Investing in Relationships

Turning financial capital into social capital to improve well-being

Relationships Foundation

Table of Contents

About us

Relationships Foundation is the think tank for a better connected society.

We believe that a good society is built on good relationships, from family and community to public service and business.

We study the effect that culture, business and government have on relationships. We create new ideas for strengthening social connections and campaign on issues where relationships are being undermined. And we train and equip people to think relationally for themselves.

We work with a wide range of leaders in business, academia, public services and politics to implement relational ideas. Our approach goes beyond the traditional left-right political distinction and we work with any party or group that wants to engage with us.

Our Values

Personal and social well-being depends upon the quality of relationships within families and communities, and within and between organisations. We believe that building a society that sustains relationships requires recognising the importance of:

1. Family networks - for the love, support and welfare of the individual.

2. Personal and family rootedness - to build strong communities.

3. A shared national culture - to foster inclusion and cohesion.

4. Justice and reconciliation - as the basis for achieving peace and social harmony.

5. The wide distribution of political power and economic assets - to promote accountability and community development.

6. The use of money and other resources, and the structuring of financial systems - to foster healthy commercial, social and international relations.

7. Influencing organisations to think relationally - to uphold a social environment in which relationships thrive.

8. Fulfilling duties - particularly to those who are disadvantaged either relationally or materially.

RELATIONSHIPS FOUNDATION

About the Authors

John Ashcroft, Research Director, Relationships Foundation.
John has co-led the Foundation's work on assessing and developing relationships, and on the development of relational thinking as a policy agenda. He has co-authored and contributed to several books including *Relationships in the NHS* (Royal Society of Medicine Press 2000), *Trust in Experience* (Radcliffe 2001), *The Case for Inter-professional Collaboration* (Blackwell 2005) and *Jubilee Manifesto* (IVP 2006). John is also involved in a project continuing the development of our relationship assessment methodology sponsored by Ogilvy One, John Lewis Partnership and Land Securities.

Peter Lynas, Researcher, Relationships Foundation
Peter has been involved in the Foundation's public policy work related to well-being. He worked as a barrister in Northern Ireland for five years and completed Masters work in Vancouver, Canada, where he wrote papers on applied ethics in Housing and Intellectual Property. He is involved in research into Family Associations, housing policy and the impact of time on relationships and well-being. Peter also took the photograph on the cover of the report.

Research Associate

Jo Holland, Researcher, Steve Webb MP
Jo has co-authored two book chapters and contributed to policy development within the Liberal Democrats. She has made significant contributions to chapters 2 and 7 of this report. Her work as a parliamentary researcher has given her a great deal of expertise with respect to the benefit system, and an understanding for those who struggle to deal with it on a daily basis.

Acknowledgements

The authors are indebted to many others without whom this report would not have been possible. Michael Schluter deserves particular mention for providing leadership and vision, as well as many of the ideas that ultimately make up this report. We are grateful to Michael Farmer for helping with the funding of this report. Thanks go to Andy Hartropp for the initial work in scoping out the project. Martyn Eden, Tim Adams, Rose Lynas and Michael Clarke read drafts, provided insights and shared their wisdom freely, whilst Louise Urquhart assisted with the final publication. Others who shared their expertise include Chris Tapp (Credit Action), Paul Matthews and Robert Johnston (Cambridge CAB) and Derek Roberts.

Whatever faults remain are of course the authors' responsibility.

Preface

> Relationships are the missing piece of the political puzzle. As we struggle to adapt to the domination of the bottom line, the factor invariably omitted from the equation is human relationships.
>
> *The Hon Lindsay Tanner MP, Minister of Finance & Deregulation, Australia*

For a long time politicians and other policy makers have operated on the assumption that relationships were a private affair and not the domain of public policy. However, even a moment's thought shows this view is mistaken. Taking two examples from the report, the tax and benefits system incentivises people to live together or apart, and regulations governing consumer credit and debt are a factor in levels of household debt and stress.

Governments generally consider the likely economic impact of their policies, and more recently have started to take environmental impact into account. But relationships are the neglected dimension of government analysis; given their significance they are 'the elephant in the room'.

To put it another way, governments make little effort to assess the social costs or capture the potential social dividends of their policy decisions.

Earlier research by the Foundation, 'Thriving Lives' launched in April 2007, has shown how relationships are an essential component of personal well-being. If little attention is given to sustaining and developing both professional and personal relationships, well-being is compromised and society as a whole suffers a host of adverse consequences.

This ground-breaking new study by John Ashcroft and Peter Lynas is part of a larger programme of research to understand better the way decisions by governments and companies impact on social relationships, for good or ill. While the widespread and multifaceted impact of finance on relationships is the subject of this report, further work is already in train to consider the impact of Government and business decisions on people's other scarce resource – time.

Our hope is that this study on the theme of 'investing in relationships' will contribute to stirring up interest in the relational consequences of public and private sector decision-making, so that the well-being of individuals, households, families and communities may be renewed and reinvigorated.

Michael Schluter

Cambridge
July 2008

Executive Summary - Investing in relationships

"Its relationships stupid" was the alternative title for this report. It conveys the core message – relationships matter. Why? Because relationships are the most significant influence on well-being and life satisfaction. This report considers how to invest financially to create, support and sustain good stable relationships. Our thesis is that to increase well-being, policy must strengthen and support relationships, which requires amongst other things, financial investment.

Well-being relies on stable and close relationships and includes physical health, income and wealth, meaningful work and leisure, and good mental health. Despite a thriving economy the UK was placed last out of 21 OECD countries with regard to children's well-being. This is a stark reminder that money does not automatically lead to well-being. Central government cannot legislate well-being into existence. So how can a credible policy agenda be created?

It requires ***intentionality*** –the recognition that people want more than money alone. The intention of policy should be the promotion of well-being. It follows therefore, that relationships are significant – we depend on others for our well-being, and others depend on us. Our previous report, *Thriving Lives*, defined well-being beyond individual happiness, acknowledging that we all need to work together if we are all to thrive. Relationships must shape policy goals, rather than suffer unintended consequences.

Secondly, it requires ***integration*** - a relational perspective is not counter to economic growth, but rather integrates economic, social and environmental concerns. The development of mature relationships will have a long-term positive economic impact, as well as reducing pressures on natural resources and public expenditure. There is some ambivalence about relationships due to the responsibility they bring. There are constraints, as well as the positives of support, connectedness and expanded opportunities. But the choice is not between relationships and something else – we cannot live and work outside relationships – but between kinds of relationship. Although all relationships are important, this report focuses primarily on relationships within families and communities, which have the most significant impact on well-being.

Thirdly, credible policy comes through effective ***influence*** – creating the conditions within which relationships, and therefore social growth, can flourish. This report explores how finance, one of the main policy levers, influences the relationships that are crucial for well-being. We use the term finance loosely to consider how resource allocation and flows can be used to strengthen relationships. Relationships cannot, of course, be bought, but finance shapes patterns of interaction in a number of ways:

- It can create incentives (or disincentives)
- It reinforces and communicates social norms
- It can empower the conduct of relationships
- It can buffer relationships from other pressures, or be a source of worry and conflict
- And it can create a reason and purpose for interaction.

It is essential to consider how to turn financial capital, in the form of public expenditure, into social capital – to get the biggest social dividend from every pound that is spent.

Having discussed in broad terms the interaction between finance, relationships and well-being the report turns to application in six policy areas. These areas are not designed to be comprehensive and have been grouped for convenience; in reality there is significant over-lap. The policies are not necessarily new or original, but illustrate how well-being is shaped through a wide range of policy areas. Some show how finance can have a negative impact on well-being; others highlight missed opportunities for promoting well-being.

Motivation

Chapter 2 asks whether the ***tax and benefit system*** can consistently recognise and support relationships. It explores the notion of motivating people to value and pursue those relationships that contribute to personal well-being and other social goods. It considers the impact of financial incentives on people's relationships and how finance reinforces and communicates social norms. The tax and benefit system is inconsistent with regard to relationships, recognising them when it comes to benefits, but ignoring them for tax purposes. It has abandoned any supposed neutrality, and instead prefers double income families to single ones and includes a 'couple penalty'. Instead, the system could and should encourage relationships to achieve better outcomes. Its failure to do so means that relationship breakdown is costing a staggering £37 billion each year. Eradicating the unfairness of the couple penalty is a necessary first move, but bolder steps are required to build a truly pro-family tax system. More generous allowances for couples and parents, joint filing and income splitting would more properly recognise and support relationships.

Opportunity

Chapters 3, 4 and 5 look at measures to ensure that people have the opportunities to build relationships. Shared financial interests and responsibility can incentivise families and communities to take on greater welfare and social care responsibilities. Chapter 3 asks how finance can facilitate ***extended family*** relationships. Whilst family structures are changing, everyone is part of an extended family and the majority of people say families define who they are. Families, in particular family businesses, are major economic units generating turnover in excess of £1 trillion each year. Families are also major welfare units, providing social care and support worth over £50 billion a year. Family Associations – a tax friendly family insurance/ welfare/ savings network, which would provide welfare for group members - could help bond extended families together. Family businesses need more support particularly with intergenerational transfers. There also needs to be significantly more investment in relationship education for couples. The quality of relationships is often low because relational skills, traditionally acquired in families, are no longer transmitted as they used to be.

Chapter 4 explores how finance can promote ***community*** relationships. It is clear that the State cannot and should not do everything, but can create opportunities for the community and voluntary sector in providing welfare functions. More localised decision-making and spending builds social capital and communities. People and communities with good access to a diverse mix of social capital tend to be more 'hired, housed, healthy and happy'. Community bonds offered by Citylife use interest foregone by investors to bridge relational and financial gaps in communities across the UK, by helping people set up businesses and find employment. Local funding of services shortens the link between raising money and spending it, improving accountability and responsibility. Participatory budgeting unites local knowledge with public money and technical ability, whilst local pensions promote ethical investment in sustainable local communities.

Chapter 5 looks at the role of finance in reducing ***housing costs*** and promote living together through ideas such as co-location. By 2020 there will be 67 million people in the UK and average household size is predicted to have dropped to 2.1, meaning a need for 32 million houses – 7 million more than there are currently. This demand means costs will rise over the long term, redistributing wealth from the asset-poor to the asset-rich, and from young to old. In the 70's and 80's it took two earners for a family to attain a middle class lifestyle, whereas today it takes two generations. If families are to provide more welfare, they will need to live close to each other. Bringing back a 'sons and daughters' policy to favour extended families in social housing and offering financial incentives for those in the rest of the sector would encourage co-location. Planning permission for more multi-generational homes would help meet current demand and likely future increases. Finally a reform of council tax based on value, size and occupancy would encourage better use of the current housing stock.

Support

Chapters 6 and 7 look at measures to ensure support for those whose relationships are under pressure, or those with few care relationships. Chapter 6 deals with *credit and debt*, as finance problems threaten economic and social stability. Debt is rampant – average household debt in the UK excluding mortgages is £9,053. This has a massive impact on relationships – 10.7 million people suffer relationship problems because of money worries, which are the top cause of arguments between couples. Eddie George admitted that the Bank of England deliberately stoked the consumer boom that has led to record personal debt, in order to avert recession in 2001-02. We are now faced with the relational consequences. Good quality financial education should be available in schools and the wider community. Free money advice centres and debt counselling centres, funded in large part by the financial services industry are an urgent necessity to prevent further relational breakdown. Simple steps, such as requiring minimum repayment levels on credit cards to at least cover monthly interest payments could help bring about credit card discipline. Debt is a significant source of relationship stress and breakdown for which we all pay in the long-term.

Chapter 7 explores how finance impacts relational support for vulnerable people. ***Care relationships*** give rise to both benefits and stresses for all those involved. There are 3.2 million families in the UK containing a disabled child, a disabled adult or both. There are an estimated 5.7 million carers in the UK, almost half a million are over 65, and almost a million work more than 50 hours a week. Half those with a disabled child felt it caused at least some problems in their relationship with 9% saying it led to parental separation. Half also suffer financial difficulties. Finance can act as a buffer – increasing Disability Living Allowance, Carer's Allowance and pensions would reduce pressure on disabled people and the elderly who are particularly vulnerable, and often face increased costs and limited income sources. Financial flexibility would enable them to decide who to pay for respite care, how their individual budget is spent, or who looks after their children. Giving all pensioners and disabled people free rail and bus travel throughout the UK (as is currently the case in Northern Ireland) would encourage family contact and give many of these people new freedom.

Despite the rise in individualism, every decision we make affects someone else and therefore our relationship with them. Every decision affects our well-being and/or that of someone else. Almost everything we do has a cost, which at least in part can be measured in financial terms, and every time we spend money we enter into a relationship with others. When relationships break down the full costs are incalculable. We have estimated that breakdown costs the taxpayer almost £37 billion each year, but the broader costs to society and the human and emotional costs are not included in this figure. As breakdown continues and the consequences multiply, that figure will only continue to grow. It is clear that in the long-term a society of isolated individuals in neither sustainable nor desirable. Instead we need to *motivate* individuals to make relational decisions that build good relationships. We need to create *opportunities* to strengthen relationships and finally we need to *support* those whose relationships are vulnerable or under pressure. Such investment will lead to a better society, and in the long-term a stronger economy.

1 Finance, Relationships and Well-being

1.1 Money can't buy me love

For the past fifteen years Relationships Foundation has sought to put relationships at the centre of policy. This report explores the impact of finance on those relationships that are most important for well-being. It will be complemented by a similar project looking at the impact of time on relationships, due to be published early in 2009.

Personal and social well-being depends upon the quality of relationships within families and communities, and within and between organisations. Failure to achieve significant improvements in the well-being of important sections of society over recent years is recognised. However, how well-being is best promoted, and how economic, social and environmental objectives should best be integrated, remains contested. Constraints on future public spending will require a better understanding of how a wide range of policies can work together to improve well-being and reduce the economic and relational costs of social breakdown. Political success will require relational as well as well as economic competence.

Last year Relationships Foundation produced a report entitled *Thriving Lives,* which discussed the meaning and importance of well-being. Everyone wants to increase well-being. Well-being is more than simply feeling good. It is more than just happiness, important as that is. It describes our life satisfaction. It covers the mental, physical and spiritual aspects of our life. It is about having rich and fulfilling lives. Our report defined well-being in terms of 'thriving lives' to move beyond individual happiness, and recognise the condition of lives (plural) that are good for both the individual and society, acknowledging we all need to work together if we are all to thrive.

The link between relationships and well-being is well established. Evidence shows that the need to belong, to have close and long-term social relationships, is a fundamental human need, and that well-being depends on those needs being well meet.[1] Relational thinking offers fresh policy options that connect with people's aspirations and anxieties about well-being. Policy must ensure that people are free to sustain the relationships that make for well-being, and that those with a weak 'relational base' receive support. Policy can and should influence relationships.

[1] Diener and Seligman (2004) Beyond Money: Toward an economy of well-being. *Psychological Science in Public Interest,* 5, 1-31.

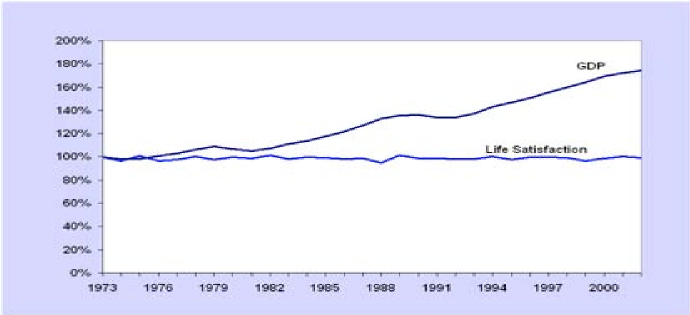


Figure 1: UK Life Satisfaction and GDP – 1973-2002

Despite a thriving economy, the UK was placed last out of 21 OECD countries in a UNICEF report on children's well-being.[2] The link between life satisfaction, a close correlate of well-being, and GDP in the UK is shown in figure 1. The 2008 Social Trends noted that after 30 years of unprecedented economic growth household income has gone up by 60%, and household wealth has more than doubled, but the growing wealth has not led to greater life satisfaction.[3] However those who are richer within countries do report higher levels of well-being. People with high levels of social capital have higher levels of well-being. We know that people and communities with good access to a diverse mix of social capital tend to be more 'hired, housed, healthy and happy.'

If money does not directly lead to increased well-being, what role does finance play? We are familiar with the practice of investing financial capital (money) in human capital (education). The financial benefits alone make this a good investment for government and individuals. Every year of education adds 8% to average income or £50,000 over a lifetime. This report argues that the same model applies to social capital. Wise allocations of financial capital can lead to growth in social capital, which is associated with higher well-being. More simply, investing in good stable relationships will improve the health, happiness and well-being of those involved.

1.2 "Its relationships stupid"

In 1992 the American economy was suffering a recession and James Carville, Bill Clinton's strategist coined the phrase, "It's the economy, stupid" encouraging Clinton and his staff to stick to a simple but effective message. The economy dominated the election and Clinton won. As the UK faces up to the social recession it finds itself in, the message to politicians is simple, "It's relationships, stupid."

"It's the economy stupid"

Personal and social well-being depends upon the quality of relationships within families and communities, and within and between organisations. The question is, how do we invest in these relationships? The following chapters will explore the impact of finance on those relationships that are most important for well-being. We will look at the tax and benefit system, credit and debt, families, communities, housing and dependent relationships.

---

[2] UNICEF, *Child poverty in perspective: An overview of child well-being in rich countries*, Innocenti Research Centre, Report Card 7, 2007.
[3] Abigail Self ed. Social Trends No. 38, ONS 2008, p.xxvii.

This report will put forward a number of proposals. Some will be new. Many have been circulated before. We believe that the sum of these policies adds up to more than their individual parts. What is unique is the thread that holds them all together. We are not articulating an abstract vision. We are not calling for change for change's sake. We are seeking to put relationships at the centre of the political process here in the UK.

When a government department or a company considers a new policy, they begin by assessing the economic cost. Increasingly, due to legal requirements, the environmental impact or cost is considered. Sadly, there is currently little obligation to assess the impact of a new idea on relationships. When a business wants to change its opening hours, it does not have to consider how this will affect the time workers have with their families. When the government decides to encourage all lone parents to work, it does not have to assess the relational impact, to check whether the cost to families might outweigh the financial savings. Ignoring the relational costs has led to the social recession we find ourselves in. Governments and companies must factor the relational costs into their business plans. Relationships are important.

> **Relationships are the missing piece of the political puzzle. As we struggle to adapt to the domination of the bottom line, the factor invariably omitted from the equation is relationships.**
>
> **Lindsay Tanner, Minister for Finance, Australia**

This report acknowledges that economics remains important, but moves to address the related social issues. It seeks to build a narrative around relationships that brings together a number of important strands. It argues for a coherent approach to policy that sees relationships as central. A relational perspective is not counter to economic growth, but rather integrates economic, social and environmental concerns. In fact, the development of mature relationships is likely to have a long-term positive economic impact as well as reducing pressures on natural resources.

We begin by exploring current understandings of well-being, before examining key aspects of relationships, and finally explaining the importance of finance.

2. Intentionality: Well-being

> *Even if we act to erase material poverty, there is another greater task, it is to confront the poverty of satisfaction - purpose and dignity - that afflicts us all. Too much and for too long, we seemed to have surrendered personal excellence and community values in the mere accumulation of material things. Our Gross National Product … - if we judge the United States of America by that - … counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors and the jails for the people who break them. It counts the destruction of the redwood and the loss of our natural wonder in chaotic sprawl. It counts napalm and counts nuclear warheads and armored cars for the*

> *police to fight the riots in our cities. It counts Whitman's rifle and Speck's knife. And the television programs which glorify violence in order to sell toys to our children. Yet the gross national product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage, neither our wisdom nor our learning, neither our compassion nor our devotion to our country,* ***it measures everything in short, except that which makes life worthwhile.*** *And it can tell us everything about America except why we are proud that we are Americans.*
>
> **Robert F. Kennedy, Kansas, March 18, 1968.**[4]

2.1 What is well-being?

In a 2006 poll for the BBC programme, *The Happiness Formula*, 81 per cent of respondents agreed that government's prime objective should be happiness, not wealth. The importance of happiness has been understood for centuries, but it was Jeremy Bentham in the seventeenth century, who created a coherent happiness approach to politics, and turned it into a specific school of thought called Utilitarianism. Utilitarianism sought the greatest happiness for the greatest number of people. In modern political debate, the language of well-being, which resonates because it describes the goals of every individual human life, has replaced happiness.

There is no single agreed definition of well-being.[5] The Office of National Statistics has made measuring societal well-being one of its current analytical priorities. It acknowledges this is no easy task given the lack of agreement on meaning. However it has made it a priority issue because, 'for an increasing number of public policy needs, and in political and public debate, there is more to life than GDP.'[6] The government's new sustainable development strategy, *Securing the Future* (2005), includes a commitment that, "In order to get a better understanding and focus on wellbeing, by the end of 2006 the Government will sponsor cross-disciplinary work to bring together existing research and international experience and to explore how policies might change with an explicit wellbeing focus."[7]

Most researchers agree about the domains that make up wellbeing: physical wellbeing, material wellbeing, social wellbeing, emotional wellbeing, development and activity. The elements can be paraphrased as physical health, income and wealth, relationships, meaningful work and leisure, personal stability and (lack of) depression. These elements are viewed as 'drivers' of wellbeing.[8]

[4] The quote is taken from a transcription of the speech held by the John F. Kennedy Presidential Library & Museum accessed at http://www.jfklibrary.org/Historical+Resources/Archives/Reference+Desk/Speeches/RFK/RFKSpeech68Mar18UKansas.htm

[5] Hird, Susan (2003a) What is Wellbeing? A brief review of current literature and concepts. NHS Scotland. http://www.phis.org.uk/doc.pl?file=pdf/What%20is%20wellbeing%202.doc

[6] Social Trends No. 38, ONS 2008, xxvi.

[7] Securing the Future: The UK Government Sustainable Development Strategy, March 2005, p.23.

[8] Wellbeing Concepts and Challenges: Discussion paper prepared by Fiona McAllister for the Sustainable Development Research Network, December 2005. Accessed at http://sdrnadmin.rechord.com/wp-content/uploads/sdrnwellbeingpaper-final_000.pdf

A useful distinction can be drawn between objective and subjective well-being. Subjective well-being is the scientific term for how people evaluate their lives. People can do so in terms of a global judgment such as life satisfaction, in terms of evaluating certain areas of their lives such as marriage or work, or in terms of their ongoing emotional feelings about what is happening to them. These measures have been shown to be statistically robust. The key element of subjective well-being, is that it refers to an individual's self-assessment of his or her own well-being. This aspect of well-being is most closely associated with happiness, though social scientists prefer to see subjective well-being as an umbrella term, which includes happiness, satisfaction, fulfillment and so forth.

In contrast, objective well-being refers to the material and social circumstances believed to impact an individual's or community's sense of well-being. This may include income, housing, educational attainment, access to, and use of, public services and so forth. Researchers are faced with two problems in working with objective measures of wellbeing. Firstly they must decide which 'objective' measures to use, and secondly they must decide what weight to give these measures when compiling aggregate indices, such as the UN Human Development Index (HDI), the Index of Sustainable Economic Welfare (ISEW), or the Economist Quality of Life Index. Figure 2 shows how the various components contribute to well-being.

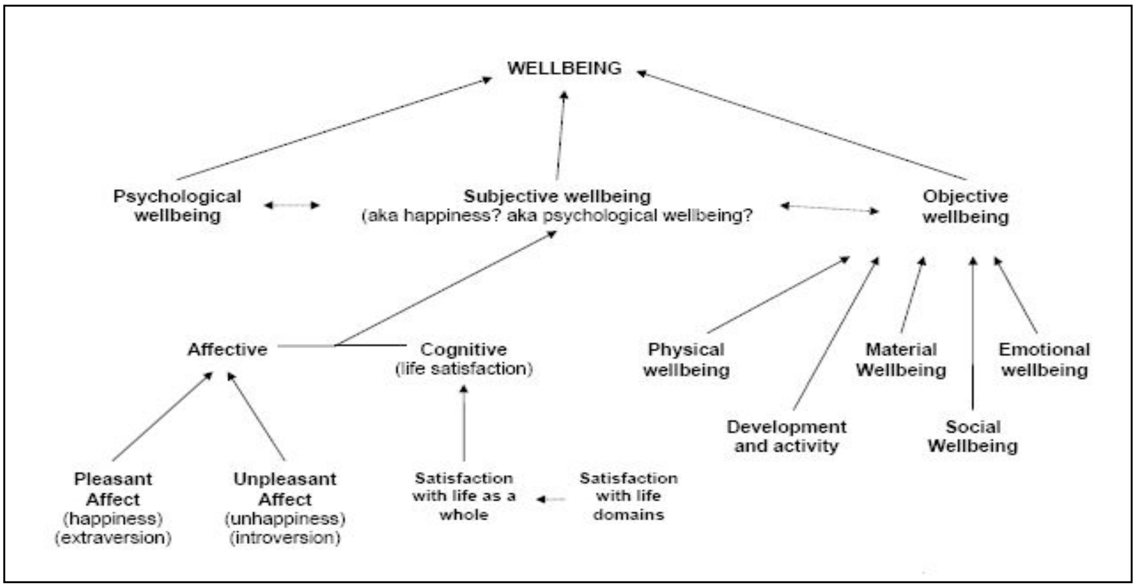


Figure 2: Well-being components[9]

Our previous report, *Thriving Lives*, argued that a full definition of well-being included two individual approaches to happiness, and a third collective component stressing relationships.[10]

(1) ***Hedonic happiness*** - focuses on the experience of pleasure and happy feelings.

[9] Fiona McAllister, *Wellbeing Concepts and Challenges.*
[10] This report is available to download at http://www.relationshipsfoundation.org/download.php?id=171

(2) ***Eudaimonic happiness*** – looks at the positive experiences associated with healthy functioning, achieving personal potential, and living a good and meaningful life.

(3) ***Collective well-being*** – the motivation and ability to make a positive contribution to the lives of others, without regard to our own gain.

Taking the three dimensions together, we defined well-being as *thriving lives*. We used 'thriving' because well-being is not simply about happiness, but about the condition of lives that are good for both the individual and society. We used 'lives' in the plural because well-being needs to be considered at a social, as well as an individual level, acknowledging that we need to work together if we are all to thrive.

2.2 What influences well-being?

Research by the New Economics Foundation suggests there are three main influences on our well-being.[11]

(1) ***Parents*** account for 50% of our well-being through genes and upbringing.

(2) ***Outlook and activities*** such as friendships, community involvement, sport and our attitude to life accounts for 40% of our well-being.

(3) ***Circumstances*** account for the final 10%. This includes income, but research has shown that once we meet our basic needs, money does not make us happier because we move the goalposts.

Well-being psychology has explored the impact of our circumstances on our well-being, discovering two key factors. The first is that human beings are exceptionally adaptable, quickly changing to cope with a new situation. Research shows that within a year, lottery winners are little happier, or even less happy, than they were before they won the big prize.[12] The second finding was that human beings are creatures of comparison. As we achieve goals, we change who we want to be like, or discover those we were comparing ourselves to have moved further ahead, and so we are constantly unhappy. Adaptation and comparison significantly reduce the affect of income on well-being.

[11] A Well-being Manifesto for a Flourishing Society, NEF 2004.
[12] Brickman, P et al (1978), 'Lottery winners and accident victims: is happiness relative?', Journal of Personality and Social Psychology (APA, Washington DC) No. 36, pp 917–927.

So what really does affect us? Seven factors stand out: **family relationships,** our **financial situation,** our **work,** our **community and friends,** our **health,** our **personal freedom** and our **personal values.** Except for health and income, they are all concerned with quality of **relationships**.

Richard Layard[13]

We would disagree with Layard, only to say that health and income are significantly influenced by relationships, and so all the factors have a relational aspect. 'Social relationships have a much larger impact on life satisfaction than financial income, at least within wealthy nations such as the UK.'[14] Researchers have discovered that we systematically over-estimate the amount of happiness extra income will bring us, and work too many hours to get it. We fail to account for the fact that our expectations also rise with our incomes. Spending more time with our children, families, friends, and communities would bring us more happiness.[15] As a society, we spend too much time attempting to increase our standard of living and too little time fostering our relationships.

Research suggests that high well-being leads to sociability, feelings of self-confidence and energy, engaged activity, altruism, creativity, and perhaps better immune functioning and cardiovascular fitness.[16] Happy people have more friends, are more likely to get married and stay happily married, make more money on average, are more likely to receive superior ratings from their supervisors at work, are more likely to be involved in community and volunteer activities, are more likely to fill leadership roles; and possibly live longer.[17] Well-being may not be easy to improve, but surely, it should be a central goal nonetheless.

Our relationships with others are crucial for well-being. The baby boomer generation has lower levels of social capital than previous generations, due to higher levels of divorce and separation, and from not belonging to local community structures. Social bonds, interactions and levels of participation and trust need to be strengthened.

Compass[18]

---

[13] Richard Layard, *Happiness*, p.63.
[14] Donovan, N., Halpern, D., 2002. Life Satisfaction: The State of Knowledge and Implications for Government. UK Long Term Strategy Unit.
[15] A Well-being Manifesto for a Flourishing Society, NEF, 2004.
[16] Diener and Biswas Diener, (2002) Findings on Subjective Well-being and Their Implications for Empowerment.
[17] Diener and Biswas Diener, (2002) Findings on Subjective Well-being and Their Implications for Empowerment.
[18] Rutherford & Shah (eds.) *The Good Society*, Compass 2006, p.55.

2.3 Is neutrality an option?

Neutrality is a myth

Detached objectivity on the part of policy makers is sometimes seen as an ideal. Such neutrality is a myth. Everyone comes to the table with a worldview, with biases or lens. Our lens is simple – we want to support and encourage good relationships to improve well-being. Relationships reflect a much deeper agenda of who we are, and what is important to us. We believe that a good society builds on good relationships, from family and community to public service and business. We do not see the notion of everyone as an individual, fending for him or herself, or looking to the state for their needs as healthy.

A key focus of this report is that the impact of policy decisions affecting household, family and community finance is often misunderstood, ignored or not assessed. This can lead to extensive unintentional damage to relationships. This report suggests that policy makers can and should be intentional in seeking an integrated public policy agenda, which properly considers the nature and quality of relationships.

People are looking for coherence. If well-being and relationships are not important then the public want politicians to say so, and they can make their judgments accordingly. If they are important, and the major political parties seem to agree that they are, the public wants to see decisions taken which have factored in the relational impact so well-being increases.

3. Integration: Relationships

> **Government must undertake a fundamental redirection of its energies. It must transform itself to become the servant and protector of society's institutions and relationships.**
>
> **Oliver Letwin** [19]

3.1 Which relationships?

People need supportive, positive relationships and social belonging to sustain well-being.[20] A relational perspective is not counter to economic growth, but rather integrates economic, social and environmental concerns. In fact, the development of mature relationships is likely to have a long-term positive economic impact as well as reducing pressures on natural resources.

[19] Oliver Letwin in *There is Such a Thing as Society,* 2002, p. 41.
[20] Diener and Seligman (2004) Beyond Money: Toward an economy of well-being. *Psychological Science in the Public Interest,* 5, 1-31.

Evidence suggests that social connections including marriage, good friends, close extended family, friendly neighbours, and supportive co-workers are among the most robust correlates of subjective well-being. Our *Thriving Lives* report identified six major relationships that policy might focus on.[21]

(1) Extended family

(2) Peer and friendship

(3) Neighbourhood and community

(4) Between groups – for example between ethnic groups or intergenerational relationships

(5) Workplace

(6) Within and between service providers.

3.2 How do we relate?

Thinking relationally is about choosing to value relationships. From our experience as a relational think tank, we have come up with five factors that are critical to a good relationship.

- *Directness* – the quality of the communication process. A good relationship relies on both parties connecting with each other. The nature and degree of presence (physical and emotional) in a relationship and how the presence is mediated by technology (eg phone, email, video conference), time or other people is important. The experience of encountering the presence of another reflects a desire for 'connectedness' and is at times, an end in itself. It also has functional benefits in enabling more effective communication and group bonding. A phone call to an elderly relative is not the same as a visit, when practical assistance can also be offered.

- *Continuity* – the amount of shared time over time. Time is the currency of relationships and so time use within a relationship as well as overall length and stability of the relationship is important. A relationship that has a past and expects a future is inevitably deeper than a 30 second encounter at the checkout. High levels of relationship turnover break informational continuity, can reduce accountability as people are not around when the consequences of an action come to light and can disincentivise investment in relationships if they are expected to

[21] This report also recognises the foundational relationship that we as people have with the natural environment. There is a relationship between those who degrade the environment and those who experience the consequences. Relational breakdown puts pressure on the environment at a national level as a product of conflict and resource competition, and at a local level through, for example, increased numbers of single occupant households, with their increased land and energy use. However, a full exploration of the environmental issues is outwith the scope of this report.

be short-lived. Frequent relocation can disrupt both extended family and community relationships as roots and belonging take time to develop.

- *Multiplexity* – the breadth of knowledge of a person's personal, family and work situations. A good relationship means knowing each other well. Limited knowledge can cause misunderstandings or missed opportunities. Ensuring that relationships are conducted in a way that enables this knowledge to be gained is therefore important. Meeting in different contexts can aid this as it allows the expression of different skills and interests to be seen. Not knowing the needs and circumstances of employees and their families may mean that companies do not act or respond appropriately. The impact of changes in working practices or times may be misunderstood, not only causing problems in staff relations, but also with unintended (and perhaps unrealised) consequences for family and community relationships.

- *Parity* – the use and abuse of power. A good relationship is one where both parties value each other. Parity recognises that there may be legitimate power differentials, but seeks the use of power in ways that build relationships by fostering participation and conveying respect. The fair distribution of risks and rewards is also important in this regard. Pay differentials, consultation processes, policies on bullying and discrimination are all relevant. A lack of parity is corrosive and tends to lead to disengagement, or destructive behaviour within the relationship, and can therefore seriously undermine sustainability. Concerns are often raised about the power differential between large multinationals and some of the communities within which they operate, particularly where the community feel excluded from the relationship with host government. Consultation and participation in decision making, equity in the distribution of risk and reward, and dignity and respect in the conduct of the relationship are all important aspects of parity to explore.

- *Commonality* – working with similarity and difference. A good relationship shares common ground. Relationships benefit from diversity as long as it is in the context of unity, underpinned by shared identity and purpose. One issue here is whether the meaning/content of 'social sustainability' is understood and shared, and whether these are part of the motivating goals for people as citizens, residents, employees or interest group members. If not, there may be a completely different 'real' agenda. It's important to dig behind the surface statements - everyone may say they're working for the good of the community but mean different things and have competing priorities. Commonality does not require people to be the same, rather it is concerned with the robustness of the unifying focus of the relationship. Different relationships have different 'centres of gravity' for their commonality. Within a complex system the unifying gravitational centre must be stronger that the other potential accountabilities that may pull the relationships apart.

Fulfilment of these conditions leads to relational proximity signified by trust, accountability, belonging and supportive relationships.

3.3 Is there a problem?

In their *Good Society* report, Compass argued that we were suffering from a social recession. On the right, the Social Justice Policy Group spoke of a broken society in their *Breakdown Britain* report.[22] Arguments may continue over whether society is better now than it was 10, 50 or 100 years ago, however the issue does not have to be a relative one. Figures, and the everyday experience of voters in relation to health, education, crime and well-being suggest there is a problem. We may be approaching the limits of economic driven social outcomes. Spending more money on police officers and prisons will not reduce crime. Instead we must target our investment in righting ruptured relationships and seeking social solutions.

In a speech to a conference of family lawyers on 5th April 2008, Mr Justice Coleridge, a senior High Court Family Division judge with 37 years experience, made the following remarks.

"We are experiencing a period of family meltdown whose effects will be as catastrophic as the meltdown of the ice caps."

