Paying the price of child poverty

A roadmap to lifting millions of children out of poverty, transforming life chances and boosting the economy.

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About Action for Children

Action for Children is driven by love. We take action so children don't miss out on a safe and happy childhood. We have thousands of people working on the ground, giving children and young people the protection and practical help they urgently need.

In 2023/24 we helped 687,755 children, young people and their families across the UK.

We provide practical and emotional support through 372 services in local communities across the UK, in schools and online. This includes 68 children's centres and family hubs, 61 family support services, 14 homes for disabled children, 11 residential children's homes, 55 short breaks services, six services for young people at risk of criminal exploitation and one residential school.

We're one of the largest voluntary sector providers of residential care in England and the biggest non-local authority provider of disability services for children and young people. We also campaign tirelessly to influence government policies and bring lasting improvements to the lives of children and their families.

"The children we support are surviving on the bare minimum of food, clothing and warmth, all the things so many of us take for granted. They are literally starving. And you see that desperate look on the mums' faces."

- Action for Children practitioner

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Foreword

Paul Carberry, Chief Executive, Action for Children

Every child deserves a safe and happy childhood and the chance to fulfil their potential.

Yet today, in the UK, 4.3 million children are paying the price of poverty: shamed and isolated, coping with the daily impact on their mental and physical health, their education and their wellbeing. Child poverty is robbing children of their childhood and damaging our economy and society.

The forthcoming Child Poverty Strategy is the best opportunity in decades to turn the tide and consign high levels of child poverty to the distant past.

This report provides a roadmap for how the government can lift more than a million children out of poverty by 2030, halve the child poverty rate within twenty years and all but eliminate deep child poverty. Our comprehensive analysis has modelled the impact of a range of policy levers – including reform of social security, measures to increase income from employment and lower housing costs – to identify the combination that is needed.

The findings are clear. Significant investment in social security, supported by other levers, is essential to delivering the bold and ambitious change this government has promised. Unless it delivers, poverty and hardship will continue to get worse.

By investing in our children, we can transform the life chances of millions and boost the economy. It's time to pay the price of reducing child poverty. We can't afford not to.

Paul

Debbie Crosbie, Group Chief Executive, Nationwide

The number of children living in poverty in the UK right now is unacceptable. As an organisation with a clear social purpose, we want to make an impact on the issues that matter most to customers, businesses and society. That's why we have partnered with Action for Children through our Fairer Futures social impact programme. We want to make the biggest difference, together.

Last year, I visited the charity's services in Glasgow, where I grew up. I spoke to frontline workers, attended a family support session and met with a family struggling, like millions of others, with the cost of living. I heard first-hand about the devastating impact of poverty on the lives of children.

I also learnt about the vital support on the ground, a lifeline to many, and how Fairer Futures is already making a difference. Our partnership includes a Family Fund to pay for essentials, like food, bills and clothing, as well as Family Clubs – a warm place for families to be together and share a meal.

While initiatives like these, alongside a range of other support, are helping some of the most disadvantaged families in our communities, it is clear that we need something much bigger if we really want to reduce child poverty. That is why this research is so important and why I am so proud that Nationwide has been able to support it.

I hope this range of detailed options, shows the way for national policy makers to deliver long-term, lasting change. All our children must be given the opportunity to thrive.

Debbie

Executive summary

4.3 million children are now paying the price of poverty in the UK. Without sustained policy action, a further 400,000 children will be pulled into poverty by the end of the decade.[1]

Action for Children commissioned Public First to model policy scenarios for reaching a set of ambitious poverty reduction goals, including **lifting at least a million children out of poverty by the end of the decade and halving the child poverty rate in the long-term.** In this report, we include a range of interventions to support incomes through the social security system, improve opportunities for income from employment and reduce household costs. We also present new estimates of the long-term benefits to society and the economy from reducing child poverty.

