CPAG's 2025 Budget Submission

Summary

- There are a record 4.5 million children living in poverty living in the UK today. CPAG forecasts that without further action this number will rise to 4.7 million by the end of this parliament.
- The government must invest in social security to reduce child poverty, boost living standards overnight and improve wider economic, health and educational outcomes.
- **The top priority is scrapping the two-child limit for all children**. This is the most cost-effective way to reduce child poverty; abolishing the two-child limit would instantly pull 350,000 children out of poverty and stop another 150,000 being drawn into poverty over this parliament, as well as reducing the depth of poverty for a further 700,000 children.
- Another key priority is removing the benefit cap, which pushes poor families into even deeper poverty. Our analysis shows that some families can be left with £3 a week to live on after rent. Abolishing the benefit cap would reduce the depth of poverty for 300,000 children.
- Wider reforms to social security are needed to reduce child poverty further, including increasing children's benefits and removing barriers to work in universal credit (UC).

Introduction

There are a record 4.5 million children living in poverty in the UK today, and without further government action, CPAG forecasts this will reach 4.7 million by the end of this parliament. The government rightly realised the importance of reducing child poverty, and set up a Child Poverty Taskforce to oversee the development of a UK wide cross-government child poverty strategy. This will be instrumental in delivering on a key manifesto commitment to reduce child poverty. However, the success of the strategy will depend on whether the government uses its fiscal powers to reduce child poverty.

Reducing child poverty by investing in the social security system raises the living standards of millions of families across the country overnight. The evidence is overwhelming that investing in social security also has a variety of knock-on effects on children's health, development, educational and economic outcomes.[1] It is rare to find a policy intervention that instantaneously improves the lives of millions of people, while also increasing the long-term prosperity of the country. Governments generally must choose between spending money to provide short term improvements for their populations or making long term investment in the future. But reducing child poverty by investing in social security is a win-win – benefiting children and families instantly, while also breaking down barriers to opportunity, easing pressures on the NHS, and boosting the long term economic potential of the country.

[1] K Stewart, *Ending Child Poverty*, CPAG, 2024

Priority policy recommendations for tackling child poverty

Scrap the two-child limit

The two-child limit is the key driver of rising child poverty, and removing it is the most cost-effective way of reducing child poverty. It also removes the link between need and entitlement, which should be a founding principle behind any social security system.

Scrapping the policy as part of this budget would instantly pull 350,000 children out of poverty and stop another 150,000 being drawn into poverty over this parliament, as well as reducing the depth of poverty for many more.[2] Scrapping the policy today would cost £2bn (this will rise to £3bn over the course of this parliament, as the number of children affected by the policy gets larger, but so will the number of children set to benefit from removing the policy and the return of this money into local economies).

It is vital that the government does not delay on removing the policy. The continued roll-out of the policy means more and more families are affected all the time, an estimated 109 children are pushed into poverty every day by the policy and this will continue until the first children affected by the policy turn 18, in 2035. For children and young people, every day matters.

It is also crucial that the policy is removed for all children. Every child comes with additional costs and the social security system should reflect the fact that households with more children have higher needs and should be entitled to support for each additional child. Forthcoming analysis due to be published by CPAG shows that the additional cost of third and subsequent children is similar to the first two, meaning entitlement must be the same for all children.[3] Economies of scale simply do not exist at this level.

As the country's leading provider of second tier welfare benefits advice, we know that claiming universal credit is already an unnecessarily complicated and challenging process for far too many people. A policy that involves alternative limits, taper rates, or the attachment of additional conditions will only serve to complicate further the ability of families to access their correct entitlement, and will reduce the effectiveness of any measures the government does introduce.

A system that prevents children in some of the poorest families from getting the fullest level of support would continue to be an inversion of the purpose of a social security system, punishing children who need help the most. And any changes that lead to a differential amount of support for children based on their number of siblings is a denial of the right of all children to equal support.

Anything less than full abolition of the policy risks undermining the wider efforts of this government to tackle child poverty.