> *Without being in any way over dramatic or alarmist my prediction would be, looking back and seeing where we have come from and projecting forward on the present trajectory, that the effects of family breakdown on the life of the nation and ordinary people in this country will, within the next 20 yrs be as marked and as destructive as the affects of global warming. We are experiencing a period of family meltdown whose effects will be as catastrophic as the meltdown of the ice caps. For what is the point of pouring resources into the physical protection of society if its mental health is so damaged and undermined that life for many is so miserably unhappy that it is hardly worth living anyway. . . It is, I suggest, as big a threat to the future of our society as terrorism, street crime or drugs. But far more insidious. It will be more destructive than any economic decline caused by international market or financial movements triggered by mismanagement by financial institutions.*[23]

Having spent years dealing with family breakdown, this highly respected Judge could no longer contain his frustrations. The speech described in painful detail the devastating social recession the UK is facing. The focus of spending and attention remains on the consequences of this recession. The criminal courts receive priority over family courts, yet the criminal courts are full of those from broken families. Funding on the health service continues to rise, whilst family funding is squeezed. GPs have received significant pay rises, while specialist family lawyers have seen public funding dwindle. The situation is similar with respect to education. The Judge is clear,

> *So far as government is concerned; family breakdown and family justice needs to be at the top of the political and justice agenda. The maintenance of the family and family life in this country is the priority. It is nothing less than the business of the preservation of our society. It is not just a rather irritating and increasingly*

---

[22] Rutherford & Shah (eds.) *The Good Society*, Compass 2006. *Breakdown Britain: Interim Report on the State of the Nation*, Social Justice Policy Group, December 2006.
[23] Resolution National Conference 5 April 2008, Keynote speech delivered by Mr Justice Coleridge, "Family Life - Family Justice – Fairness"

> *expensive political sub issue. It is as important as the management of the economy or the war on terror. And rather more important than the abolition of the plastic carrier bag or the taking of oaths of allegiance. It is as important as the preservation of the NHS. Indeed it is part and parcel of our national health. It requires a full time minister devoting his or her energies to nothing else. It calls for a complete change of attitude by those who govern or would aspire to do so.*[24]

We are in a severe and long-term social recession. Interestingly, the difference between a recession and a depression is that the later is longer and more severe. A depression is any economic downturn where real GDP declines by more than 10 per cent, and this downturn lasts for at least one year. There is an old joke among economists that states; a recession is when your neighbour loses his job; a depression is when you lose your job. The social depression being suffered by many in Britain is no joke, as they see their own families suffer breakdown. Sixty-seven per cent of those polled by Populus on 12 July 2007 agree that British society is breaking down.[25] This figure rose to 72 per cent amongst those in the lowest socio-economic group. The semantics of whether we are suffering a recession or depression are secondary. What is clear is that there is a problem, the affects of which are at least as severe as an economic recession.

3.5 The Cost of Relationship breakdown

Britain has the worst record in the world for family breakdown, and boasts the highest level of divorce and lone parenting in Europe. One in three British children will experience divorce or separation before the age of 16, and one in six babies is now born into a home with no father.[26]

> The state, having removed both the informal support structure and the moral consensus that had once helped vulnerable families to remain viable, was compelled to step into the breach: extra benefits and priority housing status were offered to the growing number of single mothers that the Government's own philosophy had helped to create. Those benefits, in their turn, provided further incentives for single parenthood and license to absentee fathers.[27]

The full costs of relationships breakdown are impossible to accurately measure. We have conservatively estimate the direct costs to the taxpayer to be £37 billion each year. A fuller breakdown of this figure can be found in Appendix 2. That equates to more than £1000 for every taxpayer, each year. That money could build a quarter of a million new houses, or pay for well over a million public sector workers. This figure does not include the losses to the economy and subsequent lost tax revenue, the full cost in term so crime and housing, nor the human and emotional costs involved.

---

[24] Resolution National Conference 5 April 2008, Keynote speech delivered by Mr Justice Coleridge, “Family Life - Family Justice – Fairness”
[25] See http://www.populuslimited.com/the-daily-politics-marriage-120707.html Interestingly only 55% of those in Scotland believed that British society was breaking down.
[26] *Breakdown Britain: Interim Report on the State of the Nation*, Social Justice Policy Group, December 2006, p.28.
[27] The Daily Telegraph, 22/11/06.

Breakdown costs

Lone parents			
Tax credits		£6.77bn	
Incapacity benefit		£3.4bn	
Housing benefit and Council tax benefit		£4.0bn	
Sub-total			**£14.17bn**
CSA			
2007 running costs		£520m	
Sub-total			**£0.52bn**
Criminal Justice			
Share of police budget 07/08	(1/4 x £12bn)	£3bn	
Share of prison budget 07/08	(1/4 x £4.7bn)	£1.18bn	
Share of court budget 07/08	(1/4 x £2bn)	£0.5bn	
Legal Aid – family budget		£0.51bn	
Share of Legal Aid remainder	(1/4 x £1.5bn)	£0.38bn	
Sub-total			**£5.57bn**
Children living in care			
68,800 children at approximately £26,000pa			
Sub-total			**£1.53bn**
Health			
£119bn x 10%		£11.9bn	
Sub-total			**£11.9bn**
Housing			
Emergency housing following domestic violence			
Sub-total			**£0.2bn**
Education			
£60bn x 5%		£3bn	
Sub-total			**£3bn**
Grand Total			**£36.89bn**

The cost of breakdown is almost overwhelming. It is unsustainable in the long-term. However this report has a positive message. Whilst acknowledging the financial costs of relationships failure, chapters 2-7 set out positive steps for investing in better relationships, which will reduce government spending in the long-term. Relationships impact our finances, but finance can also impact relationships.

4. Investment: Finance

Researchers say I'm not any happier for being richer, but do you know how much researchers make?[28]

The aim is to develop policy proposals that enable financial capital to be turned into social capital, which will improve relationships and ultimately increase well-being. Of course, improved relationships and well-being lead to greater financial capital in the long term and so the circle continually expands.

Finance shapes relationships in many ways, for example through the impact of capital flows, investment, spending patterns and debt. Every time we receive or give money we are involved in a transaction that has within it connection and relationship. We need to put finance and relationship in the same sentence.

Finance both reflects relationships and influences them by means of:

- Providing incentives or disincentives for choices and behaviours
- Signalling and reinforcing social norms
- Increasing or decreasing stress and conflict in relationships
- Empowering or disempowering positive conduct in a relationship
- Strengthening reciprocity and common purpose
- Creating opportunities for greater interaction
- Encouraging fair relationships within families and the community

We experience these effects in the way we acquire finance – earnings, borrowings and benefits/tax credits, and what we do with it – spend it, save it, lend it and pay our taxes. We will explore how these financial mechanisms impact positively and negatively on different relationships. From this we should be able to identify clear financial levers, which will improve relationships and ultimately increase well-being. Of course, improved relationships and well-being lead to greater financial capital in the long term and so the circle continually expands.

"The aim is to develop policy proposals that enable financial capital to be turned into social capital, which will improve relationships and ultimately increase well-being."

[28] Pat Byrnes, The New Yorker, 2001.

4.1 Absolute and relative poverty

A Wealthy man is one who earns $100 dollars a year more than his wife's sister's husband.[29]

A group of Harvard students was asked to imagine two worlds in which prices were the same. In the first, they would receive £25,000 a year whilst everyone else got £12,500. In the second world, they would receive £50,000 whilst everyone else got £100,000. Which world do you think they preferred? The majority preferred the first world, they were happy to be poorer, provided they were relatively better off.[30]

People adapt and become used to higher levels of income, so when asked how much income they need, rich people say they need more than poorer people do. A pound rise in experienced income causes a rise of at least forty pence in 'required income'.[31]

The relationship between finance and well-being is paradoxical. When people become wealthy compared with others, they become happier. However, when whole societies in the West have become richer, they have not become happier. In the UK, happiness or well-being has been static since 1975, despite massive increases in real income at every point of the income distribution. Income is relevant but as people compare themselves with others and adapt to their new income the impact is negated. Relative income is more important than absolute income, making it difficult to improve the well-being of everyone. However, according to Richard Layard, an economist and happiness expert, research shows that if money is transferred from a richer person to a poorer person, the poor person gains more than the rich person loses. He concludes that a country will have a higher level of average happiness, the more equally it distributes its income – all else being equal![32]

4.3 Turning financial capital into social capital

Whoever said money can't buy happiness
isn't spending it in the right places.[33]

We are often told that money cannot buy you happiness. This coheres with the notion that higher national income does not lead to greater national well-being. However, people high in well-being later

[29] H. L. Mencken quoted in R. Frank, *Luxury Fever: Money and Happiness in an Era of Excess*, New York: Free Press, 1999.
[30] Solnick, S. and Hemenway, D. "Is more always better?: A survey on positional concerns," *Journal of Economic Behavior and Organization*, 37, (1998),p. 373-383.
[31] Alois Stutzer. "The Role of Income Aspirations in Individual Happiness," Zurich IEER Working Paper No. 124, February 2003.
[32] Richard Layard, *Happiness: Lessons from a New Science*, London: Penguin Books, 2006, p.52.
[33] An advertisement for Lexus.

earn higher incomes and perform better at work than people who report low well-being.[34] We know that better relationships do lead to better well-being, but we cannot buy better relationships. So where does money or financial capital, enter the equation?

People and communities with good access to a diverse mix of social capital tend to be more ‘hired, housed, healthy and happy.' [35] They would appear to be able to use their social capital to build financial capital. This project seeks to explore the reverse notion - can financial capital build social capital? How can we invest money to improve people’s well-being? We want to stress the positive message that we too often miss opportunities to build relationships. Too often, we see finance and relationships as separate issues.

The concept of social capital is not without its problems but can aid the discussion. The core idea is ‘that social networks have value. Just as a screwdriver (physical capital) or a college education (human capital) can increase productivity (both individual and collective), so too social contacts affect the productivity of individuals and groups.’[36] Although views concerning the precise definition of social capital differ, social capital is essentially about the ways in which one's social relationships provide access to needed information, resources and supports.

As the main source of economic and social welfare for its members, the family is the first building block in the generation of social capital for the larger society.[37] Ann Bookman, the executive director of MIT’s Workplace Center at the Sloan School says, “If our country can create private sector and public policies that support working families, we will not only advance the wellbeing of children and families, but will also — in the long-run — build a more productive workforce and a stronger economy.”

4.4 What does social capital do?

Like education, (human capital) the value of social capital depends on the flow of benefits it produces. These can include:

Material goods and services – childcare, informal health care, food, clothing, housing etc.

Information – contacts, friends and family can help secure employment.

Reduced transaction costs – trust and knowledge reduces the need to run checks, find new employees etc.

[34] Diener & Seligman, 2004.
[35] Woolcock, 2001, p. 68.
[36] Putnam, 2000.
[37] Bubolz 1998, Hogan 1998.

Emotional support – can reduce stress and pressure simply be sharing a problem or gaining some advice/ perspective. Knowing support is there can help, even if it is not used.

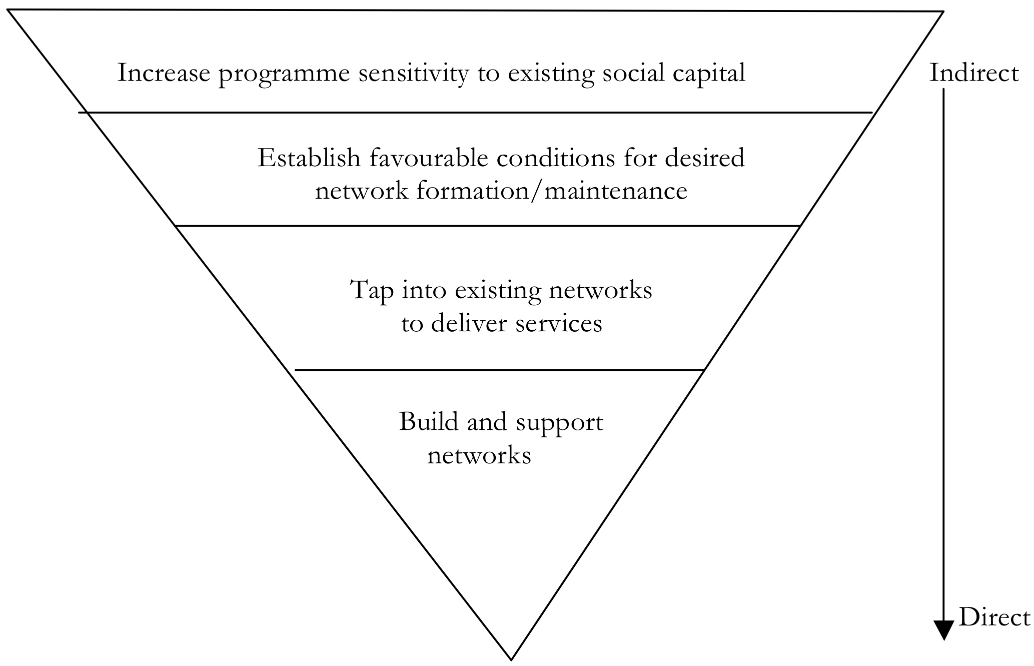
Promotion of cooperative and or socially minded behaviour.

Reinforcement of positive behaviour – friends and family can encourage, healthy diet, exercise and giving up smoking.

Service brokerage – network contacts help access to jobs, healthcare, finance, training etc.[38]

Social capital is particularly important at key stages – transition from school to work, fundamental family changes (parenthood, marriage, divorce, death), retirement and loss of autonomy, or ability to care for oneself. It should be noted that it could have negative connotations – old boy networks, Nimbyism and criminal gangs – that must be kept in check.

The diagram below shows the potential influence of social capital in public policy: from direct to indirect influence.[39]



[38] Social Capital as a Public Policy Tool: Project Report, September 2005, Policy research Initiative Canada.
[39] Social Capital as a Public Policy Tool: Project Report, September 2005, Policy research Initiative Canada, 17.

4.5 Education as a model

Investing financial capital (money) in human capital (education) is well established. The financial returns alone make this a good investment for all involved. Every year of education adds 8% to average income or £50,000 over a lifetime. The Guardian estimated that in 2006 the total cost of university including tuition, books and living expenses was £32,478. Research by PWC cited by Universities UK estimates that a University graduate earns on average an additional £160,000 over their working life when compared with those who only completed their A-levels. In addition, the possession of a postgraduate degree will add another £70,00 - £80,000 to the former figure.

These figures deal purely in the financial benefits. Education also improves peoples' choices, job security, and sense of belonging, all of which have been proven to increase well-being. Our contention is that the same is true of social capital. The financial returns alone would justify the investment, aside from the increase in well-being, which in turn leads to even greater returns, as those who have greater well-being tend to earn more.

5. Conclusions

In preparing this report, it became clear that finance, relationships and well-being could cover every area of policy. Despite the rise in individualism, every decision we make affects someone else, and therefore our relationship with him or her. Every decision affects our well-being or that of others. Everything we do has a cost, which can be measured in financial terms, and every time we spend money, we enter into a relationship with others.

This report seeks to address areas that most directly affect all three factors – finance, relationships and well-being. Within this, we have concentrated on the following significant areas – tax and benefits, credit and debt, family, housing, community and dependent relatives.

This report sets out how to put relationships at the centre of policy. Chapters 2-7 each tackle one major policy area - the tax and benefit system, credit and debt, families, communities, housing and dependent relationships. Whilst this report covers important areas, the need for full integration means it is not comprehensive. However the measures suggested would show an intention to invest in relationships to improve well-being.

Chapter 1 Summary: Finance, Relationships and Well-being

Policy Challenge: Finance should be used not just to promote better economic outcomes but also to protect and strengthen relationships.

Public Message: To improve well-being we must invest financially in strengthening relationships.

Why?: *Intention* - Everyone wants to improve well-being

1. Well-being includes physical health, income and wealth, stable and close relationships, meaningful work and leisure, and good mental health
2. But note, despite a thriving economy the UK was placed last out of 21 OECD countries on children's well-being

Integration - Well-being requires an integrated social, economic and environmental approach

1. Whilst money is important, in wealthier nations close and stable relationships are the key to well-being (Diener and Seligman)
2. A wide range of relationships are important, but extended family is the core group
3. Policy driven solely by economic concerns can have unintended consequences on relationships and thereby actually reduce well-being

Investment – Using financial capital to create social capital, builds relationships and increases well-being

1. Those with a diverse mix of social capital are more 'hired, housed, healthy and happy'.
2. We already invest financial capital in human capital (education). We are advocating a similar investment in social capital.
3. Finance shapes relationships through the impact of capital flows, investment, spending patterns and debt.

Context: - There is broad agreement in the political realm about the importance of well-being. Social scientists are agreed that money is a factor, but that relationships are much more important.
- There is near-consensus on how to handle the economy between the main political parties. The debate has moved to social and environmental issues. "Relationships are the missing piece of the puzzle. As we struggle to adapt to the domination of the bottom line, the factor omitted from the equation is relationships." Lindsay Tanner, Minister for Finance, Australia.

Policies: - ***Tax and Benefits*** **–** the benefits system rightly presumes relational support from families, therefore the tax system should also recognise relational support from families by moving towards a family based tax system.
- *Housing* – rising costs have put great financial stress on household and family relationships. Co-location, multi-generational living and family friendly local tax policies can reduce this stress.
- *Family Finances* – extended families are the most important economic and social support unit in society, so it is important to create, protect and support family businesses and welfare networks.
- *Community* – investing in the community through employment bonds and local pensions increases social capital and financial capital. Participatory budgeting increases participation and local autonomy, thereby improving well-being.
- ***The Debt Disaster*** **–** debt problems lead to relationship breakdown, which reduces well-being and increases financial and social costs. They can be reduced by better debt management.
- *The Vulnerable* – children, the elderly and the disabled are in dependent relationships. Flexible finance gives carers and carees choice and resources to cope with changing needs and stress.

Conclusion: To promote personal and social well-being it is necessary to reduce both financial and relational stresses on families.

2 Tax and benefits: Can the system consistently recognise and support relationships?

The basic ties of the family at the heart of our society are the very nursery of civic virtue. It is on the family that we in government build our own policies for welfare, education and care.

Margaret Thatcher, Observer 22 May 1988

The family is the place where we care for each other, where we practise consideration for each other. Caring families are the basis of a society that cares.

James Callaghan, Guardian 23 May 1978

To corrupt family relations is to poison fountains; for the sources of the commonwealth are in the households, and errors there are irretrievable...

Edmund Burke, Correspondence, Vol. III

Summary

People must be motivated to value and pursue those relationships that contribute to well-being. The UK needs a consistent tax and benefit system, which actively supports extended family relationships. The current benefit system assumes relational support, whilst the tax system gives to credit for the voluntary redistribution going on every day between family members. The system undermines relationships and feeds into a culture of breakdown that costs £37 billion each year. Changes must be made to eradicate the couple penalty. Beyond that we suggest a number of measures, which could be used to move towards a more family/household based tax system. The tax and benefit system should recognise relational responsibility, can influence choices and does establish social norms.

2.1 Rewarding Failure

Taxation can serve a number of purposes sometimes known as the four "R"'s: revenue , redistribution, repricing and representation. Taxes raise revenue to fund infrastructure such as hospitals and schools and services such as healthcare. The extent of the redistributive element is controversial, but there is a net transfer from wealthier to poorer sections of society. Repricing deals with externalities and incentivises certain behaviours such as recycling whilst discouraging others such as polluting. The link between representation and taxation is stronger in America, but the basic notion of accountability between those paying taxes and those determining how they are spent applies in the UK.

This section deals particularly with the issue of repricing or incentives. The system is rarely neutral and often discourages particular forms of behaviour, which have negative externalities for society. However on occasion repricing can lead to unintended consequences.
This report raises two issues in relation to the tax and benefit system – consistency and incentives. It argues that the system is fundamentally inconsistent and the confused message it does send is to reward failure and breakdown.

Inconsistency

Historically since the days of the Old Poor Law in 1576, the tax and benefit system has assumed the obligations of family members and the local community. The social security system, family law, the child support agency and inheritance laws are all predicated on the assumption that family income and assets are shared between family members. However, the tax system largely ignores the massive voluntary redistribution of income going on every day between millions of family members. The government presumes that families will support one another to save them in benefit costs, but it fails to recognise this support in the tax system. The inconsistencies in the system undermine relationships.

Incentives

Given the research that children do better across a range of measures when raised in a stable couple environment, steps should be taken to encourage and incentivise couples to remain together, re-establishing the social norm of stable couple relationships. Instead, we face a situation where parents who earn less than £50,000 are often financially better off splitting up. The financial loss of a couple staying together could be as much as a staggering £16,486 a year. In 2007/8 the average annual cost to the Treasury in additional tax credits and benefits (net of increased council tax payments) arising from a couple's decision to live apart will be £7,732, or if maintenance is paid £6,647.[1] Households earning £50,000 gross could end up with net incomes differing by up to £3,000 depending on whether the income is earned by one parent or split between two.[2] Households should be free to choose how they earn their income without influence from the state, and should be incentivised to stay together.

[1] Don Draper, *Couple Penalty 2007/08*, Care Research Paper, Feb 08, p.5.
[2] Based on 2007/08 tax rates if the £50,000 was earned by one partner their net income would be £35,174. If £42,000 was earned by one partner, and £8,000 by the other, the net income for the household would be £37,962. The difference is £2,788.

2.2 The cost of being a couple

The UK tax system is unusual in that it takes virtually no account of marriage or a taxpayer's family responsibilities. Married couples do benefit from income election rules for jointly held property, CGT exemption for transfers between spouses and IHT exemptions. However, there is broad agreement that a 'couple penalty' exists within in the system, when comparing couple and single parent families.

'Instead of economy being embedded in social relations, social relations are embedded in the economic system'
Polanyi 1957

Over the last twenty years, the UK has moved from a male breadwinner model of welfare to a modified male breadwinner model, to reflect the reality of the situation on the ground. The tax and benefit system has seen a number of changes reflecting two broad trends. The first is the move from family based taxes to an individual system. The second is a move from supporting marriage towards supporting children.

The sociological ideas of defamilisation and individualisation are important here. Defamilisation has been defined as, "the degree to which individual adults can uphold a socially acceptable standard of living, independently of family relationships, either through paid work or social security provision"[3] Leading sociologist Esping-Anderson sees defamilisation as largely referring to the state assuming greater responsibilities vis-à-vis children, thus allowing parents (principally women) to enter the labour market and achieve greater gender equity. His conceptualisation of defamilisation within welfare states helps explain the withdrawal of parents from their principal caregiving responsibilities, as the state plays a larger role in supporting children's care.[4]

Individualisation is the subject a number of different theoretical interpretations. The sociological theories of modernity presented by Anthony Giddens interpret individualisation as a tendency toward de-traditionalisation and democratisation of personal life.[5] Giddens celebrates it as a largely positive step. In contrast, communitarians like Etzioni attribute the breakdown in the moral fabric of society to the excessive emphasis on individualism in the public sphere. Communitarians tended to interpret the changing family structures negatively, as a trend towards selfish individualism and a 'parenting deficit'.

Increased gender equality is essential, but it does not have to be at the expense of the family. Ruth Lea is critical of old-fashioned 1970s feminism, which sees the family as an instrument of male oppression and seeks to make women independent of men whatever the social costs, and the costs to the state.[6] Increased economic independence does not have to come at the expense of the family, and with the increase of responsibility of the state. Putting relationships at the core,

---

[3] Lister, R. "'She has other duties': women, citizenship and social security."In Baldwin, S., and Falkingham, J. (eds.), *Social security and social change: New challenges to the Beveridge model*. (New York: Harvest Wheatsheaf, 1994) p.37.
[4] Esping-Anderson, G. *Social foundations of postindustrial economies.* (Oxford: Oxford University Press, 1999).
[5] Anthony Giddens, *Beyond Left and Right — the Future of Radical Politics* (Cambridge : Polity, 1994).
[6] Ruth Lea, quoted in *Social Responsibility: The Big Idea for Britain's Future* by David Cameron (Northampton: Belmont Press, 2007) p.18.

and championing interdependence, enables policymakers to navigate the difficult course between crippling dependence and reckless independence. It takes seriously gender equality, without he state taking on parenting responsibilities.

2.3 The Forgotten Family

From Families to Individuals

The movement over the last seventy years from a family based tax system to an individual one is demonstrated in table 1 below.

Table 1 - Number of income taxpayers by year

Financial Year	Number of taxpaying families (000s)	Number of taxpaying individuals (000s)
1938-39	3,800	N/A
1948-49	14,500	N/A
1958-59	17,700	N/A
1968-69	20,700	N/A
1978-79	21,400	25,900
1988-89	21,500	25,000
1998-99	N/A	26,900

Notes: Joint taxation of a couple was in place before 1990, and before this date the Inland Revenue regarded couples where both adults paid tax as a single unit. Thus, the number of taxpaying individuals had no administrative significance for the early years, and so was not collected; for later years, the same is true of the number of taxpaying families, and so this is unavailable after 1990. Taxpaying families and individuals are defined throughout as those with income sufficient to pay income tax after using up all reliefs and allowances due. *Source: Inland Revenue Statistics* (1987, 1992 and 2001 editions).[7]

Prior to 1990, married couples were treated as a single unit for income tax purposes. The outdated 1970 Income and Corporation Taxes Act held that for the purposes of income tax, 'a woman's income chargeable to tax shall . . . be deemed to be her husband's income and not her income'. The system also included a married man's allowance (MMA) increasing a husband's tax allowance to reflect his increased 'responsibilities'. By the late 1970s, there was finally agreement that the system should treat men and women equally, but there was no consensus as to how this could best be done.[8]

Nigel Lawson published a Green Paper as part of his 1986 Budget Speech suggesting the adoption of transferable allowances between spouses. However, before this was implemented, an

[7] Tom Clark and Andrew Dilnot, "Long Term Trends in British Taxation and Spending" IFS Briefing Note 2, 2002.
[8] Stuart Adam and James Browne, *A Survey of the UK Tax System*, IFS Briefing Note 9, 2006, p.30

entirely new system was introduced. Husbands and wives were to be taxed independently, but a married couples allowance (MCA) would be available to either party. This established the equal treatment of men and women, but was also a crucial step to individual taxation.

From families to children

During the same period, there was also a move to focus on children, rather than families. Since 1973, married and unmarried couples with children had been treated equally through the additional person allowance (APA), an allowance for unmarried people with children, which was equivalent to the MMA and then the MCA.[9] However, married couples without children were still treated more favourably than unmarried couples without children (the former received the MMA or MCA the later did not). Between 1992 and 2000 the APA and the MCA were reduced until their abolition in April 2000. The following year the children's tax credit was introduced, which made no distinction between married and unmarried people. In 2003 the children's tax credit and WFTC were replaced by child tax credit and working tax credit, neither of which depends on marriage. As the IFS commented, "In short, over the past 15 years, the UK income tax has moved away from providing support for marriage and towards providing support for children."[10]

2.4 Putting Relationships First

There is broad agreement that a 'couple penalty' exists within in the system, when comparing couple and single parent families. The ONS has evidence of 1.2 million couples living-apart-together (non-residential cohabitation).[11] There is almost certainly a link between the cost of being a couple and the numbers choosing to live apart. CARE looked at the finances of 98 couples with low or modest incomes and found that in over 70% of cases the family would have a higher disposable income living apart, even after the additional income of maintaining two houses was deducted – on average by £63 per week.[12] Reducing the couple penalty would not only benefit two parent families, but would remove a significant deterrent to lone-parents from marrying or taking on a partner. CARE estimate that the present arrangements, which discourage couples from setting up home together, cost the Treasury £3-4 billion a year.[13]

One in three over-50-year-olds surveyed in the UK looks after an elderly relative, one in six provides care for a grandchild and one in ten does both.[14] The facts make it clear that family

---

[9] Ibid.
[10] Ibid., p.31
[11] Haskey Population Trends, Winter 2005.
[12] November 2006 Research Paper.
[13] CARE, July 2007, 19. This is based on estimating the average annual cost to the treasury in lost revenue, through increased tax credits and benefits that would arise from a couple living apart rather than together at £7,700 per family. It assumes that 500,000 of the 1.2 million LAT couples have children and so arrives at an approximate figure of £3-4bn.
[14] Statham, *The Pivot Generation*.

members provide significant care. Patricia Morgan has observed that the transfers that individuals make between themselves within households could be regarded as the first line of welfare in society, yet these are not recognised in the tax system and are penalised in the benefits systems.[15]

Economic responsibilities for family members provide the impetus not only to seek work, keep work and work full time, but also to earn more.[16] Marriage may also mark a greater willingness to invest in human capital, and create favourable conditions for so doing.[17] People in committed relationships accept responsibility for others and tend to work to meet those responsibilities.

With the abolition of transferable allowances, the tax system sends a strong signal that it would prefer to see both parents working in paid employment. In a neutral system, a family should be able to determine how much money they need to survive without the tax system influencing how they earn it. If a family desires a net income of £40,000, either both parents could earn approximately £26,550 gross (a total of £53,100), or one parent could earn approximately £57,700 gross.[18] With only one parent working, their gross income would be £4,600 more, though the net result would be the same. These figures highlight the myth that the current tax system is neutral. It benefits double income couples over single income couples, and lone parents over couples.

Case Study
Toby and Julie have a 2 year old son James. Toby has decided not to work so he can look after James. Stephen and Emma also have a 2 year old son Isaac. Both Stephen and Emma work more than 16 hours a week. Isaac is placed in childcare when they are working at the same time. Stephen and Emma will receive up to £175 pw or £9,100 a year to subsidise their childcare costs. They would also be taxed more favourably because their income is split between them. Toby and Julie are £10,000 a year worse off under the current system.

We see a similar pattern in relation to the child care element of Working Tax Credits. Up to 70% of child care costs can be reclaimed by lone parents working more than 16 hours a week, or by couples were both parents work more than 16 hours a week. Whilst this makes choices more affordable for some couples, other families are penalised. If in a two parent family one parent chooses to work and the other stays at home with the children, they not only miss out on tax relief for childcare, but the working partner's wage will effectively subsidise the choices of other families who do receive the tax break. A single income couple pay more tax than a double income couple on the same household income and receive less benefits. The increased financial burden this family now faces will end up limiting the choices they are able to make.[19] Patricia Morgan has asked, "Should the government force those parents who want to give their children the highest quality day care (at a considerable personal economic penalty in

[15] Patricia Morgan, *The War between the State and the Family*, IEA 2007, p.79.
[16] Akerlof, G. A., 'Men without children', *Economic Journal*, 108(447): 287–309.
[17] Patricia Morgan, *The War between the State and the Family*.
[18] Figures based on 2008/09 tax rates.
[19] *A Funny Way of Not Being Involved,* Maxim Institute NZ, Real Issues 210, 2006.

terms of lost second income) to subsidise those who put their children into the care of a third party?"

Having set out the biases on the current system, we can now examine how these have arisen and their impact on relationships.

2.5 When did we forget about families?

The Old Poor Law operated from 1576 -1834 and codified the obligations of family members and the local community. Alleviating poverty was the responsibility of the local community, including the charging of a local poor law tax. However, authorities could recoup money paid out from 'liable relatives'. The New poor Law of 1834 emphasised individual responsibility, weakening the importance of family ties, though it continued to accept collective responsibility for the poor as a safety net. The financial crisis of 1931 put the system of financial support for the unemployed under extreme pressure, and led to modifications to include means testing. Household income became important. It was assumed that spouses and other wage earners, mostly adult children, pooled their resources. Handouts were decreased for those who lived in income earning households.

Inheritance laws provide another example of the law presuming family support. After the abolition of primogeniture in 1925, the Inheritance (Family Provisions) Act 1938 set limits on testamentary freedom. Spouses, children, parents, siblings and anyone maintained by the deceased before his or her death can apply to the courts if they believe the deceased has failed to make reasonable provision for them.

Before 1988, a taxpayer could claim the Dependant Relative Allowance for any relative they supported financially. Since 1988, family care is still presumed, but the allowance has been abolished, and replaced with means tested benefits, which are more difficult to receive. In the past student grants included a means tested parental contribution. The presumption was that parents who were able, would support their children, now technically adults, through university. (The NUS campaigned strongly that parents were not legally obliged to pay, despite their support being assumed, but the changes were made anyway.) Maintenance payments presume an obligation to support children and former spouses. However, these presumed payments are only officially recognised once the relationship has broken down.

The State has long supposed that the family and the local community would care for the less fortunate amongst them. Over time, a growing welfare state has displaced the previous welfare society. We live in a new more individualistic society where family and community are less important. We now have the situation where the government is prepared to ignore some maintenance payments between separated couples, while resisting any income splitting between couples that remain together. The Government has proposed raising the child support maintenance disregard to £20 per week from October 2008 and to £40 from April 2010 when it will cost £140million a year. From next year the Government will also ignore all maintenance payments when calculating HB and Council Tax Benefit (the current disregard is £15 pw). At the same time, it opposes proposals for the reinstatement of the Transferable Personal Allowance. The message is clear, the government will not support the forming and maintaining of relationships, only intervening when the relationship has broken down.

2.6 The consequences of forgetting families?

The social security system, family law, the child support agency and inheritance laws are all predicated on the assumption that family income and assets are shared between family members, yet the tax system takes no account of the massive voluntary redistribution of income going on every day in millions of homes between family members. A tax system so inconsistent with the common experience of taxpayers is doomed to perpetual frustration.[20] Currently an unemployed partner or a young person at home is denied unemployment benefits on the basis that they are supported by someone else's income. However, their benefactor is denied any tax recognition for providing that income support.

In other OECD countries one-earner couples on average income pay tax at around 50 per cent of that paid by a single person on the same income. In the UK, after allowing for child benefit and tax credits the figure is 75 per cent. Since the 1960s the real-terms tax burden on couples earning 75 per cent of the average wage has trebled. Over the same period the burden on a single person with no dependents has increased by only 16 per cent. In the mid-1960s a one-earner family on average wage paid just 9 per cent of its income on tax. In 2006-07 that figure had risen to 20%. As Professor Rowthorn who teaches economics at Cambridge University has commented, "The system is resented because it is so biased against one-earner couples who wish to look after their own children."[21]

The inconsistencies in the system undermine relationships. The government presumes that families will support one another to save them in benefit costs, but it fails to recognise this support in the tax system. Why should marriage be the only form of economic partnership not recognised by income tax law? While means-tested payments give people incentives not to work, declare income or marry, targeted tax allowances would reduce the perverse incentives to inactivity, family breakdown and male abdication created by targeted benefits.[22]

We face a situation where parents who earn less than £50,000 would be better off splitting up.[23] Benefits and taxes are weighed so heavily in favour of lone-parent families that couples need to bring in twice the national average income before staying together has a financial advantage. The

[20] Terry Dwyer, *The Taxation of Shared Family Incomes*, CIS Policy Monograph 61, 2004.
[21] This paragraph comes from the Daily Mail on 21 January 2008, which cited new research from CARE. The original report was written by Don Draper and Leonard Beighton and is entitled "Taxation of married Families: How the UK Compares Internationally." Available at http://www.care.org.uk/Publisher/Article.aspx?id=104133
[22] Patricia Morgan, *The War Between the State and the Family*, IEA 2007, p. 149. Available at http://www.iea.org.uk/files/upld-book406pdf?.pdf
[23] Patricia Morgan, *The War Between the State and the Family*, IEA 2007.

financial impact on a couple could be as much as £16,486 a year.[24] Given the sums involved, it is no surprise that a significant number LATs remain apart for financial reasons. Others 'fake it', continuing to live together but pretending otherwise to receive better benefits. This lifestyle of deceit only serves to harm relationships within the family and the broader community. As the IFS has pointed out, in 2006 the government paid tax credits and benefits to 200,000 more lone parents than actually live in the UK – it is so rewarding, many are faking it. Peter Wilby of the Newstatesman observes, "Many parents clearly think there is a financial advantage in living apart."[25]

The government has chosen to focus its efforts to reduce child poverty on those children in single parent households. The difficulty is that 2 million of the 3.4 million children below the poverty line live with two parents. The current tax and benefit system penalises these children because their parents have stayed together. As Frank Field points out in *Welfare Isn't Working: Child Poverty,* the risk of poverty for children in two-parent families has scarcely changed under the current drive to end child poverty. The majority of child poverty is found in two-parent families, with 43% of all children in poverty living in two parent families with at least one earned income.

2.7 Fixing Family Finances

Fair treatment of couples by ending the partner penalty

If the tax system is going to pretend to be neutral, it must end the discrimination against couples and families. The Centre for Social Justice asked the Institute for Financial Studies to cost a number of proposals to improve the benefits received by couples ***without*** penalising lone parents. Increasing the couple element of the Working Tax Credit to take into account the extra adult would cost £3bn giving 1.8m couples with children £32.05 more, on average, per week. This would make the treatment of couples vis-à-vis lone parents the same under WTC as it is under the current income support system.