The government has said its forthcoming Child Poverty Strategy will prioritise reducing the headline child poverty rate and improving the lives of children experiencing the most severe forms of poverty.[2] It's clear from our findings that delivering ambitious progress in these areas will require substantial spending increases. In the context of a challenging fiscal environment and a government looking to find welfare savings, this will require difficult choices – but poverty has a price too. In choosing to invest in children and pay the price of reducing child poverty, the government can transform the lives and life chances of millions of children and reap the benefits for decades to come.

Six key insights to inform the government's 10 year Child Poverty Strategy

1. Our analysis shows that bringing child poverty down to low levels over time is achievable. The strategy should look beyond a 10-year timeframe and embrace the art of the possible, setting ambitious short, medium and long-term goals to achieving transformational change for families in poverty.
2. Scrapping the two-child limit and benefit cap is the single most cost-effective policy option the government could implement, but it won't be enough by itself. If this was the only significant spending commitment in the strategy, more than a quarter of children will still be living in poverty by 2035.
3. In building the case for action, the government should recognise the long-term benefits to society and the economy of reducing poverty. The strategy simply cannot succeed without increasing government spending.
4. If low-income families are to have any hope of keeping pace with median incomes, the child-related parts of Universal Credit need to increase in real terms above the rate of inflation. It will be very difficult to deliver sustained reductions in child poverty over time without this.
5. Policy action to improve the take-up of mean-tested benefits and delivering new homes for social rent are two other particularly powerful levers the government should reach for.
6. Interventions focused on increasing income from employment have an important part to play in the strategy. But these are less targeted, less cost-effective and the impacts on child poverty are more modest and uncertain. The strategy must deliver an appropriate balance between social security and employment measures.

Key findings from our policy scenarios

The government can lift 1.2 million children out of poverty by 2030

- The government is unlikely to meet any remotely ambitious child poverty reduction goals in a cost-effective way without scrapping the two-child limit and benefit cap. This alone would cut child poverty by around **600,000 by 2030 (13%)**, costing **£3.9 billion** annually. Without scrapping the two-child limit and benefit cap, policymakers would need to implement every other policy in our model to reduce child poverty by at least a million by 2030, at a cost of £22 billion a year.
- To go further and reduce child poverty by **1.2 million (28%)** by 2030, the government would need to also introduce a 'benefits escalator' that increases the child-related elements of Universal Credit above the rate of Consumer Price Index (CPI) inflation each year, alongside action to improve the take-up of means-tested benefits. This would cost an additional **£10.4 billion** a year by 2030, equivalent to a 6% increase in working-age welfare spending. This was the most cost-effective scenario of those modelled that reduces child poverty by at least a million by 2030.
- A smaller fiscal commitment – to 'scrap the caps' and introduce a 'benefits escalator' would take **800,000 children** out of poverty and cost £6.6 billion annually by 2030. This would reduce child poverty by almost a fifth (19%), with the rate falling from 30% in 2025 to below 25% in 2030.

Tackling child poverty is costly, but the long-term economic prize is significant

- One way of quantifying the long-term costs and benefits of reducing child poverty is to consider the positive gains that reduced poverty levels would generate for particular cohorts of children across their lifetimes.
- We estimate that, if the government reduced the child poverty rate by 28% (1.2 million) by 2030, the total policy costs of keeping it at that level for children in 2030 would be **£80 billion** over their lifetime, but the benefits to society would be worth at least **£164 billion** through reduced public service demand, higher tax revenues and lower welfare spending.

Measures to increase income from employment have a part to play in the strategy, but are less targeted, less cost-effective and more uncertain

- A more mixed social security and employment scenario could reduce the poverty rate by five percentage points to 25%, lift **700,000 children** out of poverty by 2030 and increase employment by **125,000** – at a cost of **£8.9 billion** a year. This would involve scrapping the caps, lowering the Universal Credit taper rate from 55% to 50%, introducing a second earner's work allowance in Universal Credit and investing in personalised employment programmes to increase the employment rate among single parents, carers and disabled people.
- An alternative employment scenario that only included additional social security spending on the work-related aspects of Universal Credit (work allowances and the taper rate), alongside investment in employment programmes for disadvantaged groups, would have a much more modest impact on child poverty. We estimate this would reduce child poverty by less than 4%, lifting **150,000 children** out of poverty and boosting employment by **83,000**, at a cost of **£4.4 billion** annually by 2030.

