CPAG POST-BUDGET AND SPENDING REVIEW BRIEFING
A briefing for parliamentarians

Introduction

There were some welcome announcements in today’s budget and spending review that will help support children and families on a low income, but this was not a budget that prioritised ending child poverty. The changes to universal credit (UC) and the increase in the minimum wage will help address rising in-work poverty. However, there was nothing in the announcements today for the millions of claimants, many of whom are families with children, who access support from the social security system and cannot currently work – for example, because they are disabled, or they are caring for young children. As a result, families are at risk of being plunged into deeper poverty.

This is a glaring omission that must be rectified if the government is committed to levelling up households and communities. Many of these families are already living in deep poverty, and will have lost £20 a week as a result of the cut to UC, leaving a hole in their finances at a time when living costs are rising. The £500 million Household Support Fund, announced in September, will go some way towards helping children and families in crisis survive a difficult winter. But it does not begin to compensate for the money that has been stripped out of the wider social security system in recent years.

Those measures also do nothing to address the structural reasons why many families don’t earn enough through work – because for example they struggle to find higher-paid work that matches their childcare obligations, the cost of childcare is too expensive, or insecure work makes it too difficult to work enough hours to escape poverty in a way that is compatible with family life.

And the budget failed to take the obvious steps that would help to end child poverty. Investing in children and their futures by raising child benefit by £10 a week would provide a small boost to families and reduce child poverty by 450,000. Scrapping the benefit cap and two-child limit would cost only £1.9 billion and pull nearly 300,000 children out of poverty.

In addition to shoring up family finances, which must be the priority to tackle child poverty, children and families need support in other ways. Investment in family hubs, early years childcare, and the Holiday Activity Fund are welcome, but they only partially make up for a decade of cuts to services for children and families. Further investment in education recovery following the pandemic is vital, particularly for children and families on low incomes who have been disproportionately affected, but the amount committed by the government does not match the scale of the challenge.

This briefing provides brief analysis of some of the key announcements made in the budget and spending review today that will affect the lives of low-income children and families. And it addresses some of the areas that did not receive investment, but need attention.
Universal credit

The spending review included two changes to UC which will help working recipients: a reduction in the ‘taper rate’ and an increase in the ‘work allowance’.

- **The taper rate**: the amount of UC that a family receives reduces as their earnings increase. Currently claimants lose 63p in their UC income for every £1 they earn from work (after tax and national insurance). The chancellor announced that this would reduce to 55p for every £1.

- **The work allowance**: families with children and disabled people benefit from a ‘work allowance’, which is the amount a family can earn before their UC begins to be withdrawn. The chancellor announced that the work allowance would increase by £42 a month (£500 a year). For most families this will increase the work allowance from £293 to £335 a month.¹

The taper rate change will mean that UC recipients who are in work will keep more of their earnings, and claimants who benefit from the work allowance will gain financially if they increase their hours. The exact impact of these changes on a family’s income will depend on their earnings and family composition.

In July 2021, we published a report: Universal credit: what needs to change? Changes to the work allowance and taper rate were a part of a package of reforms we proposed to make UC work better for children and families. These changes are progress, but they must sit alongside other changes to UC to ensure it works well for all families. A particular issue with the work allowance is that there is no work allowance provided to families when a second person in their household starts work, which often makes it financially difficult for second earners to take on employment.

The spending review did not offer any support for UC recipients who aren’t in work. These families saw their UC cut by £20 a week in October, which brought the value of unemployment benefits to its lowest level since 1990/91. This includes 1.7 million UC claimants who are not required to look for work because of their health, disability or caring responsibilities. Their incomes will fall further in real terms in the face of inflation that is forecast to hit 4 per cent.

Similarly, no changes were announced to support working or non-working legacy benefit claimants. Many families remained on legacy benefits because they cannot afford to wait five weeks for their first UC payment, or because they are disabled and would be worse off if they moved on to UC.

Today’s announcements purported to focus on supporting working families, but there was little mention of the financial barrier that childcare presents to work, which could be addressed within UC. Parents can claim back up to 85 per cent of their childcare costs through UC up to a cap. But this support is paid in arrears, meaning parents who need childcare in order to work have to pay for it upfront – impossible for some. The government could do more to help low-income parents enter work or increase their hours by covering 100 per cent of childcare costs through UC, and providing that support upfront.

Technical changes to the way universal credit operates, like those announced today, must also be matched by an increase in the amount of money families receive from universal credit in order to reduce child poverty effectively.

Minimum wage

The increase in the minimum wage, announced today, is welcome, but an increase in the minimum wage is not, on its own, a solution to tackling poverty. Up to 2 million people (around 7 per cent of the total workforce) stand to benefit from the rise in the minimum wage,² and approximately 19 per cent of these 2 million people are living

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¹ A minority of families that benefit from the work allowance have a higher threshold of £515, which would increase to £557 per month.
in households in poverty. A key reason for this is that minimum wage workers are often the second earner in households that already have substantial income from the primary earner.

