CPAG'S 2024 Budget submission

January 2024

Summary of recommendations

- **Invest in children by increasing social security benefits.** Not only does it **improve the standard of living** for the 4.2 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.**
- Over time, benefit freezes, sub-inflationary upratings, and other harmful policies have increased the gap between entitlement and need. **Scrapping the two-child limit and removing the benefit cap** would make the most difference to children living in poverty.
- **Raise child benefit by £20 a week** – this would substantially reduce child poverty and help low- and middle-income families who have been struggling with the cost of living.
- **Roll out universal free school meals across England** – supporting pupils' learning and attainment, and reducing the pressure on household budgets.
- The government must commit to **further funding for the household support fund**, which is due to run out of funding in March, alongside a long-term strategy for local crisis support.
- **Reduce the monthly cap on deductions** to 15 per cent of the standard allowance and introduce a DWP deduction cap of 5 per cent (in-line with the private sector).

Although these policies would cost money, **there are over four million children now living in poverty in the UK. It is not tenable for government to continue to ignore these kids – if it does, the results will be catastrophic. Time and time again, evidence shows that investing financial support in children and their families is the way to reduce child poverty.**

Recent press reports suggest that the Chancellor may be considering using any fiscal headroom to reduce taxes. But this approach will not help some of the most vulnerable children in the UK. Indeed, rather than implementing tax cuts there is further 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

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us in line with Denmark or Sweden.[1] The policies suggested in this briefing would only cost a fraction of that, while substantially reducing the extent and depth of child poverty across the country.

Moreover, investing in young people is the best way to guarantee sustained higher economic growth in the longer term.[2] Economic analysis of different policies has found **no evidence that cutting taxes leads to higher growth,** while there is **a strong evidence base that increased social security in childhood leads to healthier, more educated children.**[3] **This means a more productive workforce, higher economic growth and reduced costs for the government**. More recent work has focused on valuing the combined effect of these impacts, finding that increasing social security for low-income families is a **highly cost-effective investment** for the government.[4]

Recent government policy has focused on investing significant resources into pushing a small number of out-of-work people into low-paid precarious employment, with little hope of career progression, without addressing the large barriers to work this group faces.[5] This approach has had a negligible effect on economic growth or the living standards of this group.

The government needs to learn from this and help remove the barriers they face, while understanding that some people will be unable to work at different stages in their life – for example when they have small children at home, or have significant caring responsibilities. Policies that would help address these issues are:

- Second earners in households claiming universal credit (UC) should feel the financial benefits of working, by introducing a **second earner work allowance**.
- Lead parents and carers in households claiming UC should be able to access **tailored employment support**.
- **Many low-income families include someone who is ill or disabled**. Proposed changes to disability benefits[6] designed to encourage people into work must not restrict access to these benefits, which so many families rely on.
- Childcare is a significant barrier that prevents many parents and carers from working. In the long term, provide a high quality publicly funded **universal childcare system**. In the short term, remove work requirements from funded childcare, invest in extended schools, and increase the generosity of childcare support provided through universal credit.

Evidence on child poverty

It is difficult to overstate the importance of living in poverty for general living standards. **People living in poverty are in worse health, get less education, have lower well-being and their life expectancy is much shorter**.[7]

[1] Author's calculation from OECD, *Revenue Statistics 2023 - the United Kingdom*, 2023
[2] P Krugman, *American betrays its children again*, New York Times, 2023
[3] H Hoynes, DW Schanzenbach, D Almond, 'Long-run impacts of childhood access to the safety net', *American Economic Review*, 106(4), 2016, pp903–34
[4] 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
[5] H Hoynes, R Joyce and T Waters, *Decades of benefit reforms have pushed more people into work – but very often into part-time, low-paid work with little prospect of progression*, Institute for Fiscal Studies, 2023
[6] DWP, *Work Capability Assessment: Activities and Descriptors Consultation* - Consultation Paper, 2023
[7] GJ Duncan, KM Ziol-Guest and A Kalil, 'Early-childhood poverty and adult attainment, behavior, and health' *Child development*, Jan;81(1), 2010, pp306-25