The object of this report is to increase well-being by encouraging investment in relationships. The couple penalty creates a serious problem. Eight per cent of married couples break up before their child is five, compared with 62 % of cohabiting parents,[26] with the result that three-quarters of family breakdowns affecting young children involve unmarried parents. Children from a broken home are 75% more likely to fail at school, 70% more likely to become drug addicted, 50% more likely to become alcoholics, 40% more likely to be in debt and 35% more likely to become unemployed. Economic responsibilities for family members provide the impetus not

[24] A two earner family on £500 and £89 pw gross with two children aged 2 and 4 would be £16,468 worse off assuming no maintenance was paid and £13,996 worse off if maintenance was being paid according to figures produced by CARE.
[25] The Newstatesman, 19th July 2007.
[26] J. Ermisch, *Trying Again: Repartnering after Dissolution of a Union,* ISER working paper no. 2002-19.

only to seek work, keep work and work full time, but also to earn more.[27] Marriage may also mark a greater willingness to invest in human capital, and create favourable conditions for so doing.[28]

The Institute of Economic Affairs recently released *Happiness, Economics and Public Policy,* which sought to unpick the tangled web of happiness economics. The report was skeptical about some of the work done in this area, but acknowledge that panel or longitudinal date is much more securely grounded. They highlighted the Wilson and Oswald survey, which only considers results obtained from the analysis of panel data.[29] Wilson and Oswald reference no fewer than 95 papers drawn from a variety of disciplines. The results are striking:

- Marriage makes people far less likely to suffer psychological illness.
- Marriage makes people live much longer.
- Marriage makes people healthier and happier.
- Both men and women benefit, though some investigators have found that men gain more.
- These gains are not merely because married people engage in less risky activities.
- Marriage quality and prior beliefs can influence the size of the gains.

Moreover, not only are the benefits confined to those who are married rather than cohabiting, but they are large. In terms of health, for example, the longevity effect of marriage may even offset the consequences of smoking.[30]

In terms of health, for example, the longevity effect of marriage may even offset the consequences of smoking

Marriage offers an incredible range of benefits, many of which save the government considerable sums. WTC should be increased to take into account the extra adult in the household. A significant benefit of the IFS proposal outlined above is that it would lift 300,000 children in two parent families out of poverty. The government is currently struggling to meet its stated aim of ending child poverty by 2020. This proposal would be a significant step in meeting that aim.

Tax Equity by moving from individual to household taxation

- *Transferable Personal Allowance (TPA)*

As the benefit system assumes that partners support each other, it seems only fair that the tax system also recognizes that support. Households should be able to decide how they wish to earn the money they need without interference from the tax system. Whilst income splitting discussed below would fully address this, a TPA would go some way, allowing £5,225 (using 07/08 tax

[27] Akerlof, G. A., ‘Men without children’, Economic Journal, 108(447): 287–309.
[28] Patricia Morgan, *The War Between the State and the Family*, 2007.
[29] Wilson, C. M. and A. J. Oswald (2005), ‘How does marriage affect physiological and psychological health? Evidence for longitudinal studies’, Discussion paper, Department of Economics, University of Warwick.
[30] Helen Johns and Paul Ormerod, *Happiness, Economics and Public Policy*, IEA, 2007, p.48.

rates) to be attributed to the non-earning spouse tax free. A disadvantage is that it only benefits one-earner married couples those on higher incomes benefit more. Applying it to those with dependent children may be a more cost effective proposal. An allowance of £5225 at basic rate of tax would be worth £1045 p.a. It would cost £3.2 billion for all couples, £1.5 billion for couples with dependent children and £0.9 billion for couples with dependent children under six.

Granting this allowance to all couples with children would recognise the relationship between parents and their children, and further alleviate child poverty. Whilst extending the TPA to all couples is significantly more expensive than limiting it to those with children, it does send an important signal that partnerships are important. It also allows couples to decide how they wish to earn the income they need, whereas the current tax regime favours both parties earning similar amounts.

- Children's Allowance (CA)
(or Dependant Relative's Allowance. This would make it easier to argue for its extension to include elderly relatives.) This allowance would acknowledge the role parents have in maintaining their children. In the same way that the TPA acknowledges partner's responsibilities for each other, so this allowance acknowledges parent's responsibilities for their children. Why should parents be taxed on that part of their income, which is going directly to the care of their children? The parent would be able to add a suggested sum of £2,500 per child to their tax-free allowance (approximately half the allowance of a single adult). Functioning as an allowance rather than a benefit means this proposal would incentivise work. This would be paid alongside child benefit.

This obviously benefits those with children. Under the current system low income families pay tax and then receive a tax credit. A tax allowance is a simpler system.

- TPA + CA
These combined allowances send a signal that couple and parent/child relationships are important. A single income couple with two children would be approximately £2,000 better off under this proposal. The levels could be adjusted to make them financially more viable.

- Joint filing
This system allows for income averaging and is used in Ireland and America. The Irish system is shown in table 2. Single income couples and one-parent families receive increased allowances. Double income couples benefit most by having their basic allowance doubled. Each group is better off when compared with a single taxpayer. The Irish system has been criticized for penalizing single income couples when compared against their double income colleagues – a single income couple can pay substantially more tax than a two-income couple on the same household earnings. The Irish employee tax credit system further favours double income couples. The Irish approach shows how the tax system can distinguish between different family types, whilst highlighting the problems if this is not fully thought through. The Irish system is currently moving towards tax individualization, which explains the present unsatisfactory hybrid.

Table 2. Irish Tax Rates and Bands 2008

	Marginal tax rate	
	20%	41%
Single person	€35,400	Balance
Married couple One income	€44,400	Balance
Married couple Two incomes	€70,800	Balance
One parent family	€39,400	Balance

Table 3 displays figures for the American joint filing system. A person can claim the Head of Household (HOH) filing status on their tax return if they are unmarried, have cared for a dependent for over half the year, and paid more than half the cost of maintaining a home. This rate is often used by lone parents. The American system attempts to strike a balance between horizontal and vertical equity. The Joint filing bands are doubled at lower income levels to ensure horizontal tax equity - ensuring that households on the same income should pay the same levels of tax. Vertical equity requires that those better able to pay higher taxes should do so, regardless of household make up. As income rises vertical equity kicks in and the joint filing brackets increase, but by less than double.

Table 3. American income brackets and tax rates 2008

Marginal Tax Rate	Single	Married Filing Jointly or Qualified Widow(er)	Head of Household
10%	$0 – $8,025	$0 – $16,050	$0 – $11,450
15%	$8,026 – $32,550	$16,051 – $65,100	$11,451 – $43,650
25%	$32,551 – $78,850	$65,101 – $131,450	$43,651 – $112,650
28%	$78,851 – $164,550	$131,451 – $200,300	$112,651 – $182,400
33%	$164,551 – $357,700	$200,301 – $357,700	$182,401 – $357,700
35%	$357,701+	$357,701+	$357,701+

We propose the adoption of a joint filing system based on that used in America. A simplified version is displayed in table 4 below.

Table 4. Simplified UK joint income taxes

Marginal tax rate	Single	Head of Household (Lone parent)	Married/ Joint filing
0	£0-£5435	£0-£8,152	£0-£10,870
20%	£5,435 – £30,000	£8,152 -£40,000	£10,870 - £50,000
40%	£30,000 +	£40,000 +	£50,000 +

Allowing couples to opt out of a joint filing system would ensure that they are never penalised and could always choose the most advantageous system, though it would limit the vertical equity of this proposal.

- *Income splitting*

This is a more radical solution based on the French 'family quotient' system, which actually reduces income tax the more dependants one has. The French 'family quotient' system is based on the division of all income among members of a family unit, including children. The family's total income is then divided by the so-called "family quotient" calculated on an equivalence scale with a value of 2 for a couple (1 for an individual) and 0.5 for the first two children and 1 for any children thereafter. For a couple family with two children, the family quotient would be 3. If the household income for this family was £40,000, (made up by any combination), this figure is then divided by 3 leaving £13,333. The tax is calculated on £13,333. The tax is then multiplied by 3 to give the total household tax liability. The difference between the systems is shown below based on 2006/7 tax rates. (National Insurance has been ignored)

System	**Income**	**Tax**	**Net income**
Current	£40,000	£7,734	£32,266
Quotient	£13,333 (40,000/3)	£4704 (1568x3)	£35,296

The impact of the TPA, the CA and the Household Quotient systems is shown in the table below. The table is based on 2006/07 tax rates and includes NIC. All those enjoying the benefits of a shared income under the quotient system pay NIC based on their 'share' of the household income. Due to the regressive nature on NIC, a larger overall contribution would be paid under this income splitting system, but there would still be a significant overall reduction in their tax bill. The 'Q' column shows the quotient used for each calculation. The TPA is taken as £ 10,070 for a couple and the CA is taken as £2,500 per child.

The 'Household + cap' limits the amount of benefit that can be received by income splitting, as the current French system does. A cap of £1,000 per 0.5 quotient is shown which is slightly below the current French equivalent. A cap of this level in fact only comes into play on incomes above £40,000.

The Table makes the following clear:

TPA – benefits those with a single income but ignores children. A small group of couples with no children and one income would benefit most. Those on higher incomes would also benefit most. A household with a 40% taxpayer would save over £2,000.

CA – benefits all those with responsibility for children but ignores couples.

TPA + CA – sends a signal that couple and parent/child relationships are important. The levels could be varied to make this option more fiscally appealing, and potentially revenue neutral. It has been suggested that the cost of a couple living together equates to 1.6 times that of a single person. The TPA could be set at 1.6 times the basic personal allowance. The figure for the CA could also be varied. The figure of £2,500 was chosen as approximately half the current personal allowance.

Quotient system – benefits couples and parents with responsibility for children. Implementing a cap along the lines of the French system seems fairest, otherwise those on high incomes would benefit unduly. The value of the quotient could also be reduced the more children you had as opposed to rising as under the French system. The quotient could be 0.5 for the first two children and could fall to 0.33 or even 0.25 for any child thereafter. This would give recognition to the increased cost of raising a family without incentivising large families.

Though the adoption of a French style quotient system would require a major overhaul of the UK tax system, it would send the strongest signal as to the importance of the household or family unit. Including a cap within the system would prevent richer families benefiting unduly.

Table 5. Net Income under different taxation systems (inc. NIC)

Gross Income	Household formation	Current	TPA (10,070)	CA (2,500)	TPA + CA	Q	Household Quotient	Household + cap
75,000	1p	49,717	49,717	49,717	49,717	1	49,717	49,717
	1p+1c	49,717	49,717	50,717	50,717	1.5	52,450	50,717
	C	49,717	51,731	49,717	51,731	2	54,884	51,717
	C+1c	49,717	51,731	50,717	52,731	2.5	55,052	52,717
	C+2c	49,717	51,731	51,717	53,731	3	56,013	53,717
	C+4c	49,717	51,731	53,717	55,731	5	59,855	57,717
40,000	1p	29,067	29,067	29,067	29,067	1	29,067	29,067
	1p+1c	29,067	29,067	29,917	29,917	1.5	29,680	29,680
	C	29,067	30,474	29,067	30,474	2	30,641	30,641
	C+1c	29,067	30,474	29,917	31,024	2.5	31,601	31,601
	C+2c	29,067	30,474	30,467	31,574	3	32,562	32,562
	C+4c	29,067	30,474	31,567	32,669	5	36,405	36,405
28,000	1p	20,681	20,681	20,681	20,681	1	20,681	20,681
	1p+1c	20,681	20,681	21,231	21,231	1.5	21,640	21,640
	C	20,681	21,789	20,681	21,789	2	22,602	22,602
	C+1c	20,681	21,789	21,231	22,338	2.5	23,561	23,561
	C+2c	20,681	21,789	21,781	22,888	3	24,522	24,181
	C+4c	20,681	21,789	22,881	23,988	5	27,410	27,410
20,000	1p		15,321	15,321	15,321	1	15,321	15,321
	1p+1c		15,321	15,950	15,950	1.5	16,281	16,281
	C		16,428	15,321	16,428	2	17,242	17,242
	C+1c		16,428	15,950	16,978	2.5	18,201	18,201
	C+2c		16,428	16,500	17,528	3	18,976	18,976
	C+4c		16,428	17,521	20,000	5	20,000	20,000

Table key: p is a person c is a child C is a couple

Other measures

- *Front loading child benefit*

There are questions as to whether parents of young children, whether lone or couple should be encouraged to work. The government wants to see 70% of lone-parents working. Whilst it is good for children to see a parent working in general, it may be detrimental if a young child's parent is working long hours. Frank Field has suggested front loading child benefit – this could relieve the financial pressure that forces parents to work when they would prefer to be at home.

This suggestion empowers parents and returns the choice to those best placed to make it. Families could essentially borrow against future child benefit to allow one or both parents to spend more time at home with very young children.

2.8 Why is there limited action in the areas we are highlighting?

There are fundamental differences between the parties in this area and the arguments are well rehearsed. The government has argued that lone parents are most at risk and has focused spending on them. They have had some success in reducing levels of child poverty, but this is beginning to slow, as the majority of children in poverty are in couple families. They argue that child tax credits are better targeted at poor children.

The CSJ has acknowledged that a MCA or a TPA would help mainly the well off, including those without children. It argues that it wishes to send a "signal to the lower deciles, characterised by greater informality and therefore instability, that marriage . . . is a social good". Labour respond that this restates the classic Tory belief that the lower orders, now renamed 'lower deciles', should follow the example of their social betters.

A report for the Joseph Rowntree Foundation claims that Labour's policies may have increased fertility among low- income families, and that the '... expansion of benefits and tax credits that are assessed against family income with no allowances for the number of adults will reduce the incentive for individuals to cohabit, or to declare cohabitation to the authorities'.[31]

In William Beveridge's words: 'If money is paid on any condition, it tends to bring that condition about; if it is paid or given on degrading conditions, sooner or later it degrades.'[32]

Shaun Bailey a youth worker in London, and now a prospective parliamentary candidate, wrote this in an article for the Daily Telegraph,

---

[31] M. Brewer and A. Shepherd, *Has Labour Made Work Pay?,* Joseph Rowntree Foundation/Institute of Fiscal Studies, 2004.
[32] W. Beveridge, *Voluntary Action: A Report on the Methods of Social Advance* (Allen and Unwin, London, 1948) p. 149.

> Society seems to be encouraging more single parents. For example, any young girl living in the inner city will be clued up on how the system works. . . In some cases, they will deliberately become pregnant - as they know that if they do, they will get a flat. They talk to me about it openly. They tell me that becoming pregnant is an opportunity. It is the same with benefits. These people are not stupid. If the state offers them money for doing something, they will do it. . . I see them change their behaviour. Why have the father move in with you if it means that you will get less from the Government? It has reached the point where you get a lot of people who are not single parents but who present themselves in that manner because it makes financial sense. If anybody thinks that people don't sit around and have these discussions, they are deluding themselves. In the housing estates, they soon work out which way will make the most money. And that's an example of how they are trapped by government policy. Because it discourages them from raising their children in nuclear families.[33]

In contrast, economic responsibilities for family members provide the impetus not only to seek work, keep work and work full time, but also to earn more.[34] Marriage also facilitates the acquisition of social capital, which is generated as a by-product of relationships, or in bonds of mutual trust, dependability, commitment, shared values and obligations.[35]

2.9 Conclusions

It is clear that the financial aspects of the tax and benefit system have a significant impact on relationships and by implication well-being. Married people have higher well-being than those who are single, divorced, or co-habiting. Children do better across a range of measures growing up with married parents as opposed to cohabiting or single parents. The tax and benefit system must do a better job of pretending to be neutral, or better still, it should promote those relationships which increase well-being. It should encourage people to make promises and keep them, establishing a *quid pro quo* in terms of reciprocity, responsibility and support.

---

[33] The Daily Telegraph 19/01/06.
[34] Akerlof, G. A., 'Men without children', Economic Journal, 108(447): 287–309.
[35] R. Rowthorn, *Marriage and Trust,* Cambridge, 1999.

Chapter 2 Summary: Tax and Benefits

Policy challenge Family relationships need to be recognised and supported in the tax and benefit system.

Public Message: The UK needs a consistent tax and benefit system, which actively supports extended family relationships.

Why?:

1. The system is inconsistent with regard to relationships
    - The benefit system assumes family support
    - The tax system ignores family support
2. The system is not neutral, but actually undermines relationships
    - A couple earning under £50,000 pa could be £16,000 pa better off apart
    - It prefers double income families to single income families.
3. The system could and should encourage relationships to achieve better outcomes
    - Relationship breakdown costs the UK £37bn pa.

Context:

- The Liberal Democrats and the Conservatives both favour removing the couple penalty.
- A broad range of groups advocate pro-family policies including the Catholic church, Civitas, CARE, the CSJ, the Centre for Policy studies, and other Muslim, Jewish and Christian groups.
- Labour has chosen to focus on single parents. They, along with single parent groups like Gingerbread, argue that pro-family policies penalise lone parents who need extra support.

We recommend consideration of the following:

1. Fair treatment of couples by ending the partner penalty
Increasing the couple element of WTC to allow for the extra adult would cost £3bn giving 1.8m couples with children £32.05 pw more. This would not affect the amount received by lone parents.

2. Tax equity by recognising relationships
The following represent a series of steps towards a more family/household based tax system.
- *Transferable Personal Allowance* – would be worth £1045 p.a. to basic rate taxpayers and would cost the Treasury £1.5 bn p.a. if limited to couples with dependent children.
- *Children's Allowance* - this allowance would acknowledge parent's responsibilities for their children. Why tax parental income, which is going to the care of their children?
- *TPA + CA* – the best way to recognise parent/ child and couple relationships withinthe current system.
- ***Joint filing*** **–** countries including the US and Ireland allow couples to file joint returns. Households choose which members earn their income without pressure from government one way or another.
- *Income Splitting* – a more radical tax solution based on family units, similar to the French quotient system. The family's total income is divided by the 'family quotient' (based on 1 for an adult and 0.5 for a child). A couple with two children earning £40,000 would divide their total income by 3 (£13,333), calculate the tax and this figure (£1,568) and then multiply the tax by 3 to give their total tax burden (£4,704). This compares with a tax bill of £7,734 under the current system.

Conclusion: The benefit system rightly presumes family relational support. The tax system should also recognise relational support, ultimately by moving to a family-based tax system. The tax and benefit system should recognise relational responsibility, can influence choices and does establish social norms.

3 Family Finances:

How does finance impact extended family relationships?

I don't care how poor a man is; if he has family, he's rich.

*M*A*S*H*

Call it a clan, call it a network, call it a tribe, call it a family. Whatever you call it, whoever you are, you need one.

Jane Howard, writer

To put the world right in order, we must first put the nation in order; to put the nation in order, we must first put the family in order; to put the family in order, we must first cultivate our personal life; we must first set our hearts right.

Confucius

Perhaps the greatest social service that can be rendered by anybody to this country and to mankind is to bring up a family.

George Bernard Shaw

There is no doubt that it is around the family and the home that all the greatest virtues, the most dominating virtues of human society, are created, strengthened and maintained.

Sir Winston Churchill

Nobody has ever before asked the nuclear family to live all by itself in a box the way we do. With no relatives, no support, we've put it in an impossible situation.

Margret Mead, American cultural anthropologist

Summary

The family is the foundation of any society, and society is prior to and causative of the economy. The family has been undermined by policy and has suffered breakdown. This has affected society and led to reduced trust, human capital and social capital. A dysfunctional society increases transaction costs and reduces family support and welfare, negatively impacting the economy. This chapter suggests ways to strengthen families, building social capital, which in turn strengthens society as a whole. This is beneficial in and of itself, but has the added bonus of reducing the costs of the welfare state and bolstering the economy.

3.1 Family Foundations

Society is prior to and causative of the economy.[1] All forms of capital are in fact social.[2] It follows that inequalities and problems are socially rather than economically produced. As the main source of economic and social welfare for its members, the family is the first building block in the generation of social capital for the larger society. (Bubolz 1998, Hogan 1998) Ann Bookman, the executive director of MIT's Workplace Center at the Sloan School says, "If our country can create private sector and public policies that support working families, we will not only advance the wellbeing of children and families, but will also — in the long-run — build a more productive workforce and a stronger economy."[3] As families fragment, society as a whole breaks down and the economy suffers as a consequence. Society and the economy depend on the foundation stone of the family. Integrated public policy must focus on the family, reducing unnecessary stresses on families and actively supporting extended family networks. Some of the suggestions in this chapter do not require direct government action. However, the State does have a role to play in providing a supportive environment for family related structures to flourish.

In his conceptualisation of social capital, Coleman places families centre-stage as a 'primordial organisation ... that has its origins in the relationships established by childbirth' (1991, p. 1). He identifies social capital as a resource within 'the family' that inheres in the structure of intergenerational relationships, especially between parents and children. Parents invest in their children. They do so because their parents invested in them, because they love their children and desire to see them do well, but also due to an awareness that their children will in turn support them in later life. This investment enables children to increase their human capital (education), which then enables them to gain greater economic rewards, equipping them to care for their parents in later life. This establishes the norm of reciprocity; if middle-aged children take care of aging parents, it models for their own children that taking care of parents is a normal and expected phase of human life. These are sociological norms that may well be universal across the human societies.

Everyone is a member of a family. The vast majority of people benefit from, and have responsibility for, their family network. Research by HSBC discovered that across the world the majority of people said that families defined who they were.[4] Voters see and feel the consequences of family breakdown, and realise it has huge social and economic costs. Family matters are not simply private, personal concerns. Families have been, and remain the basic building blocks of society. Everyone is born into a family of some sort. Everyone receives some level of support from their natural or adopted family during the early stages of their lives. Britons

[1] Gamarnikov, E., & Green, A. The Third Way and social capital: Education Action Zones and a new agenda for education, parents and community? *International Studies in Sociology of Education,* 1999, 9(1), 3-22.

[2] Ben Fine, Ben. *Social Capital versus Social Theory: Political Economy and Social Science at the Turn of the Millennium*. (London: Routledge, 2001)

[3] http://spectrum.mit.edu/issue/2005-spring/work-and-family/

[4] The exception was Saudi Arabia where family came second to religion was the most defining factor.

have outstanding loans to their family members of £25bn.[5] Over half (55%) of parents have given or loaned their children or grandchildren thousands of pounds compared to a figure of 39% last year – an increase of 16%. The average amount given by parents to their offspring is £12,610. Four in ten (42%) adult children have used their handouts to pay off debts and 29% to buy a house.[6] Our economy is built on family businesses, which employ over 9.5 million people in businesses turning over in excess of £1 trillion.[7]

The process of social capital generation is enhanced where parents have multiplex relations within the community. Extended families rooted within a local community give rise to a broad and deep reserve of social capital from which family members can draw. Measures to strengthen the role of the extended family, rather than focusing on single-parent families or even nuclear families are necessary to prevent the current decline in social capital.

3.2 Faltering Foundations - breakdown

Family breakdown is a significant problem facing the UK. The *Fractured Families Report* produced by the Centre for Social Justice deals with this area in some detail. Stepfamilies now represent 10% of all families with dependent children. The UK has the highest proportion of lone parents in Europe, and these lone parents are 2.5 times more likely to be in poverty than couple parents. The proportion of births outside marriage as increased, reaching 44% in 2006. In 2006, around a quarter of unmarried men and women were cohabiting in Great Britain, nearly double the proportion 20 years earlier.[8]

The CSJ report identifies three key elements of breakdown – dissolution, dysfunction and 'dad-lessness'. This broader understanding of breakdown resists limiting the discussion to divorce. Dysfunctional families are characterised by emotional disadvantage within the family and relationships which can range from neglectful and unsupportive, overwhelmingly protective or hostile, to physically or sexually abusive. Needless to say little social capital in developed in such situations. Social capital is derived from the wide range of connections accessible through extended family members. In lone parent families, children not only have restricted access to one parent, but relationships with half their extended family can suffer. It is not simply that two parents offer more resources than one, it is the potential of an entire extended family that is often lost to a child.

Family breakdown is widespread and the affects are wide-ranging. The impact is felt by the individuals involved, the wider family and society at large, and the effects are largely negative for children, young people and adults alike. Government response has been to focus on politically safe child-centred rather than family-centred policy. This failure to take the family seriously has

---

[5] Research by Skipton Building Society for at http://www.skipton.co.uk/press_office/publicity_campaigns/inter-family_debt/ (Accessed 22/07/08)
[6] Figures from Credit Action available at www.creditaction.org.uk/assets/PDF/stats/2008/july.pdf
[7] "The UK Family Business Sector," Institute for Family Businss, February 2008, p.2.
[8] ONS Social Trends 38.

had, and will continue to have, serious consequences.

3.3 Shifting Foundations

Families are important, but they are also changing. In the UK we live in long skinny 'beanpole' families with fewer people in each generation, but an increasing number of four or five generation families. However, as we have become more mobile, particularly in search of employment, many families have become more spread out geographically. We are more likely to have great-grandchildren or great-grandparents, but sadly we are likely to see them less. This affects the social support that may be available within and for families. It has implications on the existence and generation of social capital – the values that people hold and the resources that they can access, which both result in, and are the result of, collective and socially negotiated ties and relationships. The extent to which people as members of families share a sense of identity, hold similar values, trust each other and reciprocally do things for each other has an impact on the social, political and economic nature of the society in which they live.

The separation between work and family has also become less clear in recent years. The blurred boundaries between work and home are not new. Prior to the industrial revolution the home was a place of production and consumption with the family involved in both elements. As we moved away from a predominantly agricultural society, production moved out of the home, which became a place solely of consumption. The founding of modern suburbia at the turn of the nineteenth century at Clapham south London eventually separated (functionally and physically) the natural-emotional work of family and the technological-rational-urban work of politics and business. Suburban living was the epitome of this segregation, spatially separating work and home/family. Now there are more lone-parent families and in more of these families the parent is working, at least part-time. In many two-parents families both the mother and the father are working. At the same time the division between home and the workplace has merged, with more people working from home at least part-time and with more people bringing work home. We cannot understand the full consequences of the changing nature of work without considering how families are affected and without considering how family structures and needs influence decisions about when, where, and how much to work.

3.4 Family history – state intervention

Postwar welfare Britain set out to build public support around the cornerstones of stable, lifelong marriage and the nuclear family. However as the government emphasized motherhood and increased support for single parents, it inadvertently undermined marriage. "Public policy also ignored the extent to which nuclear families were built on a foundation of wider kinship ties, which themselves needed acknowledgement and support."[9] State intervention to provide welfare

[9] Geoff Dench & Belinda Brown, *Towards a New Partnership Between Family and State (The Grandmother Project)*, Institute of Community Studies 2004.

functions carried out by the family for the aged, the physically infirm, the young, and others incapable of economic self-sufficiency creates 'antibiotic resistance' which undermines the family. Why should parents invest in their children and the children care for elderly relatives when the state will intervene?

This report has discussed elsewhere the need to reform the tax and benefit system to better account for family relationships. It will also discuss the need for better housing options enabling co-location and multi-generational living. The government is planning to build 3 million new homes by 2020, without pausing to consider why and whether so many homes are necessary. As the influence of the State increases it comes into conflict with and slowly erodes the value attached to family relationships.

Over the 20th century we have seen a move from the extended family to the nuclear family. The functions of the family have changed from social-institutional to emotional-supportive.
As we enter the 21st century we see the re-emergence of multi-generational bonds. "Families through time have changed, but they have not declined in importance," says Dr. Vern Bengtson, professor of gerontology and sociology at the University of Southern California in Los Angeles. "Multi-generational bonds represent a valuable resource for families in the 21st century and are becoming more important than nuclear family ties for well-being and support over the course of our lives."[10]

The nuclear family appears to be in decline, but family multigenerational relations are becoming more important in the 21st century. The ageing population means there are 'longer years of shared lives' between generations. Grandparents are becoming increasingly important in fulfilling family functions. Also , the structure of families is changing with more divorce and increased step-family relationships. The strengths of multigenerational ties over time show why it is necessary to look beyond the nuclear family when asking whether families are still functional.

3.5 Family Finances

Intra-family financial exchanges and shared financial commitments can strengthen relationships (and exacerbate tensions in some weak relationships). Those with strong family relationships benefit from financial support within the family, which in turn strengthens relationships. Adult children who receive a major gift or financial assistance report decreased conflict with their parents (especially mothers) and increased feelings of affection. The younger generation receive an economic benefit but the older generation enjoy a 'gratitude dividend' in return for the assistance provided to them. In later life this may be important because feelings of closeness and solidarity are related to important outcomes for aging individuals, including aspects of mental and physical health.[11]

---

[10] Why Most Americans Can Look to Extended Family for Increased Health and Happiness. Available at http://www.buzzle.com/editorials/9-9-2002-26044.asp (Accessed on 22/07/08).
[11] Dr Beth Mabry, For Parents Love and Money Never End, Longitudinal Study of Generations, USC, July 2002.

The Oxford Institute of Ageing has estimated that older people contribute social care and support within families worth more than £50bn each year, which is equivalent to 3% of GDP. Skipton Building Society has estimated that grandparents provide informal childcare worth £6.8bn a year. Families hand over an average of £2,400 for a child's first car.[12] According to Alliance and Leicester parents are paying on average £ 21,314 to help their children buy their first home. Bringing up a child, from birth to 21, costs over £140,000, which means that raising a family with costs parents almost half a million pounds.

Families are crucial centres of capital transmission. As families have become longer and thinner, and with increasing breakdown, grandparents have taken on a more important role. Whilst society has become more individualistic, it is recognised that there are times when we are all dependent on others, most notably at the beginning and end of life. The individual cannot replace all the functions of the family. The state has been forced to intervene when the family has failed in its supportive role. However the state is ill equipped, and cannot afford to fulfil all the functions of the family, and its intervention can undermine the role of extended families. Economic solutions with respect to families are also flawed. The economy relies on the underpinning of society and family. Care must be taken in allowing the markets to replace family welfare roles, otherwise the economy could destroy the very society on which it is built.

The evidence is clear that strong family units are a source of social and financial capital which improve well-being. Families are under tremendous pressure and family structures are changing. We must recognise these changes, whilst supporting the central role of families in society. Instead of moving from a society focused on the nuclear family to one focused on the individual and in particular children, we need to move the other direction and support the extended family. In these changing and challenging times there is a need for more support, not less. The increasing role of grandparents is a recognition of this fact.

There are currently a number of ways in which mutuality and reciprocity within families can be exercised and promoted:

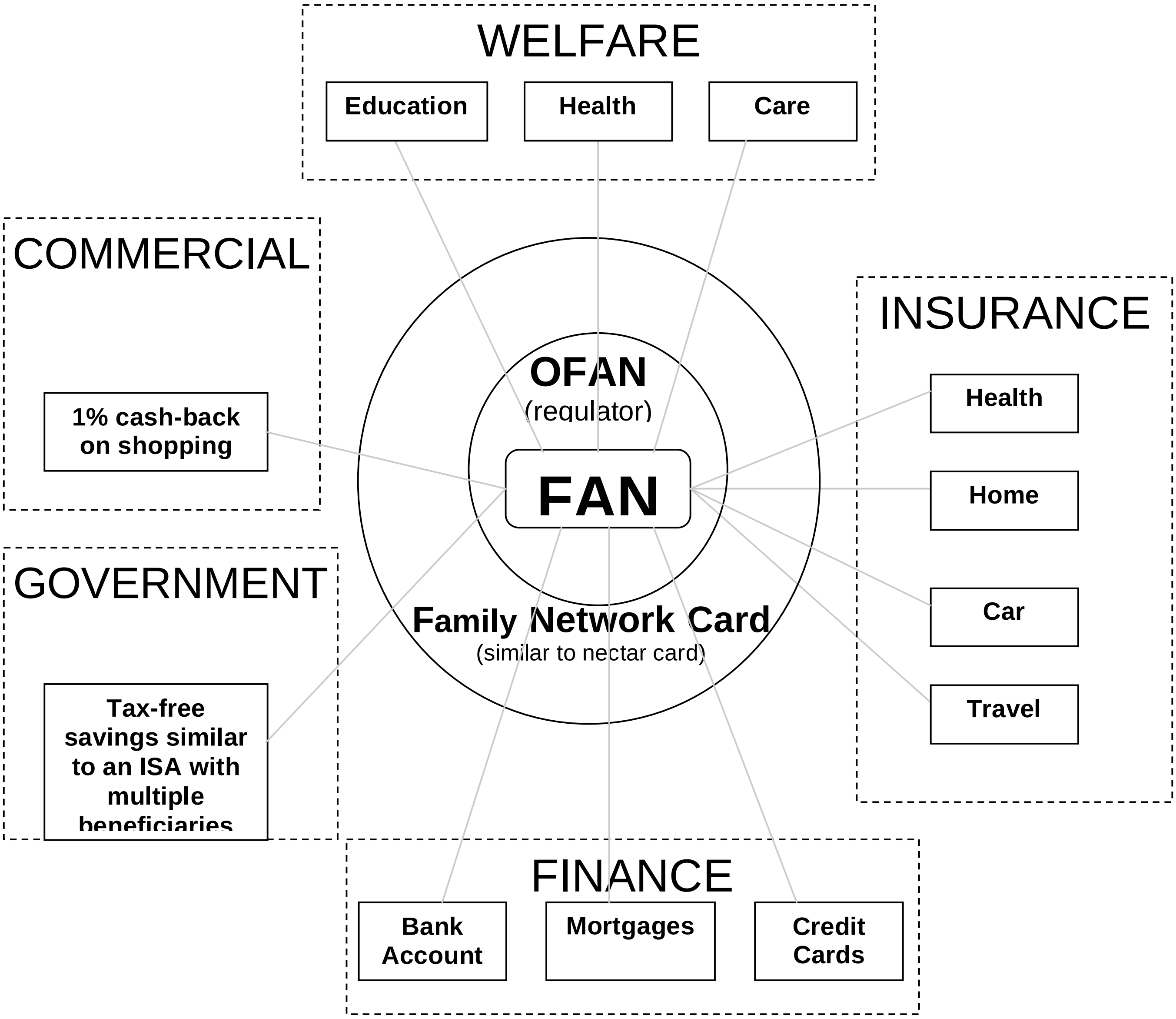
3.6. Family Associations

The Relationships Foundation has been developing the concept of a family welfare association for almost twenty years. The extended family is a place of interdependence and social responsibility – parents raising and educating kids, adult children looking after elderly relatives, grandparents minding their grandchildren or giving them money to buy their fist car. Extended families generate and distribute financial and social capital. We believe encouraging families to come together to save and to provide welfare for one another will strengthen our society. Family Associations (FANs) are an important step in filling the gap between individuals and the state.

[12] The Daily Mail, 9/11/07.

They will bind extended families together and promote intergenerational solidarity whilst giving families greater ability to meet their welfare needs.

FANs are a commercial means of enhancing privately funded welfare provision through group savings within the extended family. A FAN would be a formal legal entity comprising a group of people primarily linked by marriage, blood or adoption. The FAN would strengthen family relationships by creating a common financial interest, and enabling greater welfare provision within the extended family. Extended family groups could form a tax friendly FAN and benefit from group savings on insurance, financial and commercial products. The savings could then be used in welfare provision for the group members such as education, health and care needs. This is shown diagrammatically below.



Family Networks are modelled on Friendly Societies. During the massive upheavals of the Industrial Revolution, Friendly Societies came to the fore. With no Welfare State and the threat of the poorhouse, people from the same area or profession would join together for a common financial or social purpose. Members contributed a regular sum of money to provide an income in old age or insurance against sickness or inability.[13] Before modern insurance and the welfare state, Friendly Societies played an important role providing social services to their members.

The most rapid growth of Friendly Societies was between the 1834 Poor Law Act and the beginning of National Insurance in 1911 by which time there were over 6,600,000 members. Until 1948, they ran in parallel with the state system, reaching a membership peak of 14 million in the mid 1940s. If a member became sick, they would receive an allowance to help them meet their financial obligations. The society would have a regular doctor who the member could visit for free. Members of the society would visit to provide emotional support and check whether a member was malingering. When a member died, their funeral would be paid for and money provided to the widow. Friendly Societies also had social functions such as dances, and some had sporting teams for members to participate in. Numbers dropped significantly when the Welfare State was nationalised in 1948 very much along Friendly Society lines.

As demands on the Welfare State continue to rise, despite increased expenditure, it cannot supply all the needs presented to it. The response has been to promote personal pensions, individual savings accounts and private health insurance. However, there is growing recognition of the limits of reliance on individual personal provision on the one hand, and the State on the other.

The gap between shrinking state provision and the limits of individual personal provision represents a significant commercial opportunity for a new range of financial products, which reduce the cost and spread the risk of personal provision. The historical popularity of Friendly Societies is a powerful testimony to the potential efficiency and popularity of group savings schemes. However the nature of current welfare needs, the impact of population mobility, and the potential offered by improved communication suggests that the extended family now provides a better locus than the local community for the next generation of group savings schemes.

Relationally based welfare provision provides an alternative to state provision, whilst offering individuals some protection against the vulnerability of personal provision. Families may be more effective and efficient than state provision, as they are better able to target benefits, offer greater accountability and are more flexible. One of the major reasons that families are under pressure, identified by Talcott Parsons and others, is the individualisation of finances. Financial provision often comes only from self or state, with the mutual dependence of the extended family having greatly dwindled in many cases. The rise of the Welfare State and the decline of family-based business activities has reduced the economic role of the family. Encouraging families to come together to save and to provide welfare for one another will strengthen our society. Family

[13] http://www.afs.org.uk/members/history.asp

Networks will bind extended families together and promote intergenerational solidarity whilst giving families greater ability to meet their welfare needs.