We often hear from parents about the devastating impact that the two-child limit can have for families who are already struggling:[4]

> *One mother had to leave her full-time job supporting adults with learning difficulties in order to care for her autistic son. Her husband works full time as a learning support assistant in a school. The two-child limit means that the family does not receive universal credit (UC) support for their third (and youngest) child.*

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[2] The results presented here are based on UKMOD version B1.13 UKMOD is maintained, developed and managed by the Centre for Microsimulation and Policy Analysis (CeMPA) at the University of Essex. The results and their interpretation are the author's sole responsibility.

[3] CPAG, *Cost of a Child 2025*, forthcoming

[4] Most recent two-child limit related testimonies can be found in CPAG, *1 million children in working families now hit by two-child limit*, 2025

She says:

> *'The two-child limit is the difference between us being in debt and not. We have utilities debt and at the end of the month we have to use credit cards just to keep living.*
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> *'I've had to cancel one son's gymnastics classes and replaced the other son's violin lessons with a lower quality version and we eat more convenience foods than I'd like. At times my partner and I have gone without a meal so that the children can eat.*
>
> *'I didn't expect to be on universal credit. No one would want to be, and I don't plan to be on benefits for ever. But nobody knows what's going to happen to them.*
>
> *'Two bills I received yesterday wiped out my account and although we'd planned to take the children to a museum as a treat on the last day of the school holiday, I had to cancel it because we didn't even have money for the fare to get there.*
>
> *'Family is so important to me. I shield my children from the fact that we don't have enough money to do things because I don't want them to have the mindset that they are poor. I want them to believe that they can do anything in their lives but it gets harder to shield them as they get older because they're more aware.'*

Another mother works in a local authority setting supporting children who have left care and does a shift of 20 continuous hours each week. This means she barely sees her four children and husband for the best part of two days each week. Her husband works 60 hours a week as a lorry driver. The family does not get UC support for their youngest because of the two-child limit. The couple's work patterns mean they save on childcare but, the mother told CPAG:

> *'I don't see my husband and I don't see my children for the best part of two days. It's a strain on the marriage and on the family.*
>
> *'We can't do family days out and my two youngest can't do afterschool clubs. When it's deciding on the two-child limit, the government needs to put itself in our shoes and try to live on our weekly budget with four children.'*

Scrap the benefit cap

Removing the benefit cap would help some of the most disadvantaged families across the country. There are currently 124, 000 capped households, the vast majority of whom are lone parents who are renting in expensive rental areas.[5] This is because these households have higher needs (and therefore higher benefit entitlement), and lone parents have high barriers to work, meaning they are often unable to earn enough to be exempt of the cap. 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.[6]

As the real-terms cost of living increases, the effects of the cap only get worse and worse. Analysis from CPAG found that a lone parent with three children in Inner London can be left with as little as £3 a week to live on after paying rent, down from £44 a week in 2023.[7] This analysis also shows that this family would be capped across 95 per cent of the country, up from 60 per cent in 2023.

Most capped households sit far below the poverty line. This means removing the cap will not significantly reduce child poverty levels but it will substantially reduce the depth of poverty for the

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[5] DWP, *Benefit cap: number of households capped to May 2025*, 2025
[6] DWP, *Evaluation of the lower benefit cap*, 2023
[7] CPAG, *Raising three kids on £3 a week: The reality of the benefit cap*, 2025

300,000 children estimated to be living in families affected by the cap, and cost £300 million.[8] Living in deep poverty is particularly damaging for children and families, as these case studies highlight.

> *'Just over 2 years ago, following the death of my partner, me and my two children were impacted by the benefit cap. As our rent was high, the amount received from benefits was only just enough to cover our rent plus one utility bill and because of this, we really struggled. I had to stop paying all of our rent because of this. There was nothing left over for food or any other bills.'* (Aurora, Changing Realities participant)

> *One couple family with two very young children living in London have been benefit capped since the husband had to stop work because he has a short-term health problem. He was on a zero hours contract and as well as working was studying two days a week to be a mechanic. He is waiting for an operation which has been cancelled once and can't work until the operation has been done. After rent is paid to their housing association, the family has only £573 to live on per month. They are having to use a food bank and have accrued council tax arrears.* (Case study shared with CPAG, October 2025)

It is also important that the benefit cap is removed in conjunction with any removal of the two-child limit. Scrapping the two-child limit, while keeping the benefit cap in place, will mean that the families living in deepest poverty will not see the full impact of the two child limit being removed, as they will be newly affected by the benefit cap and will therefore have some or all of their entitlement for third or subsequent children removed.