Fortunately, a **large body of evidence demonstrates that governments can reduce poverty** and, in doing so, have a **significant impact** not only on incomes but other **key outcomes.**

The key driver of child poverty rates is social security. Child poverty fell considerably from 1999/00 to 2004/05 due to large increases (above the rate of inflation and earnings growth). Since 2010/11, child poverty has risen again, as the UK government now spends **£42 billion a year less** on social security than it would have spent if cuts, freezes and other changes since 2010 had not happened.[8]

The importance of social security is illustrated by the Scottish government's recent approach. The introduction of **the £25 per week Scottish child payment**, among other policies, is **forecast to reduce child poverty in Scotland in 2023/24 by record levels.**[9]

A key factor in the initial reduction in child poverty across the UK and the reduction in Scotland was a commitment to a **child poverty strategy with poverty reduction targets**. While a poverty strategy for the 2020s needs to respond to the new challenges we face today, it needs to emulate the leadership, resources and targets that enabled success in the past. It must centre on a commitment to end child poverty that is shared across government departments, works in tandem with devolved administrations and is echoed in local authorities.

Policies to address child poverty

The cost of living crisis has highlighted the inadequacy of the social security system. Increasing the overall adequacy of social security benefits should be a key objective of any government. Nonetheless, there are particular policies that would make the most difference to child poverty and represent the best investment for the government.

Re-establish the link between need and entitlement

The value of benefits has no direct link to the costs faced by low-income households. Over time, benefit freezes and sub-inflationary upratings have **increased the gap between entitlement and need**, leading to rising poverty. However, additional policies such as the **two-child limit, benefit cap and UC deductions** mean many families do not even get the inadequate benefits they should be entitled to.

The most cost-effective way to reduce child poverty would be to **scrap the two-child limit. In April 2024 almost 0.5 million families (1.8 million children) will be living in households affected by the policy**, the vast majority of whom live in poverty.[10] Scrapping the two-child limit would lift **300,000 children out of poverty and mean 800,000 children are in less deep poverty, at a cost of only £1.8 billion – making a significant difference to the lives of over a million children**.[11] The policy has been shown to have a negligible impact on the number of children parents

[8] Author's calculations from the Policy Measures Database, March 2022. The sum of all policies in the 'Social security benefits', 'Tax credits', 'Welfare inside cap' and 'Welfare outside cap' categories for 2022/23, except 'Devolving disability benefits to the Scottish government.' These policies cover all policies announced from the 2010 Budget to the 2022 Spring Statement. As such they do not cover the recently announced emergency cost-of-living policies. However, these recently announced policies would only slightly reduce the total amount lost since 2010 and they are temporary, whereas the extensive cuts to social security are permanent.

[9] Scottish government, *Child poverty annual progress report: statement*, 2023

[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.

[11] See note 12

decide to have,[12] 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, as this case from CPAG's Early Warning System shows.

> *A working couple with three children have their universal credit reduced by the two-child limit and a deduction for rent arrears. Their income is very tight. During a period when the father was out of work due to ill health, the family was not able to get a cake or any presents for their youngest child's birthday. They hoped the child would be too young to remember.*[13]

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 in April 2024, as the benefit cap threshold is frozen, while benefits are increasing and LHA is being unfrozen for 2024/25**. Estimates for 2024/25 indicate that over 100,000 households (containing 300,000 children) could be capped**. It is illogical for the government to (rightly) uprate benefits by September CPI and unfreeze LHA, but then **freeze the cap threshold, so the families who are living in the deepest poverty do not see any impact from benefit uprating.**

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 reasons families are unable to earn enough are significant barriers to work such as disabilities or childcare.

