CPAG's pre-Autumn Statement briefing for MPs

November 2023

Summary of recommendations

- **Invest in children by increasing social security benefits – reducing child poverty immediately and leading to higher long-term economic growth, as well as improved education and health outcomes, including life expectancy.**
- Over time, benefit freezes, sub-inflationary upratings, and other harmful policies have **increased the gap between entitlement and need. To stop this gap getting any wider and child poverty rising above the current 4.2 million, social security benefits need to be uprated in April 2024 by, at least, September 2023 CPI.**
- This is just a minimum though – to reduce child poverty and boost long-term economic growth further, investment in children is needed. **Scrapping the two-child limit and removing the benefit cap** would make the most difference to children living in poverty. While **raising child benefit by £20 a week** and **rolling out universal free school meals across England** would also support pupils' learning and attainment, and reduce the pressure on household budgets for more families.
- Families should be supported into work and at work through **tailored employment support, a second earner work allowance in universal credit and universal childcare**.

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. The *Your Work Your Way* project provided tailored employment support to second earners.

Evidence on child poverty

Poverty has a devastating impact on people's lives. **People living in poverty are in worse health, get less education, have worse well-being and their life expectancy is much shorter**.[1] 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.

What affects the poverty rate?

Trends in child poverty over the past two decades provide clear evidence of what affects the number of households in poverty. From 1999/00 to 2004/05 there was a large reduction in relative child poverty, primarily due to large increases (above the rate of earnings growth) in entitlement to social security. Then from 2004/05 to 2007/08, relative poverty rose as social security was only increased in line with inflation, despite there being strong economic growth. From 2007/08 to 2010/11 there was a fall in child poverty, as the recession led to a reduction in median income. Then 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 hadn't happened.[2]

The importance of social security is also exemplified by the Scottish government's recent approach. The introduction of **the £25 a week Scottish child payment**, among other policies, is **forecast to reduce child poverty in Scotland in 2023/24 by record levels.**[3]

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**. The commitment to end child poverty should be shared across government departments, work in tandem with devolved administrations and be echoed in local authorities. To ensure that child poverty work is coordinated, a dedicated team in 10 Downing Street should oversee and drive the work forward.

The impact of higher social security

Aside from the obvious improvement in current standards of living by giving low-income families more income, there is a growing body of research that looks at the impacts of higher social security in childhood on child and adult outcomes. Studies have shown that there is a **causal link between higher benefits in childhood and long-term economic growth, education and health outcomes, including life expectancy**.[4] 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.[5]

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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] 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.

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

[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

Uprating

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 child poverty.**

In order to stop the gap between entitlement and need growing even wider, **benefits need to be uprated in April 2024 by, at least, September 2023 CPI**. Next year, prices are forecast to be 25 per cent higher than pre-COVID (earnings 27 per cent higher), while benefits up until 2023/24 have only risen by 16 per cent.[6] Therefore an **increase of 8 per cent is needed to stop a real-terms cut.**

The cost-of-living crisis has had a large impact on the finances and mental health of low-income families:

> *If benefits do not increase in line with inflation it would mean we will become homeless. I am already in receipt of full housing benefit and I still need to pay extra to the private landlord. I struggle to cover this and energy bills, food and necessities. It causes me anxiety on a daily basis of losing our home. We have lost 2 homes already in [the] last 6 years.* – Bessie J, single parent with health conditions, September 2023[7]

The worst of the crisis might be over for many families – but this is not the case for low-income families. **Forty per cent of families in the lowest income decile will spend more on energy this winter, compared to last winter.**[8]

> *While the price of some things has gone back down a bit… there are still millions of families, like mine, that are going to have no choice but to leave the heating turned off this winter and stay cold in our own homes due to the cost* - Erik W, single, disabled parent, September 2023 [9]

Some people argue that there is not enough money to increase benefits as tax revenues are forecast to reach 37 per cent of national income, the highest ever. However, there is scope to increase taxes a lot further.[10] Taxes would have to rise significantly to reach the levels of many European countries, for example by over £200 billion to get to Denmark's level.[11] In addition, it is not the case that increasing benefits is unfair on working households. A large share of benefit recipients are working in low-paid jobs and have their income topped up by benefits – **over 70 per cent of children in poverty live in working families**.