> ***"I can't work because of health issues, so I rely on Universal Credit. The money I get doesn't go far enough…It makes me feel awful that I can't provide basic things for my daughter. It's just degrading as a parent. When you're hungry and worrying about feeding your child, you can't focus on anything else."***
>
> \- A mum supported by Action for Children services

A transformational goal to halve child poverty could be reached within 20 years

- A more ambitious, long-term goal to halve child poverty could feasibly be reached by the mid-2040s. This would involve full implementation of all of the policy measures in our model: scrapping the caps, introducing a 'benefits escalator', improving the take-up of benefits and changes to the Universal Credit taper rate and work allowances. Additionally, it includes a ramping up of social housebuilding to reach 90,000 a year, introducing a real living wage and reforms to the Child Maintenance Service.
- Building more homes for social rent could have a very substantial impact on child poverty rates in the long run, though with high upfront construction costs initially. We estimate that, if done in isolation, ramping up to 90,000 social homes a year over time would result in 450,000 fewer children in poverty by 2045.
- This combination of measures would lift more than **2 million children out of poverty by 2045**, returning the child poverty rate to levels not seen since the 1970s. In addition to cutting the headline child poverty rate by half, full implementation of this scenario would all but eliminate deep child poverty – with the rate falling from 20% of children in 2025 to 8% by 2045.
- Such major policy intervention would require substantial upfront investment, with spending rising over time to reach **£39.6 billion** in additional annual spending by 2045 (2025 prices). This would be equivalent to a 2.2% increase in current government spending.

Tackling child poverty in the devolved nations: a coordinated approach

The policy options considered in this report relate to both reserved and devolved powers, though many of the policy and fiscal levers necessary for significant poverty reduction remain with the UK government. While the analysis presented in this report is at the UK level, implementation of these scenarios will require close coordination and policy coherence between governments in Westminster and the devolved administrations.

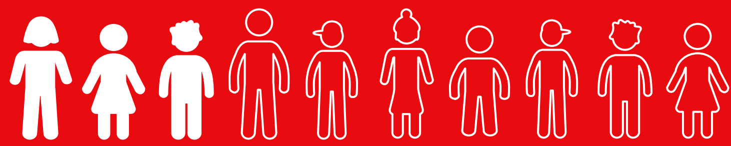
The UK Child Poverty Strategy must take a comprehensive and joined-up approach that recognises the legal, economic, and social contexts of each nation, including how Barnett consequentials can be utilised to drive the most effective actions in all four nations. Coordination cannot end once the strategy is published but must be a continuing process. A forum should be established for officials and ministers across all governments to collaborate on implementation of the UK strategy (and building on the work already done at the nation level) and provide a mechanism for scrutiny and discussion where policy and practice diverges between nations.

"I think people think you can just sort of bounce back from the impact of poverty on your early physical health, mental health and development. But it took me a long time just to adjust to a full fridge, seeing it was full was actually overwhelming, I would avoid the fridge."

- Young person campaigning with Action for Children

3 in 10

children are now paying the price of poverty in the UK



1.2 million

children can be lifted out of poverty by 2030 at a cost of **£10.4bn** a year

2 million

children can be lifted out of poverty by 2045 at a cost of **£39.6bn** a year

600,000
children lifted out of poverty by 2030 by scrapping the caps.

£164bn
in societal and economic benefits if child poverty is kept 28% below current level.

150,000
children lifted out of poverty by 2030 if spending is only focused on employment measures.