> *A working lone parent of three was benefit capped and received £1,551 of universal credit each month to top up her £600 wages. After paying rent and other bills she was left with hardly any money to raise her children. She has now been awarded personal independence payment (PIP) and has become exempt from the cap. Her monthly UC has risen by nearly £500 per month to £2,023. It has made a huge different to her ability to make ends meet.*[14]

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.[15]Living in deep poverty is particularly damaging for children's life chances.

Official figures show there are **2.3 million children (51 per cent) in households on universal credit (UC) which are having debt deductions** from their benefits, forcing them to live on significantly less than their entitlement.[16] The average per-household monthly deduction is £75 - working out as £84 million a month or **£1 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:

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[12] 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
[13] P1435 (YWYW) December 2023, Early Warning System, CPAG
[14] P1458 January 2024, Early Warning System, CPAG
[15] See note 12
[16] Number of Households with Children by Parliamentary Constituency, May 2023, accessed from questions-statements.parliament.uk/written-questions/detail/2023-09-11/198821

> *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.*[17]

Reducing the monthly cap on deductions to 15 per cent of the standard allowance and introducing a DWP deduction cap of 5 per cent (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.**

Finally, the government must commit to **further funding for the household support fund**, which is due to run out of funding imminently, in March 2024. The lack of commitment to future household support fund funding and removal of cost-of-living payments means many families are going to feel a squeeze on their finances, even with benefits being uprated.

This funding should be long term, to give local councils the certainty they need to deliver good quality, accessible and timely local crisis support. In addition, **a long-term strategy for local crisis support is needed**, building on existing expertise.[18] 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.

Improving adequacy for everyone

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. Even with the uprating to child benefit in April, since 2010, real-terms cuts to child benefit mean it needs to rise by 25 per cent to restore its **value**.[19] Increasing child benefit by **£20 a week** would pull **500,000 children** out of poverty, at a cost of **£10 billion**.[20] Furthermore, CPAG would welcome making child benefit universal again. The high-income charge adds unnecessary complexity, distorts labour market decisions as well as undermining the idea that social security should support everyone at different times in their lives.

Another way to support all families 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, and remove an additional stress of making and managing school meals from family life. The current provision of free school meals is far too stringent. CPAG's analysis shows **that 900,000 children in poverty in England do not currently qualify for free school meals,** and therefore miss out on the many benefits outlined below, which further disadvantages them.[21]

Universal free school meals can help to **boost children's learning and attainment**,[22] as well as supporting their health through providing a balanced meal each day.[23] Children also benefit from the social experience of sitting

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[17] Early Warning System, June 2023 P1291
[18] See CPAG, *You Have to Take it Back to the Bricks: reforming emergency support to reduce demand for foodbanks*, 2022
[19] Author's calculations using Office for National Statistics, *CPI All Items Index,* 2022; Office for Budget Responsibility, *Child benefit rates; Economic and fiscal outlook – November 2022*, 2022
[20] R Statham and H Parkes, *A lifeline for families – investing to reduce child poverty this winter*, IPPR, 2022
[21] CPAG, *Free School Meals, third of kids in poverty miss out*, 2023
[22] Lund University, *Free and nutritious school lunches help create richer and healthier adults*, 2021
[23] Nuffield Foundation, *Impact of the universal infant free school meal policy*, 2020

down together in a shared dining hall and eating the same food.[24] **CPAG estimates that rolling out universal free school meals in England would cost £2 billion**.

Employment support

It is important in any social security system that work is appropriately incentivised. The reduction in the universal credit taper rate and increase in the universal credit work allowance were welcome steps that increased the amount that low-income households can take home when combining paid work and universal credit. However, it is time for the government to go further if they are serious about addressing economic inactivity. 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. We also have high numbers of adults not in paid employment living in a household where one person is working – the vast majority of these are parents (usually women) who are the primary carers of children.

Potential second earners face particularly high barriers to work. As outlined, they are often the primary carer of children, so work options are limited by the availability and cost of childcare and lack of flexible work. Currently, there is no work allowance for second earners, so from the first £1 they earn, 55p is lost in reduced universal credit. Introducing a **second earner work allowance** (as there is for primary earners) would encourage many more parents into employment.