Although money can become a source of conflict when relationships are broken, the common financial interest and increased opportunities for interaction within the extended family that FANs would stimulate means they have the potential to strengthen existing relationships. This strengthening of relationships is an indirect contribution to welfare, since family breakdown ratchets up the cost of welfare by increasing the demand for it, while at the same time undermining the capacity of the family to provide it.

When mutual dependence occurs it deepens relationships, which are at the very core of family and social cohesion. The knock-on effects of family breakdown are substantial – rising welfare bills leading to higher taxes, demand for more housing and reduced family care.

How it works

Family Associations would be formal legal entities comprising of a group of people primarily linked by marriage (or 'civil partnerships'), blood or adoption. They would fulfil the following functions:

- strengthen family relationships by creating a common financial interest
- enable greater welfare provision within the extended family

An extended family set up a Family Association, which would cost £100pa to administer. It would receive the following benefits:

Insurance – FAN members would purchase household, car, health and travel insurance as a group and agree to a higher voluntary excess. Our research has shown that insurance companies would offer significant discounts because of the lower acquisition costs, increased loyalty and increased voluntary excess, which reduces smaller claims. The discount goes into the FAN.
Commercial - FAN members receive a 'family network card' similar to a nectar card. They receive 1% cash back into the FAN account for purchases at member stores.
Financial - Members move their savings to one bank. They have separate accounts but receive a higher rate of interest based on the total in all member accounts. The extra interest goes into the FAN. Each member receives a credit card with 0.5% cash back going into the FAN.
Tax efficiency - Each member can contribute up to £3,000 pa to the FAN for investment, similar to an ISA. (It is suggested that the annual limits would be in addition to your ISA limits and donations to a FAN would be exempt from inheritance tax).
Welfare and payouts - The money in the FAN could be used to cover any minor insurance claims below the increased excess levels, and to meet any welfare costs such as education or a home help. Over time, the FAN could grow into a significant savings and welfare vehicle for family members.[14]

[14] It would be possible to split the savings between a central pot and individual members. This may persuade more people to join though is would undermine the extended family welfare notion.

Notes
Relationships Foundation is undertaking a feasibility studying into setting up Familyspace, a web-based community, which would facilitate a broad range of pro-family ideas, in particular Family Associations. It would provide a safe space for family members to interact amongst themselves and with other family groups. The shape of the site would be strongly influenced and driven by its members, and it is hoped it would grow organically. There would be two main aims:

1. To connect family members with their extended family
2. To connect family groups with other families to share ideas, information etc.

FANs would be a key part of the Familyspace concept.

The proposal suggests giving FANs special tax status so they could grow tax free. We believe the proposal would work without any tax breaks, but that special status would significantly incentivise extended families to set up such networks. The proposal does not deal expressly with pensions, though this area would be a logical extension of FANs. According to John Pender, "In Shakespeare's day, the elderly enjoyed the benefit of a surprisingly flexible pension system. It was called the extended family. Income and risk were spread across the generations in an informal arrangement buttressed by altruism, empathy and fear of what the neighbours might say."[15]

If FANs became serious investment vehicles, they could be used for private pensions. The money could be used for long term care or pension payments. If the FAN had insufficient funds, the recipient would still be entitled to their state pension. If the FAN had excess funds when the person died, these could pass through the fund to the next generation. Currently the incentive is to spend what you can whilst you are alive, because you cannot take your pension with you and little of it passes to your beneficiaries if you are in a group scheme. Under the FAN scheme the incentive is to use less, so more passes to the next generation.

If the scheme were to be developed, Individual Budgets and Child Trust Funds (CTFs) could be administered through Family Networks. Family Investments, a Friendly Society, has teamed up with Nectar to bring CTFs to a larger audience and to allow any points collector to transfer their Nectar points into the Family Investments CTF as a cash payment. Family investments claim, "this effectively means that anyone can save for their, or anyone else's, child while they spend on everyday items like the weekly shop or filling up the car." Nectar has signed up over 50% of all UK households and covers 40% of an average UK household's spend.

FANs are likely to appeal at least initially to those who are financially literate and who have more disposable income. It is hoped that if they are seen to work, more people will look to set them up. A number of factors may encourage a broader number of people to set up a FAB. These include:

- Financial literacy classes which include information on FANs

[15] The Times 17/6/95

- Incentivising or requiring CTF, child benefit, WTC, CTC or other similar payments to be made into a FAN
- Requiring those who provide services to FANs to offer all their services to all registered FANs
- Offering a lump sum to those set up a FAN

Whilst more research is required, the principle of a FAN appears to have great merit. The commercial benefits suggest that there could be a great deal of interest in such a scheme. Initial work by Relationships Foundation generated interest from two banks and a leading health insurance company. Market research showed there would be demand for the product and in an Omnibus questionnaire 41% of respondents showed interest in the concept. The government is looking at ways of sharing the welfare burden, which should draw them to aspects of the scheme. Most importantly, the proposal encourages extended families to work together, to save, to communicate and to care for one another. It should reinforce relationships within families and ultimately strengthen a crucial building block in society.

3.7 Pro Family Business policy

The current proposal to ban 'income splitting' will punish 'mum and pop shops', increasing red tape and tax on an economically and socially important unit. Intergenerational transfer of family business causes many disputes with only 10 per cent reaching the third generation. Greater government support for ownership succession could reduce family friction and increase the value of this sector.

Family Businesses

A recent report by the Institute for Family Business highlighted the importance of this sector.[16] There are an estimated 3 million family firms which account for 65 per cent of all private sector enterprises in the UK. Family businesses account for approximately 31 per cent of UK GDP. Family firms are most likely to be found in agriculture and construction and are also prevalent in service industries such as distribution, hospitality, catering and tourism. They are under-represented in banking, insurance and business services, which explains their low concentration in London. It is estimated that family businesses provide employment for 9.5 million people, 42 per cent of private sector employment. With a sector turnover of £1,065bn it is significantly more important than private-equity backed companies which generate annual sales of around £425bn and employ 2.8million people. They also contribute £73bn or 15% of total tax revenues.

Family businesses can support family relationships by creating a shared financial interest, strong commitment and reasons for interaction. Family businesses tend to be stable, with the average

[16] The UK Family Business Sector, Institute for Family Business, February, 2008.

length of service of a Chief Executive being 35 years. Family based start-ups are often better funded. There is evidence that families tend to draw smaller salaries and dividends, allowing more profits to be re-invested back into the business.[17] They tend to offer more flexible working practices and take corporate responsibility more seriously, with strong local relationships.[18] Policy has generally tended to be supportive of such businesses, but a number of measures could strengthen this vital sector.

Allow Income Splitting

The 2007 budget banned this common practice. This measure is only expected to net the Treasury £475m in revenue between 2008 and 2011, a relatively small return for a significant increase in red tape. Spouses are exposed to the risk of running a business, and so should be entitled to share the reward. Instead the Treasury want detailed accounts of who was working when. This will require a detailed record of every single contribution, of whatever kind, made to a business - a crippling level of red tape. Ironically the Chancellor has doubled the allowance for couples under IHT but has prevented income shifting while they are alive. When a jointly owned business is sold, both spouses will be entitled to equal shares in the proceeds, under Capital Gains Tax rules, but not the proceeds while they are running the business. If spouses jointly own commercial property they can split the income based on their ownership, but if they actually work in a business they cannot. Those who are actually working in small 'mum and pop' shops are hit hardest by these proposals, whilst property owners remain unscathed. It will also mark a sharp divergence between tax law and divorce law - while a spouse might be entitled to over half the value of a business in a divorce, while in marriage they may not be entitled to share any of the profits. As John Redwood commented, "It is more of the same type of excessive regulation that we have seen in the past. Why shouldn't husbands and wives share income?"

Succession Issues

The DTI estimates that 30% of UK small businesses are subject to age-related transfer failure and close down. Statistically only about a third of businesses are successfully transferred to the second generation and just over 10% make it to the third. It is estimated that 100,000 firms switch generational control each year. Ensuring a smooth and effective succession would increase the number of companies in the UK and limit future family friction when family businesses fail or arrangements are unclear.

The government has a role to play simply raising awareness about the need for succession planning. Less than half of family businesses which anticipate a change of ownership in the next five years, have drafted succession plans. A further step would be to offer actual assistance in drafting succession plans. Jordanstown and Glasgow University Business schools both deal specifically with family businesses and could offer day seminars to help families with transition

[17] Coutts 2005 Family Business Survey: Are Family businesses better prepared than other businesses to compete in the future?
[18] The UK Family Business Sector, Institute for Family Business, February, 2008, p.17.

plans. (The author has attended such a seminar in conjunction with his own family business and found it very useful in facilitating family discussion.)

3.8 Other options include:

- Family Business and Self-employment

A quarter of families with children include at least one self-employed parent and 60 per cent of UK entrepreneurs involve family members in their business in some capacity. Such working arrangements strengthen many family relationships but put pressure on others. Regulation needs to facilitate such businesses whilst curbing excessive hours and providing a safety net for those which fail.

- Family Pensions

Small family pension funds could strengthen mutuality, common purpose and intergenerational relationship. Adults and children could contribute to the family pension fund. When parents die their share (capped to limit IHT avoidance) would remain in the fund and pass to the next generation tax-free. Such funds could invest in the homes of children on a co-ownership model where the children buy out the parents pension investment over time. They could also invest in family businesses. This idea could be linked with the Family Associations outlined earlier.

- Family Bank Accounts

Britons owe their families £25bn. Banks such as the Woolwich and Lloyds offer family offset mortgages where the savings in the parents account offsets the mortgage payments for the kids. Similar schemes should be encouraged enabling extended families to offer easy financial assistance.

3.9 Conclusion

Families are important to voters because everyone is part of an extended family of some sort. Families are also important to government because of the vital role they play between the individual and the state. Families are changing, becoming longer and thinner. Divorce, separation and people having less children has undermined the nuclear family. However the ageing population is resulting in longer years of shared lives, and so intergenerational solidarity is becoming more important. Extended families continue to form the cornerstone of society and as such they must have a supportive policy environment. Whilst avoiding families being viewed solely as economic units, we must recognise their pivotal economic function. Integrated public policy creates a supportive and nurturing framework for extended family relations, being careful not to undermine this central social unit.

Chapter 3 Summary: Family Finances

Policy challenge: Shared finances can strengthen extended family relationships.
Public message: The extended family should be the main source of economic and social welfare for its members.

Why?:
1. Whilst family structures change, everyone is part of an extended family.
   - we live in long skinny 'beanpole' families, with fewer people in each generation but an increasing number of four- or five-generation families
   - the majority of people say families define who they are
2. Families are major economic units
   - the UK has 3 million family businesses, which employ 9.5m people and which turnover in excess of £1 trillion
3. Families are major welfare units
   - Older people alone contribute social care and support within families worth more than £50bn each year, equivalent to 3% of GDP
   - Britons have current loans to family members worth £25billion

Context:
- There has been a gradual move from focusing on the extended family, to the nuclear family and finally to the individual. The role of the extended family has suffered.
- Family businesses have generally been supported, but increasing red tape, the ban on income splitting and the abolition of CGT taper relief all harm this vital sector.
- There is growing recognition of the limits of reliance on individual personal provision on the one hand, and shrinking State provision on the other. The family is still presumed to provide welfare, which it continues to do, particularly with the input from the older generation. However, it receives little credit or support for this.

We recommend consideration of the following:

1. Family Associations
Shared financial interests and welfare interdependence are a key bond which holds extended families together. An insurance/welfare/savings syndicate spreads the risk amongst family members whilst providing advantaged access to savings products and other financial services. The syndicate could include health and car insurance, care for an elderly relative and welfare payments.

2. Pro Family Business policy
Family firms contribute £73bn or 15% of total tax revenues. Family businesses can support family relationships by creating a shared financial interest, strong commitment and reasons for interaction. The current proposal to ban 'income splitting' will punish 'mum and pop shops', increasing red tape and tax on an economically and socially important unit. Intergenerational transfer of family business causes many disputes with only 10 per cent reaching the third generation. Greater government support for ownership succession could reduce family friction and increase the value of this sector.

3. Other options include:
- ***Self-employment*** – a quarter of families with children include at least one self-employed parent. More employment rights and benefits for this group would help the work-life balance.
- ***Family Pensions*** – small group pension fund to strengthen mutuality, common purpose and intergenerational relationship. It could invest in family enterprises and property.
- ***Family Bank Accounts*** – Britons loan their families £25bn. Banks such as the Woolwich offer family offset mortgages where the savings in the parents account offsets the mortgage payments for the kids. Similar schemes should be encouraged enabling extended families to offer easy financial assistance.

4 Community Investment:

How can finance promote community relationships?

" … A Community needs a soul if it is to become a true home for human beings. You, the people must give it this soul."

Pope John Paul II

We were born to unite with our fellow men, and to join in community with the human race.

Cicero

I am of the opinion that my life belongs to the community, and as long as I live it is my privilege to do for it whatever I can.

George Bernard Shaw

"There is no finer investment for any community than putting milk into babies."

Winston Churchill

Summary

Big government can be expensive and inefficient. The State cannot and should not do everything, but it can create opportunities for the community and voluntary sector to provide welfare functions more effectively and efficiently. Individuals alone cannot solve the problems facing Britain. The State alone cannot solve the problems we are facing. Instead policy must inhabit and address the space between the individual and the State. That space is occupied by society, by local communities, voluntary organizations and families – people co-existing in a multitude of relationships. Investing in these mediating institutions builds social capital and improves well-being.

4.1 Introduction

> From right to left, politicians and thinkers are agreeing on the new agenda. This agenda is not startling, but it is relevant to our times. It is the agreement that we need a richer civic culture and a kinder, more neighbourly society if we are to live decently as a nation within the fast-moving global economy.
>
> Andrew Marr, The Independent, 21 June 1994.

Civil society is the 'space' of organised activity not undertaken by either the government or for-profit business. It includes formal and informal associations such as: voluntary and community organisations, trade unions, faith-based organisations, co-operatives and mutuals, political parties, professional and business associations, philanthropic organisations, informal citizen groups and social movements. Participation in or membership of such organisations is voluntary in nature. Civil society is a goal to aim for (a 'good' society), a means to achieve it (associational life), and a framework for engaging with each other about ends and means (arenas for deliberation).[1]

> The most entrenched social problems cannot be addressed solely by actions taken by the state towards the individual, for they are social problems, caused by, and only soluble by, society.
>
> Danny Kruger, Prospect Magazine, Sept 2006.

Emile Durkheim spoke of the tempest of modernisation sweeping away the little aggregations in which people formerly found community. Robert Putnam and James Coleman have spoken of the same problem in terms of declining social capital. The fear is that the market, family breakdown, and increasing self-centredness are destroying civil society. Like other forms of capital, social networks require investment to build and maintain. By its nature this investment must take place at the level of households and the voluntary community, yet the state is displacing this investment, as well as increasingly making it more expensive for households to build up such social capital themselves, as welfare dissolves links that once held people together.

Putnam, in his work, uses a broad definition of social capital, referring to the collective value of all 'social networks' and the inclinations that arise from these networks to do things for each other. He has argued that social capital is a key component to building and maintaining democracy and makes the case in 'Bowling Alone' that it is in decline in America, though his arguments would also apply to Britain. This is witnessed in lower levels of trust in government and lower levels of civic participation. His work has not been without criticism, as has the whole concept of social capital. A key concern has been the varying definitions of the term and the variety of concepts attributed to it.

Social capital consists of relational networks, norms, values and informal sanctions that shape the quantity and co-operative quality of a society's social interactions. The core insight is that social networks and co-operative social norms have value. Within this broad definition, two main types of social capital are often distinguished. Bonding ties arise with people similar to oneself and are important for 'getting by' - they provide social support (e.g. among family members or ethnic groups). Bridging ties refer to links with people different to oneself, providing diverse information,

[1] http://democracy.carnegieuktrust.org.uk/civil_society/what_is_civil_society (Accessed on 22/07/08)

and are important for 'getting ahead' in life (e.g. across ethnic groups). Thus bonding social capital brings together poorer, ethnically homogenous communities, protecting them from market inequalities, while providing, richer, exclusive communities with the means to consolidate their advantages. Bridging social capital can offer ways of building trust across different communities, reducing inequalities between communities and facilitating social mobility. Without 'bridging' social capital, 'bonding' groups can become isolated and disenfranchised from the rest of society and, most importantly, from groups with which bridging must occur in order to increase in social capital. However, bonding social capital is a necessary precursor to the development of the more powerful form of bridging social capital. The contribution of social capital to reducing inequality and building the capacity of the poor communities also depends on the relation of community networks to the loci of political power, which is known as 'linking social capital'.

The concept of social capital is not without its problems, but the core idea is that, "social networks have value. Just as a screw driver (physical capital) or a college education (human capital) can increase productivity (both individual and collective), so too social contacts and networks affect the productivity of individuals and groups. . . A Society of many virtuous but isolated individuals is not necessarily rich in social capital."[2] People and communities with good access to a diverse mix of social capital tend to be more 'hired, housed, healthy and happy.' Strong communities can increase financial and social capital, thereby increasing well-being and reducing long-term pressures on public spending.

4.2 The Benefits of Social Capital

Despite disagreement about definitions, there is general agreement that higher levels of social capital result in communities, and individuals within them, which are better able to act and take responsibility for themselves. Communities with higher social capital suffer lower death rates when hit by natural disasters and recover quicker than communities with lower social capital. It should be noted however that strong bridging social capital could impede social or behavioural change by entrenching low educational aspirations, hostility to government or unhealthy cultural habits.

Increased social capital generally leads to increased GDP, essentially because it lowers transaction costs and therefore barriers to entry. Increased trust, good information and the ability to easily and cheaply enforce contracts result from social capital and facilitate economic growth. Social capital also increases saving, investment in capital of all kinds, risk-taking and entrepreneurial behaviour. It should also enable a more efficient functioning of labour markets. Studies have shown that those with a good network of family and friends are more likely to find employment, as these contacts are the most effective route to a job.

[2] Putnam, Bowling Alone: The Collapse and Revival of American Community, New York: Simon & Schuster, 2000.

James Coleman has studied the positive impact of social capital on educational achievement. At the individual level, there is a strong positive association between levels of social capital, measured by the size and diversity of social networks, community engagement and social trust, and levels of educational attainment. The evidence suggests the direction of causality runs from both educational attainment to social capital, and from social capital to educational attainment.[3] Social capital has also been shown to affect crime levels. It can help to promote norms or values that discourage criminal behaviour, and strengthens the community ties it provides sanctions against those who transgress accepted norms of behaviour (e.g. through shaming)

A number of studies in various countries have found a strong positive relationship between measures of social connectedness and mortality rates even after controlling for poverty. Stronger social capital can reduce stress and increase the care and assistance available creating a sense of well-being. Those with less social capital tend to be more depressed and to feel isolated.[4] Finally social capital is associated with higher levels of trust and civic engagement leading to better quality government. This point is explored further below.

4.3 Local Democracy

In every Swiss canton some policies are decided by referendum, due to the federal structure of Switzerland. New laws, changes to existing laws and new state expenditure can be subject to a referendum depending on the canton. The number of signatures required to launch an initiative or an optional referendum, or the time span within which the signatures have to be collected, varies. Frey and Stutzer carried out research, which found that people are much happier where they have more rights to referendums - direct democracy and local autonomy increase well-being.[5] Comparing those cantons with the most rights to referendums and those with least, the difference in happiness is equivalent to doubling their income.[6]

In part, this is because outcomes are closer to the voters' preferences. However, using foreigners living in Switzerland as a control group (who could not vote, but benefited from the outcomes) they concluded that almost two thirds of the increase in well-being was due to the procedural utility of participation. Foreigners tended to reap systematically positive, but lower satisfaction from living in a canton with strongly developed direct participation rights than do the Swiss. The danger of becoming too outcome oriented is that the process, a potentially large source of well-being, is ignored. Reducing the democratic deficit is important if we are to improve well-being.

---

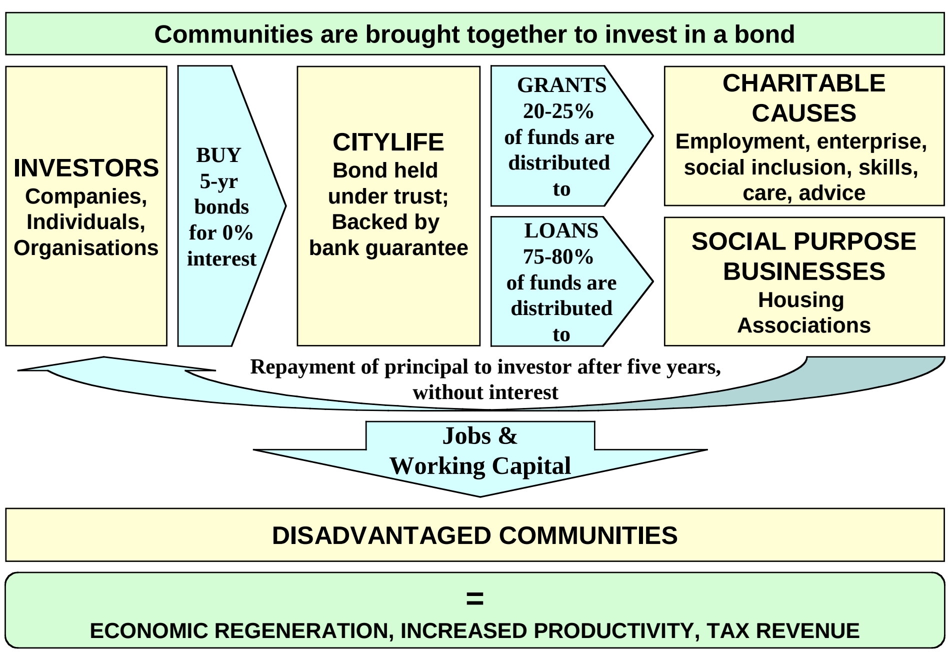
[3] Social capital: A Discussion Paper, Performance and Innovation Unit, April 2002.
[4] Brown G. and Harris, T., *Social origins of depression*, Tavisock, 1998.
[5] Bruno S. Frey and Alois Stutzer, Happiness, Economy and institutions, Working Paper No. 15, July 1999, Institute for Empirical Research in Economics, University of Zurich.
[6] Richard Layard, Happiness: Lessons from a new science, p.70.

4.4 Community Investment

4.4.1 Community Bonds

Citylife is a national charitable membership organisation originally set up by Relationships Foundation. It is independent and is registered as an Industrial and Provident Society. Their vision is for a relational society where communities and neighbourhoods are good places in which to live, work and learn; where all members of society have access to the choices that will enable them to feel physically safe, financially secure, at peace with their neighbours, valued as part of their community and willing to balance personal gain with community benefit.

Citylife has pioneered a charitable financial instrument – a social or community investment bond – that is an FSA compliant financial product with minimal (or no) risk to the investor. Simply put, companies, local authorities and individuals place their money in zero-interest bonds and get the principal investment back in five years, guaranteed. These bonds bridge relational and financial gaps in communities across the UK and have become such an essential tool countering disadvantage in society. They have raised £10m from individual and corporate investors for local communities. The initial investment is repaid, but the interest is used in various employment, enterprise and social inclusion projects.



Citylife's work has resulted in around £35M being invested in local communities: £10M from Bond subscriptions has leveraged a further £25M of UK, EU and other matched funds. Thousands have benefited from the Bond's effects in Sheffield (£2M bonds raised to date), Newcastle (over £6M), and London (£2M to date). Over 4000 people have been provided with advice, support & training, 1000 people helped into jobs, over 200 people have been helped to start their own business creating further jobs and hundreds more are being helped out of doorstep debt.

Supporters range from personal investors, corporate investors, community groups and trusts. They choose to invest their money for the benefit of their communities, and in doing so strengthen cross-community relationships and help bridge the divide between those who have and those who have not. The bonds establish connections that create trust, loyalty, cooperation and support are the key to well-being for individuals, organisations and the economy. These connections are frequently under-valued and constantly facing pressure from cultural trends and economic demands.
Citylife has been facilitating community bonds for 13 years. Currently no part of the money invested in a bond is subject to Gift Aid. Citylife believe that a more favourable tax regime in relation to the interest foregone would makes community bonds even more appealing to local investors.

- The Proposition

In the same way that interest free loans received are subject to taxation on the value of the notional interest saved (for instance under a season ticket loan), so the notional interest donated to charity (for instance, under charitable investment bonds) could be subject to taxation credit. Just as the Official Rate is applied to notional interest earned, so it would be applied to notional interest donated.

- The Official Rate on notional interest is a well understood and widely accepted concept.
- Recording the value of capital subscribed to charitable bonds in any one tax year, and the notional interest donated to charity, would hence be a simple tax return entry with minimal impact in terms of audit, staff or advisor training.
- The familiar Gift Aid regime would be applied: the charity would collect basic rate tax and higher rate taxpayers would reclaim the balance in the normal way.

- The Benefits

Aside from administrative simplicity, ease of communication and low cost, the potential to address issues raised in the 'Strong and Prosperous Communities' white paper is substantial. Citylife, which pioneered socially motivated zero-interest bonds, is of the firm view that incentives for the private sector to invest would substantially affect take-up of Bonds across a wide sector of charitable interest. For instance, it has current demand for Bonds to tackle issues such as climate change (The Converging World), education (Oasis City Academies), developing world micro-credit (Five Talents) and a wide range of community issues including financial inclusion, social enterprise and youth exclusion. There is also clearly potential for the bonds to be used to fund schools and hospitals. Tax incentivisation could: -

- Popularise the concept of fundraising for public good, civic mindedness and philanthropic output by the sacrifice of interest on capital.
- Be a catalyst in the democratisation of citizen participation in socially motivated investment.
- Deliver supplemental and complementary financial resources (and the potential for leverage from other funding sources) for a wide range of current unmet needs.

4.4.2 Local Financing of Services

Effective investment in reducing future demand pressures is most likely to happen if there are real local incentives for success, or if costs of failure are retained locally. Unofficial advice from treasury civil servants has indicated that raising up to 40% of local government spending from the locality is consistent with a reasonable degree of equity between localities. The balance of funding between central and local sources is currently about 75% central to 25% local. When asked, most local residents assumed that councils raised 70-80% of their funding locally through council tax.[7] There is a question of principle about whether it is right for local authorities to be so dependent on central government grant. The current balance makes it difficult for local authorities to be accountable to their taxpayers.

The public seemed indifferent to this current split, but are certainly concerned about rates of increase in council tax to which the balance of funding is related, because of the magnifying effect of 'gearing'. Gearing means that any increase in local authority spending requires a larger percentage increase in council tax, because only a quarter of the budget comes from council taxes. Dependence on central government means that for every 1% increase in spending they need, on average, to increase council tax by 4%, a 'gearing ratio' of 4:1. Because of the gearing effect, comparatively small spending pressures can lead to some big increases in council tax for individual taxpayers. Changing the balance of funding in favour of more locally raised revenues would reduce gearing across the board and improve funding flexibility, allowing local authorities to vary spending levels and fund additional pressures with smaller percentage increases in council tax.[8]

Accountability follows funding, and local responsibility will mean little if there is no substantive financial expression of this responsibility. Shortening the link between raising money (through tax) and spending it to address problems is likely to increase engagement. Not only should local regions have control of their own budgets, but also local control should be integrated. It is important, for example, that Cambridge controls its own school budget to improve local accountability. But it is

[7] Balance of Funding Review – Report July 2004, ODPM.
[8] Balance of Funding Review – Report July 2004, ODPM.

also important that the health and criminal justice budgets are considered alongside the school budget. Currently schools have little incentive to spend extra time and money on the education of potential young offenders, as this is simply a loss from their budget. A more integrated local approach would see this spending as a long-term gain for the Cambridge area as a whole, not a waste of the education budget. The problem of the investment hump – investing in prevention whilst also addressing current needs – is well recognised. Local integrated approaches allow communities to make fully costed decisions and deal with or enjoy the long-term costs or benefits.

Greater local funding of services should also increase flexibility for innovation without the inefficient constraints of too many targets. There is a danger that breaking local producer monopolies simply leads to an individualised relationship with central government through dedicated funding streams or voucher/insurance schemes. This also fails to use finance to achieve integrated local accountability, the key to the effective collaboration between agencies that is needed to tackle deep-rooted social problems.

Of course any discussion of local funding inevitably includes questions as to how the money is raised. The Liberal Democrats and others favour a local income tax, arguing that the current system based on property bands is regressive in nature. We have discussed in chapter 3 proposals relating to income tax and in chapter 5 proposals relating to property tax. Whilst there is much discussion as to the need to reform council tax, this section is more concerned with the amount raised, than the method.

4.5 More Localised Pensions[9]

Pension funds can significantly affect local communities. While capital continues to flow from throughout the UK to London, labour will be forced to follow. Instead of holding money locally and investing in their children, many parents ultimately invest significant amounts of money (their pension contributions) in other regions (primarily London). Whilst this is a simplistic summary, it is clear that the regions are net losers when it comes to the significant area of pensions, and this is a cause for concern. At present it is likely that no more than 15% of the amount paid into pension funds is used to fund new investment in companies or buildings, whether for commercial or public purpose. The rest is used to fund stock market and other speculation. That speculation is used to fund:

- The City of London
- The financial services industry

[9] For more information see Murphy, Hines and Simpson, *People's Pensions: New Thinking for the 21st Century*, NEF February 2003.

· The excessive salaries paid within that industry which has led to the over heating of the economy of the south east of England[10]

The New Economic Foundation has proposed a Local People's Pension Fund, which would invest in local health, housing and education services. The Fund would replace PFI schemes and would have some similarities to a building society. It would be owned by, and managed on behalf of its members. It would use the cash of its savers to fund the purchase, building and renovation of schools and hospitals, rather than private homes. The fund would own the property during the time it is being paid for, and would then transfer ownership to the leasing organisation, which would have been paying rent, when the agreement comes to an end. The Fund takes more risk than a Building Society in that it actually builds the assets it is going to let, but it should receive a higher rate of return for this risk. Given that in 2003, PFI/PPP investment schemes paid an average rate of return of 16.5%, there is plenty of scope for Funds to generate a decent return and for public services to get a good deal. A return of 7-10% would represent good value for both sides. Though there would still be risk, the Fund would be much less speculative than pensions invested in private companies on the stock-market.

The Funds could be promoted for different localities or different sectors or projects. This would promote common ownership, localisation, ethical investment, and sustainable local communities. Finally, it provides a resource base that people can use now, and in their retirement (such as hospital facilities), from the savings they have made during their working life.

4.6 Participatory Budgeting (PB)

Participatory budgeting engages people in taking decisions on the spending priorities for a defined public budget in their local area. This means engaging residents and community groups to discuss spending priorities, make spending proposals, and vote on them, as well as giving local people a role in the scrutiny and monitoring of the process.[11]

The idea, which originated in Brazil, allows ordinary citizen to decide how local budgets are spent. Community members are encouraged to identify spending priorities through meetings and debates in the hope that their participation reduces the 'democratic deficit.' People are more likely to value public services if they are given a stake in them. The process involves clearly identifying geographical areas, which facilitate decision-making and service delivery. Discussion groups involving local people are then facilitated in which local strategic priorities are set and outcomes are assessed. Finally a

---

[10] Murphy, Hines and Simpson, *People's Pensions: New Thinking for the 21st Century*, NEF February 2003.

[11] Participatory Budgeting: a draft national strategy giving more people a say in local spending, Consultation, Department for Communities and Local Government, March 2008.

widely understood annual cycle for consultation to provide a framework for both local authority and community activity is established.

The system has been very successful in Porto Alegre in Brazil. Between 1989 and 1996, the number of households with access to water services increased from about 80% to about 98% and the percentage of the population served by the municipal sewage system increased from 46% to approximately 85%. Since 1989, 200 km of road has been paved in the city. Porto Alegre is now the Brazilian State capital with the highest-ranked Human Development Index. The system is also popular with the locals - 85% of city residents either had been active in the budget process or considered it positive.

Various studies have suggested that participatory budgeting results in more equitable public spending, higher quality of life, increased satisfaction of basic needs, greater government transparency and accountability, increased levels of public participation (especially by marginalized residents), and democratic and citizenship learning. The process is transformational, creative and relationship building. It works to enhance participation in local democracy whilst improving community cohesion and ensuring the delivery of cost-effective local services. Simply put it unites local knowledge with public money and technical ability.

Pilot schemes have been running in the UK in Newcastle and Salford. Since 2006, Salford City Council has devolved decision-making on over £800,000 worth of highways improvements to eight local Community Committees. Newcastle, having successfully piloted it in three wards will use PB in five wards in 2008 as well as using it to administer £2.25 million for work with children and young people. Despite these important pilots, PB in the UK has been described as a 'cottage industry' of local innovations leading to small, but significant changes in communities and services, rather than a mass technology bringing about major shifts in social and political structures.[12] The Department of Communities and Local Government is keen to see it put to wider use. Care must be taken not to lose the richness and diversity that has made it successful. One of its major benefits is that there are degrees of participation and so communities can experiment and engage in a process until locals and council officials feel comfortable. PB is not a programme that one adopts or rejects; it is rather a change of ethos that communities buy into to a greater or lesser degree.

4.7 Conclusions

"Independence"... middle-class blasphemy. We are all dependent on one another, every soul of us on earth.

George Bernard Shaw

[12] Kezia Lavan, Participatory Budgeting in the UK: An evaluation from a practitioner perspective, PB Unit, 25th June 2007, p.75.

Community ultimately comes from the Latin *communis*. The prefix *com* meaning 'together' and the word *munis* having to do with the exchange of services. Community is were we come together to exchange ideas, goods and services. If community exists, both freedom and security exist as well. The community then develops a life of its own, as people become free enough to share and secure enough to get along. As interdependence develops, connectedness increases, networks expand and social capital grows. A 'State' solution undermines what remains of communities and families, requiring the state to intervene and ultimately interfere with all aspects of our lives. The individual solution is untenable. It is a return to survival of the fittest and ultimately groups of some sort will re-emerge as we are communal beings. The only option is to strengthen and invest in community. Social capital builds financial capital and both lead to increased well-being. We need to motivate individuals to make relational decisions that build good relationships. We need to create opportunities to strengthen relationships and finally we need to support those whose relationships are vulnerable or under pressure. Such an investment will lead to a better society, and in the long-term a stronger economy.

4.8 Conclusions: Community Investment

Policy Challenge: Big government can be expensive and inefficient. Strong communities are efficient and reduce long term spending on services.

Public Message: The State cannot and should not do everything, but can create opportunities for the community and voluntary sector in providing welfare functions

Why?:

1. Effective investment in reducing future demand pressures is most likely to happen if there are real local incentives for success, or if costs of failure are retained locally.
   - Unofficial advice from treasury officials indicates that raising up to 40% of local government spending from the locality is consistent with a reasonable degree of equity between localities
2. People and communities with good access to a diverse mix of social capital tend to be more 'hired, housed, healthy and happy.'
3. Participation is important
   - Work in Swiss cantons has shown that people are much happier where they have more rights to referendums - equivalent to doubling their income. Direct democracy and local autonomy increase well-being, partly because outcomes are closer to the voter's preferences, but mainly due to participation.

Context:

- Labour have pursued a strong central government strategy, but have also piloted participatory budgeting in Salford and invested heavily in 'Sustainable Communities.'
- The Conservatives believe in a post-bureaucratic age demands that we change government so that it is more open to being driven by a vibrant civil society. They are strong supporters of Burke's 'little platoons,' which stand between the individual and the State.
- The Liberal Democrats favour and local income tax in part because it pushes tax power down and strengthens local democracy.

We recommend consideration of the following:

1. Community Bonds - Citylife offers bonds to bridge relational and financial gaps in communities across the UK. It has raised £10m from individual and corporate investors for local communities. The initial investment is repaid, but the interest has helped 1000 people into jobs and assisted more than 200 to start their own businesses. Extending Gift Aid to cover the interest foregone by investors in these schemes would make them much more appealing to local investors.

2. Local funding of services – Accountability follows funding, and local responsibility will mean little if there is no substantive financial expression of this responsibility. Shortening the link between raising money (through tax) and spending it to address problems is likely to increase engagement. Greater local funding of services should also increase flexibility for innovation without the inefficient constraints of too many targets.

3. Other options include:
- ***More Localised Pensions*** **-** the New Economic Foundation has proposed a Local People's Pension Fund, which would invest in local health, housing and education services. The Fund would replace PFI schemes, which receive an average return of 16.5%. It would promote common ownership, localisation, ethical investment, and sustainable local communities. Finally, it provides a resource base that people can use now, and in their retirement (such as hospital facilities), from the savings they have made during their working life.
- ***Participatory Budgeting*** **-** This process is transformational, creative and relationship building. It works to enhance participation in local democracy whilst improving community cohesion and ensuring the delivery of cost-effective local services. Simply put it unites local knowledge with public money and technical ability.

