Dear Economic Secretary,

**Leading charities’ concerns about the Annually Managed Expenditure cap**

Thank you for meeting with our organisations in January regarding the Government’s plans to cap Annually Managed Expenditure (AME). We are writing in advance of the Budget to highlight our serious concerns about the proposed cap and recommend more effective ways to reduce social security spending.

As major voluntary organisations, we work with and on behalf of millions of people whose lives may be affected by further changes to social security policy - including families with children, older people, people with disabilities, and those who struggle with their housing costs. As a group we have been considering the potential impact of the cap on people’s lives, while recognising the government’s policy objective to bring a greater level of control to bear on AME.

Our main concern about the AME cap is that it is a blunt measure, which is likely to drive short-term decision-making and arbitrary cuts to benefit levels or eligibility. We are concerned that unless complementary action is taken to address underlying drivers of social security spending - unemployment, low pay, housing and childcare costs – then the cap will compound hardship for many individuals and families. In particular, we are concerned that disabled people will bear the burden of a failure to address these and other drivers of social security spending. Charities are not alone in their analysis about how the cap will work. The Institute for Fiscal Studies last week highlighted that the cap would not, in itself, make for...
‘better policymaking’; it would depend on how expenditure was managed as a result of the cap.

A fairer and more cost effective approach would be for HMT to impress upon and enable other departments to invest in areas that will reduce demand for social security spending in the medium and longer term – including better support for those furthest from the labour market, tackling child poverty, family support, affordable housing, support for older workers, and assistive technology for disabled people. We set out more detail on each of these policy proposals in the annex to this letter.

We strongly recommend that the Government consults further before proceeding to implement its proposed cap. However, if the government decides to proceed with the cap as it stands, it should be set at an appropriate level that enables these medium and longer term policy actions to be implemented in the early years of the cap, without needing to make arbitrary cuts in the short term.

We are grateful for your consideration of the issues we have raised and would be glad to discuss these issues further. I am copying this letter to the Chancellor of the Exchequer, the Chief Secretary to the Treasury, Minister for Civil Society and relevant officials.

Yours sincerely,

Caroline Abrahams, Charity Director, Age UK

Peter Brook, Chief Executive, Barnardo’s

Alison Garnham, Chief Executive, Child Poverty Action Group

Leslie Morphy, Chief Executive, Crisis

Paul Farmer, Chief Executive, Mind

Sir Stuart Etherington, Chief Executive, NCVO

Chris Johnes, Director of UK Poverty Programme, Oxfam

Richard Hawkes, Chief Executive, Scope

Campbell Robb, Chief Executive, Shelter

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Annex: How to improve people’s lives and bring down the social security bill

Better support for those furthest from the labour market

While Job Seekers Allowance is excluded from the AME cap, Employment Support Allowance (ESA) – for those with long term illnesses or disabilities - is proposed to fall within in. We are concerned this could leave ESA claimants exposed to short-term policy decisions about benefit levels or eligibility. It would be better to offer increased bespoke support to help those who can progress towards work.

The Work Programme is not working for those furthest from the labour market – with the latest data showing that only 4.8% of ESA claimants have found sustained employment. As a result of the payment-by-results approach, it is widely recognised that Work Programme providers have ‘parked’ individuals with complex needs and there has been insufficient specialist and tailored provision. By contrast, Work Choice (which has a more appropriate payment-by-results structure) has a better record of supporting ESA claimants into work. There are also numerous examples of charities’ specialist provision making a real difference for those who face significant barriers to work.

Evidence shows that people with significant barriers need more bespoke support that recognises their individual circumstances, needs and strengths. To achieve this, we recommend that DWP’s future employment programmes should be delivered at a more localised level, and have a more appropriate funding structure that incentivises providers to deliver bespoke support. This should include making grants available for specialist charities.

Family support

Many families with complex needs could be affected by decisions that stem from the AME cap, yet Government has already acknowledged the huge waste involved in reacting to problems rather than investing in holistic support. As DCLG’s business case for the Troubled Families programme stated:

“We [the Government] are spending eight times more reacting to the problems of troubled families than we are delivering targeted interventions to turn around their lives.”

Evidence from programmes such as Troubled Families and under the last Government, On Track and Family Intervention Projects, have shown that holistic interventions produce more sustainable benefits for families. Holistic interventions recognise that parenting, school attainment, good community networks and good health are all mutually reinforcing. Investing in these types of support are much more likely to be effective than “silo driven” policy interventions or short-term changes to benefit eligibility or levels.

We recommend DCLG invests further in family support, delivered at a local level. As with DWP’s employment programmes, funding structures that enable specialist charities to deliver services are more likely to be effective. We would recommend that grant funding and regular contracts be used, rather than just payment-by-results funding models.
**Tackling child poverty**

Further to the above, millions of children experience poverty each year and are likely to be affected by decisions that stem from the AME cap.

