CPAG's autumn Budget representation

September 2024

Summary of recommendations

- **Invest in children through social security.** Not only will it immediately improve the standard of living for the 4.3 million children living in poverty in the UK but it also leads to healthier, more educated children, meaning higher economic growth and reduced costs for the government.
- **Scrap the two-child limit**. The first step to reducing child poverty must be removing the two-child limit. Scrapping the policy today would instantly pull 300,000 children out of poverty and stop another 200,000 being drawn into poverty over this parliament. It is the key driver of rising child poverty today and the most cost-effective way to stop the number of children in poverty increasing.
- **Remove the benefit cap.** The benefit cap affects the most vulnerable families across the country. Removing the cap would substantially reduce the depth of poverty for 300,000 children affected by the cap.
- **Raise child benefit by £20 a week**. It is not just families in poverty who have been struggling the past few years. Increasing child benefit by £20 a week would pull 600,000 children out of poverty, reduce the depth of poverty for millions more, while also supporting middle-income families struggling with living costs.
- **Roll out universal free school meals across England**. Combining universal free school lunches with breakfast clubs ensures that no child misses out on meals at school – boosting pupils' learning, reducing the pressure on household budgets and supporting the relationships between parents and schools by removing challenges around dinner money debt.
- **Provide permanent ring-fenced funding for local crisis support**. The six-month extension of the Household Support Fund is a welcome lifeline, but a long-term sustainable funding settlement is needed urgently for local crisis support, so that no families fall through the net.
- **Lower deduction payments.** Half of all children living in families on UC receive deductions to their UC award. The total amount lost by families is £100 million a month (£1.2 billion a year)

- **Reduce barriers to work for parents.** Currently too many parents are held back in the labour market – removing these barriers through tailored employment support, better childcare provision and improved financial incentives mean higher living standards and higher economic growth.
- **Introduce an ambitious child poverty strategy.** We welcome the creation of the child poverty taskforce and forthcoming child poverty strategy. The effectiveness of the strategy will depend on resources being allocated to support meaningful action across government to reduce child poverty, including investment in the social security system, and design features such as clear leadership, infrastructure across central government, co-ordination across devolved governments and local authorities as well as ambitious targets.

Invest in children through social security

It is difficult to understate the importance of child poverty for general living standards. People living in poverty are in worse health, do less well in education, have lower well-being and their life expectancy is much shorter.[1] Fortunately, a large body of evidence demonstrates that governments can reduce poverty, by investing in children, and, in doing so, have a significant impact not only on incomes but other key outcomes.

There is a large body of evidence that indicates investing in children through social security is beneficial for economic growth. As Nobel-prize winning economist Paul Krugman puts it:

> *The proposition that helping poor children makes them healthier, more productive adults isn't hypothetical. On the contrary, it's backed by solid evidence — better than the evidence that spending on physical infrastructure is good for the economy (although I believe that too) and infinitely better than the evidence that tax cuts promote growth, which is non-existent.*[2]

It can be challenging for governments to change the path of economic growth, in particular in the short term. But the one thing that economists will point towards as being vital for growth is investing in people, where the return is greatest the earlier you do it.

Increased social security leads to healthier, better developed children who achieve more at school. CPAG research with school staff in England found that lesson time and learning is being significantly affected by high levels of child poverty. Many pupils are frequently tired, hungry, unable to concentrate, and without the resources and equipment they need to fully engage in the curriculum. School staff time is also increasingly being diverted to deal with the effects of child poverty. The study found wide support across people working in education for increasing financial support to families, as this helps pupils to learn and enables staff to focus on the core parts of their roles.[3]

The improved childhood outcomes that result from investment in social security persist into adulthood. They mean a healthier, more productive workforce, leading to higher economic growth.[4] Recent analysis has focused