CPAG's Your Work Your Way (YWYW) project provided **tailored employment support** to second earners.[25] It is clear from this project that in addition to the taper rate, this group experience a number of different **barriers to work**. It is vital that parents are able to access childcare (detailed below) as well as having flexible working hours.

> *Fatima is a mother of three from Pakistan. Her husband works in a warehouse.[26] She was a teacher in Pakistan and has a Master's degree. She wants to work as a teaching assistant. She has a good level of conversational and written English but due to availability of space at the adult education provision has been studying at a lower level. If she continues to use this route to gain a Level 2 functional skills in English it could take her another year before she can work as a teaching assistant (L2 functional skills qualifies as GCSE equivalent for jobs requiring English and Maths GCSEs). YWYW are working with her to fund an intensive L2 course which will mean she can start to apply for jobs in a couple of months rather than a year from now.*

As the case study highlights, it is important that potential earners are given employment support to find the best job to match their skills; that they can access training courses; that they receive advice on self-employment; and receive financial support to fund any associated costs with training or preparing for work. The average amount spent per client in YWYW was £1,400, but this short-term investment led to greater wages (and can 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.

Good quality employment support, together with access to good quality affordable childcare (see below), and a second earner work allowance will do far more to support parents and carers to enter the labour market (or work more hours) than government's current proposals to increase conditionality within UC.

[24] Education Policy Institute, *Evaluation of Universal Infant Free School Meals*, 2018
[25] See cpag.org.uk/your-work-your-way for more details
[26] All names have been changed to protect the identity of participants.

Many low-income families include someone who is ill or disabled. 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 the 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.*[27]

Restricting access to health and disability benefits by making assessment processes harder and/or increasing conditionality is not the right approach to supporting ill and disabled people into work. Firstly, it must be acknowledged that for a **significant proportion of this group, employment may not be a realistic short-term prospect**, and they should be provided with adequate financial support from the social security system, whilst also addressing the structural barriers that prevent ill and disabled claimants from working. As the case study below illustrates, increased conditionality can push people further away from the labour market:

> *A street homeless UC claimant, with poor literacy and health problems, failed to keep up with work-related requirements and was sanctioned for three months before getting support from a charity. He might be able to do some work with proper support; however, the sanction only pushed him further into destitution and worsened his health problems.*[28]

For those people who would like to move into work, the social security and employment support systems should be designed to help people find jobs that suit them, and employment support should always be voluntary**. A comprehensive and detailed review should be commissioned by the DWP** to establish what works and what does not, regarding how successful various employment support schemes are in getting disabled people into work and supporting them to stay in work. The DWP should collaborate further with disability organisations and with disabled people to better understand what effective models for supporting disabled people to move towards work look like.

Childcare

The UK has one of the most expensive childcare systems in the world.[29] Support for the cost of childcare is a complex patchwork, differing by age of child and nation.[30] 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.[31]A comprehensive child poverty strategy should commit to reforming childcare to reduce costs and improve quality for all families by moving towards a **universal, publicly funded childcare system.**

Pre-school childcare

CPAG welcomes the expansion of free hours to children aged 9 months to 2 years. CPAG's Cost of a Child analysis found that the main reason why the cost of having a child is highest when children are young is childcare.[32]

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[27] Early Warning System, August 2023 53085
[28] Early Warning System, September 2023 53620
[29] OECD, *Is Childcare Affordable?*, 2020
[30] Provision of financial support for childcare costs is split across three different government departments.
[31] M Jarvie and others, *Childcare Survey 2023*, Coram Family and Childcare, 2023
[32] D Hirsch and J Stone, *The Cost of a Child in 2022*, CPAG, 2022

However, requiring all adults in the house to meet certain work requirements in order to access the scheme is unhelpful. As the government highlighted when announcing these reforms, 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 from accessing childcare places. This will only serve to widen the attainment gap between poorer children and their better-off peers. The government should provide free childcare for every family that needs it.