The Children’s Commission on poverty is giving a voice to children to describe their experiences. Children describe living in cold homes, with not enough food, and no holidays. Beyond this human cost, child poverty has a large financial cost for society. In 2008, academics made a cautious estimate of the monetary costs of child poverty. They found that the state spends a significant amount trying to correct for the effects of child poverty during childhood, as well as forgoing future proceeds as a result of the lower employment rates of those who grow up in poverty. These figures were updated in 2013 by Donald Hirsh at Loughborough University. His analysis showed that, at a conservative estimate, child poverty today costs the country £29 billion a year. Of this, losses to the Treasury either as a result of increased spending or forgone revenues comprise £20.5 billion, while the additional £8.5 billion represents the losses to individuals as a result of lower future earnings. Moreover, these costs naturally rise as the number of children in poverty increases. If child poverty were to rise to 3.4 million children as the IFS projects by 2020, the analysis suggests the costs to the country would increase to £35 billion a year, over £24 billion of which would be borne by the Treasury.

Measures to reduce child poverty will save money in the longer term. Raising the national minimum wage and increasing children’s element of Universal Credit would make a difference for children and their families. We would also strongly recommend that, if the AME cap does proceed, it is set at a level that assumes full take-up of benefits. This will help to ensure that families can access social security that they are eligible for, without the Government breaching the cap.

**Affordable housing**

Housing benefit is another area of spending caught within the AME cap.

Housing benefit expenditure has grown over recent years partly because of a policy endorsed by successive governments to reduce investment in new affordable housing supply and to rely on housing benefit to enable low income households to rent in the private sector. Combined with loss of stock through right to buy, low income households have increasingly struggled to access social housing and the number and proportion of housing benefit claimants in the private rented sector (PRS) has increased. Average rents in the PRS are twice that for social housing. Even with measures to restrict benefit payments to private tenants and the higher proportion of working households in the PRS, the average PRS housing benefit claim is £23 per week more than for social sector claimants.

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2 http://www.childrenscommission.org.uk/
3 [An estimate of the cost of child poverty in 2013](#). Loughborough University, 2013
4 English Housing Survey 2011-12: £164pw versus £83
Piecemeal attempts to reduce housing benefit costs have put individual households at risk of eviction and poverty but have not succeeded in reversing the continued growth in overall housing benefit expenditure. The reluctance of DCLG to consider provision of new homes for social rent at traditional target rent levels is likely to increase the need for Housing Benefit, indeed the Department’s policies are currently based around tenants using higher levels of Housing Benefit to pay their rent. It is hard to see how this is compatible with the policy aims of the AME cap.

To bring down the cost of housing benefit over the long-term the government needs to focus on reducing the cost of housing. This would enable more working households to pay their rent without housing benefit (reversing current predictions) and reduce the cost of housing benefit for those who continue to require support. Evidence from Shelter shows that investment in a new home at traditional social rent levels would pay for itself via reduced housing benefit in 30 years.5

**Disability**

The Coalition has made explicit efforts to protect disability benefits from the impact of the Benefit Uprating Bill and the introduction of the £26,000 benefit cap. Including DLA, PIP and Attendance Allowance in the AME cap sends a contradictory message about the government’s commitment to protect disabled people’s living standards. It is also important to be aware of the positive impact of disability costs benefits. By promoting independence and wellbeing modest levels of benefits may reduce demands on care, health and other support services.

The cap as it stands will only hold the DWP to account for welfare spending, when in reality the root causes of it often arise in policy areas which are within the remit of other departments. For example, research conducted by Deloitte shows that for every £1 invested in social care for working age disabled adults would save an average of 28p on social security expenditure and tax credits and see 30p generated in tax revenues and national insurance.6

DLA, PIP and Attendance Allowance are payments designed to help cover the extra costs disabled people face, to enable them to live independent lives. The Treasury should work with the Minister for Disabled People across government to identify areas of preventative policy that can reduce the overall costs disabled people incur, thus driving down social security spending. This could include creating more affordable, adapted housing and reducing the costs of assistive technology that supports people to live independently by investing in the appropriate skills to adapt technology in the mainstream market.

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5 *Bricks or Benefits*, Shelter, 2012
6 *Economic impact of social care services: Assessment of the outcomes for disabled adults with moderate care needs*, Deloitte, 2013
Older workers

Barriers to work faced by ESA claimants have been highlighted above and older people are another group that can need additional support.

Nearly half of unemployed people aged 50 or over have been out of work for over a year and after a prolonged period or unemployment it can be extremely difficult for older people to get back to work due attitudes of employers, a lack of high quality advice and guidance, and personal barriers (for example low levels of IT skills). Age UK analysis of the Work Programme showed this was less effective at helping the over 55s, with this age group being about half as likely to find a sustainable job as those under 55. Ex-Incapacity Benefit claimants who have been found ‘fit for work’ in their Work Capability Assessment often still have health-related barriers.

Greater support to address the needs of older workers and early intervention, such as earlier referral to the Work Programme for JSA claimants aged 55 and over, could improve return to work. This could reduce benefit expenditure as well as improving the current income and prospects for future retirement savings of older workers.

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7 The Work Programme and older jobseekers, Age UK 2013