CPAG's 2026 Budget Submission

September 2026

Summary

- The legacy of this Labour government can and should be child poverty reduction.
- The initial impact of child poverty reduction measures is instantaneous, reducing headline poverty rates, and making a large difference to the financial and psychological strain many families face as a result of living in poverty.
- There is a large body of evidence that indicates investing in children through social security is highly beneficial for a variety of wider educational, economic and health measures, including lowering the long-term NEET rate.
- The best way to provide cost-of-living support to those who need it most is through investing in child-related benefits. Poverty rates are highest for households with children, and the social security system is an effective and tested mechanism for delivering support to struggling families.
- Investing in child benefit would help families across the income distribution. Increasing child benefit by £10 a week would reduce child poverty by 400,000, building on previous policies announced during this parliament.
- Further investment in childcare targeted towards low-income families is necessary.

Introduction

More than one in four children in the UK are growing up in poverty. Behind that statistic are millions of families skipping meals, rationing heating and watching their children go without the basics that their peers take for granted. It doesn't have to be like this. Child poverty is a political choice, and this Budget gives the government a decisive opportunity to reduce child poverty further.

The evidence set out in this submission is unambiguous. Investing in children is not only the right thing to do, it is one of the most cost-effective investments a government can make. A healthier, better-educated population, a stronger future workforce, and lower demand on public services in the decades to come. Failing to invest carries its own cost. CPAG analysis puts the price of child poverty to the public purse at up to £40 billion a year, before accounting for the human cost paid by children themselves.

CPAG welcomes the steps this government has already taken. Scrapping the two-child limit and extending free school meals to all children in households in England on universal credit (UC) mark the most significant reductions in child poverty in a generation. However, there remain 4 million children in poverty in the UK. Further investment in social security is vital to improve childhoods and boost children's outcomes and futures. The government's child poverty strategy published last November rightly identified austerity cuts to social security as a major driver of rising child poverty and worse outcomes for young people. The Labour government has made good progress by reversing some of the harms caused by austerity but, as the strategy also identified, more action is needed to free children from poverty and unlock the potential of our young people. This government has laid the foundations to create a lasting legacy across a generation of children's lives and now must take this opportunity to make further critical progress. This must include sustained investment to lift more children out of poverty. This submission identifies key priorities for investment so government can maintain momentum and continue to reduce child poverty.

Why this government must reduce child poverty

Impact on families' lives

The impact of investing in social security to reduce child poverty cannot be overstated. The removal of the two-child limit will lift 450,000 children out of poverty entirely and mean a further 900,000 are in less deep poverty by the end of this parliament. In many areas the benefits of government policies take time to be realised, but the impact of social security measures to reduce child poverty is instantaneous. Families are immediately relieved of financial and psychological strain, and children are immediately better fed and experience day-to-day improvements to their lives. Government can demonstrate the difference in its measurement of the headline rates of child poverty, and pressures on families are eased overnight. CPAG has already heard from many parents about the benefit that removing the two-child limit will have on family life.

> *'It made our life much less stressful. The stress is the big thing, you're just constantly worried about how I am going to get money for clothes, shoes, food that they need and there's not anywhere near that same stress anymore now. So, I think you're actually a better, nicer parent and a nicer person because you're not constantly stressed about money. It's as much an emotional and psychological effect it's had as financial.'* (Couple with three children affected by the two-child limit, working household)

> *'I've been able to buy a new mattress as my son had his old mattress for over ten years, it was just really good for him because obviously it's helped him sleep, but also for me, being able to get him something that he actually needs rather than thinking, "right, he needs a new mattress, but we need food or I need to pay for my bills so I just can't get it." You know, it's like those things that you just can't get that other people take for granted... Because when you have an extra bit of help financially, those are the things that I put the money into. And I have been able to buy shoes, clothes, uniform without thinking how do I afford everything else.'* (Lone parent with 3 children, in full-time work)

Economic growth

Reducing child poverty is not just good for improving living standards in the here and now, it is also the catalyst for economic growth. It can be challenging for governments to change the path of economic growth but the one thing that economists point towards as being vital is investing in people, where the return is greatest the earlier you invest. There is a wealth of evidence that investing in children through social security leads to positive outcomes across society, including driving economic growth.

Increased social security leads to healthier, better-developed children who achieve more at school. The strongest indicator of how well a child will do at school is family income, with correlation four times stronger than the link between outcomes and place. The attainment gap widens and inequalities deepen as children grow older and progress through school, but it begins from birth. As poverty impacts children's early years and development, the attainment gap sets in and continues to grow as children move through education. Children in receipt of free school meals are 4.7 months behind their peers at the start of their school journey.[1] By the time students are 16, those from lower-income households are 19.1 months behind.[2]

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[1] Education Policy Institute, *Disadvantage – Annual Report*, 2025

[2] See note 1

This is not because children experiencing poverty have less ability or potential or work less hard than other children. The attainment gap persists because poverty affects all areas of school life and holds children back.

CPAG research with school staff has previously found that lesson time and learning is significantly affected by high levels of child poverty. School staff have reported that children growing up in poverty are often tired, hungry, unable to concentrate, and without the resources and equipment they need to fully engage in the curriculum. School staff spend a significant amount of time dealing with the effects of child poverty. Professionals across the education sector recognise the need for more financial support for families, which helps pupils to learn and enables staff to focus on the core parts of their roles.[3] Action in schools must go hand in hand with action on child poverty outside the school gates.