5 Housing Costs:

How can finance promote co-location and living together?

House prices are a matter of opinion whereas debt is real.

Mervyn King

More, but smaller, households absorb more land and materials, with lower efficiency of resource use per capita. There are more emissions, more fuel consumption, more cars, more roads, more pressure on water supplies, more degradation and fewer flood-water sinks.

Patricia Morgan

Home is a name, a word, it is a strong one; stronger than a magician ever spoke, or than a spirit ever answered to, in the strongest conjecture."

Charles Dickens

Home is an invention on which no one has yet improved.

Ann Douglas

Summary

Housing costs are a significant contributor to financial strains on relationships, as well as requiring long work hours and dual incomes which impacts on time for relationships. Costs are likely to continue to rise as the population grows, and average household size falls. Rising house prices unfairly redistribute wealth from asset-poor to asset-rich, and from young to old. Shared living can lower housing costs and increase relational support for vulnerable in dividuals. Extended families living close to each other are also better able to provide welfare. Policies and financial incentives favouring co-location, could lead to significant long-term savings in government spending.

5.1 Introduction

By 2020 the ONS estimates that the population of the UK will have reached 67 million people. By the same date the Environmental Change Institute at Oxford has predicted that average household size will have dropped to 2.1. Based on those figures the UK will need 32 million houses – 7 million more than it currently has. That requires over half a million houses a year to be built, well above the current rate of 150,00 per annum. It means that the 3 million new homes being promised by the current government will be woefully inadequate. The options are to increase supply – by building more houses, or to reduce demand, by reducing average household size. The reality is that both measures will probably need to be pursued. Assuming that the population remains constant an increase or decrease of 0.1 in average household size can affect housing need by 1 million houses. Increasing household size is the most efficient way to tackle the UK housing problem, and could encourage better relationships with more people living together.

Housing costs are a significant contributor to financial strains on relationships, as well as requiring long work hours and dual incomes which impacts on time for relationships. Finance for housing, and property taxes can influence co-location and multi-generational occupancy. According to Alliance and Leicester parents are paying on average £21,314 to help their children buy their first home. "In the 70's and 80's it took 2 earners for a family to attain a middle class lifestyle, whereas today it takes 2 generations."[1]

5.2 Single person households

The number of people of working age who live alone in England has trebled since 1971 – from 1 million to 3.5 million – and is projected to increase to around 9 million by 2021. This increase has come about even though the number of multi-adult households of working age has remained broadly unchanged. In other words, a much greater proportion of working age adults now live alone than used to be the case.[2] Around 14% of the population in England currently live alone compared with 6.5% in 1971. Half of those living alone are of working age whilst the other half are of pensionable age.[3] The Joseph Rowntree Foundation notes that the rise is due to an increasing proportion of the single people choosing not to live with their parents and friends, and secondly people are less likely to be living with a partner, or are doing so later in life.

In 2001, 11.4% of one-person households consisted of women over pension age, and 5.9% were made up of women under pension age. The trend is reversed when looking at men with 3.6 per cent of such households consisting of men over pension age, and 10.0 per cent of men under pension age. The IPPR reports that a significant number of those living alone, particularly younger people, do so as a result of relationship breakdown.[4] Most are men, who find living alone lonelier than women. Those who live alone are a very heterogeneous group. For example, almost 30% of working age people living alone are in the poorest quintile of the population and almost 30% are in the richest quintile, with only 45% in the middle three-fifths. As a Joseph Rowntree Foundation study noted, "quite a lot of working age people living alone are rich, quite a lot are poor, and relatively few have middling incomes."[5]

The rise in one-person households is expected to account for 72 per cent of annual household growth between 2003 and 2026 according to government statistics. An article in the Guardian noted that one-person householders are the biggest consumers of energy, land and household goods. They consume 38% more products, 42% more packaging, 55% more electricity and 61% more gas per person than an individual in a four-person household.[6] Dr. Jo Williams, of the UCL Bartlett School of Planning, has written on the issue of solo living and generating social capital. She proposes an occupancy tax which

[1] Ann Bookman, *Starting in our own Backyards: How Working Families Can Build a Community and Survive the New Economy*, (Routledge 2004).
[2] Guy Palmer, *Single Person Households*, JRF 2006, p. 2.
[3] Ibid., p. 2.
[4] Unilever Family Report 2005: Home Alone? IPPR 2005, p. 6.
[5] Guy Palmer, *Single Person Households*, p. 24.
[6] http://money.guardian.co.uk/ethicalmoney/story/0,,1834973,00.html (Accessed on 22/07/08)

would be charged based on the number of people and habitable rooms in the property to encourage people to live in a more space efficient way.[7] She also suggests a relocation package could be introduced to encourage lower-income households to move into smaller properties.

5.3 Co-location

5.3.1 Background

Some countries such as Singapore and Hong Kong use their housing policy to enable elderly relatives to live near other family members. This has resulted in more than 85% of elderly people in Singapore co-residing with their children.[8] A number of factors contribute to this high rate of co-residence. Firstly filial piety, a love and respect of one's parents and ancestors, is very strong in many traditional Asian cultures. In fact, the Maintenance of Parents Act (1995) obliges adult children in Singapore to care for their elderly parents. Secondly, much of the housing in Singapore is quasi-public, and the Housing and Development Board actively encourages co-location. The government is keen to support such initiatives as the family are seen as the first line of welfare, with the State only providing a safety net. A third factor is that land is very scarce and the cost of housing is high, so many families do not simply live near each other, but chose to live in the same property.

Singapore runs a variety of schemes prioritising and incentivising co-location. The Multi-Tier Housing Scheme gives priority allocation to extended-family applicants. Many housing places are assigned by lottery and applicants under the scheme are assigned twice as many chances. The Joint Selection Scheme is designed to allow families to select flats on priority so that married children and parents can stay in separate Housing and Development Board flats but in close proximity. The CPF Housing Grant Scheme allows a married first-time applicant who buys a resale flat from the open market in order to stay near his or her parents or vice versa, to apply for a housing grant ranging between S$30,000–S$40,000, depending on the geographical proximity between the two generations. Under the *Elderly in family priority scheme* those willing to live with one or more of their elderly relatives have their waiting period for public housing reduced from six to three years.

The schemes are open to children who are married or shortly to be married, or to elderly parents. The property must be within 2km or in the same town as the parents, or married children. Successful applicants are required to maintain residence in the same flat or the same estate for a period of five years from the date of taking possession of the new flat. The rationale for these schemes is that the government saves in social service costs as family members assist one another, particularly in the care of aged parents.

[7] Dr. Jo Williams "Innovative solutions for averting a potential resource crisis—the case of one-person households in England and Wales." *Environment, Development and Sustainability,* vol. 9, No.3, Aug 2003.
[8] http://www.idrc.ca/en/ev-28474-201-1-DO_TOPIC.html

5.3.2 Policy

"Because of our preoccupation with nuclear families, our housing policies have not in fact helped the old to stay close to their adult children, and yet the family is blamed for failing to care for their elderly kin."[9] There are three possible approaches to co-location here in the UK. The first explores social policy options, the second deals with tax incentives and the third examines issues related to employment.

a. Social housing

Michael Young observed in 'Family and Kinship in East London' that in the 50s each older person in Bethnal Green could expect an average of 13 relatives living within a mile; 53% of older people had their nearest married child living in the same dwelling or within five minutes' walk. Today, many older people are likely to live a lonely existence.[10] A 1995 resident said, "I would lay part of the blame for family break-up on council housing. In days gone by, children used to live with the parents even after they got married. Now that is not accepted, so the parents get left in inner London, places like Hackney and Tower Hamlets, while the children have to go out to Essex to get a council house."[11] During the late 1980s Tower Hamlets was run by a Liberal Democrat Council, which operated a 'Sons and Daughters' scheme giving priority on the housing list to children of established East End families. There were complaints that the policy was racist, discriminating against new arrivals from Bangladesh, and the Commission scraped it following a ruling for Racial Equality. Almost two decades later, with a dramatically changed population demographic, a 20,000 plus housing waiting list, and, according to the Town Hall, Bangladeshi offspring particularly unable to find homes near their parents, a new 'Sons and Daughters' policy is being considered in Tower Hamlets.[12]

Abandoning the 'Sons and daughters' policy has proved expensive for many extended families and the government. Choice Based Letting can now take into account extended families.[13] Currently social housing providers are more likely to transfer priority between relatives providing medical support, not social support (e.g. childcare). Welfare must 'not only cover care or support needs, but also other social needs which do not require ongoing care and support'.[14] Local Authorities and RSLs should be forced to take the social and welfare needs of extended families into account and to prioritise their co-location.[15]

b. Financial incentives

Financial incentives could encourage a broader range of people to co-locate. Options include reducing stamp duty or council taxes and increasing housing benefit for those who co-locate close to an elderly relative.

c. Employment

---

[9] Hilary Land and Roy Parker, "Family Policy in the United Kingdom", in Kamerman and Khan (eds) *Family Policy: Government and Families in Fourteen Countries*, Columbia University Press, New York, 1978. p.363.
[10] Alessandra Buonfino and Geoff Mulgan, *Goodbye to all that*, Young Foundation, January 2006.
[11] Kate Gavron, *Besieged in the East End, and only the BNP is listening*, Young Foundation, April 2006.
[12] Gemma Collins and Ted Jeory, *Dumped 'racist' housing strategy could return to East End*, East London Advertiser, 15 May 2008.
[13] Allocation of Accommodation: Code of guidance for local housing authorities, ODPM 11/2002: 24, Para. 2.25.
[14] Allocation of Accommodation: Code of guidance for local housing authorities, ODPM, 11/2002: 21, Para. 5.14.
[15] Rachel Abbott, *Social Housing Allocations and Family Networks*, Young Foundation Working Paper No 1, October 2005.

Employers, including the public sector could also facilitate co-location through transfers and job swaps. Several large multi-site employers including BT, John Lewis and Asda already include this option in their portfolio of flexible working policies.

5.4 Multi-generational Living

"High property prices, the exorbitant cost of childcare and an insufficient number of care homes to accommodate an ageing population are prompting many families to invite the grandparents to move in. The cost of residential care is another incentive: bills of £23,000 a year or more can soon wipe out inheritances. Research from B&Q shows that 750,000 homes in Britain are occupied by several generations, with the figure likely to soar to 1.75 million by 2038."[16]

There are 50,000 purpose-built multi-generational homes in the UK, which allow independent living on the same site, rather than families living in different units perhaps miles apart. The housing shortage in the UK requires new homes, but also improvements to existing homes to allow extended families to live together. Grandparents can assist with childcare, children can keep an eye on elderly relatives and twentysomethings can have their own space whilst saving to get on the property ladder. It is time to discriminate in favour of multi-person households.

Evidence from the United States suggests that multi-generational households are growing faster than any other type of housing arrangement. The small but significant sector, 4.2m houses or 4% of the market, grew by 35% between 1990 and 2000, and professionals believe the trend has accelerated since then. Whilst common among low-income families, such arrangements are becoming increasingly popular in all social groups.[17] The arrangement was also common practice in Italy during the 1980s and 90s owing to the exorbitant price of property. Planning should allow extensions to existing property where these are appropriate, and encourage new developments, which allow this style of living.

5.5 Reforming Council Tax

Current housing demand cannot be matched by supply. The most significant factors are the number of people living alone and under-occupancy. According to the Communities and Local Government website 7.5m or 35% of all households are under-occupied. Under-occupancy is defined as having two or more extra bedrooms. The measure assumes that couples, and those over 21 have their own bedroom. Children under 10 share, and those between 10 and 21 share if they are of the same sex.

There has been considerable discussion about possible changes in local taxation, as many perceive the system to be unfair and inefficient. The proposal below takes into consideration value, but rewards higher levels of occupancy. This would lead to a significant change in local taxation, but would be less radical than a local income tax, and could incentivise more people to live together. It is also worth noting that almost a third of councils got more income from charges such as parking than they do from council tax.

[16] The Times, 11 April 2008.
[17] The New York Times, May 2006.

Housing Costs

Council tax raises £22.4 billion with a further £10.8 billion being raised by charges.[18] These figures show the scale of the problem with the current council tax system.

Basing Council tax on value and occupancy could incentivise increased average household size.
- It could significantly affect housing needs. Current responses to the housing crisis deal with the end result by trying to provide more housing without addressing the root cause – reduced household size.
- It could encourage LATs (Live-Apart-Togethers), who currently number at least 1.2 million,[19] to consider living together as a couple producing a more stable child-raising environment.
- It could encourage older couples or singles to downsize or move in with family.
- It could encourage younger people to live with their family or friends.

Three variables could be considered in relation to this tax - the value of the property, the size of the property and the number of occupants. Greater density of living provides efficiency of returns for the local council in terms of service provision. The UK has a limited amount of land. It is not possible for everyone to live on a large plot. There is a premium for space reflected in the price of a property. However the community continues to suffer on an on-going basis, as this land is no longer available to them. There should therefore be an ongoing premium for continuing to hold such a piece of land.
The formula has a number of components. The initial part of the formula is not dissimilar to the current way in which the figure is calculated. The second part makes allowance for the level of occupancy. The impact of the occupancy component is significant and may could to be tempered slightly.

V = the market value of the property
M = the multiplier set by the local authority. In the worked example I have chosen a multiplier of 0.005 – i.e. the average council tax would be 0.5% of the property value subject to the occupancy element.
SF = the square footage of the property[20]
PSFA = Personal square footage allowance. This could be a national figure or local authorities could vary this depending on their area. I have suggested a figure of 500 – i.e. the average person requires 500sf in which to live. Arguments could be made to reduce this figure in London where space is at a premium and to increase it in rural areas.
O = the number of occupants.
To reduce the impact of occupancy the formula could be tweaked as follows - (VxM) x (SF/ [PSFA x O +1])

Council tax = (VxM) x (SF/PSFAxO)

Worked examples based on a multiplier of 0.005 and PSFA of 500.

1. A family of five living in a 2,000sf house worth £500,000.
Council tax = (500,000 x 0.005) x (2000/500x5) = £2,000 £1666.66

[18] http://news.bbc.co.uk/1/hi/uk_politics/7200730.stm
[19] Dr Samantha Callan, "Family Breakdown: How Government could Help the Family", CSJ, March 2007.
[20] This figure is based simply on the footprint of the house itself. It may need adjustment to take into account properties with large gardens on the basis that these again deprive the community of parkland or play areas. A simple suggestion might be to add 10% of the garden size to your total square footage. Again the more land you have and the less people who use it, the more you pay. The percentage added may be lower in rural areas and higher in urban areas. Unfenced areas and those open to the wider community could be exempt.

2. A single man living in an identical house.
Council tax = (500,000 x 0.005) x (2000/500x1) = £10,000 £5000

3. The single man above with one lodger or family member.
Council tax = (500,000 x 0.005) x (2000/500x2) = £5,000 £3333.33

4. If the single man moved into a 700sf apartment worth £400,000.
Council tax = (400,000 x 0.005) x (700/500x1) = £2,800 £ 1400

Essentially the greater the value, the larger the property, and the lower the rate of occupancy, the more you pay. Undoubtedly single people pay the highest premium. However the UK has a population of over 60 million people, and only 24 million dwelling places. Households of only one and two people are not sustainable for the country as a whole. There is an ongoing cost to the country as a whole of decreased average household size and this must be met. Those who live alone in a small space are not penalized. Those who live alone in a large space are incentivised to have more people living with them (family or lodgers) or to downsize. One option for those living alone would be to participate in a homesharing scheme. Homeshare International is a charity helping householders offer accommodation to a homesharer in return for an agreed level of help. Householders are often older or disabled people and the sharers are often students. The scheme enables householders to remain in their own home when circumstances might otherwise have prevented this. Some programmes specifically promote solidarity between older and younger generations. Such schemes could alleviate the council tax burden brought on by the reforms suggested above.

Given that an increase in average household size of 0.1 reduces the number of houses needed by 1 million, any measures facilitating community houses or mixed living arrangements, which increase average household size should be considered.

5.6 Conclusion

Shared living can lower housing costs and increase relational support for family members. Housing pressures will continue to increase while average household size continues to drop. By 2020 the UK population will be an estimated 67m people, whilst average household size is predicted to fall to 2.1. There are not enough houses to continue living the way we live (in smaller and smaller units). A significant factor in housing demand is relationship breakdown, not just couples, but across family groups – extended families no longer live together. Yet if families are to provide more welfare, it helps to live close to each other. As family structures change and welfare needs increase extended families will want to, and should be encouraged to, live near each other.

Chapter 5 Summary: Housing Costs

Policy challenge: Shared living can lower housing costs and increase relational support for vulnerable individuals.

Public message: Extended families living close to each other are better able to provide welfare.

Why?:

1. Housing costs will continue to rise
   - the number of people living alone has trebled since 1971 – from 1m to 3.5m
   - by 2020 the UK population is expected to grow by 7.2m requiring 3m new houses at the current average household size (AHS) of 2.4
   - housing demand is partially driven by relationship breakdown. A drop in AHS of 0.1 means 1m extra homes being needed. AHS has fallen from 2.9 in 1971, to 2.4 in 2008 and is expected to level out at 2.1 in 2020
2. Rising house prices unfairly redistribute wealth from asset-poor to asset-rich, and from young to old.
   - The average age of a first-time buyer has risen from 27 in 1977 to 34 today
   - The average deposit is currently £34,000
   - parents pay on average £21,314 to help their children buy their first home
   - "In the 70's and 80's it took 2 earners for a family to attain a middle class lifestyle, whereas today it takes 2 generations." (Bookman, 2004)
3. If families are to provide more welfare they will need to live close to each other
   - 750,000 homes in Britain are occupied by more than one generation, with the figure likely to increase to 1.75 million by 2038 (B&Q)
   - co-location of relatives is incentivised in Singapore due to long-term welfare savings for public services

Context:

- The government is committed to enabling 3m new homes by 2020 – this will be insufficient if average household size continues to drop. However by 2020 there will be 67m people in the UK and average household size will be 2.1, meaning a need for 32m houses – 7m more than there are currently.
- Environmental concerns - four-person households consume 55 % less electricity and 61% less gas per person than lone-person households.
- 7.5m homes, representing 37% of all homes in the UK, are under occupied (i.e. have two or more spare bedrooms).
- Local taxation needs reform. The lower the value of the property, the smaller its footprint and the more occupants, the lower its bill should be. Single person households will be resistant to such change but environmental groups will support it.

We recommend consideration of the following:

1. Co-location

- *Social housing* – Bring back the 'sons and daughters' policy giving extended family preference on housing lists.
- *Financial incentives* **–** Follow the example of Singapore and offer incentives such as reduced stamp duty or council tax to families who co-locate.
- *Employment* – facilitate co-location through transfer and job swaps.
- *Multi-generational living* – this is the ultimate form of co-location, which allows related family groups to live independently in the same property. There are 50,000 such homes in the UK, but incentives should be offered to build more.

2. Council Tax Reform – 7m people live alone and this number will to grow to 9m by 2021. Poverty is more prevalent amongst this group and the IPPR has found that living alone may lead to greater isolation. Basing Council tax on value, size and occupancy would incentivise increased average household size, which is more efficient, more environmental and increases relational connection. Formula: Tax = (Value x Multiplier) x (Sq Footage/ personal Sq Footage allowance x Occupancy)

6 Credit and Debt

And to preserve their independence we must not let our rulers load us with perpetual debt. We must make our election between economy and liberty, or profusion and servitude.

Thomas Jefferson

Debt is a prolific mother of folly and of crime.

Benjamin Disraeli

Debt has become part of who we are

Dave Ramsey, Total Money Makeover

Summary

Finance problems threaten economic and social stability. Debt is rampant and it has a massive detrimental impact on relationships. Money worries are the top cause of arguments between couples. Our entire economy is based on debt from government borrowing, leveraged buyouts, consumer debt in excess of £1 trillion, and student loans. Debt has become normal and acceptable. The government is faced with a choice – if it wants to help people better manage their own debt it will have to intervene to limit the supply of reckless credit. The market is not working efficiently because the financial services industry do not have to pay the costs when things go wrong – the government, or more accurately society does. There must be better education to help people understand finance and more advice and counselling for those in trouble. Limits must also be placed on the availability of credit.

6.1 The debt disaster

Average household debt in the UK is £9,053 (excluding mortgages). Eighteen per cent of adults in Britain have £10,000 or more of unsecured debt, equivalent to 8.2 million adults. Deregulation swept away constraints on consumer lending, increasing home ownership levels, but also dramatically increasing the supply of credit, leading to increased personal debt. An initially positive reform of the market was left unchecked, leading to the 'dangerous' situation we find today.

'Before borrowing money from a friend, decide which you need most.'

Author unknown

The danger of debt is the consequences it has on relationships. A YouGov survey found that 10.7 million people suffer relationship problems because of money worries.[49] According to the FSA, 74% of couples find money the hardest subject to talk about with their partners. They also found 27% of couples regularly argue over finances, 32% of couples lie to their partners about how much they spend and 35% are kept awake worrying about money. Relate found that money is the top cause of arguments between couples. Debt problems can bring about ill health, relationship breakdown and loss of employment. The financial, social and relational costs are enormous.

Rising levels of debt are now considered a necessary part of the economy and consumer credit has been used to prop up the economy without full consideration being given to the future cost. Both parties have abused the relationship between lenders and borrowers. Banks have lent to those with no prospect of being able to repay, whilst at the same time customers have taken on debt well beyond their means. We need action to restore this vital relationship before irreparable damage is done.

Facts and figures

The following information from Credit Action, a money education charity, tells its own story.[50]

- Total UK personal debt at the end of January 2008 stood at £1,412bn. The growth rate increased to 9.1% for the previous 12 months, which equates to an increase of £113bn.
- Average household debt in the UK is £9,053 (excluding mortgages). This figure increases to £21.051 based on the number of households who actually have some form of unsecured loan.
- Average interest paid by each household on their total debt is approximately £3,775 each year. This equates to 9% of take home pay, and is an increase of £440 in the last 12 months.
- Average consumer borrowing via credit cards, motor and retail finance deals, overdrafts and unsecured personal loans has risen to £4,524 per average UK adult at the end of August 2007.
- Britain's personal debt is increasing by £1 million every five minutes.
- Citizen Advice Bureaus will deal with 6,600 debt problems today
- Debt problems dealt with by the CAB have doubled in the last ten years totalling 1.7 million in 2006/07. Debt is now the number one issue advised on in CABs.
- Research from Alliance & Leicester has revealed that for 3.4 million Britons, money is the biggest concern in their life, with nearly a fifth (18%) worrying about money on a daily basis, and nearly a third (30%) fretting about money several times a week.
- As many as 7.5 million parents (40% of parents with adult children) have had to help adult children pay off their debts with the average family forking out £2,540 on behalf of their kids, according to research by MoneyExpert.com. The most popular forms of child debt slashed by parents are mobile phone bills, car finance and credit card bills, although nearly one in ten parents have had to help their child keep up with mortgage repayments.
- 8.2m British adults are in serious debt, a rise of 30% on last year.

[49] Breakdown Britain, CSJ, p.19.
[50] http://www.creditaction.org.uk/assets/PDF/stats/2008/apr.pdf

- More than 160,000 people contacted the Consumer Credit Counselling Service (CCCS) in the first half of this year - an increase of 18.5% on the same period last year.
- Consumers will borrow an additional £330m today.
- Average household debt will increase by over £13.25 today.
- 27,100 properties (74 a day) were repossessed during 2007. This is a 21% increase on 2006.
- According to uSwitch Britain is suffering from a bad case of affluenza – "we are caught in the grip of a spiral of conspicuous consumption where it's no longer enough to keep up with the Joneses, but instead we want to live like our favourite celebrities". 4.8m adults spend more than they earn and 9m adults just break even at the end of every month.
- At the end of 2007 there were 129,808 mortgages more than 3 months in arrears.
- The average family car costs £5,627 a year to keep on the road.
- Half the population (52%) could survive financially for just 17 days, should they suffer an unexpected loss of income, according to research by Combined Insurance.
- Scottish Widows found that we would rather talk about sex and health, than money.

6.2 Why is the system the way it is?

State regulation of credit was initiated in 1545 with an Act which, permitted interest to be taken, as long as it did not exceed 10%.[51] Subsequent legislation concerned itself exclusively with the control of interest rates, until an 1854 Act repealed all laws on usury with the intention of allowing interest rates to find their natural level as a result of market forces. The first consumer lender to be regulated was the pawnbroker. There were various Acts from 1603 onwards, but all legislation was repealed by the Consumer Credit Act 1974, which regulates the taking of pledges.

Parliament ignored the activities of professional moneylenders for quite some time, passing only piecemeal laws. The Moneylenders Act of 1927 significantly tightened up the legislation, declaring that the merest breach of a law would render a loss irrecoverable. This unpromising prospect led to the development of instalment selling, hire purchase and the creation of an entirely new system of secondary banking to circumvent the Act. Hire purchases were then regulated by a series of Acts until the law was consolidated by the Hire-Purchase Act 1965. The Board of Trade was empowered to regulate hire-purchase agreements, however their powers were to protect the economy from inflationary pressures created by the use of credit, rather than to protect the consumer. These controls were cancelled in July 1982 following the successful implementation of the Consumer Credit Act.

The Committee on Consumer Credit was set up in September 1968 under Lord Crowther and completed an extremely comprehensive review of consumer credit in Britain. The Consumer Credit Act 1974 contained almost all the Committee's recommendations.

Deregulation swept away constraints on consumer lending, increasing home ownership levels, but also dramatically increasing the supply of credit, leading to increased personal debt.

[51] *Families in Debt*, Jubilee Centre Research Paper No 7, p.93.

The 1974 Act regulates consumer credit and consumer hire agreements for amounts up to £25,000. Its protections apply to agreements between traders and individuals, sole traders, partnerships and unincorporated associations, but not agreements made between traders and corporate bodies such as limited companies. It covers the form and content of agreements, credit advertising, calculating APR, default procedures and extortionate credit bargains. The Act requires all traders who make regulated agreements to obtain licences from the Office of Fair Trading. The Consumer Credit Act 2006 modified the 1974 Act.[52]

When the Conservative party came to power in 1979, it was on a platform of deregulation of business and financial services. Constraints on consumer lending were swept away. Previously, loans to buy houses came from Building Societies, of which you had to be a member with a track record of savings. There were strict salary multipliers and minimum deposits. Thatcherism's desire to see a property owning and shareholding democracy put paid to these restrictions. Suddenly any financial institution could provide mortgages, lending more money for longer.

Home ownership rates have increased dramatically over the last century from 10% of homes in 1914.[53] In 1953, the proportion of owner-occupiers in England was 32 per cent. This rose to 43 per cent in 1961, 51 per cent in 1971 and peaked at 75 per cent in 1981, or 9.9 million households.[54] The percentage of homeowners has levelled at round 70 per cent, though the actual number of homeowners has continued to rise.

Deregulation certainly increased home ownership levels, but since then debt levels have also increased dramatically as deregulation has greatly increased the supply of credit. Total UK personal debt grew 10 per cent in the last year and stands at £1,380 billion.

A crucial factor underlining the current system is that we are part of a debt-based economy. In 1948, almost half the money in circulation was notes and coins created debt free by the government. By 1971, notes and coins accounted for 14 per cent of the money supply and that figure has now fallen to 3 per cent. The other 97 per cent takes the form of interest bearing loans, which are owed to private commercial banks. That means that 97 per cent of the money in the economy was created by debt. The state receives public revenues from issuing cash, but banks make private profits from the 'money' they create. The New Economics Foundation estimates the cost of the current system to be an extraordinary 12 pence on income tax in the UK.[55] The benefits of the current system are being enjoyed by the financial services industry, rather than shared democratically. The only way to stop this house of cards collapsing is of course to generate more debt.

---

[52] http://www.dti.gov.uk/consumers/consumer-finance/credit-act-1974/index.html
[53] http://www.esrc.ac.uk/ESRCInfoCentre/facts/UK/index43.aspx?ComponentId=12642&SourcePageId=14975
[54] The Times, 26th March 2007.
[55] Joseph Huber and James Robertson, *Creating New Money: A Monetary Reform for the Information Age*, NEF, 2000.

As The Independent reported on 21 March 2007, Eddie George admitted that in 2001-02 the Bank of England had deliberately stoked the consumer boom that has led to record house prices and personal debt in order to avert a recession. Lord George went on to say,

> **"That pushed up house prices. It increased household debt . . . my legacy to the MPC if you like has been 'sort that out'."**

Debt is considered a necessary part of the economy and consumer credit has been used to prop up the economy without full consideration being given to the future cost. The options are further debt to fund the repayment of existing loans, or a more radical adjustment or collapse of the system.

Different debt types

Credit and debt issues affect our entire society and can be separated into a number of broad areas:

National debt

As of March 2007, the general government debt was £574.4 billion, equivalent of 42.6 per cent of GDP. This is a significant increase in the figure of £33.1bn in 1970 and £197.4bn in 1988. A report by the Centre for Policy Studies (CPS) entitled *Simply Red* argues that the current real figure is significantly higher.[56] It estimates the current national debt is closer to £1.3 trillion once debts associated with Network Rail, PFI, and unfunded pension liabilities are accounted for. The government acknowledges unfunded pension liabilities of £460bn as of 31st March 2004. The Institute of Economic Affairs (IEA) has estimated the true figure for these could be between £960bn and £1025bn.[57] The CPS has taken a more conservative estimate of £720bn leading to a total debt of £1.3 trillion, which equates to £53,000 per household.

Company debt

Limited Liability companies are constructed so that the liability of shareholders' for the outstanding debts of a company are capped at the person's share in the company capital. Shareholders do not need to know each other, as their stake in the risk is not dependent on the wealth of others. Shares can be traded anonymously. These companies can leverage large amounts of money with only a limited risk to their shareholders. In restricting liability, shareholders are more willing to invest, but borrowing has also increased, as shareholders are not personally liable to repay any debt in case of default. In recent times, we have seen the rapid expansion of private equity firms. They have bought up a large number of companies using debt, which is more tax efficient than equity. In treating debt more favourably than assets, the government risks setting a dangerous precedent – a new norm that buying with debt is better, and will be treated more favourably, than buying with equity.

---

[56] Brooks Newmark MP and Stephen Hammond MP, *Simply Red: The True State of the Public Finances*, CPS, Nov 2006.

[57] Neil Record, Sir *Humphrey's Legacy: Facing up to the Cost of Public Sector Pensions*, IEA, 22 September 2006.

Personal debt

Recent headlines have highlighted the fact that Britain owes over £1.4 trillion in personal debt. This figure has risen by 9% over the last year. Serious debt affects 8.2 million British adults and 2.1million are struggling with repayments.[58] Three quarters of a million people have missed at least one mortgage or secured loan payment in the last twelve months, putting their house at risk.[59]

Student Debt

There has been a shift in attitude towards debt, particularly amongst younger people. Student loans, like mortgages, are seen as an acceptable form of debt to incur. Students come from relatively prosperous socioeconomic groups but have low incomes, which they perceive as temporary. To sustain their expected life style, they have to accept some level of debt. Their attitudes then adjust towards tolerance of debt so as to ensure consistency. Average graduate debt in the UK is £12,363. Barclays has estimated that by 2010 student debt could average £30,000, though it should be noted it dropped slightly last year.[60] Barclays has also warned that the knock-on effect of escalating debt would be that people are saddled with debt for longer and would be unable to buy their first home or start paying into a pension until much later in life.

Research by PFEG (Personal Finance Education Group) has revealed that over half of England's teenagers have been or are in debt by the time they are 17. In addition, 90% worry about their money and spending but tend to think of overdrafts and credit cards as easy ways to spend more than they earn, or to buy things they could not normally afford.

'Debt has been sold to us so aggressively, so loudly, and so often that to imagine living without debt requires myth-busting. Debt is so ingrained into our culture that most can't even envision a car without a payment … a house without a mortgage … a student without a loan … and credit without a card. We've been sold debt with such repetition and with such fervor that most folks can't conceive of what it would be like to have NO payments.'

Dave Ramsey, Total Money Makeover

[58] www.creditaction.org – figures at the end of August 2007.
[59] *Set up to Fail*, CAB, December 2007.
[60] http://www.thisismoney.co.uk/help-and-advice/advice-banks/article.html?in_article_id=395880&in_page_id= accessed on 15 April 2008.

6.3 What are the consequences for relationships?

National debt

The ever increasing national debt and its prominence in the media, sends a signal to people that debt is acceptable. Under-funded pension schemes and PFI are essentially ways of borrowing from tomorrow to pay for day – and therefore more forms of debt. The government is setting a reckless example, which citizens are following. We are passing on huge debt to the next generation, which will build resentment over time.

Company debt

There is a lack of accountability and liability which means that much greater risks are taken as companies grow larger and shareholders become ever more remote from each other and the company managers.

The impact of national debt and company debt on relationships is less clear than personal debt, but may be just as significant. Governments and companies are made up of individuals, and affect the way those individuals act. Everyday people hear about and work for institutions and organisations that view debt as normal. These same employees then acquire personal debt. National, company, student and personal debt have grown hand in hand. Without a serious reappraisal of the debt-based economy, the measures we suggest can only slow down the growth of debt. There must be a more radical assessment of the role of debt in our society.

Personal Debt

Money worries affects the lives of those with debts in a number of ways. Respondents to a Ministry of Justice survey reported finding it difficult to live normally with their current problems (87%), and found themselves spending much of their time worrying about their money problems (95% spent some to all of their time worrying).[61] Ninety-one per cent stated that their health had been affected to some extent because of their money worries – including 48% whose health had been affected to a great extent. Forty-five per cent stated that it had negatively affected their relationship with a partner, husband or wife. The CAB link debt and personal relationship problems, with 18% of their sample reporting arguments with partners, relationship breakdown and disputes within the wider family circle. Relate have also drawn attention to the link between money and relationship problems, finding in their 'Arguments Survey' that money is the top cause of arguments among couples."[62]

---

[61] Kim Williams and Anna Sansom , "Twelve Months later: does advice help? The impact of debt advice – advice agency clients study," Ministry of Justice Research Series 6/07.

[62] *Relate Arguments Survey,* 1998; cited in Social Exclusion Unit (2004) *Children, Families and Debt,* available at: http://www.socialexclusion.gov.uk/downloaddoc.asp?id=209

'In her study on *Over-indebtedness in Britain*[63], Kempson demonstrates a link between friction in the household and the extent of financial difficulties being faced. A third (34%) of households in this study who were in financial difficulty said that money was a source of friction, compared to 14% of households with no financial difficulties at all. The most common consequence was stress or anxiety, experienced by about a quarter of those in financial difficulty. Kempson also points to the impact of this friction on relationships, finding that one in twelve households had experienced relationship problems as a result of financial difficulties.'[64]

Tony and Samantha, who were helped by advice from Christians Against Poverty, describe the overwhelming impact of debt on their family.

> **'Before you helped us we were unemployed and in so much debt. I was anxious, worried and scared and my depression started getting worse. I felt there was no hope for my family and me. Bringing up children is a struggle on its own without having debt on your shoulders.**
>
> **I tried to take my own life several times due to the amount of debt clouding over us and felt that there was no future for us. That was until CAP came to the rescue and with their help we can now manage our money a lot better as well as saving for the future. Everything's changed for the better now that we have a lot to look forward to with our new baby girl on the way and enjoy what we have with our two boys as well.**
> **Thanks CAP for everything you've done – we'll be out of debt soon. Thanks'**[65]

Further research by the Legal Services Research Centre indicated that,
'Debt problems can bring about ill-health, relationship breakdown and loss of employment. Qualitative interviews revealed particularly distressing impacts on parents' relationships with their children. More generally, debt problems were found to make it difficult for people to carry on living normally.'[66]

The average cost per debt problem to the public in lost economic output can be estimated at over £1000, with more serious problems involving costs many times this amount. These costs can be set against the cost of advice, estimated at around £30 in the case of National Debtline. More serious cases involving face-to-face advice involve higher costs. This is reflected in a fixed fee figure of £196 for advice for debt problems set out recently by the Legal Services

[63] Kempson, E. (2002) Over-indebtedness in Britain: A report to the Department of Trade and Industry. Available at http://www.pfrc.bris.ac.uk/Reports/Overindebtedness_Britain.pdf
[64] Williams & Sansom, *Twelve Months Later*, 2.
[65] http://www.capuk.org/reallife/tony-samantha-mcgivern
[66] Pascoe Pleasance, Alexy Buck, Nigel J Balmer and Kim Williams. "A Helping Hand: The impact of debt advice on people's lives" Legal Services Research Centre Research Paper No. 15, 2007, i.