It is also important that there is sufficient funding to meet the demand. Currently, insufficient funding means that a third of local authorities are unable to meet the demand for 3- and 4-year old 30-hour entitlement[33] and significant concerns have been expressed about the capacity of the sector to deliver the increased offer for younger children too. Over 1 in 4 cannot meet the demand for 3- and 4-year-old 15-hour entitlement. This shortfall is forecast to grow over time – in 2025/26 the total shortfall is estimated to be £5.2 billion.[34] 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.

Extended schools

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**.[35] [36] What is more, where they are free to access, they can significantly **boost family finances.** This provision enables parents to work more or find new or more rewarding work, as well as removing prohibitive childcare costs. 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.

Investment in before- and after-school provision must be prioritised so children can thrive and parents have more opportunities to work. Publicly funding these clubs and activities, and making them universally available, would help reduce child poverty. CPAG has estimated that it would cost £2.6 billion a year to fund every primary school in England to deliver core extended schools activities. For secondary schools, an additional £525 million would be required.[37] 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 yet another cost for families.

Universal credit

In the long-term CPAG advocates for universal childcare provision, however there are some immediate reforms that would help low-income families with childcare costs now. These would increase parents' employment options and support families to escape poverty. Firstly, the level of financial support for childcare provided through universal credit is not adequate. Currently universal credit pays up to 85 per cent of childcare costs, but the remaining 15 per cent can still be substantial. When coupled with the taper rate, national insurance contributions and income tax, it can mean that parents see only a small financial gain from taking on extra work.[38]

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[33] M Jarvie and others, *Childcare Survey 2023*, Coram Family and Childcare, 2023
[34] Women's Budget Group, *Women's Budget Group response to the childcare measures Spring Budget 2023*, 2023
[35] IFS, *Magic breakfast*, 2016
[36] Newcastle University, *Can out of school activities close the attainment gap?*, 2016
[37] CPAG, *Extended school provision*, 2021
[38] CPAG and Magic Breakfast, *Children's futures and the economic case for before- and after-school provision*, 2022

Jill is a lone parent with two children who attend the local primary school. She is currently working 15 hours per week on the minimum wage to fit in work around school drop-off and pick-up (8:30am and 3:30pm respectively). Jill is currently in receipt of UC and is eligible to claim support for up to 85 per cent of her childcare costs. After she's covered her housing costs, Jill's weekly income is £297, which means Jill and her children live below the poverty line (£300 for her family). Jill would like to work more but childcare costs are a significant barrier. If Jill chooses to increase her work to 30 hours per week but has to pay for before- and after-school provision to make this possible, she would lose over half of her increased net income to meet these costs. In this instance, Jill's additional income would be £55 per week (after tax) but she would spend £30 on childcare.

Evidence from YWYW also shows that parents looking for work often struggle to access training, fill out application forms and attend interviews without dedicated childcare support to cover these times. As an immediate step, **childcare in UC must be extended to cover parents who are undertaking training, or carrying out other work focused tasks such as application forms or job interviews**.

Conclusion

As the evidence outlined in this briefing demonstrates, **child poverty is not inevitable**. **With the right policy changes we can substantially reduce the extent and depth of child poverty** across the country. **Increasing child benefit, expanding free school meals, and abolishing the two-child limit and benefit cap** would instantly help **millions of children in poverty, as well as making the country healthier, more educated and more productive**. If the government is serious **about economic growth it should invest in children, as well as removing barriers to work that many low-income families face**.

About CPAG and our sources of evidence

Child Poverty Action Group works on behalf of the more than one in four children in the UK growing up in poverty. It doesn't have to be like this. We use our understanding of what causes poverty and the impact it has on children's lives to campaign for policies that will prevent and end poverty – for good. We provide training, advice and information to make sure hard-up families get the financial support they need.

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.