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] They also mean a lower NEET rate. As the Young people and work interim report highlighted, over half of the instances of young people being NEET at age 17 are attributable to poverty and family adversity.[5] Persistent poverty more than triples the risk of being out of education and employment at ages 17 and 23, compared to someone who does not experience poverty.[6] It is incredibly difficult for government to reverse the impact of the disadvantage caused by growing up in poverty in adulthood. Prevention is easier and more cost effective than cure; investing in child-related benefits will lower the long-term NEET rate, while simultaneously improving the lives of millions of families.

Recent analysis has focused 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.[7] 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 to the public purse (in terms of higher costs/reduced revenues) total up to £40 billion a year.[8]

Cost of living

We welcome the Prime Minister showing a clear commitment to helping households with rising costs in his first few months in office. The 4 million children living in poverty in the UK and are more exposed to financial hardship as costs rise, and more broadly families with children inevitably face higher costs.

Previous support packages, during Covid and the height of the cost-of-living crisis that followed in 2022 to 2024, were badly designed to help families with children. They did not reflect the reality that low-income families spend more of their income on essentials, so struggle when costs increase. These support packages also did not include support for children. The flat-rate payments did not vary by household size, meaning families with children, who face the highest costs, received no more than single adults.

Any new support package must be proportionate to need, reflecting household size and protecting children in poverty. We believe that the best way to provide cost of living support is through increasing

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[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, pp903-934
[5] DWP, *Young people and work interim report*, 2026
[6] JRF, *Falling through the cracks: how childhood hardship shapes life chances*, 2026
[7] M Bailey and others, 'Is the social safety net a long-term investment? Large-scale evidence from the food stamps program', *Review of Economic Studies*, 91(3), 2024, pp1291-1330
[8] D Hirsch, *The cost of child poverty in 2023*, CPAG, 2023

child-related benefits for two key reasons. First, it is a measure targeted at families with children, reflecting their higher costs. And second, it will help to deliver on government's ambition to reduce child poverty while also helping a larger number of families with children with the cost of living.

Policy recommendations

Invest in child benefit

Reducing child poverty will require sustained action from government. This briefing identifies two key priorities for government action in the forthcoming Budget to continue to build momentum, reduce child poverty, and to further lay the ground for continued action in the next spending review and beyond.

Child benefit has not kept up with the cost of living. Child benefit (for the first child) is currently only £27 a week, less than 10 per cent of what CPAG estimates the cost of a child to be.[9] This is £5 lower, adjusting for the increased cost of living, than in 2010.[10] Child benefit is only £18 a week for second and subsequent children, despite CPAG analysis showing that there are only small economies of scale when it comes to children. This means even less of the costs are covered.

CPAG would recommend increasing child benefit by £10 a week. The impact of the cuts to child benefit on children cannot be overturned overnight, but the sooner children are invested in, and the greater the investment, the higher the return. This would increase living standards for 11,000,000 children, lower the depth of poverty for 3,000,000 children, and lift 400,000 children out of poverty at a cost of £5 billion.[11] This change would build significantly on policies already announced during this parliament and ensure there is a strong child poverty reduction legacy for this government.

Childcare

The childcare system doesn't work well for many parents. It is costly, hugely complex, and in some areas, there is not enough provision. This can create significant barriers to parents, making it harder to work and locking some children out of vital early education. CPAG recognises that these problems exist for most parents and that a fundamental redesign of the whole system is needed. But these barriers particularly affect families on low incomes, and immediate action should be targeted towards children who are facing the most disadvantage and stand to benefit the most. Ultimately the government should transition towards a high-quality, publicly-funded universal childcare system.

Many children in lower-income households are excluded from the funded childcare offer in England because their parents have low earnings or face barriers to increasing their engagement with paid work. This includes parents in education or training who are excluded from accessing funded childcare. Families can only access the extended 30-hours childcare offer if both parents are in 'qualifying paid work', meaning many of the poorest families are shut out and children lose out. While the 15-hour offer provides something for these families, it is insufficient. It would be better to make the 30-hour offer universal. This includes to families with no recourse to public funds, who are currently unable to access either scheme or the childcare element in UC.

Even for parents who can access the schemes, the remaining contribution they must make can create a significant barrier. Families using UC childcare are still required to pay 15 per cent of their childcare costs, which when combined with the UC taper rate, income tax and NICs can make the increase in take-home pay of working more hours very low. If parents need to pay for 'additional extras' for their

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[9] CPAG's calculations from CPAG, *The Cost of a Child in 2025*, 2025
[10] CPAG's calculations using ONS, *Consumer Price Index*, 2026
[11] The results presented here are based on UKMOD version B1.16 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.

childcare provision, which though theoretically optional are often impractical or extremely difficult to avoid, this adds a further burden to already-stretched budgets.

Many families on UC also continue to face difficulties paying for upfront childcare costs owing to the failure to implement a proper mechanism to address this so far. Support is currently offered through the flexible support fund, a discretionary scheme work coaches can use to support claimants with costs such as childcare, but many claimants do not know about it, and its discretionary nature means it is not an adequate solution to addressing upfront costs routinely. The DWP should move quickly to put a more permanent solution in place to live up to the commitment to address this within the child poverty strategy.

Conclusion

This Budget represents a chance to build on the success of removing the two-child limit and extending free school meals to all those in families receiving UC in England. If the government chooses to take decisive action now, this will have a dual effect of increasing living standards 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).