It is also important to go beneath the headline figure announced today to understand what this means for workers in real terms. The nominal rise in the minimum wage is 6.6 per cent. Inflation is forecast to be 4 per cent next year, meaning the real rise is only about 3 per cent. Workers in households on UC will not fully benefit from this increase due to benefits being tapered away as earnings increase – as addressed in the section above on UC. Even with the reduction in the taper rate, they will still lose out on over half of the 3 per cent rise. Also, many minimum wage workers do not work full time and so will only partially benefit from the increase.

In addition to the minimum wage, tackling in-work poverty effectively requires addressing the inadequacy of the social security system, the high cost of living, and families working a low number of hours – often because of barriers like childcare costs and availability. Those who do benefit from the increase in the minimum wage will not benefit that much due to inflation, the taper rate and working a low number of hours. For example, someone working 16 hours a week and claiming UC will only see their real income rise by £100 a year.

**Local Welfare Assistance**

The chancellor referenced the government’s £500m Household Support Fund, announced in September. This cash injection for local authorities is welcome. It will allow them to continue to support low-income families in crisis and those struggling to pay for essentials. The COVID-19 pandemic made clear the lifeline local welfare assistance schemes in England provide, keeping families afloat in times of unexpected financial crisis and preventing them from falling into destitution.

However, the absence of any longer-term funding commitment is disappointing. Since the start of the pandemic, the government has announced a series of piecemeal pots of funding at short notice. This makes it harder for local authorities in England to plan strategically and invest in preventative services and effective crisis support that protects households from financial hardship.

Equally, local welfare assistance is not a panacea – it cannot make up for a lack of support in other parts of the social security system. The government must be held to account when it continues to point to this fund as a way of making up for cuts in social security spending, as it has done with the recent cut to UC for example, which takes £6 billion out of the social security system.

In March next year, local authorities face another funding cliff edge, when the Household Support Fund is due to run out. The government should commit to a longer-term funding settlement for local welfare assistance with strong guidance to ensure families who face financial crisis get the support they need.

**Education**

The chancellor committed to increasing the core schools budget in England with an additional £4.7 billion by 2024-25, which is much needed given that in real terms the per pupil spending is currently lower than it was in 2009-10. He also announced a new package of £1.8 billion to go towards the pandemic education recovery programme, bringing the total amount invested in education recovery to £4.9 billion. This still falls far short of the investment needed to support pupils with the effects of the pandemic, which has been estimated at around £15.5bn.

As well as insufficient funding, the budget failed to include investment in specific measures that we know would particularly benefit lower-income pupils and their families, namely extended schools and free school meals.

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4 School spending in England, IFS, 2021
5 Education recovery and resilience in England, EPI, 2021
Investment in before- and after-school clubs and activities, otherwise known as ‘extended schools’, improves attainment levels, particularly for disadvantaged pupils, and supports children’s health, wellbeing and development. CPAG estimates that £2.6 billion a year would support every primary school to deliver core extended schools activities. Extended schools also have another benefit: they give parents, and mothers in particular, more options about working hours and locations because they don’t have to worry about childcare. This is key to the government’s plan for jobs.

The budget also overlooked the critical need to increase free school meals eligibility to more children. At present, just under one million children in England who are living below the poverty line do not qualify for free school meals mainly because their parents work. In addition, these children will not benefit from the government’s Holiday Activities and Food programme. While we welcome the ongoing funding of this programme (announced today as £200 million per year), it is still limited to eligible families. Increasing free school meal provision to all families on UC and equivalent benefits would cost £620 million a year in England, and would ensure all children in poverty can benefit from a balanced meal each day, helping them to learn and participate in education. This would also help working families considerably with the rising cost of living. Any package to ‘level up’ education must include investment in these areas.

**Conclusion**

While the chancellor was full of optimism for the country’s future during today’s budget and spending review, children and families living on the lowest incomes are still in very uncertain times. There was little announced today that guarantees a brighter future for these families, and the steps we have seen to improve UC and the minimum wage focus almost entirely on families who are able to work. The government must now prioritise ending child poverty and build on some of the announcements made today to ensure all children and families get the support they need.

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**About CPAG**

Child Poverty Action Group (CPAG) 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 charity registered in England and Wales (registration number 294841) and in Scotland (registration number SC039339). Registered office: 30 Micawber Street, London N1 7TB.

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6 [*Extending school time*, EEF, 2021]
7 [*Extended schools provision*, CPAG, 2021]
8 [*Fixing Lunch: The case for expanding free school meals*, CPAG and Covid Realities, 2021]