Further reforms that will tackle child poverty

Increase the wider adequacy of the social security system

The two-child limit and the benefit cap were introduced as part of a tranche of cuts to the social security system, which hit families with children particularly hard. These cuts to social security over the last 15 years have been a key driver of rising child poverty in the UK.

For a government that is serious about tackling child poverty, abolishing the two-child limit and the benefit cap are the first critical steps on a longer journey. The adequacy of the social security system more widely must be looked at, to ensure that families with children are protected from poverty. CPAG would prioritise investing in children's benefits first and foremost, by increasing the value of child benefit and/or the child element of universal credit.

However, it is not just child-related benefits which are inadequate. The adequacy of social security needs to increase across the board. Particularly inadequate areas are local housing allowance (LHA), the standard allowance of universal credit (UC), disability benefits, and statutory sick pay. Although fiscal constraints mean this may not happen overnight, one option is to uprate benefit levels by more than CPI year-on-year to reach a longer-term goal of increased benefit adequacy.

Support parents into employment

Employment is a vital component of any meaningful strategy to address child poverty, but on its own it is not sufficient to lift families out of poverty. Wages also do not adjust for family size, this makes it very difficult for low-income families with children to earn enough to escape poverty, they are trapped in poverty because an inadequate social security system. Parents also face higher barriers to work due to factors such as caring responsibilities and childcare.

[8] See note 3

The past fifteen years can be characterised by falling unemployment, but also a large rise in in-work poverty, as out-of-work parents were pushed into low-paid precarious work, while cuts to social security, affected both in-work and out-of-work low-income families. As outlined above, increasing the adequacy of social security is very important in reversing the trend of rising in-work poverty. Nonetheless, there are some sensible employment reforms that would have a positive impact for families living in poverty, even if they would not lead to large-scale reductions in child poverty.

Employment support

The current approach to employment support is one size fits all and focuses on getting people into any job, regardless of their household circumstances, qualifications and aspirations. A variety of evidence including CPAG's own research project Your Work Your Way[9] shows that a more individually tailored approach that focuses on helping parents overcome their substantial barriers to work would be more beneficial. In addition to tailored support for parents, there should be more of a focus on helping parents find good quality work that matches their career aspirations, and this support should be available to those in and out of work. To make this work effectively there needs to be a DWP culture shift away from the current mentality of getting people into any form of work. We welcome the reforms outlined in the Employment White Paper, but it will be important to ensure that any tailored employment support and associated reforms to Jobcentres cater for the needs of parents, alongside other groups.

Work incentives in social security

The incentives in UC for working (more) are too weak. This is a particularly acute problem for households with children, where one pay cheque can only go so far in covering the costs of raising children. In addition, families face the additional costs of childcare.

Work incentives are a particular issue for second earners in couples. As there is no second earner work allowance in UC, from the first £1 a second earner earns, 55p is lost in reduced UC, whereas primary earners can earn a small amount before they start losing their UC entitlement. When combined with childcare costs and taxes, the financial return from work for second earners can be incredibly low. Introducing a second earner work allowance in UC would help address this problem for low-income couple families.

Childcare

UC childcare needs to be reformed so that 100 per cent of costs are covered. Families using UC childcare are still required to pay 15 per cent of their childcare costs, which creates an unnecessary disincentive to work (or work more). Although 15 per cent may not sound like much, when this is combined with the UC taper rate, income tax and NICs, it can make the increase in take-home pay of working more hours very low. UC childcare also needs to move away from retrospective reimbursement. It is unrealistic to expect low-income parents to be able to pay for a term of childcare upfront.