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[1] GJ Duncan, KM Ziol-Guest, A Kalil, 'Early-childhood poverty and adult attainment, behavior, and health' *Child development*, Jan;81(1), 2010, pp306-25,
[2] P Krugman, 'American betrays its children again', New York Times, 2023
[3] CPAG, Education Anti-Poverty Coalition, *'There is only so much we can do'*, 2023
[4] H Hoynes, DW Schanzenbach and D Almond, Long-run impacts of childhood access to the safety net, *American Economic Review*, 106(4), 2016, pp903–34

on valuing the combined effect of these impacts, including on health and wellbeing, finding that increasing social security for low-income families is a highly cost-effective investment for the government.[5]

There is also the effect of reduced costs and higher tax revenues for the government. Spending on the NHS will be lower in childhood and adulthood. When children grow up, they will be more likely to be in employment, and in higher paid jobs, which means higher tax revenue and less spending on social security in the future. CPAG analysis found that the costs of child poverty for the public purse (in terms of higher costs/reduced revenues) total up to £40 billion.[6]

Although investing in children will cost money, there is considerable scope to increase taxation and spending in the UK. Even with tax level increases in recent years, UK taxes are still far lower than other countries. Taxes would need to rise by a further £100 billion, to bring us in line with Denmark or Sweden.[7] There is no need to raise income tax or NICs to achieve this outcome, other taxes are more equitable and more efficient.[8]

Policies to reduce child poverty and invest in children

Scrap the two-child limit

The latest statistics (April 2024) show that there are currently 1.6m children affected by the two-child limit, the vast majority living in poverty. CPAG carried out a survey of affected parents where we found: [9]

- 93 per cent reported that the policy has affected their ability to pay for food
- 86 per cent reported that the policy has affected their ability to pay for clothing
- 82 per cent reported that the policy has affected their ability to pay for gas or electricity.

Some respondents were able to tell us just how devastating the policy can be:

'I am having to ration food in the house to afford baby milk. My bills have gone up and I cannot always afford to pay them on time, so I am having to ask family to help.' In-work couple with three children,

'I work full time and have recently had a third child. The two-child limit has meant I now struggle to afford the extra money needed for bills such as food, gas and electricity. This has left me relying on the food bank to deliver food for myself and my older children.' In-work single parent with three children, in full-time work

The two-child limit is the key driver of rising child poverty and the most cost-effective way to reduce child poverty. Scrapping the policy today would instantly pull 300,000 children out of poverty and stop another 200,000 being drawn into poverty over this parliament, as well as reducing the depth of poverty for many more.[10] For children and young people, every day matters. Scrapping the policy today would only cost £1.7bn (this will rise to £3bn over the course of parliament but so will the number of children set to benefit from removing the policy).

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[5] M Bailey and others, *Is the Social Safety Net a Long-Term Investment? Large-Scale Evidence from the Food Stamps Program*, NBER Working Paper No. 26942, April 2020

[6] D Hirsch, *The cost of child poverty in 2023*, CPAG, 2023

[7] Author's calculation from *Revenue Statistics 2023 - the United Kingdom*, OECD, 2023

[8] See *Let's Talk About Tax*, CPAG, 2019 for more details

[9] *Things will only get worse: Why the two-child limit must go*, CPAG, 2024

[10] The results presented here are based on UKMOD version B1.03 UKMOD is maintained, developed and managed by the Centre for Microsimulation and Policy Analysis (CeMPA) at the University of Essex. The process of extending and updating UKMOD is financially supported by the Nuffield Foundation (2018-2021). The results and their interpretation are the author's sole responsibility.

The policy has been shown to have a negligible impact on the number of children parents decide to have,[11] meaning the only real effect of the policy is to take money out of the pockets of low-income families and drive up child poverty.

Remove the benefit cap

Removing the benefit cap would help some of the most vulnerable families across the country. The vast majority of households affected by the benefit cap are families with children. There are currently 83,000 capped households, and this number is likely to rise substantially, as in April 2024 the benefit cap threshold was frozen, while benefits were uprated and local housing allowance (LHA) was unfrozen. Estimates for 2024/25 indicate that over 100,000 households could be capped (containing 300,000 children).

