.75	14.05
Maternity Allowance/Statutory Maternity Pay standard rate	135.45	5.2 %	136.78	*-1.65*	138.15	*-3.88*	139.53	*-5.62*	138.43	142.03	145.15

(a) Child Benefit already frozen at 2010–11 rates for three years (2011–12 to 2012–14 inclusive

(b) 2013–14 rates are those announced by DWP in Dec 2012. 2014–15 and 2015–16 are unofficial and based on Library calculations

(c) CPI uprating scenario in 2013–14 based on actual Sep 2012 CPI figure (2.2%); for 2014–15 and 2015–16 benefits uprated in line with the latest OBR forecasts for CPI in September of the precdeing financial year (2.6 % and 2.2% respectively)

(Source: House of Commons Library, *The Welfare Benefits Up-rating Bill*, 4 January 2013, RP13/01)

Appendix 3: Value of Child and Working Tax Credit Elements since 2003–04

		2003–04	2004–05	2005–06	2006–07	2007–08	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15 Forecast	2015–16 Forecast
Working Tax Credit														
Basic element	£ per year	1,525	1,570	1,620	1,665	1,730	1,800	1,890	1,920	1,920	1,920	1,920	**1,940**	**1,960**
	% increase		*+3.0%*	*+3.2%*	*+2.8%*	*+3.9%*	*+4.0%*	*+5.0%*	*+1.6%*	*+0.0%*	*+0.0%*	*+0.0%*	***+1.0%***	***+1.0%***
Couple/lone parent element	£ per year	1,500	1,545	1,595	1,640	1,700	1,770	1,860	1,890	1,950	1,950	**1,970**	**1,990**	**2,010**
	% increase		*+3.0%*	*+3.2%*	*+2.8%*	*+3.7%*	*+4.1%*	*+5.1%*	*+1.6%*	*+3.2%*	*+0.0%*	***+1.0%***	***+1.0%***	***+1.0%***
30-hour element	£ per year	620	640	660	680	705	735	775	790	790	790	790	**800**	**810**
	% increase		*+3.2%*	*+3.1%*	*+3.0%*	*+3.7%*	*+4.3%*	*+5.4%*	*+1.9%*	*+0.0%*	*+0.0%*	*+0.0%*	***+1.3%***	***+1.3%***
Disabled worker element	£ per year	2,040	2,100	2,165	2,225	2,310	2,405	2,530	2,570	2,650	2,790	2,855	2,930	2,995
	% increase		*+2.9%*	*+3.1%*	*+2.8%*	*+3.8%*	*+4.1%*	*+5.2%*	*+1.6%*	*+3.1%*	*+5.3%*	*+2.3%*	*+2.6%*	*+2.2%*
Severe disability element	£ per year	865	890	920	945	980	1,020	1,075	1,095	1,130	1,190	1,220	1,255	1,285
	% increase		*+2.9%*	*+3.4%*	*+2.7%*	*+3.7%*	*+4.1%*	*+5.4%*	*+1.9%*	*+3.2%*	*+5.3%*	*+2.5%*	*+2.9%*	*+2.4%*
Child Tax Credit														
Family element	£ per year	545	545	545	545	545	545	545	545	545	545	545	545	545
	% increase		*+0.0%*	*+0.0%*	*+0.0%*	*+0.0%*	*+0.0%*	*+0.0%*	*+0.0%*	*+0.0%*	*+0.0%*	*+0.0%*	*+0.0%*	*+0.0%*
Child element	£ per year	1,445	1,625	1,690	1,765	1,845	2,085	2,235	2,300	2,555	2,690	**2,720**	**2,745**	**2,770**
	% increase		*+12.5%*	*+4.0%*	*+4.4%*	*+4.5%*	*+13.0%*	*+7.2%*	*+2.9%*	*+11.1%*	*+5.3%*	***+1.1%***	***+1.0%***	***+1.0%***
Disabled child element	£ per year	2,115	2,215	2,285	2,350	2,440	2,540	2,670	2,715	2,800	2,950	2,950	3,025	3,090
	% increase		*+4.7%*	*+3.2%*	*+2.8%*	*+3.8%*	*+4.1%*	*+5.1%*	*+1.7%*	*+3.1%*	*+5.4%*	*+0.0%*	*+2.5%*	*+2.1%*
Severely disabled child element	£ per year	865	890	920	945	980	1,020	1,075	1,095	1,130	1,190	1,220	1,250	1,280
	% increase		*+2.9%*	*+3.4%*	*+2.7%*	*+3.7%*	*+4.1%*	*+5.4%*	*+1.9%*	*+3.2%*	*+5.3%*	*+2.5%*	*+2.5%*	*+2.4%*

		Sep-03	Sep-04	Sep-05	Sep-06	Sep-07	Sep-08	Sep-09	Sep-10	Sep-11	Sep-12	Sep-13	Sep-14
Relevant up-rating factors	CPI	+1.4%	+1.1%	+2.5%	+2.4%	+1.8%	+5.2%	+1.1%	+3.1%	+5.2%	+2.2%	+2.6%	+2.2%
	RPI	+2.8%	+3.1%	+2.7%	+3.6%	+3.9%	+5.0%	-1.4%	+4.6%	+5.6%	+2.6%	+3.1%	+2.7%

(Source: House of Commons Library, *The Welfare Benefits Up-rating Bill*, 4 January 2013, RP13/01)