

Executive Summary:

From 6th April 2017, Child Tax Credit (CTC) support available to families across the UK will be limited to the first two children. This measure will affect all households with two or more children that have an additional child after this date.

The government's objectives in introducing the policy are to:

- reduce public deficit and rebalance the welfare spent
- restore fairness in the benefit system between those receiving benefits and those paying for them, with families relying on public support to make the same financial decisions as those supporting themselves solely through work

This short paper provides an independent assessment of the impact the policy will have and clearly highlights the cost of this measure for the large number of children that will be born into low-income families.

Key Findings:

- Over 1 million children will be hit by this policy by the end of this parliament.
- 2.1m families are at risk of being affected by this policy change should they have another child.
- 70% of these families are in work, reflecting the original intention of Child Tax Credits; to provide financial relief to low earners.
- 104,000 third or additional children will be born to this cohort of households in the next twelve months.
- 8,000 children born this April will miss out on support of up to £2,780 a year.
- Based on the average cost of raising a child, low income families that have a third child will have to make-up a difference of up to £1,737 a year.

This means that as a result of this policy:

- Over a quarter of a million children (256,000) already in poverty today will fall deeper into poverty as a result of this policy.
- 266,000 additional children will be living in poverty by the end of this parliamentary term alone. This represents an increase in child poverty of more than 10%
- 609,000 children in other ordinary working families (low to middle income households) will be pushed closer to the poverty line.

Limiting Child Tax Credit to two children: Analysis by Policy in Practice						
	Households with 2+ children Share	Households Number	Households losing CTC	Average No. of Siblings	Children impacted	
					2017/18	2019/20*
Household in poverty	23.2%	487,200	24,128	3.5	84,448	256,000
Households at risk of poverty	20.9%	438,900	21,736	3.2	69,555	266,000
Just about managing households	55.9%	1,173,900	58,136	3.5	203,476	609,000
Totals	100.0%	2,100,000	104,000	3.4	357,479	1,131,000
*2019/20 analysis takes into account other policy reforms including NLW, UC, Inflation and Benefit Freeze						

This policy is set to save the government £1bn per year by 2020. The behavioural impact of the policy remains unclear; it is difficult to know how many potential parents are aware of the changes and whether this new legislation will mean low income households are less likely to have more than two children. In the coming months, Policy in Practice will be tracking these and other outcomes as part of a project following over half a million low income households across London.

We do know that the costs of poverty are significant, that children who grow up in poverty have lower productivity as adults and have a higher risk of unemployment. There are also immediate costs to public services that support families on low incomes. Policy in Practice estimates that policies such as the Pupil Premium and Free Early Years Entitlement for two year olds will cost an additional £270m per year by 2020 as a result of the increase in child poverty. We also expect additional pressures on housing services, as some families already struggling to pay their rent are in the same position with another mouth to feed.

Within the wider context of welfare reform, this policy represents another cap on the amount of public spending on welfare. It adds to measures which include a freeze on benefits, tighter limits on housing support and the introduction of an overall benefit cap. These policies move away from the needs-based principles on which the British welfare system is based.

The Government wants to restore fairness to the benefit system. This is a worthy aim, but the cost of this policy will ultimately fall on children in the families affected. The government will need to develop alternative strategies to improve the outcomes of children. The impact of growing up in a family that struggles to provide basic necessities will mean this policy is likely to have financial and social consequences well into the future.