The logic for the benefit cap remains fundamentally flawed, it has a negligible impact on work incentives, while taking money away from the poorest families. The main reason why families are unable to earn enough are significant barriers to work such as disabilities or childcare.

Most capped households sit far below the poverty line, therefore removing the cap will not have much impact on the number of children in poverty but it will substantially reduce the depth of poverty for the 300,000 children estimated to be living in families affected by the cap, and cost just £300 million.[12] Living in deep poverty is particularly damaging for children's outcomes.

Increase child benefit by £20 a week

Increasing child benefit would further reduce child poverty while also supporting the income security of low and middle income families who have seen their budgets stretched significantly in recent times. Since 2010, real-terms cuts to child benefit mean it needs to rise by 25 per cent to restore its value.[13] Increasing child benefit by £20 a week would pull 600,000 children out of poverty, at a cost of £12 billion.[14] Furthermore, CPAG would welcome making child benefit universal again. The high income child benefit tax charge adds unnecessary complexity, reduces take-up, distorts labour market decisions as well as undermining the idea that social security should support everyone through certain periods in their lives, like having a child, or when we get older.

Roll out universal free school meals across England

Another way to support all families, but particularly those struggling to get by is by providing universal free school meals. For families, free school meal entitlements can relieve pressures on household budgets, free up money for other living costs, improve home-school relations by addressing challenges around dinner money debt and remove an additional stress of making and managing school meals from family life.[15] The current provision of free school meals is far too stringent. CPAG's analysis shows that 900,000 children living in poverty in England do not

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[11] M Reader, J Portes and R Patrick, *Does cutting child benefits reduce fertility in larger families? Evidence from the UK's two-child limit*, Nuffield Foundation, 2022

[12] See note 10

[13] Author's calculations using *CPI All Items Index,* Office for National Statistics, 2022; Child benefit rates; *Economic and fiscal outlook – November 2022*, Office for Budget Responsibility, 2022

[14] See note 10

[15] *The Universalism Multiplier*, CPAG, 2023

currently qualify for free school meals, and therefore miss out on the many benefits outlined below, which further disadvantages them.[16]

Universal free school meals can help to boost children's learning and attainment,[17] as well as supporting their health through providing a balanced meal each day.[18] Children also benefit from the social experience of sitting down together in a shared dining hall and eating the same food.[19] CPAG estimates that rolling out universal free school meals in England would cost £2 billion.

Provide permanent ring-fenced funding for local crisis support

The six-month extension of the Household Support Fund is a welcome lifeline, but long-term funding needs to be put in place, so that no families fall through the net. This funding should be long term, to give local councils the certainty they need to invest in good quality, accessible, and timely local crisis support. In addition, a long term strategy for local crisis support is needed, based on cash grants where possible and building on existing expertise.[20] Proper regulation, guidance, and collection of data is essential for the design and delivery of good quality local crisis support, and this system must sit alongside an adequately funded social security system that prevents people from reaching crisis point in the first place.

Lower deduction repayments

Official figures show there are 2.6 million children (48%) in households on universal credit (UC) which are having debt deductions from their benefits, forcing them to live on significantly less than their entitlement.[21] The average per-household monthly deduction is £78 - working out as £100 million a month or £1.2 billion a year being taken away from low-income families. This puts an unnecessarily large additional burden on already precarious finances, as this case from CPAG's Early Warning System (EWS) shows:

> *A couple with three children have monthly UC deductions totalling £140 to pay off a UC advance and rent arrears. They are struggling to get by on their earnings and UC, and have debts of more than £10,000 despite using the local food bank and the Household Support Fund. The family could not afford for their children to take part in activities during the school holidays.*[22]

Reducing the monthly cap on deductions to 15% of the standard allowance and introduce a DWP deduction cap of 5% (in-line with private sector) would greatly support low-income families at no cost to the government, as this money is still re-paid, just at a slower rate.