Commission and Department for Constitutional Affairs.[67] However even the higher cost of face-to-face advice represents a significant saving in the long-term.

'Analysis of 2004 CSJS (Civil and Social Justice Survey) data also indicated that debt problems can have an adverse impact on people's health, personal relationships, housing and economic circumstances and confidence. Slightly more than half of the people who reported debt problems through the survey also reported one or more forms of adverse impact. Forty per cent of debt problems were reported to have led to physical or stress-related ill-health, of which slightly more than half also led reportedly to GP visits. The mean number of visits to a GP was 3.5. Appointments with counsellors and community psychiatric nurses and outpatient hospital visits were also mentioned. In addition, 11 per cent of problems were reported to have contributed to the breakdown of a relationship. Five per cent were reported to have led to a forced change in housing circumstances, leading to a couple of people spending time in local authority temporary accommodation.

On the basis of the 2004 CSJS self-reports of problem impact, the average cost to the National Health Service of 'difficult to solve' debt problems that led to physical or stress-related ill-health was around £50 (£20 per debt problem in general).[68] The average cost to local authorities (in the provision of temporary accommodation) of problems that led to the loss of a home was around £270 (£15 per debt problem in general).[69] In addition, problems that led to the loss of a job and a spell of, on average, 20 weeks unemployment would have resulted in substantial loss of GDP and benefits payments. GDP can be estimated at £369 per week per head for 2004. Benefits payments, assuming standard Jobseekers Allowance rates, would have amounted to an average of around £1,500 per claimant in 2004.'[70]

In addition it is worth noting that a YouGov poll found that 6% of people had taken time off work with stress in the past 12 months, due partly or wholly to worrying about their debts.[71] One report estimated that stress related to debt problems caused 8.7 million lost working days in 2004, with a cost to employers of £497 million.[72] The report also noted that more than 250,000 people were absent for more than one month from work due to money worries.

[67] Legal Services Commission and Department for Constitutional Affairs (2006) Legal Aid Reform: The Way Ahead, Norwich: HMSO.
[68] Costing based on figures in Curtis, L. and Netten, A. (2004); Unit Costs of Health and Social Care 2004, PSSRU, University of Kent at Canterbury, NHS reference costs available at www.DH.gov.uk/PoilcyAndGuidance/OrganisationPolicy/FinanceAndPlanning/NHSREferenceCosts/Fs/en.
[69] CIPFA (2002) Homelessness Statistics 2001-2002 Actuals, London CIPFA. Values uprated to 2003 prices, quoted in Kenway, P. and Palmer, G. (2003) How Many? How Much? Single Homelessness and the question of numbers and cost, London: New Policy Institute.
[70] Pascoe Pleasance, Alexy Buck, Nigel J Balmer and Kim Williams. "A Helping Hand: The impact of debt advice on people's lives" Legal Services Research Centre Research Paper No. 15, 2007, p.6-7.
[71] http://www.yougov.com/uk/archives/pdf/DMIRROR_debt_080114.pdf

[72] Debt Free Direct http://www.manchesteronline.co.uk/personalfinance/s/123/123594_debt_stress_takes_heavy_toll_on_workplace.html

Student debt

This debt is strongly encouraged by the government and is seen as legitimate. It commits young people to a cycle of debt at a relatively early age. Credit Action has observed that parents are more concerned about the level of student debt than students themselves are. Chris Tapp, the director of Credit Action, believes this indicates a difference in the acceptability of debt between generations, confirming the notion that debt is becoming more acceptable to a younger generation. The average amount owed by under 25s seeking help from the Consumer Credit Counselling Service rose by around a quarter in two years, from £11,833 in 2003 to £14,984 in 2005. In 2001-02 the proportion of bankrupts aged 18-29 as a percentage of all bankrupts was 7.8%, which had risen dramatically by 2004-05 to 18.7%.[73] These levels of debt amongst young people show that the problem is likely to get worse.

6.4 Dealing with Debt

> **'Having just spent some time with my local Citizen's Advice Bureau, I think the proposal to provide extra support to community-based debt advice services is vital. We are a nation which is up to its eye-balls in debt and the number of families falling further into hardship as a result of unmanageable debt is spiralling upwards. Clearly the problem needs longer term solutions (like proper finance education in schools) but there is an urgent need right now for more and better-equipped debt advice centres.'**

Stephen Crabb MP

As Stephen Crabb notes we need both short and long-term solutions to debt. We must deal with those currently in debt, whilst working to ensure fewer people find themselves in this situation. Therefore our proposals deal with both cure and prevention.

6.4.1 Debt counselling – making the polluter pay

Debt causes relationship stress and debt counselling works. In a review of research into debt advice for the Legal Services Research Centre, Tom Williams noted the paucity of qualitative research data in this area.[74] More research has since been done and preliminary findings suggested effective advice reduces burdens on the courts, maintains family stability, maintains people in employment, whilst preventing stress, homelessness and criminality. The LRSC and the Ministry for Justice has now carried out four of pieces of work in this area.

[73] http://www.insolvency.gov.uk/insolvencyprofessionandlegislation/policychange/cob.pdf
[74] Tom Williams, "Review of Research into the Impact of Debt Advice," Legal Services Research Centre, 2004.

A relatively small study into debt advice by not-for-profit advice agencies carried out by the Ministry of Justice, produced clear evidence that debt advice worked.[75] Respondent's largest debts were unsecured loans (38%) and credit or store card arrears (32%). Twelve months after receiving advice, respondents owed on average £7,585 less. The mean amount owed was reduced from £18,780 to £11,195. At the start, a fifth did not even know what they owed. After 12 months, 84% felt more in control of their finances and more knowledgeable about finances overall. After 12 months, 39% felt their problem had been completely sorted out and 59% felt their problem had been partly sorted out.

Overall, respondents reported improved health and well-being after receiving advice. Between 64 and 69% reported health improvements across the 12 months of the study.
Around a third of respondents stated that their relationship with their partner/husband/wife had improved. Of those whose relationship had improved, 88 per cent believed that it was related to the advice they were given.

National Debtline is one of three major groups providing debt counselling, which deals with over 100,00 calls each year. It found that 79% of callers had debt levels, which made them physically unwell, 57% had visited their GP because of this, and 33% were so unwell they lost time from work. After receiving advice 26% of clients had paid off all their debts in two years, and 43% had done so in three years. After three years 81% were still maintaining the arrangements they had made with their creditors, and 88% felt more knowledgeable and able to deal with their financial affairs. The majority of respondents believe the service has had a significant impact on their lives, with 23% claiming it has 'fundamentally changed' their life.[76] This effectiveness is impressive, as National Debtline offer no third party support. The average caller speaks to an adviser for a total of 33 minutes over 1.33 contacts at a per client cost of £30-35.[77]

Three major groups currently provide debt counselling – the CAB, the Consumer Credit Counselling Service (CCCS) and National Debtline. The CAB is funded mainly by the government, whilst the CCCS is funded entirely by the credit industry. National Debtline receives 35% of its funding from the government with the rest coming from the credit industry. There are also numerous smaller charities, NFPs and businesses offering counselling.

As debt problems continue to grow, this sector will need more funding. Excluding the debtors, who are in no position to pay, the major beneficiaries of debt counselling services are the credit industry and society at large. The industry voluntarily supports these services because they help them reclaim money that would otherwise be lost. Society benefits because taxation pays for the ultimate safety net for those overwhelmed by debt. We believe that those who have caused the

---

[75] Kim Williams and Anna Sansom , "Twelve Months later: does advice help? The impact of debt advice – advice agency clients study," Ministry of Justice Research Series 6/07.
[76] All the information comes from National Dabtline Evaluation 2006 accessed at www.moneyadvicetrust.org/images/NDL%20evaluation%202006%20short%20version%20Nov%2006%20FINAL.pdf
[77] Money Advice Trust, The Thoresen Review of Generic Financial Advice call for Evidence: Response by the Money Advice Trust, April 2007, p.22.

problem should fund the solution – the polluter pays principle. This is similar to the gambling industry, which fund advice for those struggling with gambling addiction.

UK banks wrote off £6.8 billion in household debt in 2007.[78] Write offs of credit card debt alone totalled over £3 billion.[79] A levy on bad debt write off could raise significant sums towards funding debt counselling. A 5 % levy on credit card write offs alone would have brought in £150 million pounds in 2007. Lenders who are most responsible for the problem pay more and such a levy would produce more money when bad debt is worse and more counselling is needed. However, the levy is sufficiently small that it is still cost effective from a tax point of view for lenders to write off bad debt. Whilst the telephone and web based debt advice discussed above has proven to be effective, the provision of more face-to-face advice is still necessary for many experiencing larger debts or a range of associated problems. There are also concerns over the influence of lenders who fund much of the current service. Funds from a levy should support totally independent advice including smaller local and voluntary sector organisations.

6.4.2 Finance education

There is an opportunity to educate young people in schools, and adults in the community about money and finance. Prevention is better than cure; education in advance is better than counselling afterwards. Those who are most vulnerable will benefit most from this education. Those from poorer families will often have grown up with little access to money or basic financial skills. They will have been raised in households were debt was commonplace. The poorest families are least likely to have the time and skills to provide financial education for their children.

'Too many young people leave school with a low level of financial capability.'

OFSTED Report

The IPPR has reported that children who attended personal finance classes in schools could be up to £32,000 richer than they would otherwise be.[80] The FSA Schools Benchmark survey, published in June 2006, looked at personal finance education in over 1,000 UK schools.[81] It found that 98 per cent of teachers in secondary schools believe that personal finance education is important. However, less than one third of these teachers felt confident in teaching it, and most said they would like more support and resources to help them.

The IFS School of Finance offers an excellent package of courses equivalent to GCSE and A-levels, but the take up rate in 2006 was low with approximately a few thousand pupils from fifty schools participating.

[78] "UK banks write off record £6.8 billion in household debt," The Daily Telegraph, 1/3/08.
[79] BERR, Household Debt Monitoring Paper H2 2007, http://www.berr.gov.uk/files/file46807.pdf, p.19.
[80] Mike Dixon, *Rethinking Financial Capability: Lessons from Economic Psychology and Behavioural Finance,* June 2006.
[81] Financial Capability in the UK: Creating a Step Change in Schools, FSA, June 2006.

'Education has to prepare children and young people for the real world beyond the school gates, and financial literacy is a skill that every citizen needs to function effectively in society.'

Jim Knight MP, Minister of State for Schools.[82]

There is broad agreement across the sector as to the importance of financial education, particularly in schools. The evidence is clear that the benefits outweigh the costs. In addition, studies in America have shown the effectiveness of financial education.[83] The government has recently announced that 'Economic Well-being and Financial Capability' will be part of PSHE from next year. Unfortunately, the course will not be compulsory.

Julia Goldsworthy, the Liberal Democrat shadow Chief Secretary to the Treasury, has launched an Early Day Motion calling for stand alone financial education to which a significant number of MPs have signed up.[84] Though the Conservative party have expressed some interest in compulsory financial education they have not committed to it.

> 'Many people struggle to manage their finances effectively, primarily as a result of poor levels of financial capability. This has implications not only for the individual concerned but also for the wider community and the economy as a whole. Low levels of financial capability can be remedied by ensuring all students have access to meaningful financial education. However, with the exception of the ifs School of Finance qualifications, there is currently a real lack of financial education in schools and that's why we are calling on the Government to take such action.'
>
> Julia Goldsworthy

There is anywhere from £400 million to £5 billion million lying in dormant bank accounts in the UK.[85] There has been much debate as to how this money should be spent and the Dormant Bank and Building Society Accounts Bill is passing through Parliament. Given that this money arose at least in part due to financial ignorance, it seems fitting that it should be allocated to financial education.

6.4.3 Generic Financial Advice

Financial education in schools is important, but access must also be provided to adults. Policy needs to identify the critical moments when people are most inclined to improve their financial

---

[82] http://www.ofsted.gov.uk/assets/Internet_Content/Shared_Content/Files/2008/mar/devperfin.pdf
[83] B. Douglas Bernheim, Daniel M. Garrett and Dean M. Maki, "Education and saving: The long-term effects of high school financial curriculum mandates," *Journal of Public Economics,* Vol. 80, Issue 3, June 2001, pgs 435-465.
[84] 90 MPs as of April 2008.
[85] "Countdown to claim money in dormant accounts," The Times 20/3/07. The BBA estimates a figure of £500m whilst The Commission for Unclaimed Assets claims figures of between £3-5 billion.

capability and direct them towards appropriate guidance at these times. These critical life stages, include starting a new job, getting married, becoming a new parent, moving to a new city, or starting to save for a house. However, education and advice should be available to people when they need it, in a form that does not impose any formal commitment or informal pressure to buy specific products as a result. Financial capability programmes must be delivered coherently across the life cycle. Financial education in schools, seminars in the workplace, advice regarding retirement, and so on should be seen as integrated building blocks which reinforce key messages and behaviours and have continuity of content.

Everyone can benefit from financial advice. A 2007 report by CreditExpert found that only 23% of respondents knew what APR was. Axa ran a financial social exclusion experiment based in Brighton tracking the financial well-being of 20 households over a twelve month period. Half the participants had free access to an independent financial advisor while the other half were left to their own devises. Active participants saw their personal debt reduced by 22%, their savings increased by 41% and their net wealth increase by almost 5%. The control group also reduced their debt but only by 13%, decreased their savings by 22% and saw their net wealth drop by just over 3%.

The Resolution Foundation is an independent research and policy organisation, concerned with how people on low to moderate incomes fare in today's mixed welfare economy. They have estimated there are 15 million people living below the median income and receiving no more than 20% of there income from welfare benefits. They argue that if 10% of this group responded to generic financial advice (GFA) within four years:

- New contributions to medium term savings plans would increase by £1.5 billion net.
- Pensions premiums would increase by £560 million.
- Annuity premiums would increase by £58 million (but would increase by £300 million by 2060 as more people retire with larger pensions pots).
- Life assurance premiums would increase by £225 million.
- Young lower earners would have credit card balances averaging £800 – but this figure would be £1900 without advice.
- Credit card debt would fall from £2.5 billion to £830 million.
- Unsecured debts would fall by £2.2 billion.
- Mortgages and secured debt would remain relatively stable[86]

The Foundation has previously produced research suggesting that people in this group stand to gain as much as £60,000 by the time they reach 60 if they are given access to financial advice.[87]

> **'The Government has toyed with the idea of supporting a generic financial advice network for the best part of a decade, without taking**

[86] *The Advice Gain: The Impact of Generic Financial Advice on the Finances Services Industry,* Resolution Foundation, March 2007.
[87] *A National Dividend,* Resolution Foundation.

any action. With credit card debt soaring, repossessions increasing and the results of irresponsible lending unravelling, this service is vital to stop families sinking further into the red.'

Vince Cable, Liberal Democrat Shadow Chancellor.[88]

The government instituted Thoresen Review of Generic Financial Advice, has recently reported on this area. The report found that, on the evidence the Review had studied, GFA is an essential element in improving financial capability across the UK.

It recommends a national Money Guidance service that would be supportive, preventative, independent, universal and free to all. The report suggests that the costs should be borne equally by Government and the financial services industry. Annual costs are estimated at between £36 million and £64 million in 2008 prices. This translates into net present values (NPV) of between £779 million and £1,165 million for the period to 2060.

The quantifiable net benefits in NPV terms to 2060 of Money Guidance are estimated to be:
• for users, benefits of over £15 billion;
• for the financial services industry, quantifiable benefits are in the range £3,612 million to £5,514 million, while quantifiable costs are in the range £390 million to £832 million;
• for the Government, quantifiable benefits in the range £4,650 million to £6,000 million NPV, while quantifiable costs are in the range £390 million to £839 million;
• for society as a whole, quantifiable benefits of £344 million.[89]

The report also notes the additional unquantifiable benefits, in particular affects on consumers' health and well-being.

'Reductions in money-related stress could also have beneficial effects on relationships and family stability. Money difficulties are a known contributory factor in relationship breakdown. Positive changes in this area would benefit both the individuals concerned and wider society, through possible reductions in public expenditure attributable to the consequences of family breakdown.'[90]

The Review recommends that the new Money Guidance service builds on the expertise of existing organisations who provide help and advice to the public and are able to reach out to

[88] http://www.libdems.org.uk/news/story.html?id=13972

[89] Thoresen Review of Generic Financial Advice: Final Report, p.27.
[90] Thoresen Review, p.39.

people in ways and places that are convenient to them. It is crucial to work alongside those who already have experience, expertise and relationships in this area.

6.4.4 Strengthen Credit Unions

Credit union membership in Ireland is 50%, in the US and Australia it is about 30%, in mainland UK it is about 1%. Work by the Joseph Rowntree Foundation (JRF) has argued for the building of better Credit Unions in the UK.[91] They need to be developed based on a cross section of the population including affluent sections of society to be viable in the longer term. They also need to widen their common bonds to encourage diversification of membership mix. However, the JRF also note that the success of credit unions in Northern Ireland (where a quarter of the population are members) is in part due to their being organisations inspired by the community for the community.

The formation of new 'fast growth' credit unions has been relatively successful in the UK. These credit unions have received significant levels of support from their local authorities, which has enabled them, from the outset, to have in place high-specification premises and a team of paid employees. They have often focused on providing a service to those who might otherwise face financial exclusion, with aspects of their funding dependent on providing this service. However, in the long term, success for these credit unions is dependent on attracting a cross section of members from their local communities. Those with both a skilled and motivated manager/management teams and board of directors perform best. Greater use of credit scoring for loan purposes is recommended, given that direct knowledge of members is becoming diluted and bad debt might otherwise increase. Other potential changes include abolishing the minimum age restriction to encourage younger savers, and allowing the provision of services to organizations as well as individuals.

6.4.5 Credit cards controls

Today there will be 24.5 million transactions on plastic cards worth a total of £1.4bn.[92] The combined value of all transactions on plastic cards in 2006 was over half a trillion pounds. According to the British Banking Association the proportion of credit card balances bearing interest rose to 73.9% in January 2008; the average rate of interest was 17.7% (12.5% above base). In February 2008, total credit card debt in the UK stood at £54.8bn. As the credit crisis begins to crunch, the time is right to review the ready availability of credit through this mechanism. Two approaches are suggested below. The first requires regulation of minimum payments, while the second would allow consumers to set their own restrictions on card use.

---

[91] Peter Goth, Donal McKillop and Charles Ferguson, "Building better credit unions" JRF, 2006

[92] The following figures come from Credit Action accessed at http://www.creditaction.org.uk/assets/PDF/stats/2008/apr.pdf

The Roberts Plan[93]

At its very simplest this plan would insist that the minimum repayment each month on any credit card is the same as the amount of monthly interest. This is similar to a mortgage or personal loan were the borrower usually makes monthly payments at least covering the interest. This prevents the borrower's debt from increasing simply on the basis of the interest, and would act as an early warning system to creditors and borrowers of potential problems.

A customer who borrows £1000 at 20% APR over a year will be charged £200 interest. This equates to approximately £16.67 per month, which should be set as their minimum monthly payment. If a borrower fails to make this payment, they will be prevented from obtaining more credit. Such a measure would trigger action from both parties much earlier than under the current system in which the lenders keep the minimum payment well below the level of interest to tempt borrowers into greater debt, earning the companies more interest.

The system could be modified to place tighter restrictions on new cardholders. In year 1 cardholders could be obliged to pay the new minimum payment plus 10% to ensure they are paying down some of the capital sum owed. In year 2 this could be reduced to 5%. After two years cardholders would be free to only pay the minimum having established a good credit record. This record could be transferred to new card providers, so the system does not reduce competition. A cardholder who is in default would return to the start of the system again. Essentially credit cards would have a built in training and reward mechanism.

Requiring either of these measures by all card providers would ensure they do not affect competition. Another simple measure would be to prevent credit card limit increases without the agreement of the customer. Currently lenders can decide to increase a borrowers limit at any time, whether the borrower wishes or not.

Self-control credit card

The idea of a self-control credit card has been suggested by Dan Ariely, a Behavioural Economist at MIT, in his book *Predictably Irrational*.[94] Ariely suggests a credit card that would let people restrict their own behaviour. Customers could choose from some of the following:

- limit their spending per week or even per day
- limit their spending in a particular store or category of stores
- display their total monthly or annual spend each time the card is used
- automatically trigger an email to themselves, their partner, parent or friend every time the card is used, or only if it is used for certain transactions, or above a certain

[93] This is a variation on a proposal by Derek Roberts of Cambridge.
[94] Dan Ariely, *Predictably Irrational*, (London: HarperCollins, 2008), 122-126.

threshold figure. An automatic e-mail every time the card was used would also provide added security.

- Set a personal tax, transferring say 5% of the value of every transaction to your savings account or to a charity.

Card companies, stores and advertisers use technology to gather vast amounts of information amount cardholders. However, this same technology could be used by cardholders to regulate and control their own borrowing. CIBC, a major Canadian bank, already identifies 'spend categories' on their credit card statements as shown below. As technology continues to evolve, it should allow customers to determine in advance what they wish to be able to use their card for.

Your new charges and credits

Trans date	Post date	Description	Spend Categories	Amount($)
[redacted]				
Dec 01	Dec 04		Restaurants	30.00
Dec 03	Dec 04		Hotel, Entertainment and Recreation	34.50
Dec 03	Dec 05		Restaurants	32.12
Dec 04	Dec 06		Restaurants	33.69
Dec 12	Dec 14		Health and Education	3.50
Dec 16	Dec 18		Health and Education	10.02
Dec 16	Dec 18		Health and Education	28.18
Dec 17	Dec 19		Health and Education	40.59
Dec 18	Dec 19		Transportation	4.00
Dec 19	Dec 21		Professional and Financial Services	49.99
Dec 21	Dec 22		Transportation	2.00
Total fo[redacted]				**$268.59**

Figure 3: CIBC credit card statement

The idea is to help consumers spend less and save more. This may seem a foolish act for a lender but as Ariely points out, the credit card business is cutthroat. If one company decided to step out from the pack, especially in a depressed market, and offered a card, which helped customers control their credit, they could attract a lot of business.

'Now this may sound like a pipe dream but it isn't. Think about the potential of Smart Cards… These cards offer the possibility of being customized to each individual's credit needs and helping people manage their credit wisely.'

Dan Ariely

6.4.6 Review the tax credit system

Tax credits are given up front but adjusted later and clawed back causing debt. Complaints continue, mainly because the possibility of over-payment is built into the system, with its annual assessment of entitlement for six million families. This had led to a third of all tax credit payments being overpaid in 2005-06, with nearly half a million being overpaid by more than £1,000.

The tax credit system is 'unfair' to some of the UK's poorest families, the Parliamentary Ombudsman has said. As a result of the 'harsh' way HM Revenues and Customs (HMRC) recovers overpayments 363,000 families are being pushed into debt, the Ombudsman added. Much of the difficulty arises from the fact that it is generally a positive change in circumstances, such as finding employment, which throws them into debt. Further, the delay in matters being finalised means that it might be some time before they learn that they owe money back to HMRC. The Ombudsman notes,

> **"Complainants frequently explain how they budget carefully to avoid debt, and have little or no savings to fall back on, and how distressing it therefore was for them when this happened. They assume there must be some mistake."**[95]

The government has made changes to alleviate some of the problems raised by the Ombudsman. However, the system is fundamentally flawed as it makes debt more likely amongst the poorest in society. Those most in need of money and least able to manage it are routinely given too much and then forced to pay back the extra.

6.4.7 Common Financial Statements

The Common Financial Statement has been drafted by British Bankers Association and Money Advice Trust. It is used by a wide range of advice groups and accepted by a significant number of lenders when borrowers are in financial difficulty. It is a relatively short but comprehensive form setting out a borrowers outgoings and income. It has a number of 'trigger figures' that have been agreed throughout the industry. If borrowers remain within certain figures their expenditure is not questioned. Outside those figures they need to explain the variation in their outgoings. As the form is widely accepted it is simplifying communication between debt advisors and lenders. The widespread acceptance of this form simplifies the repayment of bad debt.

Given that lenders accept the usefulness of this form is agreeing debt management plans, there seems no reason not to use the same form before extending credit to a customer in the first place. The form is much more comprehensive than the 'checks' currently in place. It forces both borrowers and lenders to realistically assess whether a lone is likely to be paid back. It would also

[95] Ombudsman's Report 2007, *Tax Credits: Why they are failing*

make it clear if a lender had knowingly over-indebted a customer. If this was the case the debt could be declared 'irredeemably unenforceable'.

6.5 Conclusions

Having a plan for coal, but not for the coal communities in the 1980s proved costly for the Conservatives in the long term. We must adopt an integrated approach with respect to economic, environmental and social concerns. Financial problems threaten economic and social stability. Financial worries, in terms of income and security, cause and exacerbate friction particularly in couple relationships increasing the rate of social breakdown. On the other hand extended families are a major source of financial support for many people. Relieving financial pressure can facilitate stable relationships and reduce long-term public costs. People must take responsibility for their own actions, but the lending industry, government and society as a whole have a role to play. The industry must pay a large element of the costs of dealing with the problem it has created by liberally handing out credit. Government must acknowledge the bad example it has set in allowing the national debt to spiral out of control, and its role in stoking the consumer boom and failing to regulate credit when it was clear the industry was out of control. Finally, society as a whole must take responsibility as we are the ones who applied for credit and spent tomorrow's money today. Debt is one of the clearest threats to relationships.

6.5 Conclusions: The Debt Disaster

Policy challenge: Finance problems threaten economic ***and*** social stability.
Public message: The government wants to help people better manage their own debt, and will intervene to limit the supply of reckless credit.

Why?:
1. Debt is rampant
   - Average household debt in the UK is £9,053 (excluding mortgages)
   - 4.8m adults spend more than they earn each month, 9m just break even
2. Debt affects relationships
   - - 10.7m people suffer relationships problems because of money worried
   - 35% of couples are kept awake at night worrying about money (FSA)
   - Money is the top cause of arguments between couples (Relate)
3. The government has ignored the consequences
   - Eddie George admitted that in 2001-02 the Bank of England deliberately stoked the consumer boom that has led to record house prices and personal debt in order to avert a recession. "That pushed up house prices. It increased household debt . . . my legacy to the MPC if you like has been 'sort that out'."

Context: - There is broad agreement across groups working with debt as to the nature of the problem and the majority of the solutions.
- Banks are disinclined to rein in the easy availability of credit/debt, which has lead to unprecedented growth, and from which banks profit.
- The government has also benefited from the growth credit has facilitated. They are reluctant to adopt measures limiting personal freedom. Politicians are faced with a choice. They cannot promote general well-being and total economic freedom. Increasing well-being will require controls on credit and help for individuals to manage their debt.

We recommend consideration of the following:
1. Financial education – it must be excellent, essential and examinable. Prevention is better than cure. The vulnerable will benefit most from this education. Using money left in dormant bank accounts to pay for better financial education seems fitting.

2. Debt Counselling – debt causes relationship stress but debt counselling works. Under the polluter pays principle a levy should be set against bad debt write off to fund and support more not-for-profits working in this area.

3. Credit card discipline
- banks must have a written agreement to increase credit limits
- minimum repayment levels must at least cover the monthly interest payment
- customers should be able to use technology to impose their own limits
- use of the Common Financial Statement for lending

4. Other areas of consideration:
- ***Generic Financial Advice*** – the government must implement the recommendations of the Thoresen review, setting up a free and independent Money Guidance service. The financial and social benefits of offering such a service outweigh the costs.
- ***Strengthen Credit Unions*** **–** more 'fast growth' credit unions should be funded.
- ***Overhaul the Tax Credit System*** **–** the system pushed 363,000 families into debt because the possibility of overpayment. A third of all tax credit payments were overpaid in 2005-06, with nearly half a million overpaid by more than £1,000. It does not work and it is not cost effective.
- ***Student debt*** – work must be done to avoid large debts becoming normal for young people.

7 The Cost of Care:

How does finance impact relational support for vulnerable people?

A test of a people is how it behaves towards the old. It is easy to love children. Even tyrants and dictators make a point of being fond of children. But the affection and care for the old, the incurable, the helpless are the true gold mines of a culture.

Abraham J. Heschel

All of us will either require care or take on caring roles at some point in our lives.

The Princess Royal Trust for Caring

Society would collapse without carers, don't ignore us. All we are asking for is a fair deal.

A Carer, Carers UK.

When I was young I thought that money was the most important thing in life; now that I am old, I know it is.

Oscar Wilde

Summary

Care relationships are extremely important and include children, the elderly and the disabled. 3.2 million families in the UK contain a disabled child, a disabled adult or both. There are an estimated 5.7 million carers in the UK, almost half a million are over 65, and almost a million work more than 50 hours a week. The value of unpaid support that carers provide has now reached £87 billion a year, which exceeds the annual budget of the NHS. The cost of care impacts not only upon the disabled person and their carer(s) but also third party relationships between parents, spouses, other siblings, families and friends. Care relationships give rise to both benefits and stresses for all those involved. Finance can create a buffer from the pressures, for example allowing respite care to be purchased. Finance can also give rise to flexibility as to who should care and how.

7.1 The Impact of disability

There are 770,000 disabled children under the age of 16 in the UK.[1] Over three million families contain either a disabled child, a disabled adult, or both.[2] It is estimated that up to 20,000 families have more than one disabled child.[3]

---

[1] *Disabled children and child poverty,* a briefing paper by the Every Disabled Child Matters campaign, www.edcm.org.uk, p.3.

The Government defines disability as, "the disadvantage experienced by an individual as a result of barriers (attitudinal, physical etc) that impact on people with impairments and/or ill health".[4] In other words, it is not the impairment or ill health per se.[5] Disability "arises from society's failure to respond to the needs of people with impairments." [6] 98% of families care for their disabled children at home.[7]

A broader definition suggests that up to 10% of all children are disabled – just under 1.2m children under 17 – including those with autistic spectrum disorders and other behavioural difficulties which are not officially deemed to be disabilities.

High proportions of families with disabled children are from BME groups, lone parents, or have 3-4 children. They are less likely to be in work, more likely to be in semi-skilled or unskilled manual jobs, more likely to be on income support, and less likely to own their home. Using a standard income measure of poverty (60 per cent below the median income level after housing costs), government data from 1994–2005 shows that disabled children face a marginally higher risk of poverty.[8]

7.1.1 Pressures on relationships

Looking after a disabled family member puts tremendous strain on other relationships within a family. Members are often exhausted, stressed and lack the time or energy to invest in their other relationships. The Government recognises that "families with disabled children report particularly high levels of unmet needs, isolation and stress."[9] The emotional distress of dealing with disability and the pressures of caring responsibilities even leaves some parents ill or disabled themselves.

Many mothers are unable to return to work as they cannot find suitable employment or childcare facilities that would allow them to balance working and caring responsibilities. This affects their sense of identity and increases their feeling of isolation. Most fathers remain in work, but change their working patterns.

Relationships with the other parent can become particularly strained. A mother of four, two of whose children are on the autistic spectrum, was interviewed for a report on benefits for disabled children. She said,

---

[2] *Households Below Average Income,* 2005-06, DWP.
[3] Preston G, with Robertson M, *Out of Reach: benefits for disabled children,* Child Poverty Action Group & Contact a Family, 2006, p.27.
[4] Cabinet Office, Prime Minister's Strategy Unit, *Improving the Life Chances of Disabled People,* 2005 (joint report with DWP, DH, DfES & ODPM).
[5] Ibid. "Impairment is a long term characteristic which affects an individual's functioning and / or appearance and may give rise to pain, fatigue, communication difficulties etc. Ill health is the short or long term effect of disease or sickness. Many people with an impairment or ill health would not consider themselves disabled. For children, "special educational needs" includes children with a learning difficulty, "which may be a result of a physical or sensory disability, an emotional or behavioural problem, or developmental delay."
[6] Preston G, with Robertson M, *Out of Reach,* 2006.
[7] Preston G, with Robertson M, *Out of Reach,* 2006, p.26.
[8] Department for Work and Pensions (2006), *Households Below Average Income: An Analysis of the Income Distribution 1994/95–2005/05*. Disabled children face a 30% risk of poverty, compared with a 27% risk across all households.
[9] HM Treasury & Department for Education and Skills, *Support for Parents: the best start for children,* The Stationery Office 2005, p.10.

> **I've always felt (like a lone parent) because he couldn't handle the children – you get a lot of single parents with families with disabilities because you have no time to work on that relationship whatsoever… You have no time for yourself if you're a mother, and you have no time to put into the relationship.**[10]

These findings were corroborated by a study for the Joseph Rowntree Foundation on the impact of disability on family life: "Never having time together put added strain on relationships, as did the day-to-day practicalities of providing intensive, round-the-clock care. Many parents had not been out with their partners for years as they were unable to get anyone to baby-sit and/or they could not afford to go out. As a mechanism for coping with the demands of life, some became two separate families with mothers providing most of the care for the disabled child, and fathers looking after the other children. Parents were unhappy at this division but were unable to do anything to resolve the situation as they had neither the time nor the energy."[11] The report continued, "Relationships with family and friends also changed. …Some were supportive and helpful while others were unable to accept the emotional and practical implications of the children's conditions."[12]

These outcomes must not be over-emphasised, as many families do find that their relationships are strengthened by adversity. In 2004, the charity Contact a Family carried out a survey of more than 2,000 parents of disabled children asking specifically about how caring for a disabled child had impacted on their relationships with their partner.[13] A quarter (23%) felt that it had strengthened their relationship, and a fifth (19%) felt it had had little effect on their relationship. However, more than half (53%), felt that it had caused at least some problems in their relationship. 9% said that having a disabled child had led to parental separation. Many families therefore do feel an intolerable strain and the pressure of day-to-day caring for disabled members.

9% said that having a disabled child had led to parental separation

7.1.2 Financial pressures

The same survey by Contact a Family found that 51% were in financial difficulties, of whom 66% linked this to having a disabled child.[14] Another 2004 Contact a Family survey of nearly 2000 families, carried out jointly with the Family Fund, found that 93% of families reported some form of financial difficulties.[15] 16% owed more than £15,000 and just over half owed between £500 and £10,000, which was mostly credit card debt. They suggest that families with disabled children are four times more likely to owe over £10,000 than other families. 61% of the families surveyed agreed that some of their debt was due to the additional expenses of a disabled child. In other words, these families are particularly vulnerable to wider issues of credit and debt, at least in part because of their family situation.

---

[10] Preston G, with Robertson M, *Out of Reach,* 2006.
[11] Dobson, Middleton & Beardsworth, *The impact of child disability on family life,* Joseph Rowntree Foundation, 2001, p.35.
[12] *The impact of child disability on family life,* p.33.
[13] Relationships – no time for us, Contact a Family, 2005, http://www.cafamily.org.uk/relationshipsurvey.html
[14] Relationships – no time for us, Contact a Family, 2005, http://www.cafamily.org.uk/relationshipsurvey.html
[15] Debt and disability – the impact of debt on families with disabled children, Contact a Family and the Family Fund, 2004.

It is widely recognised that disability has a major impact on finances in many homes. The "Out of Reach" report stated, "Incomes in such households are likely to be low because families experience considerable additional costs, face multiple barriers to employment, and experience problems accessing disability benefits. Current poverty statistics, which underestimate levels of poverty in households affected by disability, indicate that over a million children living in poverty are affected by disability."[16]

The report found that access to disability benefits – triggered by an award of disability living allowance (DLA) – improves childhood experiences and life chances for disabled children. A Contact a Family / Family Fund report cited research from the University of York that found that it cost three times as much to raise a disabled rather than a non-disabled child,[17] and another Family Fund report found that families with severely disabled children need an extra £104.86 per week (nearly £5,500 per year) over and above their current incomes because of the "significant additional expenditure related to the needs of the disabled / seriously ill child".[18] However, reliable statistics are difficult to find because there is no standard way of measuring the extra costs of disability and there is no equivalisation for additional disability-related costs within the Government's poverty statistics. This means that poverty statistics do not recognise the additional expense of a disabled family member. The government has also identified that as many as three-quarters of families with disabled children live in unsuitable housing.[19]

7.1.3 Finance for those with disabilities

Disability Living Allowance

A Contact A Family survey of its website users found that more than half took more than a year to find out about DLA, 27% took more than 2 years, 3% took more than 5 years and16% still weren't claiming.[20] 39% said that they were put off claiming by the complexity of the form. The organisation says: "We always recommend that everyone gets help when completing the DLA form….It is important that you get help from a qualified welfare benefits advisor or someone who is familiar with the form. This will increase the likelihood of your child being awarded the correct levels of DLA."[21]

Statistics suggest there are 770,000 disabled children under 16, but in February 2006, only 327,000 were receiving DLA.[22] Problems associated with the poor take-up of DLA are lack of information, the complicated nature of claims and reassessments, and the stigma associated with being on benefits. In addition, the CPAG Out of Reach report suggests that the constant reduction and removal of DLA and often its reinstatement at appeal (in 54% of cases) generates considerable financial uncertainty for families.[23] It causes extra stress, distress, and anxiety, as the application forces families to focus on what their child cannot do. A lone parent on Income Support (IS) whose severely disabled child loses DLA highest rate care and higher rate mobility and associated benefits will see their income fall from about £300 to just over £100 a week.[24]

[16] Preston G, with Robertson M, *Out of Reach,* 2006.
[17] B.Dobson & S.Middleton, *Paying to care: the cost of childhood disability,* (York, 1998).
[18] Woolley M, *Income and Expenditure of Families with a Severely Disabled Child,* Family Fund 2004.
[19] Prime Minister's Strategy Unit (2005), Improving the Life Chances of Disabled People (referenced in EDCM report)
[20] CAF Connected magazine, Spring 2007, p.4.
[21] Ibid., p,12.
[22] *Households Below Average Income Statistics 1994/95 – 2004/05,* DWP 2006.
[23] See Preston G, with Robertson M, *Out of Reach,* 2006, p.50 onwards.
[24] Preston G, with Robertson M, *Out of Reach,* 2006, p.64.