The working families and childcare element of UC should be extended to certain families who are currently excluded. This includes:

- Parents in education or training.
- Single parent carers and disabled single parents not meeting the earnings threshold, who would be eligible if they had a member of the household in work or working sufficient hours.
- Parents with no recourse to public funds, many of whom are in work.

There is also currently a 'disadvantaged offer' (for two-year-olds in families claiming certain benefits). Making this offer universal would have the benefits of furthering the development of children who

[9] CPAG, *Your Work Your Way*, 2024

cannot currently access the scheme, simplifying the system, support those who want to move into work and potentially increasing take-up among low-income families, as the disadvantaged stigma is removed.

Increased access to employment support, introducing a second earner work allowance, and reforming childcare would go a long way towards addressing the multiple barriers that parents experience when trying to move into work or work more.

Reduce the cost of the school day

Although investing in social security is the most effective way to lift children out of poverty and help them get on at school, education policy can also play an important role. School is where most children spend a significant portion of their time, learning and developing.

However, the minimum cost of education parents in the UK must meet is now over £1,000 a year for a child at primary school and nearly £2,300 a year for a child at secondary school.[10] These high costs affect children's experience of school, the options available to them at school, and in some cases even attendance.[11] While the government has rightly taken steps to reduce school costs including the extension of FSMs to all children in households in receipt of UC, further action is needed to ensure children aren't priced out of learning and opportunity.

Further

- Grants should be made available to families struggling with the cost of school uniform and P.E. kit, as happens in all other UK nations.
- The Charging for School Activities guidance should be reviewed and reformed, so children do not have to pay to take part in subjects and curriculum-related activities. Children in lower income households are currently making subject choices based on the associated costs.[12]
- The government should invest further in before- and after-school activities and holiday clubs for all pupils. Breakfast clubs for primary pupils is a welcome start. But wider provision around the school day is needed. This has benefits for all pupils but disproportionately those in low-income households.

Housing

Housing is the largest cost that most low-income families face, therefore any policies in the budget that support low-income families with housing costs are welcomed. Housing costs have risen substantially in recent years, primarily as we have failed to build enough houses or replenish the social housing stock. Meanwhile, support through the social security system has not kept up with rapidly increasing rents and local housing allowance (LHA) has become more restricted. This has led to families having to spend more on housing and far less on other areas, lowering their living standards considerably. It has also led to a record number of children in temporary accommodation, as families are unable to afford even the most basic housing.

CPAG's immediate priority would be increasing the adequacy of LHA, which was frozen in the last budget. The long-term priority is replenishing the stock of social housing, at a rate of 100,000 new homes over 20 years. The past few years have seen many low-income families pushed into the private rental sector. The problem in the private sector is not just that rents are higher. Housing quality is lower, and tenancies are far more unstable. Interviewees were keen to highlight that investing in social housing has a wider impact than on just those families who find new accommodation in a social home.

[10] CPAG, *The minimum cost of education in the UK*, 2025
[11] CPAG, *Priced out of school*, 2025
[12] CPAG, *Back-to-school but blocked from learning*, 2025

It also reduces pressure on the private rental market. Building more social homes will mean lower rents more widely, and families not being forced to live in expensive, poor-quality private rental properties.

Conclusion

This budget represents a once in a parliament opportunity to invest in children, via the child poverty strategy. A failure to do so will likely mean that child poverty rises to even higher levels than the current record of 4.5 million, across this parliament. If the government chooses to take decisive action now, this will have a dual effect of increasing living standard for millions of households overnight, while also boosting wider economic, health and educational outcomes. The larger and sooner the investment in social security the better. Every extra day that children and their families spend in poverty is detrimental for life chances, increasing the barriers to opportunity and constraining the long-term prosperity of the country.

About CPAG

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 solve poverty – for good. We provide training, advice and information to make sure hard-up families get the financial support they need. We also carry out high profile legal work to establish and protect families' rights. Child Poverty Action Group is a registered charity in England and Wales (294841) and Scotland (SC039339).