Reduce barriers to work for parents

The government has rightly prioritised boosting the labour market as a key priority, however it is important that the government understands that there are many reasons why people are out of work, and that there are substantial barriers to parents for working / working more. These issues can be addressed but there needs to be a shift in policy and culture towards helping people find good work, not penalising those who are unable to do so.

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[16] *Free School Meals, third of kids in poverty miss out*, CPAG, 2023
[17] *Free and nutritious school lunches help create richer and healthier adults*, Lund University, 2021
[18] *Impact of the universal infant free school meal policy*, Nuffield Foundation, 2020
[19] *Evaluation of Universal Infant Free School Meals*, Education Policy Institute, 2018
[20] See *You Have to Take it Back to the Bricks: reforming emergency support to reduce demand for foodbanks*, CPAG, 2022
[21] Number of children in UC households with deductions, May 2024, FOI 2024 0017744
[22] Early Warning System, June 2023 P1291

The first step is to understand why people are not working. The vast majority of out-of-work households are between jobs, caring for young children or have disabled household members. Changes to disability benefits designed to encourage people into work must not restrict access to these benefits or make the system even more punitive. CPAG often hears about families, who in their time of need, are treated too harshly by the social security system:

> *A couple with two children claimed UC while the father (the main breadwinner) was too unwell to work. The family were sanctioned while the father was appealing a decision about his capability for work and continuing to provide DWP with medical certificates from his GP. Job centre staff have discretion about adjusting work-related requirements in this situation, but the decision was made to sanction the family instead. The sanction and the absence of a limited capability for work related activity (LCWRA) component are both having a major impact on their finances*.[23]

Restricting access to health and disability benefits by making assessment processes harder and/or increasing conditionality is not the right approach to encouraging ill and disabled people into work.

However, that is not to say everyone currently out of work is unable to work. Many parents we speak to would like to work but there are too many barriers to overcome with very limited support. The first step needs to be providing **tailored employment support,** which actively helps the claimant find work, rather than penalising them for any mis-step they make.

CPAG's Your Work Your Way (YWYW) project provided tailored employment support to second earners.[24] This project provided information on training courses, advice on self-employment, as well as a small amount of money to fund any associated costs with training or preparing for work (known as a personal budget). The average personal budget in YWYW was £1,400 per person, but this short-term investment led to greater wages (and can actually save the government money in the medium-term as benefit entitlement may be lower and more taxes are paid). There should also be greater consideration given to hidden costs such as transport (particularly in rural areas) and access to IT.

However, even with this support, there remained substantial barriers to work. Currently, there is no work allowance for second earners, so from the first £1 they earn, 55p is lost in reduced universal credit. When this is combined with income tax, NICS and childcare costs, the financial return to working can be extremely low. Introducing a **second earner work allowance** (as there is for primary earners) would encourage many more parents into employment and boost women's participation in the labour market.

The UK has one of the most expensive childcare systems in the world.[25] Support for the cost of childcare is a complex patchwork, differing by age of child and nation.[26] There are also significant gaps in the supply of childcare for older children, disabled children and for parents working atypical hours, which need to be addressed.[27] The long-term goal should be to reduce costs and improve quality for all families by moving towards a **universal, publicly funded childcare system.** The commitment to fund 3,000 school based nurseries is a welcome step

[23] Early Warning System, August 2023 53085
[24] See cpag.org.uk/your-work-your-way for more details
[25] *Is Childcare Affordable?*, OECD, 2020
[26] Provision of financial support for childcare costs is split across three different government departments.
[27] L Hodges and others, *Childcare Survey 2024,* Coram Family and Childcare, 2024

towards this system, and there are a number of other short-term reforms that would greatly improve on the current status quo.