Tax credits
The tax credit system recognises the increased costs of disabled children, through a disability premium. The disabled child element - £2,440 in 2007/08 – is available to families receiving DLA, or with a child who is registered blind. There is also a severely disabled child element of £980 for those on the highest rate care component.

The working tax credit also contains a disabled worker element for parents who work at least 16 hours a week and have a physical or mental disability, which puts them at a disadvantage of getting a job. This is worth up to £2,310 a year in 2007/08. There is also a severe disability element, worth £980 in 2007/08.

However, disability organisations do not believe that the premiums recognise the full extra cost of a disabled family member.

Incapacity benefits
Incapacity Benefit (IB) is the main income-replacement benefit for ill or disabled people. It is based on high order relational goals such as reciprocity and social solidarity. It is a contributory benefit dependent on National Insurance contributions. Those who are ill or disabled but with insufficient NI contributions for IB can claim IS with a disability premium. Incapacity benefits are claimed by 2.7 million people.

The Government aims to reduce the number of people claiming these benefits by 1 million within the next 7 years, by encouraging people back into work.[25] It intends to replace IB with a new Employment and Support Allowance (ESA), which ties the receipt of benefit *by new claimants* to a requirement to attend a work-focused interview at the Jobcentre Plus and agree on an 'action plan'. Those with more severe illnesses or disabilities will have no conditions attached to receipt of their benefit, which will be paid at a higher rate. However, there are concerns that a two-tier system will introduce more complexity and confusion to the system.

7.2 Carers

There are an estimated 5.7m carers in the UK. About 14% of these look after a disabled child or young adult.[26] 15% of all adults over 16 provide care. 1.7m do so for more than 20 hours a week, and 855,000 for more than 50 hours. Almost half a million of these are over 65. 58% of carers provide care to someone outside the household. 32% of adult carers are in full time employment (compared with 45% of all adults); 17% are in part-time work, compared with 14% of all adults.[27] They are a heterogeneous group - young, parents, working-age, elderly and ethnic minorities. The latter can be particularly vulnerable as they are more likely to live in deprived areas, be poor, suffer ill health and live in overcrowded housing.

855,000 people provide more than 50 hours of care a week

[25] James Purnell in a speech to the Commons on 21st July 2008 reported at http://news.bbc.co.uk/1/hi/uk_politics/7516551.stm (Accessed on 22/07/08)
[26] Holzhausen and Pearlmann, *Caring on the Breadline,* Carers National Association (now Carers UK) 2000.
[27] Statistics from the Family Resources Survey 1999/00, quoted in Marilyn Howard, *Paying the Price – Carers, Poverty and Social Exclusion,* CPAG in association with Carers UK, 2001, p.3; note 12 on p.10.

7.2.1 Pressures on relationships

A report by Child Poverty Action Group warns: "Three out of five of us will have caring responsibilities at some point during our lifetime. … We may end up caring several times throughout our life. None of us should be complacent about the impact of caring... caring affects your work, your ability to care safely, your health and well-being and your quality of life. This is not least because the costs of disability and caring are considerable in terms of both direct costs and opportunity costs. The costs of caring spread beyond the carer, affecting other members of the close family, particularly children."[28]

The same report finds that carers often feel isolated. The cumulative effects of exhaustion, lack of sleep, lack of time with others, and lack of money to go out and away often means that, as one carer put it, "Your social life finishes completely… We're very lonely, I think both of us are. Even though people come. Every couple of days there's somebody here. You always see someone, but, yes, very lonely, even though we see people."[29]

7.2.2 Financial pressures

A survey by Carers UK found that two thirds of carers worried most or all of the time about their finances, and two thirds of these believed the worry affected their health.[30] Half of carers' incomes fall within the lowest two quintiles of income distribution. They face extra costs such as transport, heating, specialised equipment, and additional care. Hardships include financial problems, lack of holidays, cutting down on leisure activities and spending less on clothes and food.

Another Carers UK report found that there are 4 million working age carers, and over 40% of those caring full time and not in work say that they cannot return to work because of the lack of services available. Those who are better off can afford to buy in care, but the report found that very few working carers are getting breaks, and less than a quarter have access to respite care services.[31]

7.2.3 Finance for Carers

Carer's allowance

The Carer's Allowance (CA) is available to anyone who spends at least 35 hours a week caring for a person who receives the middle/highest rate of DLA care component, is not in full time education and does not earn more than £95 per week.

Some carers receive less than a pound an hour

In 2007/8, it is set at £48.65 per week. This is intended to be an 'earnings replacement benefit', but it is lower than any other working age benefit. The minimum wage is £5.52 per hour in 2007/8. The CA is awarded to those who care for more than 35 hours per week, and so is the equivalent of £1.39 per

[28] Marilyn Howard, *Paying the Price – Carers, Poverty and Social Exclusion,* CPAG in association with Carers UK, 2001, p.vii.
[29] Ibid., p.29
[30] *Caring on the Breadline,* Careres National Association, 2000, p.12
[31] Carers UK press release, Social care system is failing four million working age carers, 10 October 2007: http://www.carersuk.org/Newsandcampaigns/News/1191941381

hour at best. For the 855,000 who do more than fifty hours, it equates to less than a pound an hour. The figures suggest that only 32% of carers are in full time work and 17% in part time work, so this amount does not realistically recognise the loss of earnings of the person caring. It is the same amount regardless of how many disabled people a person cares for. A couple can both claim CA if they have two or more disabled children, but a lone parent cannot. If two people both care for the same person they both cannot claim CA.

A new report by Carers UK in September 2007 suggested that the value of unpaid support that carers provide has now reached £87 billion a year, which is more than the annual total spend on the NHS (£82 billion in 2006/7) and more than four times the amount spent on social care services for adults and children by local authorities each year (£19.3 billion in 2005/6).[32]

The report warns that, "if only a small number were to give up caring – perhaps through ill health or lack of support - the economic impact could be disastrous. Given our demographics and ageing population, it shows the urgent need for better recognition and support for carers. Many carers remain isolated and unsupported, with thousands living in poverty and unable to take up paid work or have a normal social life."[33] It also raises concerns that such low levels of benefit drives carers into poverty and underlines the isolation that they feel. It emphasises that some carers have no choice but to care because of the paucity of care services available, and the range and complexity of services that they provide themselves.

Attendance Allowance

Attendance Allowance is a benefit paid to people aged 65 or over to help them with the extra costs of a long-term illness or disability. It is not means-tested. Attendance Allowance is paid at two rates, depending on the amount of care that someone needs. There is no amount for mobility needs in Attendance Allowance. Weekly rates for 2007/08 are: £43.15 at the lower rate and £64.50 at the higher rate.

Carers may also be eligible for other benefits such as income support, jobseeker's allowance, pension credit and tax credits.

7.3 Elderly People

Some of the issues affecting elderly people have already been discussed under the disabled and carer sections. There are 23 separate state benefits available to those over pension age. There are 11 million pensioners in the UK, 2.2 million of whom currently live in poverty.[34] By the middle of the century, it is expected that almost one-in-three adults in the UK will be aged 65 or over, compared with just over one-in-five in 2007.[35]

7.3.1 Pressures on relationships

Help the Aged have summarised some of the pressures on relationships and finances for older people, which are often inextricably linked.

---

[32] L.Buckner & S.Yeanle, *Valuing Carers – calculating the value of unpaid care*, Carers UK, 2007
[33] Carers UK Press Release, 20 September 2007: http://www.carersuk.org/Newsandcampaigns/News/1190237139
[34] http://www.helptheaged.org.uk/en-gb/Campaigns/PensionsAndBenefits/PensionerPoverty/ (Accessed November 2007)
[35] Brewer et al., *Pensioner poverty over the next decade: what role for tax and benefit reform?*, IFS 2007.

"Poverty and low income can affect every aspect of an individual's life: the food they eat on a day-to-day basis, whether they can visit friends and family, how they spend their free time, and even whether they are able to stay healthy and mobile. Financial worry is ever-present for too many older people, preventing them from enjoying retirement, causing and reinforcing isolation and inactivity, which sometimes leads to health decline. The poverty pensioners experience is often persistent, with the option to pull oneself out of poverty through work not available to the great majority. This is especially true for those on means-tested benefits, who start to lose benefit entitlement as soon as they earn over £5 a week."[36]

Housing is an important concern for older people. The housing charity Shelter says: "Older people spend between 70 and 90% of their time in their home, thus a warm, secure environment that meets individual requirements is crucial."[37] It reports that, in England, 73% of people aged 65 and over are homeowners. Of this, 67% own their home outright, compared with 31% of the total population. Issues here include whether older people are living alone in large homes, which impacts their loneliness, and requires a lot of heating. In 2002, 60% of women over 75 (who tend to live longer) and 29 % of men over 75 lived alone. In the UK, single older people rarely live with other people, such as their children or other family members. In 2002, only 5% of men and 8% of women aged over 75 lived with others.[38] There is also the matter of whether they can afford repairs or adaptations to their homes as they get older. Shelter estimates that almost a third of older people live in 'non-decent' homes.

Shelter estimates that almost a third of older people live in 'non-decent' homes.

Other pressures on relationships come with the ageing process. Older people have to deal with the death of loved ones and friends, or caring for a spouse who can no longer live independently due to mental or physical infirmities. Gordon Lishman, who heads up Age Concern, wrote recently in the Guardian that: "The figures on depression (among elderly people) are stark: 2.6 million people in the UK over the age of 65 have signs and symptoms of depression. The condition affects around one in four people over 65 and two in five people over 85. The impact on lives cannot be overstated. Women over 75 are more likely to commit suicide than any other group of women and, among men, those aged over 75 have the second-highest rate."[39] Lishman claims that age discrimination is rife in the NHS, so that older people are not given the same services as younger people. For example those over 65 have been excluded from mainstream mental health services.

7.3.2 Financial pressures

Pensioners have a lower average income than other age groups and are at higher risk of income poverty. After reaching pension age, they can no longer pay national insurance to contribute towards a higher state pension, and many are unable to continue to work even if they want to, perhaps due to poor health, or the reluctance of employers to give jobs to older workers.

In 1980 the Government broke the link between the state pension and earnings, meaning that the value of the basic state pension has fallen further and further behind the increase in earnings

---

[36] *Meeting the challenge: Defeating pensioner poverty,* Help the Aged, 2007, p.2.
[37] Older people and housing, Shelter, 2006, available at: http://england.shelter.org.uk/files/docs/29754/Factsheet%20Older%20People.pdf
[38] Ibid., p.4.
[39] 'Our mentally ill older people are languishing at the bottom of the list', The Guardian, 22 August 2007.

and in the cost of living. After many years of debate, all three main political parties now support the reintroduction of the earnings link, and the Government has pledged to restore it in 2012.

Women pensioners are particularly likely to receive less than the full amount of basic state pension due to patchy contribution records. In 2004, nearly 60% of female pensioners received less than the full pension, compared with 10% of male pensioners.[40] Many women do receive a pension based on their husband's contributions but they often feel that their hard work, usually raising a family, over the last 40 years is greatly undervalued.

7.3.3 Available benefits and their challenges

Altogether there are 23 benefits available to older people, they all have different criteria, different application processes and some are dependent on each other. A few illustrative examples are outlined below.

Income tax allowances
Older people are given higher personal tax allowances: in 2007-08, the rates were £9,030 for those aged 65-74 and £9,180 for those aged 75 and over (compared with £5,435 for those under 65). Married couples with one member born before 6 April 1935 still receive the married couple's allowance (MCA): £6,535 for those still under 75 and £6,625 for those over 75. There is an income limit of £21,800 for age-related allowances but the minimum amount of MCA is £2,540.[41]

State Pension
This is the basic benefit paid to pensioners. In 2007-08, the full rate of basic state pension is £87.30 per week for a single person. This is based upon having paid National Insurance Contributions (NICs) for 44 years for a man or 39 years for a woman. A dependent spouse, generally the wife (who did not pay enough NICs to claim more than 60% of a full pension in her own right) can claim £52.30 per week (60% of the full rate) on her husband's contributions. When a person reaches the age of 80, they are given an extra 25p a week on their pension. This amount has not changed since the early 1970s, when it was introduced as a 5 shillings age addition.

The system of NIC payments is hugely complicated, and many people (usually women) can miss out on the full amount of pension to which they are entitled. For example, the Government has recently recognised that many women have not had home responsibilities protection (HRP) included in their pension entitlement, although they were caring for a child and claiming child benefit for a number of years. In theory this is supposed to be automatically calculated in your entitlement, but an investigation by Steve Webb MP has led to a number of women receiving backdated pensions of several thousand pounds.

The 'living together as husband and wife' rules and post-retirement marriage rules are also complicated for pensioners. For example: a widow and a widower are both getting 100% of a state pension, where her amount is based upon her late husband's contributions. If the couple marry after they have both reached pension age, she would keep her widow's pension at 100%. If she was a divorcee and did not remarry before pension age, she would receive a pension on her former husband's contributions. If she remarries before reaching pension age, and does not

[40] Parliamentary Answer to Jim Cousins, House of Commons Hansard 17 March 2005, Column 424W.
[41] http://www.hmrc.gov.uk/rates/it.htm (Accessed November 2007)

have a pension in her own right, then her pension will be calculated entirely according to her new husband's contribution record. These rules can have a significant impact financially on whether and when some elderly couples choose to marry.

These are just some of the complications and anomalies inherent in the state pension system. These complexities, added to computer and clerical errors mean that people often do not receive the pension to which they are entitled, and because the majority do not understand how the system works, they may never realise this.

On top of the basic state pension, there is a second tier of state provision called the state second pension from which people can 'contract out' using a percentage of their NICs payments to contribute to a private third tier of pension provision.

Pension Credit

This is the equivalent of income support for pensioners, and is used to top up the state pension for those who lack any private income, pensions or savings. The Government describes it as "extra money each week to bring your income up to the minimum amount the Government considers you need to live on." It has two main components:

- Guarantee Credit: if you are aged 60 or over, this will top up your income to £119.05 if you are single; or £181.70 between you if you are married or live as a couple, including same-sex couples.
- Savings credit: If your income is too high to receive the guarantee credit, you may get the savings credit, or it may be paid on top of the guarantee credit. It is not a fixed amount, but will boost your income up to £166.68 per week if you are single; or £244.85 between you if you are married or live as a couple.
- Premium for severe disabilities: £48.45
- Carer's premium: £27.15.

2.7 million people claimed Pension Credit last year. 2004–05 figures show that there were still between 1.1 and 1.6 million eligible pensioners not claiming Pension Credit, which equates to a take-up rate of between 61 - 69%, and means that almost a third of eligible pensioners are still missing out on some entitlement. This equates to £1.5 – 2.1 billion of Pension Credit not being claimed. The National Audit Office's analysis of local patterns of take-up shows that some groups are more likely to miss out, for example pensioners in rural areas.[42]

"The Department (of Work and Pensions) concludes that part of the reason for low take-up is that pensioners who are better off than before do not consider themselves poor, even though benefit rates have risen so that they are entitled to Pension Credit, Housing Benefit or Council Tax Benefit. In some cases, those not claiming are entitled to smaller amounts. Misunderstanding the way benefits work is also a factor affecting a minority of pensioners. The Department acknowledges that there is a relationship between the complexity of the system and non-take-up."[43]

Pensioners can also receive cold weather payments, winter fuel payments, housing benefit, council tax benefit, and attendance allowance.

---

[42] House of Commons Committee of Public Accounts: Department for Work and Pensions: Progress in tackling pensioner poverty—encouraging take-up of entitlements, 26th report of 2006-07, April 07, p.3.
[43] ibid., p.9.

7.4 Childcare

Mothers in couple families often desire to return to work at some stage after the birth of their children, or need to do so for financial reasons. In addition, as part of its aim to reduce poverty through work, the Government has a target to achieve 70% labour market participation amongst lone parents by 2010.[44] This increases the need for childcare, primarily at either end of the school day.

The issue of childcare has therefore moved sharply up the political agenda in the last decade, with massive increases in state-subsidised nurseries for younger children and a growth in out-of-school and holiday clubs for school age children. In 2004, the Government's Ten Year Strategy for early years and childcare, outlined its objectives:[45]

- *Choice and Flexibility* - greater choice for parents in how they balance their work commitments and family life;
- *Availability* – flexible, affordable, high quality childcare for all families with children aged up to 14 who need it;
- *Quality* - high quality provision delivered by a skilled early years and childcare workforce; and
- *Affordability* – families to be able to afford flexible, high quality childcare that is appropriate for their needs.

The Government is currently focusing on the concept of extended schools, where a school works with the local authority, local providers and other schools "to provide access to a core offer of integrated services: a varied range of activities including study support, sport and music clubs, combined with childcare in primary schools; parenting and family support; swift and easy access to targeted and specialist services; community access to facilities including adult and family learning, ICT and sports grounds."[46] These are not necessarily provided by the teachers or on the school site.

In terms of the number of children involved in these schemes, a study by market research organisation BMRB for the Department of Children, Schools and Families found that, in 2006, there were 2,410,600 childcare and early years places registered with Ofsted. Since 2003 there have been increases in the number of children attending virtually all childcare settings: the number of children attending full day care providers increased by 18%, after school clubs by 49% and holiday clubs by 51%.[47]

However, take up of the childcare element of the working tax credit is minimal. The most recent tax credits statistics show that in 2005-06, there were 5.67 million families with children receiving tax credits. Of these 4.26 million were receiving the working tax credit, and just 339,000 were getting the childcare element.[48]

---

[44] *Delivering for Children and Families*, Prime Minister's Strategy Unit, 2002, p.15.
[45] *Choice for parents, the best start for children: a ten year strategy for childcare*, HM Treasury, DfES, DWP, DTI, December 2004.
[46] http://publications.teachernet.gov.uk/eOrderingDownload/extended%20services%20prospectus%2012.07.07.pdf
[47] Kinnaird, Nicholson & Jordan, *2006 Childcare and Early Years Providers Surveys: Overview Report*, BMRB Social Research, Research Report No DCSF-RR009, Dept for Children, Schools and Families, 2007, p.1-2
[48] Child and Working Tax Credits Statistics, Finalised annual awards 2005-06, HMRC, 2007, p.3, p.9.

7.4.1 Pressures on relationships

Extended schools can help to improve pupil attainment, self-confidence, motivation and attendance, and reduce exclusion rates.[49] In other words, they are seen as positive experiences for many disadvantaged children who do not have much parental input at home. However, there is a large body of research that suggests that where both members of a couple, or a lone parent, works long or irregular hours, there is a detrimental impact on relationships within the home.

A study on the effects of parents' employment on their children found that: "Although full-time work increased family income, less time for mothers to interact with their families tended to reduce children's later educational attainments (whereas) part-time employment by mothers appeared to have few adverse effects on children as young adults."[50]

In 2003, Professor Shirley Dex carried out an overview of research on families and work for the Joseph Rowntree Foundation. Some of her findings were:

- Mothers put children and work first with time for self and their partner second. There may be a lower quality of relationships at home because of stresses at work, and less time with their spouse; insufficient energy to respond to children's requests; time with children squeezed due to long hours of work; and fathers working long hours tend to rely on mothers to supply necessary time input into children's lives although they feel it's important to "be there" for their children.[51]

- "Getting children from care in one place to care in another, either early in the morning, at midday or the end of school, led to considerable pressure on two-parent families and made some one-parent families feel it was so impossible that employment was not an option."[52]

- Many parents expressed strong preferences about the sort of childcare they were happy with. Some parents' views were so strong that they were prepared to put themselves to enormous time and trouble to take their children to what they thought of as suitable carers, rather than being prepared to compromise on what was available. Some had strong preferences for care from relatives, which is not covered by childcare subsidies.[53]

- "…there are many tired parents, a large amount of dissatisfaction and even a desire to cut down working hours or give up paid work altogether."[54]

- "many mothers' preferences run counter to the direction government policy is trying to encourage, since they would prefer to work less rather than more while their children are young."[55]

Many parents are torn between their responsibilities as parents (and partners) and the desire, incentives and expectations for them to enter paid employment.

---

[49] http://publications.teachernet.gov.uk/eOrderingDownload/extended%20services%20prospectus%2012.07.07.pdf
[50] J.Ermisch & M.Francesconi, *The effect of parents' employment on outcomes for children,* Joseph Rowntree Foundation, 2001.
[51] S. Dex, *Families and work in the twenty-first century*, Foundations series, Joseph Rowntree Foundation, September 2003, p.7.
[52] Ibid., p.8.
[53] Ibid., p.8-9.
[54] Ibid., p.10.
[55] Ibid., p.11.

Shirley Dex made the powerful point that informal childcare among relatives, friends and neighbours created networks and relationships that 'are the substance or glue of communities'. Even mothers using more formal types of care needed some help from informal carers,

> **In order to be reliable workers and cope with family emergencies or sickness, unscheduled or ad hoc school holidays or flexibility at the start and end of work. These are important networks. Their importance becomes more visible when families had to relocate and were torn away from such relationships. While paid services can replace reliance on family and friends to some extent, they cannot offer the same degree of flexibility, trust, reciprocity or social cohesion that social relationships offer.**[56]

However, the Government has specifically excluded this type of informal childcare from eligibility for extra help through tax credits, and recent reports suggest that many parents are voting with their feet against the expansion of formal childcare places, with almost a quarter of existing nursery places are empty.[57] In other words, financial incentives do not appear to work if there are more important factors working against the incentive, such as who a parent trusts to care for their child.

7.4.2 Financial pressures

Childcare is expensive. The Daycare Trust study on Childcare Costs in 2007[58] found that the typical cost of a full-time nursery place for a child under two is £152 a week in England. In the South East this rose to £180 per week, and to £205 in inner London. The typical cost of a full-time place with a childminder for a child under two in England and Scotland is £141 a week. An after school club is £38 for 15 hours a week in England and Scotland, and £34 in Wales. Nannies cost anything from £250 to £500 a week, plus tax and national insurance. The typical weekly cost of a place for a child in a summer play scheme in 2006 was £77.34 a week.

The same study found that two thirds of Children's Information Services in England responded that parents have reported a lack of affordable childcare in their area, and it does not seem worth returning to work if earnings are swallowed by childcare costs. The current average award through the childcare element of the Working Tax Credit is £49.80 a week.

Not all mothers want to return to work when their children are young, but the cost of living, housing, and bringing up a child mean that finances are tight in many two parent families, and even tighter in one parent families. There has been a drive to encourage lone parents to get into work. Around 775,000 lone parents are claiming benefits, which is a fall of over 200,000 since 1997. The lone parent employment rate has risen almost 12% since 1997 to 56.5%. There are now over one million lone parents working.[59]

The charity Lone Parent Families makes the point that: "Combining work and family can still be difficult for lone parents due to lack of childcare and flexible working, poorer qualifications, and

---

[56] Ibid., p.9
[57] 'Nurseries feel pinch as mothers stay at home', The Times, 02/05/07.
[58] Available at http://www.daycaretrust.org.uk/mod.php?mod=userpage&menu=1003&page_id=226
[59] *In work, better off: next steps to full employment*, DWP, 2007, p.21.

the fact that work does not always provide a route out of poverty. Living on low incomes means that lone parents are more likely to face financial exclusion and debt than other families."

7.4.3 Available benefits and their challenges

Childcare element of the working tax credit

To claim, lone parents must work at least 16 hours a week. For couple parents, either both must work at least 16 hours a week, or one partner must work at least 16 hours a week and the other partner *must be incapacitated* (i.e. receiving a benefit such as disability living allowance, incapacity benefit or attendance allowance)*, or an in-patient in hospital, or in prison.* The childcare element can help with 80% of your eligible childcare costs up to a maximum of £175 a week, if you pay childcare for one child, or £300 a week, if you pay childcare for two or more children. There is an income threshold above which your entitlement is tapered away, so that many parents will earn too much to be entitled to the maximum of £175/£300 per week in tax credit.

The tax credit cannot be used for one parent to stay at home and look after the children themselves. It can only be used for the costs of any 'registered' or 'approved' childcare, and as noted above claims to pay relatives are specifically excluded. This goes against the preferences of many parents. A research report for HM Revenue and Customs found that: "The key drivers of childcare choices revolve around parents' perceptions of what is quality childcare, with the common factors being trust, safety, stimulation for the child, and convenience. A substantial body of other childcare research has found that trust is the single most important factor in childcare choice."[60]

This point has been made by other people closely associated with government policy. Norman Glass, a former treasury official and one of the architects of the Sure Start programme, has warned that the Government's emphasis on promoting parents' employment actually detracts from its original aim of improving parenting.[61]

And a 1999 Cabinet Office report recognised: "The key criterion which appeared to underpin women's assessment of the different types of childcare was the extent to which it minimised any potential harm caused by the absence of the mother. This led to a general preference for family members, particularly grandparents, to be the replacement carer rather than 'strangers'."[62]

The reasons behind the Government's refusal to reflect these preferences can be seen in a recent study into lone parents and informal childcare, which reveals the tensions involved. "On the one hand, we found that some lone parents held deeply embedded preferences for informal childcare based on trust, commitment, shared understandings and children's happiness. Thus it can be concluded that it is important for the government to support informal as well as formal care. On the other, we found that the way lone parents actually negotiated informal childcare involved complex notions of obligation, duty and reciprocity, suggesting that a subsidy could potentially intrude upon complex private family relationships."[63]

---

[60] J.Nicholls & C.Simm, *The childcare tax credit element of Working Families' Tax Credit: a qualitative study*, MORI, Inland Revenue Research Report 7, 2003, p.58.
[61] Quoted in Katharine Quarmby, "The Politics of Childcare," Prospect magazine, November 2003, p.51 - http://www.prospect-magazine.co.uk/article_details.php?id=5758 (restricted viewing content)
[62] *Better for Women, Better for All*, Cabinet Office, 1999.
[63] Christine Skinner & Naomi Finch, 'Lone Parents and Informal Childcare: A Tax Credit Childcare Subsidy?' *Social Policy & Administration* 40 (7), 807–823, December 2006.

Income support

The Government continues its drive to encourage lone parents into paid employment. From October 2008, lone parents with a youngest child aged 12 or over will no longer be entitled to claim Income Support solely on the grounds of being a lone parent. The Government estimates that this change will only affect one in seven lone parents on benefits, and so proposes that this age should be brought down to a youngest child of 7 years old from October 2010, which will eventually cover nearly 40% of lone parents currently on IS. "By October 2010 the aspiration is that all schools in England will be extended schools providing a range of activities between 8am and 6pm on weekdays for 48 weeks of the year."[64] Whilst the Government insists that it is not trying to force lone parents into jobs, the message seems clear.

In-Work Credit

The Government has been piloting a financial incentive called the In-Work Credit for Lone Parents, which provides an extra £40 per week for lone parents moving into work in 40% of the country, including almost all of London. It plans to extend In-Work Credit until June 2008; to increase the rate payable in London to £60; and to pilot the linking of the credit to adviser support, to promote retention in work for lone parents, based on the successful Employment Retention and Advancement model.[65]

7.5 Child Support Agency

The Child Support Agency was established in 1993 to assess, collect and enforce child maintenance on a formulaic basis, as a replacement for the court based system. The new system succeeded in getting money to some parents with care who had not previously received any maintenance, but was widely perceived to be unfair due to the complexities of the formulae used to calculate maintenance liability. A new system eventually came into force in 2003. It introduced a simpler calculation formula based on a percentage of the non-resident parent's (NRP) net income and new enforcement powers. From the outset it was affected by IT problems, which meant that cases on the old scheme could not be transferred to the new system. Today 53% of the CSA's cases are still being dealt with under the old scheme, which means that it has to administer two different systems concurrently.[66]

The Agency has found that about 48% of new applications link back to cases under the old scheme.

In 2006, following a review by Sir David Henshaw, the Government decided that a complete redesign of the child support system was required. In the 2006-07 Parliamentary session, a bill was introduced to replace the CSA with a Child Maintenance and Enforcement Commission (C-MEC), which would encourage parents to make private arrangements between themselves for child support. It would also remove the requirement that parents with care receiving certain benefits must use the CSA for maintenance collection. Parents could choose to use C-MEC to calculate entitlements, which would use financial information from HMRC instead of information provided by the non-resident parent, and would allow greater use of Deduction of Earnings Orders from bank accounts. It would also be able to enforce collection through tougher sanctions such as administrative liability orders, curfew orders and 'naming and shaming' parents who did not meet their responsibilities on a website. This legislation has now been passed in the Child Maintenance and Other Payments Act which received Royal Assent in June 2008.

[64] *In work, better off: next steps to full employment*, DWP, 2007, support for lone parents p.42-6.
[65] *Working for children*, Department for Work and Pensions, March 2007, p.8.
[66] Child Support Agency Quarterly Summary Statistics: September 2007, table 1.

In September 2007, the CSA was handling just under 1.4 million cases of child maintenance. In February 2007, there were 432,000 parents with care on IS / JSA, of which 32% of cases were receiving maintenance. On the new scheme, one or both parents (or their new partners) were receiving benefits in 49% of cases. The parent with care was twice as likely to be receiving benefits as the non-resident parent.[67] At March 2006, 63% of the maintenance due on new scheme cases had been collected, compared to 75 % under the old scheme.[68]

In a related matter the Government is planning to ensure joint registration of new births, because "research has highlighted that fathers who officially acknowledge the birth of their child from the outset are more likely to stay in contact with that child if their relationship with the child's mother breaks down."[69] The law currently assumes that married couples will be jointly registered whereas unmarried parents both have to agree before a father's name can appear on the birth certificate. Sole registrations in England and Wales constitute about 7% (45,000 children) of total birth registrations each year. Around 45% of fathers, who are not registered on the birth certificate, are nevertheless in some kind of contact with their child.[1] Research shows that sole registration is linked to social exclusion. Mothers who register solely are likely to be younger and poorer, with lower levels of educational attainment than those who jointly register.[70] In Australia, a similar approach saw a decrease in the level of sole birth registrations of about 20% between 1994 and 2004.

7.5.1 Pressures on relationships

The CSA does not enter into people's lives until their relationships are already broken. During 2005-06 the Agency received on average 27,000 new applications for child maintenance each month.[71] Each application represents another set of broken relationships.

Some families' lives are deeply complicated and disrupted, and their interactions with the CSA throw this into sharp relief. For example, where a parent with care (PWC) with an assessment for a child under the old scheme makes an application for another child relating to another NRP who may also be a PWC or NRP in a further case, there is a legal requirement to reassess the related cases under the new scheme. The Agency has found that about 48% of new applications link back to cases under the old scheme.[72]

The intervention of the Agency often makes life even more disrupted and full of conflict for parents and children involved. Non-resident parents may see themselves as being criminalised by the involvement of what they see as an organisation set up to chase errant fathers. Many also feel that they are paying for the upkeep of the parent with care, rather than the children themselves.[73]

---

[67] Ibid., table 13.
[68] Child Support Agency – Implementation of the Child Support Reforms, National Audit Office, June 2006, para. 4.3.
[69] White paper on Joint Birth Registration: Promoting parental responsibility, DWP, June 2007.
[70] Ibid., p.3.
[71] Child Support Agency – Implementation of the Child Support Reforms, National Audit Office, June 2006, para.3.13.
[72] Child Support Agency – Implementation of the Child Support Reforms, National Audit Office, June 2006, para.3.11.
[73] For more detail, see A. Atkinson and S. McKay, *Investigating the compliance of Child Support Agency clients*, DWP Research Report No 285, 2005.

A comparison of the UK and Australian systems by researchers at the University of Bath looked at how child support policies have influenced the degree of conflict that children can experience between their separated parents. They found that "opposition to child support can influence the dynamics between fathers and mothers, damaging relationships, increasing conflict and affecting the care and support that children are experiencing from their fathers". They cited the difficulties in how to divide up the care of the children following relationship breakdown. The CSA explicitly links payments with contact time – so that 52 nights a year spent with the NRP will give them a reduction in maintenance liability of 1/7. This reinforces the link between cash and contact in the minds of parents, and researchers found that it, "could lead to increased antagonism between parents and more recourse to court proceedings. Fathers may seek greater control over their children's lives and a reduction in liability, and mothers might resist overnight stays, which could lead to a decrease in child support payments."[74]

Recognition of the fact that Agency involvement can be unhelpful is behind the move to encourage people to come to their own private arrangements. Sir David Henshaw's report to the Government in 2006 said,

> **Child support is first and foremost the responsibility of parents. Evidence suggests that where people are able to make their own arrangements they benefit from greater satisfaction and higher compliance levels. As a result, child welfare is improved as maintenance is more likely to flow, and conflict between parents is likely to be reduced. In many cases where child support is an issue, circumstances are complicated for relationship or financial reasons. Allowing parents to make their own arrangements gives them the flexibility to accommodate individual situations and changing circumstances. As such, I believe there is a strong case for encouraging parents to make their own arrangements**.[75]

In an assessment of problems with the CSA's performance, its Chief Executive said that they were "deep rooted and complex" because they reflected not only the operational problems within the agency but also "the complexity and instability of modern relationships. The conflicts and emotions generated when relationships break down add further difficulties."[76]

7.5.2 Financial pressures

Delays and IT problems within the CSA mean that some parents do not see any maintenance for many months. For example, the National Audit Office investigation into how well the Agency was working in 2006 found that, "An estimated 36,000 new scheme applications are currently prevented from progressing to assessment due to IT failures and are categorised as stuck…. As more defects with the system are investigated it is likely that the number of cases stuck will increase." Around 22% (333,000) of the total current caseload had not yet progressed to a point

[74] T. Ridge, 'Supporting Children? The Impact of Child Support Policies on Children's Wellbeing in the UK and Australia', *Jnl Soc. Pol.*, 34, 1, 121–142 C 2005 Cambridge University Press.
[75] Sir David Henshaw's report to Secretary of State, *Recovering child support: Routes to Responsibility* July 2006, p.13.
[76] Child Support Agency Operational Improvement Plan 2006-2009, CSA 2006, p.1.

where they can be cleared (i.e. where maintenance was actually flowing, representing the Agency's current backlog of work). [77]

The NAO also warns that, "Lengthy delays in reaching a maintenance calculation impacts negatively on those parents with care not in receipt of benefits who will not be receiving money from non-resident parents. Depending on when first contact is made with the non-resident parent, lengthy delays will also result in considerable debt building up on the case, which may raise the expectations of parents with care and make it difficult for non-resident parents to fulfil their obligations. Where the parent with care is in receipt of benefit, lengthy clearance delays also affect the Agency's ability to take action to recover child support maintenance from the non-resident parent."[78]

Delays of a year or more could be due to IT problems, or a failure of the PWC or NRP to co-operate with the Agency. Along with tax credits issues, CSA delays are one of the biggest items in an MP's mailbag. In 2005-06, the Agency received 55,000 complaints and the Independent Case Examiner, an impartial complaints and resolution service, accepted nearly 1,400 cases for investigation.[79]

The delays also prevent parents with care on income support from receiving their child maintenance disregard. This entitles the PWC to up to £10 per week in additional maintenance once the NRP is making payments. This disregard is an incentive for both parents to co-operate with the CSA: previously (and still under the old scheme), every penny of maintenance paid towards the upkeep of children whose parent with care was on benefits, would be deducted from their benefits – i.e. it would go straight to the Treasury. This was seen by both parents as unfair as they could not see any of the father's payments actually reaching the children. In September 2007, just under 67,000 parents with care received the disregard.[80] The Government announced in the Pre-Budget report of October 2007, that it would increase the disregard to £20 by the end of 2008 and to £40 by 2010.