Increasing benefits is also better for economic growth. There is a large body of evidence showing that **tax cuts do not lead to economic growth.**[12]In contrast, there is a clear body of evidence to show that **investing in children has a large, long-run impact on economic growth.**[13]

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[6] Author's calculations from Office for National Statistics, *Consumer Price Index*; Bank of England, *Monetary Policy Report*, August 2023; Office for National Statistics, *Total Pay, Average weekly earnings in Great Britain, seasonally adjusted, January 2000 to July 2023*
[7] From Changing Realities, *Terrified for Winter*, 2023
[8] Resolution Foundation, *Preparing the pitch Autumn Statement 2023 preview*, 2023
[9] From Changing Realities, *Terrified for Winter*, 2023
[10] IFS, *This will be the biggest tax-raising parliament on record*, 2023
[11] Author's calculations from *Tax revenue as a share of GDP*, OECD, 2023
[12] D Hope and J Limberg, 'The economic consequences of major tax cuts for the rich', *Socio-Economic Review*, 20.2, 2022, pp539-559
[13] See notes 4 and 5

Reducing child poverty

Uprating by September 2023 CPI would mitigate the situation for many low-income families, but to reduce child poverty and increase long-term economic growth, further investment is needed.

The most cost-effective way to reduce child poverty would be to **scrap the two-child limit.** Currently, 1.5 million children are living in households affected by the policy, the vast majority of whom live in poverty.[14] Scrapping the two-child limit would lift **250,000 children out of poverty and mean 850,000 children are in less deep poverty, at a cost of only £1.3 billion**.[15] The policy has been shown to have a negligible impact on the number of children parents decide to have,[16] 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.

Removing the benefit cap would help some of the most vulnerable families across the country**.** While we welcomed the decision last year to uprate the benefit cap in line with the rest of the social security system, there were still 86,000 capped households in May 2023.[17] Most of these capped households sit far below the poverty line. Removing the benefit cap would **substantially reduce the depth of poverty for the 220,000 children** living in families affected by the cap, and cost just £250 million.[18] It is important to note that benefit-capped households will not get any additional support through uprating, so it is vital that the cap is removed.

Increasing child benefit would further reduce child poverty, while also supporting the income security of 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 see **500,000 children** pulled out of poverty, at a cost of **£10 billion**.[20]

Another way to support all families through the current cost of living crisis and beyond is **universal free school meals**. For families, free school meal entitlements can **relieve pressures on household budgets** and free up money for other living costs. CPAG's analysis shows **that 900,000 children in poverty in England do not currently qualify for free school meals**.[21] Universal free school meals can help to **boost children's learning and attainment**.[22] CPAG estimates that rolling out universal free school meals in England would cost £2 billion.

Further policies that would help low-income families are reducing deductions in UC, reversing the freeze to local housing allowance and providing long-term ring-fenced funding for local crisis support.[23]

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14 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.

15 See note 12

16 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

17 *Written questions and answers - Written questions, answers and statements - UK Parliament*

18 See note 12

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 For more details see CPAG's *Autumn Statement Submission*, 2023

Employment support

It is vital in any social security system that work is appropriately incentivised. However, many people remain unable to work. 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 workless adults living in a household where one person is working – the vast majority of these are parents (usually women) who are caring for children. CPAG's Your Work Your Way (YWYW) project provided **tailored employment support** to these potential second earners.[24]

It is clear from this project that there are many more **barriers to work** than UC's 55 per cent taper rate. It is vital that parents are able to access childcare as well as having flexible working hours. Also, currently, there is no work allowance for second earners, so from the first £1 they earn, 55p is lost in reduced UC. Introducing a **second earner work allowance** (as there is for primary earners) would encourage many more parents into employment.

Disabilities and employment support

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. 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. Firstly, it must be acknowledged that for a **significant proportion of this group employment may not be a realistic short-term prospect**. The government should provide them with adequate financial support from the social security system, while also addressing the structural barriers that prevent ill and disabled claimants from working.

For those people who would like to move into work, the social security and employment support systems should be designed to provide actual jobs for those with the capacity to work, 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.[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]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.** Steps to get to this system include increased support in universal credit, increased funding for provision of free, pre-school childcare and extended schools.[28]

[24] See cpag.org.uk/your-work-your-way for more details.
[25] OECD, *Is Childcare Affordable?*, 2020
[26] Provision of financial support for childcare costs is split across three different government departments.
[27] M Jarvie and others, *Childcare Survey 2023*, Coram Family and Childcare, 2023
[28] For more details see CPAG's *Autumn Statement Submission*, 2023

Conclusion

The government has indicated that addressing economic inactivity will be a priority in this budget. For the government to make meaningful progress in this area, it must first and foremost **shore up the budgets of low-income families** which will reduce stress and worry and give parents the space to prepare for and enter work.

Most immediately, the government can do this by **uprating benefits in line with inflation (September CPI),** as per the usual uprating process. **Abolishing the two-child limit and the benefit cap, increasing child benefit and extending free school meals** are the next steps that must be taken to support low-income families and lift children out of poverty.

With regard to work, the government must rebalance the carrot with the stick. Increasing conditionality and sanctions without addressing the structural barriers parents and carers face moving into work, such as a lack of childcare and tailored employment support, and the way the social security system works, will prove ineffective while also heaping more stress and worry onto struggling families.

The government must urgently re-think its approach. It is not too late to design a more **positive vision for addressing economic inactivity which places children and families at its heart.**