Current free-entitlement pre-school childcare needs to be adequately funded. Currently, insufficient funding means that many local authorities are unable to meet the demand for free-entitlement pre-school childcare.[28] The government must ensure that funding levels are sufficient, so that every local authority can meet the demand for pre-school childcare provision in their area. In addition, **all parents should be able to access the schemes,** not just those who meet work requirements. Childcare is about education as well as enabling work, but an earnings barrier undermines that critical child-centred function by blocking kids in the worst off families, who would benefit the most from early years education, from accessing childcare places.

The government has rightly realised the benefits of breakfast clubs, but the provision of wrap-around school activities does not have to stop there. Our research shows that before- and after-school activities support children to thrive, and help them explore their wider interests outside the core curriculum. They are proven to support pupils' learning and attainment.[29] [30] What is more, where they are free to access, they can significantly boost family finances through lower childcare costs and the impact on parents in the labour market. However, because these activities rely on already-stretched school budgets, only some children and families currently get to reap the many educational and financial benefits. The rest are locked out because of costs or lack of provision.

The **roll-out of before- and after-school provision, alongside holiday programmes,** would mean that every child can benefit from the extra-curricular activities and all parents can benefit from the childcare that this provides. In 2021, CPAG estimated that it would cost £2.6 billion a year to fund every primary school in England to deliver core extended schools activities (before and after school from 8-6pm). For secondary schools, an additional £525 million would be required.[31] For this vision to be achieved, it is important that there is a statutory framework in place and that the additional funding is adequate and ring-fenced. If there is insufficient and temporary funding, this just places an additional burden on already overstretched school staff and creates yet another cost for families.

100 per cent of childcare costs need to be funded in UC. While 85 per cent seems generous, when this is coupled with the taper rate, national insurance contributions and income tax, it means that low-income parents see only a small financial gain from taking on extra work.[32] In addition, there are work requirements on who can access this childcare support. **All parents should be able to access childcare support in UC.**

Introduce ambitious child poverty strategy

We welcome the creation of the child poverty taskforce and forthcoming child poverty strategy. However, the success of the strategy will depend on its design features. We know from other child poverty strategies both in the UK and internationally that in order to work successfully a child poverty strategy needs clear leadership, infrastructure across, infrastructure across central government, co-ordination across devolved governments and local authorities as well as ambitious targets. These targets must be accompanied by robust reporting measures, ideally tied into budgetary processes to ensure investment is made to tackle child poverty effectively via policies that target family income, including social security.

[28] See Note 28
[29] *Magic breakfast*, IFS, 2016
[30] *Can out of school activities close the attainment gap?*, Newcastle University, 2016
[31] *Extended school provision*, CPAG, 2021
[32] *Children's futures and the economic case for before- and after-school provision*, CPAG and Magic Breakfast, 2022

The introduction of a well-designed child poverty strategy in Scotland, led to the introduction of the Scottish Child Payment, among other policies, and is forecast to reduce child poverty in Scotland in 2023/24 by record levels.[33] Whereas, less well-designed child poverty strategies have not led to reductions in child poverty.

Conclusion

As the evidence outlined in this briefing demonstrates, child poverty is not inevitable. Investing in children is a win-win, improving the living standards of millions of families immediately, while also making the country healthier, more educated and more productive. The best way to achieve this investment is through immediate action, such as scrapping the two-child limit, followed by the introduction of an ambitious child poverty strategy, which will lay the groundwork for systematic reduction in child poverty for years to come.

About CPAG and our sources of evidence

We have particular expertise in the functioning of the social security system, through our welfare rights, training and policy work. CPAG's *Early Warning System* collects case study evidence from advisers across the UK on the impacts of welfare reform, and has collected thousands of cases to date. We also have two particular projects focusing on different areas of family life. The *Your Work Your Way* project provided tailored employment support to second earners. The *Cost of the School Day* project works with children and young people, parents and school staff to find out where problems lie for children from low income households, how their school participation and experiences are affected by costs, and which current and potential policies and practices could help to prevent these problems arising.

[33] *Child poverty annual progress report: statement*, Scottish Government, 2023