In March 2006 there was an estimated £3.5 billion of outstanding maintenance to be collected. Over half of this debt, £1.98 billion, was considered by the Agency to be uncollectible, at 31 March 2005. This may be for a number of reasons, including reconciliation or private arrangements made by the parents.[81]

7.6 Policies

7.6.1 Finance as a Buffer

Finance can act as a buffer, increasing people's ability to cope with other pressures and so reduce the impact of these pressures on the quality of their relationships and the levels of their well-being. So, for example, impaired mobility can be overcome by the ability to afford taxis or the purchase of an electric wheelchair. More generous benefits and allowances could significantly impact the lives of many engaged in care relationships.

---

[77] Child Support Agency – Implementation of the Child Support Reforms, National Audit Office, June 2006, para.3.14, 3.17.
[78] Ibid., para.3.27.
[79] Ibid., para.3.42.
[80] Child Support Agency Quarterly Summary Statistics: September 2007, table 14.
[81] Child Support Agency – Implementation of the Child Support Reforms, National Audit Office, June 2006, para. 4.16.

- The 'Every Disabled Child Matters' coalition wants the Government to invest £4bn in benefits and child tax credits to:[82]

- Increase DLA to meet "the real costs" for a disabled child
- Increase the childcare element of working tax credit to £300pw
- Run a major DLA take-up campaign

- The CSJ has recommended an increase in Carer's Allowance and in the level of allowable extra earnings with a subsequent taper applied instead of immediate loss of all benefit. It pointed out that the UK's Carer's Allowance is very low compared to other EU countries, and that Ireland has just significantly increased its Carers Allowance to £135 pw for one person being cared for and £200 for two people.[83] The Liberal Democrats have also said that they will review the level of CA.[84]

- IFS research for Help the Aged[85] found that to tackle pensioner poverty the Government should take the following steps:

- Invest in a system to pay means-tested benefits to pensioners automatically. This could take 500,000 pensioners out of poverty immediately in England alone.
- Commit to linking the Basic State Pension to average earnings straight away. This would take an extra 100,000 pensioners out of poverty now, rather than waiting until 2012.
- Provide justice to women pensioners by paying the Basic State Pension universally. This would help 3.6 million older women in England who are not entitled to a full pension because they have been penalised for time spent caring for children or in low-paid part-time jobs.

- The Liberal Democrats have a longstanding commitment to introducing a winter fuel payment for severely disabled people in receipt of the higher rate disability allowance. This annual payment was adjusted in the March 2008 budget under which £300 is given to households with a member over 60, rising to £400 for those over 80, to assist with high winter heating costs.[86]

7.6.2 Flexible finance

Finance can also empower. Where people have more control over the use of finance, for example through direct payments or individual budgets, rather than simply being recipients of a service, they can find better solutions.

There is much debate surrounding the question of whether extra costs are due to disability (and so should be met by disability benefits – which is the view of the disability organisations) or borne by the carer (and so should be met through carers' benefits – which is the view of many academics). The "Paying the Price" report by CPAG and Carers UK raised the issue of where the benefits go, and how this affects relationships between cared-for and carer,

---

[82] *Disabled children and child poverty*, a briefing paper by the Every Disabled Child Matters campaign.
[83] *Breakthrough Britain*, Centre for Social Justice, July 2007, p.8.
[84] *Freedom from Poverty, Opportunity for All*, Policy Paper 80, Liberal Democrats, 2007, p. 31.
[85] Reported in Meeting the challenge: Defeating pensioner poverty, Help the Aged, 2007 http://www.helptheaged.org.uk/NR/rdonlyres/A74241B3-50B9-497D-9D05-D69E5897E744/0/meeting_the_challenge.pdf (Accessed 1/10/07)
[86] *Freedom from Poverty, Opportunity for All*, Policy Paper 80, Liberal Democrats, 2007, p.31.

"…research has revealed caring relationships as a two-way process with the carer and disabled person complementing each other. Disabled people contribute towards household tasks and childcare, rarely doing nothing at all. Commentators have also emphasised the reciprocity and independence in relationships, rather than caring simply being a one-way process where the carer gives and the cared-for receives; disabled people do not stop functioning as parents/relatives, nor stop caring about or for others."[87]

There is a discussion to be had about the impact on relationships of giving benefit to the disabled person rather than the person caring for them. This may of course vary depending on the nature and extent of the disability.

- Respite care
The 'Breakthrough Britain' report, emphasised the importance of respite care and recommended creative ways to provide it, for example giving parents 'cash in hand' to spend on either formal or informal care, funding for respite breaks that include relationship and parenting support, and simplified support services along the lines of an Austrian model of mobile clinics that represent a one-stop shop for disabled children and their families.[88]

- Individual Budgets
Ensuring the implementation of this policy enables a strengthening of relational support and increased opportunities. A key issue here is likely to be how brokerage and support planning for the most vulnerable users is funded in order to enable them to be 'in control' and to take advantage of increased opportunities.

- Flexible childcare
There is a clear case for exploring whether the childcare tax credit could be made available to friends and relatives as an incentive to encourage informal childcare, which families tend to trust more than a more formal setting. People do not currently perceive that they have a choice. The cost of childcare is also a factor here. As the Social Justice Policy Group pointed out, "it is very difficult for childcare to be both affordable and high quality without significant government subsidies".[89] The Group's report recommended that, although professional childcare should be available for those who want to use it, the system should not penalise those who wish to look after their own children, or entrust them to a grandparent or friend.

- Flexible parenting
There is also a case to investigate whether parents could be financially encouraged to stay at home and look after their children themselves. The baby element of the child tax credit gives a family up to an extra £545 for the year of a child's birth. The Social Market Foundation has gone further and proposes that parents should be paid a home care allowance at half the national minimum wage for parents of children between one and two to care for their children at home or to combine home care with part time work. Their report explained the Finnish model for the proposals, where families with a child under 3 who is not enrolled in a local authority childcare service can claim a home care allowance. In 2000, the parent at home received a flat rate of FIM 1,500 per month (£173), plus FIM 500 (£53) for any other child under 3 and FIM 300 (£35) for children over 3. The family could also claim an income related supplement depending on the size and income level of the individual family. Partial care leave is paid to parents who negotiate a reduction in working hours with their employer, and they receive a taxable allowance of 375 FIM

---

[87] Marilyn Howard, *Paying the Price – Carers, Poverty and Social Exclusion*, CPAG in association with Carers UK, 2001, p.20.
[88] *Breakthrough Britain*, July 2007, p.119-127.
[89] *Breakthrough Britain*, Centre for Social Justice, p.140.

(£43) in addition to their salary until their child reaches 3. In 2000, 27% of children under six received child home care allowance.[90]

- Flexible parental leave
The main parties have all put forward ideas in relation to more flexible parental leave during the early years of a child's life. The economic and relational returns of an extended period of leave taken by either parent or shared between them would outweigh the costs in the long-term. Our concern is that the focus on the early years neglects the important role of the parent throughout childhood as a whole. We support the right to flexible working for all parents until the child is 18. However, research sponsored by Relationships Foundation's Keep Time for Children initiative shows that around 40% of couples are now working regularly at weekends.[91] We support a weekend day off work for all parent-employees with school-age children, with the right for them to ask their employers that it should be the same day as their partners. This was debated in Parliament as an amendment to the Local Government Bill in 2003 and received support in principle from representatives of all parties.

7.6.3 A Reformed CSA

The University of Bath study made three proposals following from its investigation of the Australian system.[92] It recommended making children the legal beneficiaries of child support in their own right so that the NRP did not feel he or she was supporting his ex-partner rather than his or her child; introducing a state-guaranteed child support payment so that lone mothers would receive a standard fixed amount of maintenance directly from the government guaranteeing security of payment for the child; and to reduce conflict between parents and address child poverty, deducting child support payments only from state payments designated for children.

The CSJ suggested that there was an incentive for parents not to separate because of the amount of child maintenance that non-resident parents might end up paying. "Recent UK research finds strong evidence that the large child support liabilities, arising from the 1992 rules, significantly reduced the risk of separation (Walker & Zhu 2006). Indeed, the results are big enough to explain all of the approximately 15% fall in divorce rate for parents with dependent children that has occurred since 1992."[93] It also recommended that separating parents should be signposted towards services which might help them to avoid the breakdown of subsequent partnering relationships, and warned that family breakdown should be treated as preventable not inevitable.

7.6.4 Enabling Interaction - Free Rail and Bus Travel

Co-location may not be an option for a variety of reasons. Nonetheless grandparents want to see their grandchildren, and those with disabilities want to see other family members. These groups are very likely to struggle from a lack of finance and often have reduced transport options. Since 1st April 2008 those over 60 and 'eligible disabled' have been entitled to free off-peak travel on local buses anywhere in England. Whilst this is an improvement on the previous scheme, which was restricted travel within local authorities, its limitations were demonstrated by a man who

[90] V. Alakeson, *A 2020 vision for early years: extending choice; improving life chances*, The Social Market Foundation, October 2004, p.11-12.
[91] Bryson C and Barnes M., *Keep time for children; the incidence of weekend working*, NatCen 2004.
[92] T.Ridge, Supporting Children? 'The Impact of Child Support Policies on Children's Wellbeing in the UK and Australia', *Jnl Soc. Pol.*, 34, 1, 121–142 C 2005 Cambridge University Press.
[93] *Breakthrough Britain*, Centre for Social Justice, p.93.

took one week, six hours and ten minutes on 40 different buses to get from Land's End to John o' Groats.[94] The new scheme is limited to local bus routes and there are variations between England, Scotland and Wales. Northern Ireland offers free rail and bus travel to all pensioners and eligible disabled and has a reciprocal agreement with Irish government allowing free travel for all pensioners throughout the island.

Free rail and bus travel, throughout Britain, even if limited to off-peak times would enable many more elderly and disabled people to enjoy greater contact with their families. A key study found that only half of those in all age groups live within half and hours journey of their mother, father and eldest child.[95] This proposal could reduce the financial burden for many who struggle to maintain contact with their extended families. The scheme costs £9.7m to administer in Northern Ireland with the all Ireland extension expected to cost an extra £1m.[96] On a pro-rata basis such a scheme would be expected to cost £400m if it covered the whole of the UK.

[94] The Times, 10 April 2008.
[95] Grundy E., Murphy M., and Shelton N. 'Looking beyond the household: intergenerational perspectives on living kin and contacts with kin in Great Britain' *Population Trends 97* pp 19-27.
[96] http://www.northernireland.gov.uk/news/news-drd/news-drd-april-2007/news-drd-020407-all-ireland-free.htm (Accessed 10/06/08)

7.7 Conclusions: The Cost of Care

Policy challenge: How do we support those with care responsibilities?
Public message: Care relationships give rise to both benefits and stresses for all those involved. Finance can allow flexibility, and provide a buffer.

Why?:
1. Children, the elderly and the disabled are often in dependent relationships.
   - 3.2 million families in the UK contain a disabled child, a disabled adult or both.
2. Care relationships can be beneficial
   - there are an estimated 5.7 million carers in the UK, almost half a million are over 65 and almost a million work more than 50 hours a week.
   - the value of unpaid support that carers provide has now reached £87 billion a year, which exceeds the annual budget of the NHS.
3. Care relationships can cause stress
   - half those with a disabled child felt it caused at least some problems in their relationship with 9% saying it led to parental separation.
   - relationships between parents and children are often adversely affected where parents work long and irregular hours.
   - two thirds of carers worry about finances and the two thirds of these believe the worry affects their health. (Contact a Family)

Context:
- A majority of vulnerable people are cared for by their families. As family breakdown increases, the responsibility and cost of care is shifted to the state. If we do facilitate a welfare society, we will end up with a welfare state.
- There is wide spread support for increasing allowances to carers and giving them more flexibility on how care budgets are spent.
- Short term thinking means the government is reluctant to spend more now, even though this would lead to savings in the long-term.
- Current levels of financial support for family carers are unsustainable.

We recommend consideration of the following:

1. Finance as a buffer

Increasing the Carer's Allowance would reduce the financial stresses on carers who are currently 'paid' the equivalent to £1.39 per hour. Increases to DLA and pensions would similarily reduce the pressures on disabled people and the elderly who are particularly vulnerable and often face increased costs and limited income sources.

2. Flexible finance

- *Respite Care* - More respite care facilities need to be provided. Parents and carers should be given cash in hand to spend as they see fit on formal care or on relatives and trusted friends.
- *Individual Budgets* - Ensuring the implementation of this policy enables a strengthening of relational support and increased opportunities.
- *Flexible childcare* - Half of all parents use friends and relatives who are excluded from any state payment scheme.
- *Flexible parenting* – steps must be taken to allow parents more time with their children.
- *Flexible parental leave* - Parents should be entitled to parental leave for one year, taken by either parent or shared between them. Parents should be entitled to a shared weekend day off until their children are 18.

3. A reformed CSA

The system is undergoing its third reform in fifteen years. It has serious problems but is credited with the 15% drop in divorce rates for parents with dependent children since 1992. The system must continue to enforce some level of responsibility without damaging relationships between the parties.

4. Enabling Interaction - free rail and bus travel

This benefit should apply throughout the UK to all pensioners and disabled people to encourage family contact.

Appendix 1

The Politics of Relationships

> *Relationships are the missing piece of the political puzzle. As we struggle to adapt to the domination of the bottom line, the factor invariably omitted from the equation is relationships.*

Lindsay Tanner, Minister for Finance, Australia

Political language is changing. The battle for ideas is being waged. Visions are being cast. Everyone wants to be new, progressive, or the party of change. False dichotomies have been exposed – it is no longer the environment verses the economy, but rather the environmental economy. In the late 20th century, pragmatism gained favour in UK politics. The traditional differentiation between left and right faded and few could identify clear water between the parties. The 24th British Social Attitudes Report, published in January 2008 suggests that left- and right-wing values are losing their distinctiveness. It concludes that a person's views of left-right issues are now a much less powerful predictor of whether or not they will vote Conservative or Labour.

Voters are seeking something with which they can resonate – 'hug a hoody' does not strike a chord with them. They are seeking coherence – talking about family, whilst penalising couples smacks of inconsistency. Finally, they are seeking integrity – 'British jobs for British people' is not an honest slogan.

The rise of the nation-state has gone hand in hand with the sharp awareness among individuals that each is an atomic, lonely, and poignantly vulnerable individual. Though both the individual and the state are relatively modern arrivals on the stage of history, they deal with the two extremes of social life, excluding the "thickest" parts of social living in between. Never before have individuals felt so detached from kin and neighbours. Until recent generations, most loyalties had been local, feudal and personal, rather than abstract, legal and systematised in the new modern style of rationalised bureaucracies and impersonal welfare dependencies.[1]

Loneliness, violence, insecurity, crippling debt and environmental destruction seem inevitable. They are not. They arise because our society is undermining relationships, which are the foundation of both democracy and the market economy. Relationships are not the stuff of the gossip pages. They are the links which hold society together. This report sets out how to give relationships a central role in policy. We are suggesting that policy must address the space between the individual and the state – the social sphere, society, fraternity, interdependence – more simply ***relationships***.

---

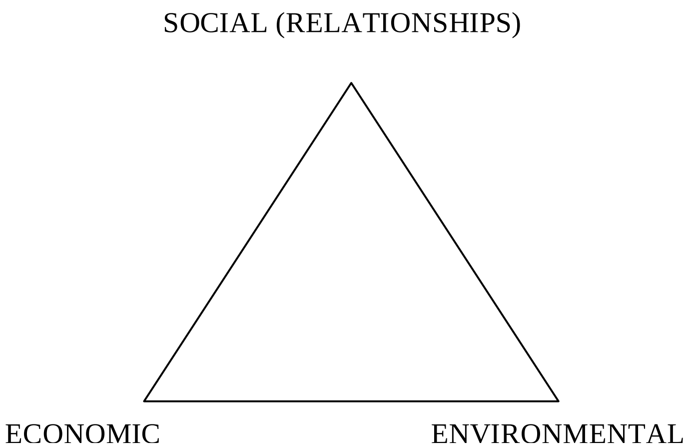
[1] Michael Novick

The Triple Bottom Line

> **Concern for relationships is a vital part of sustainable development – whether economic, environmental or social - and must feature in political debate and decision making.**
>
> **Clive Mather, ex-President and CEO Shell Canada**

As we noted earlier the phrase, "It's the economy, stupid" was used during Bill Clinton's successful 1992 presidential campaign. The substantial benefits of economic growth are undisputed, but were not enough for the Howard government in Australia. Economic growth is necessary, but it is not sufficient to keep the voters happy. If the economy is not going to define the future of British politics, what will?

The phrase 'triple bottom line' was coined by John Elkington in 1994.[2] In practical terms, triple bottom line accounting means expanding the traditional reporting framework to take into account environmental, social and economic factors. In the corporate world the headings 'people, planet and profit' are often used. The economic sustainability of a business has long been central to its valuation, with analytical tools developed with some sophistication to meet investor needs.



Governments and businesses have a great deal of experience accounting for the economic costs of any decision or course of action. In recent years, reporting in relation to environmental sustainability has become more widespread responding to increased legislation and consumer demand. Indicators and reporting can now give a good 'feel' for an organisation, which can be quantitatively summarised in overarching indicators such as carbon neutrality or waste.

Tragically, there is currently no obligation to assess the social impact of a new idea on relationships. Failure to consider the social/relational costs and benefits of any decision means that governments and companies are not making fully informed decisions. Relationships are important. A relational impact assessment, similar to that carried out to weigh the environmental cost must become part of our future.

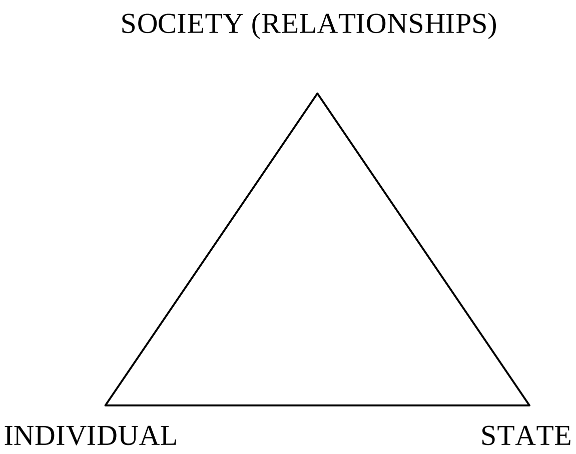
---

[2] Elkington, J. (1994) "Towards the sustainable corporation: Win-win-win business strategies for sustainable development." California Management Review 36, no. 2: 90-100.

Society and Relationships

> **From right to left, politicians and thinkers are agreeing on the new agenda. This agenda is not startling, but it is relevant to our times. It is the agreement that we need a richer civic culture and a kinder, more neighbourly society if we are to live decently as a nation within the fast-moving global economy.**

Andrew Marr, *The Independent*, 21 June 1994



The UK has long been disposed to a system of binary politics. On the left stands equality, the function of the state, representative of all. On the right stands liberty, the function of the individual, representative of one. This division - that of the libertarian against the paternalist - runs deeply through both Conservatives and Labour.[3] As John Locke argued, the state exists to guarantee its citizens their freedom by implementing the law impartially and equally. However Locke and his followers also believed in a free society where citizens solve social problems not only through government, but also by working together in families, neighbourhoods, churches, charities, and other private, voluntary organizations.

Individuals alone cannot solve the problems facing Britain. The state alone cannot solve the problems facing Britain. Politics in which the right always honours the individual and the left always honours the state is doomed to stalemate and failure. Instead, we must inhabit the space between the individual and the state. That space is occupied by society, by local communities and families - people co-existing in a multitude of relationships.

Fraternity and Relationships

Of course these ideas are not new. The rallying cry of the French revolution was 'Liberty, equality and fraternity'. These words are seen as central to the democratic creed. The battle between liberty and equality has been raging for some time, and continues in British politics today. Sadly, fraternity

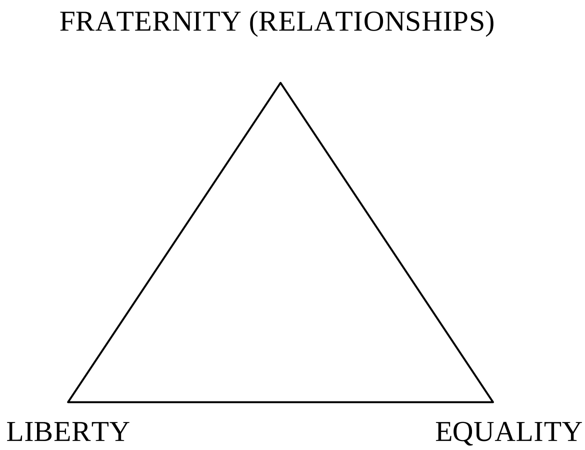
[3] Danny Kruger, On *Fraternity*, Civitas, April 2007.

has been squeezed out, or ignored by many. Fraternity, in its recognition of human interdependence, should be the catalyst, which brings together liberty and equality. In its advocacy of the social and relational nature of human beings, the fulfilment of all is indivisible from the equal worth of each person. Sadly, the word itself has become synonymous with American college clubs, and has lost much of its meaning. It is defined in the Declaration of the Rights and Duties of Man and the Citizen as follows,

> *'Do not do unto others what you would not have done to you; always show to others the good that you would have shown to you.'*

Fraternity is the sphere of belonging. It is the space between liberalism and socialism. The problems caused or aggravated by the growth in government cannot be corrected by a crude reduction in its size. Policy should encourage the cooperative movement of Robert Owen, Beatrice Webb and others. It must also deliberately foster the growth of what Edmund Burke called the 'little platoons' of civil society: families, neighbourhood associations, private enterprises, charities and churches. These are the real source of economic growth and social vitality.

Social scientists increasingly recognise that Burke's little platoons are more than a defence against revolution, they are the glue that holds society together and makes it tolerable. However, there is a fear that these bonding agents are in decline. Emile Durkheim picked up this theme in his classic study of suicide. He describes the tempest of modernisation sweeping away the little aggregations in which people formerly found community. This leaves only the state on the one hand and a mass of individuals on the other, who tumble over one another like so many liquid molecules, encountering no central energy to retain, fix and organize them.[4] Robert Putman and James Coleman have spoken of the same problem in terms of declining social capital. The fear is that the market, family breakdown, and increasing self-centredness, are destroying civil society.



The philosopher Paul Ricoeur described the ethical life as originating in the sphere of interpersonal relationships and extending upward into the wider social realm and into the political community.[5] Fraternity or solidarity offers an ethical basis for a politics, which takes seriously well-being. As Ricoeur writes: 'This wishing to live together is silent, generally unnoticed, buried; one does not

---

[4] Durkheim, *Suicide,* (1897), The Free Press reprint 1997.
[5] Jonathan Rutherford, *How we live now,* Soundings 2006.

remark its existence until it falls apart'[6] As we acknowledge the social recession we face, we need a new ideal of fraternity, one that embraces a commonwealth of difference upheld by mutual recognition. Freedom of choice is important (liberty). Equality in terms of opportunity is crucial. But the agent that binds these two is fraternity in the form of right relationships.

Mediating Structures and Relationships

Peter Berger and Richard Neuhaus spoke not of 'little platoons' but of mediating structures defined as,

> ***'those institutions standing between the individual in his private life and the large institutions of public life.'***[7]

Examples of such mediating structures include neighbourhood, family, church, and voluntary associations. They have a private face, giving private life a measure of stability, and they have a public face, transferring meaning and value to the mega-institutions. Without mediating structures the political order becomes detached from the values and realities of individual life. They are therefore an essential part of a democratic society. They are 'Janus-faced', looking both 'upward' and 'downward', both 'inward' and 'outward'. Their mediations benefit the individual, protecting them from the alienations and 'anomie' of modern life, while the large institutions, including the state, gain legitimacy by being related to the values that govern the actual lives of ordinary people.

Berger and Neuhaus speak of a minimalist approach, which involves stopping damage to mediating structures. The fact that much of the damage in the UK has been unintentional rather than malicious does not make it any less damaging. The maximalist proposition advocates utilising mediating structures for public policy ends such as social inclusion, racial equality or national security. This report will suggest policies based on both approaches. It seeks for example, the ending of the couple penalty, which undermines stable couple relationships, but will also suggest more radical ways of strengthening a range of key relationships.

Interdependence and Relationships

> **Interdependence is and ought to be as much the ideal of man as self-sufficiency. Man is a social being. Without interrelation with society he cannot realize his oneness with the universe or suppress his egotism. His social interdependence enables him to test his faith and to prove himself on the touchstone of reality.**

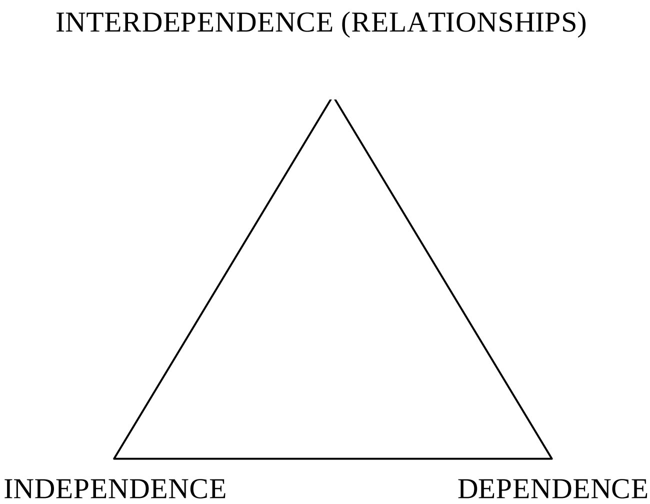
[6] Paul Ricoeur, *Critique and Conviction*, Polity Press, London, 1998, p60.

[7] Peter Berger and Richard Neuhaus, To Empower People: The Role of Mediating Structures in Public Policy,

Mahatma Gandhi

Everyone starts life as a baby completely *dependent* on their parents or other adults to take care of them. For most, this state of powerlessness is temporary. As people grow up, they work to become *independent*, earning money for themselves and moving out of the parental home. The third level, which leads to the greatest achievements is *interdependence*. This is when people work together to achieve a common goal, displaying cooperation, trust and reciprocity.

Dependence is a weak position, often including blame, resentment or avoidance of responsibility. Keith Joseph, Margret Thatcher's key adviser, feared what he called the "pocket money society", in which all essential expenditures such as housing, health and education were increasingly paid for by the state. He believed that this infantilised the public, leaving them like dependent children without responsibilities with little to decide that was important. Though the parties differ on how exactly the state should help those in need, there is a growing consensus about the problems of the increasing culture of dependence. Welfare from the cradle to the grave has moved from a safety net to a way of life for some. One in four people are claiming benefits in Glasgow, Liverpool and Manchester.[8] After two years on incapacity benefits, a person is more likely to die or retire than find a new job.



Independence promotes the individual who can fend for themselves and disregards the 'other'. It has been described as isolation by another name. Instead of seeking to ensure the flourishing of individuals through democratic and therefore responsive collective means, it promotes a narrow and selfish view. It is often linked with individualism, in describing a moral, political, or social outlook that stresses human independence and the importance of individual self-reliance and liberty. It opposes any interference with an individual's choices - whether by society, the state, or any other group or institution. The idea of a public good or common interest is dismissed.

Society is defined as an organised and interdependent community.[9] Interdependence is the state of human development of greatest maturity and power. This is how humankind has achieved things

[8] The Spectator, 3 November 2007, p.14.
[9] The Pocket Oxford Dictionary, Edited by R. E. Allen, Clarendon Press, Oxford,1984.

together that no single person could do alone. We are not autonomous individuals, nor an undifferentiated collective, but persons in relationship.

Relationships, Relationships, Relationships.

The triangles make the point dramatically. All parties must address the space between the individual and the state, where we find a society made up of relationships. The neglected aspect of the triple bottom line is the social sphere, the realm of relationships. In the democratic creed fraternity, in the form of right relationships binds together liberty and equality. Beyond the weakness of dependence and the isolation of independence comes the mature interdependence of people in relationship. Relationships are the mediating structures between the public and the private sphere. This covers the relationships between the government and voters, employees and employers, people and the environment, businesses and customers, extended families, neighbours, couples, communities, work colleagues, within and between service providers and between ethnic groups. Our conclusion therefore is simple – “It’s relationships, stupid!”

Appendix 2

Relationship breakdown – cost to taxpayer

Lone parents			
	Tax credits[1]	£6.77bn	
	Incapacity benefit[2]	£3.4bn	
	Housing benefit and Council tax benefit[3]	£4.0bn	
	Total		**£14.17bn**
CSA			
	2007 running costs[4]	£520m	
	Total		**£0.52bn**
Criminal Justice			
	Police budget 07/08[5] (1/4 x £12bn)	£3bn	
	Prison budget 07/08[6] (1/4 x £4.7bn)	£1.18bn	
	Court budget 07/08[7] (1/4 x £2bn)	£0.5bn	
	Legal Aid – family budget[8]	£0.51bn	
	Legal Aid remainder[9] (1/4 x £1.5bn)	£0.38bn	
	Total		**£5.57bn**
Children living in care			
	68,800 children at approximately £26,000pa[10]		
	Total		**£1.53bn**
Health			
	£119bn x 10% [11]	£11.9bn	
	Total		**£11.9bn**
Housing			
	Emergency housing following domestic violence[12]		
			£0.2bn
Education			
	£60bn x 5%[13]	£3bn	**£3bn**
Grand Total[14]			**£36.89bn**

Notes

[1] The government estimates that it paid £17.3bn to tax credit claimants. (HM Revenue & Customs 2005-6 Accounts: The Comptroller and Auditor General's Standard Report, p.26.) Of the 5.3 million families who received awards, 2.1m were single parents. (http://www.hmrc.gov.uk/stats/personal-tax-credits/cwtc-dec07.pdf)

On a pro rata basis the amount spent on lone parents was £6.77bn.
[2] These figures come from the following Daily Mail article.
http://www.dailymail.co.uk/pages/live/articles/news/news.html?in_article_id=440191&in_page_id=1770
[3] Housing Benefit and Council tax benefits totalled £11.9bn in 06/07. £4600 was the average in HB and CT benefit paid to out of work LPs. The unemployment rate among LPs is 43.5%. (http://www.dailymail.co.uk/pages/live/articles/news/news.html?in_article_id=440191&in_page_id=1770) There are either 1.9m or 2.1m LPs in the UK. (http://www.ifs.org.uk/pr/lone_parents_credits.pdf) Taking an average the total figure is 2.0m x 43.5% x £4600 = £4.0bn
[4] CSA Annual Report and Accounts 2006-07, p.25.
[5] Costs in Eng and Wales in 07/08 were £11bn according to http://police.homeoffice.gov.uk/news-and-publications/publication/finance-and-business-planning/ministerial-statement-07-08.pdf?view=Binary An estimate of £12bn has been taken to include policing costs from Northern Ireland and Scotland. The real figure is probably slightly higher. A quarter of all criminal justice costs have been attributed to family breakdown. The CSJ noted in 'Fractured Families' that 70% of young offenders are from single parent families. The Prison Reform Trust found that half of under 18s in prison has a history of being in care or social service involvement (Bromley Briefing: Prison Factfile, Nov 2006, PRT, p.21). The same report found that 27% of all prisoners were taken into care as a child (p.18). When we add to this the amount of police and court time required to deal to domestic disputes and all manner of family breakdown incidents, the quarter figure we have used appears very conservative. A report in 2004 entitled 'The Cost of Domestic Violence' written by professor Sylvia Walby and endorsed by Jacqui Smith estimated that domestic violence alone costs the criminal justice system around £1billion a year. The largest single component relate to the police.
[6] The Ministry of Justice £8.8bn total budget for 2007/8 (http://www.justice.gov.uk/news/newsrelease090507.htm). £4.7bn was allocated to the existing NOMS budget (national offender management service). The quarter allocation is explained above.
[7] See above.
[8] Breakdown Britain, CSJ, July 2007, p.156. The Legal Service's Commission's gross figure for bills paid in Family proceedings in 2005/6 was £507,488,000.
[9] In 2007/8 under the MOJ budget, £2bn was allocated to the existing legal aid budget (http://www.justice.gov.uk/news/newsrelease090507.htm)
[10] "Of the 60,000 children living in care 98% are there due to family breakdown" Baroness Seccombe, House of Lords, Hansard, 17th March 2004, col 297. According to 'The Cost of Domestic Violence' it cost £500pw to keep a child in care. The total cost of children in care at that time was £1.6bn. We have used the same figure, though it would undoubtedly be higher due to inflation. 60,000 x 0.98 x £26,000 (500x52) = £1.53bn
[11] ONS UK Health Statistics No. 3, 2008, p.114. Total expenditure on Health and Social services for the UK £119bn. 'The Cost of Domestic Violence' report referred to above estimated the cost to the NHS of physical injuries from domestic violence to be £1.2billion in 2004. The cost to social services was further £0.25billion. In fact the amount spent on social care services for adults and children by local authorities each year is £19.3 billion in 2005/6 (NHS Information Centre Press Release 9 February 2007). 25% of the social care budget was spent on children and families, a significant proportion of which must relate to relationship breakdown. A further 43% is for services to older people, who require more care as families play a lesser role. The NHS sends £7.7billion each year on mental health issues. The Children's Society's 'Good Childhood Inquiry' found the primary cause of mental health problems in children to be family breakdown. Even taking demographic factors into account, children from single parent households are twice as likely to be unhappy, have low self-esteem, or mental health problems (Cockett M, Tripp, J. The Exeter Family Study: Family Breakdown and its Impact on Children. Exeter: University of Exeter Press, 1994). Single mothers have poorer health than their married counterparts (Benzeval M. *The self-reported health status of lone parents*, Social Science & Medicine 1998;46:1337-1353). In 2004 the annual spend on children in need was £2.6billion ('The Cost of Domestic Violence). We have accounted for £1.6billion of this elsewhere, leaving £1billion under this section. The figure used represents the total amount of time spent by social workers, GPs and other healthcare professionals in dealing with the consequences of family breakdown. This includes stress and depression, physical problems, sexual diseases, bed blocking as there are no relatives to offer help and a variety of other increased care costs incurred by the taxpayer because the family cannot offer normal support.

[12] 'The Cost of Domestic Violence'. Their figure of £0.16billion has been updated to take account of rising costs.
[13] It is difficult to put an exact figure on the cost of relationship breakdown to the education system. It is clear that children from such backgrounds do less well at school, have more mental illness issues and are more disruptive. Whilst hard to quantify, we believe that a the extra time and resources these children require, represents at least 5% of the entire education budget.
[14] This total does not include broader costs borne by society as a whole and other elements which are simply too difficult to quantify. Some of these are noted below:
Loss of tax revenue:
Married men earn 30-40% more than divorced men over a lifetime (Schoeni R. Marital status and earnings in developed countries. Journal of population economics 1995;8:351-9). 69% of single mothers live in the bottom 40% of household income, compared with only 34% of married couples with children (Department for Work & Pensions. Households below average income 1994/95 to 2000/01. London: HMSO, 2002). Single parents are eight times more likely to be out of work and twelve times more likely to receive benefits than married parents (Office of National Statistics. Work & worklessness among households. London: HMSO, 2001 and Office of National Statistics. Family resources survey, Great Britain, 2000-01. London: HMSO, 2002).
Loss to the economy:
Relate claim that £12bn is lost from the economy each year due to absence from work. 15% of absences are due to relationship stress £12bn x 15% = £1.8bn.
Presenteeism (were an employee is present, but not actively contributing) may cost more – in the year following a divorce employees lose 168 hours or one working month. Assuming an average salary of £24,000 pa the economy loses £280 million due to presenteeism if only one partner is working. (Dixon, Weighing the Costs of Presenteeism, The Chief Executive, June 2005)
Crime:
Total cost of crime estimated by the Home Office to be £60bn (*Prison is a Bargin*, The Times 12th May 2004). If a quarter of all crime can be attributed to family breakdown, then the crime arising from family breakdown costs society £15bn.
Housing:
The number of successor households following divorce in the 90s was 170 per 100 divorces. The gross effect in the 90s was 97,000 new households each year. Using similar figures for cohabitation the gross effect of separation on new households would be 56,000. Therefore relationship breakdown lead to 153,000 new households. This has put tremendous pressure on current housing resources.
Human and Emotional Costs: 'The Cost of Domestic Violence' report put the human and emotional costs of that area alone at £17billion. This is a small subset of the emotional costs of family breakdown as a whole. This larger cost is impossible to calculate with any accuracy but this aspect alone will clearly far exceed the direct costs to government calculated above.

Relationships Foundation
Jubilee House 3 Hooper Street Cambridge CB1 2NZ Registered charity no. 1106460

Tel +44 (0)1223 566 333 Fax +44 (0)1223 566 359
info@relationshipsfoundation.org www.relationshipsfoundation.org

think relationally