450,000
fewer children in poverty by 2045 from building up to 90,000 social homes a year.

Individual policy ratings:
prospects for long-term impact on child poverty rates

High Impact	Moderate Impact	Low Impact
Scrapping the two-child limit and benefit cap	Reducing the Universal Credit taper rate to 50%	Increasing Statutory Sick Pay to the real living wage
Improving benefits take-up	Employment support programmes	Increasing Universal Credit childcare to 100% of costs
Building 90,000 homes for social rent a year	Universal Credit second earner's work allowance	Removing the benefit cap alone (without scrapping the two-child limit)
Introducing a 'benefits escalator' for the child-related elements of Universal Credit	Universal Collect and Pay for child maintenance	
	A 'real' living wage	

Case study: **Jasmine**

Jasmine has four children aged nine, seven, five and two. She has been struggling to make ends meet since separating from her children's father, particularly as the two-child limit denies support to her two youngest children.

"We were only slightly better off when I was with their dad but now that it's just me on my own, the slightest thing can set me back – it's such a precarious existence now. He pays me maintenance and still sees them every other weekend and takes them out, but it's been really difficult money wise the rest of the time"

"My eldest has really picked up that we're struggling more and asks, 'are we going to be OK? how are we going to do this?' and I'll just have to say 'we'll be fine'. I've just about managed to cover electricity in the summer but now it's cold in the evenings I try to save money on the gas by wrapping the kids up in double layers in bed, but I'm still just eating through the money on the meter…There are some times where my kids are like 'Mummy, I'm really cold' so as well doubling up layers, I use lots of blankets – I have so many blankets. My kids' shoes are another huge expense – I just don't have the funds to buy them new shoes or buy them a few pieces of school uniform."

Jasmine feels that lifting the two-child limit would make a huge difference to her family:

"I'm noticing that I'm trying to make money stretch further and it's just not stretching. So it could make a huge difference, just having a little more money to account for. I have four children, I don't get any money for two of them. It's not that I necessarily expect it – I do not. But would it help? Yes, let's be honest, we're in a crisis."

"What the government is basically saying is that especially in families who are living in poverty and are on the literal breadline, if they've had more than two children they're expected to just stay in poverty, those children are expected to suffer. And at the end of the day, it's nothing to do with the child, it's not the child's fault."

"We were working when we had our third child, so it was our choice… We didn't expect her to be disabled or need extra care and we would have worked and paid for it, but the situation changed and that's where it leaves you. We weren't on benefits and then thought we'll have three kids or whatever else, it actually changed for us and we were working up until that point. And then not to get the help, it doesn't seem fair because it was a change...and it does happen to people, a lot of people."

- A dad supported by Action for Children services, impacted by the two-child limit

Introduction

In this report, we chart a range of possible pathways the government could follow to meet some ambitious child poverty reduction goals.

1 Child poverty in the UK

Examines the policy background; explaining how poverty is measured, exploring the key child poverty trends over the decades and highlighting the lessons for policymakers from past efforts to tackle child poverty.

2 Policy options to reduce child poverty

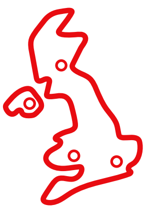
Outlines the policy options included in our model and presents the results of various simulated scenarios, with a particular focus on two primary goals: reducing child poverty by a quarter by the end of this Parliament and halving it within twenty years. We present a range of policy pathways and costings, assessing their impact on the headline child poverty rate, the deep child poverty rate, and key socioeconomic groups, including single parents, larger families, families with disabled members and families from Black and minority ethnic backgrounds.

3 The social and economic benefits of reducing child poverty

Provides new estimates of the long-term societal and economic benefits of achieving these two ambitious child poverty goals, accounting for reduced public service demand, lower welfare spending and increased tax revenues from higher earnings in adulthood for children lifted out of poverty.

4 Conclusion

Presents some concluding thoughts and key insights for policymakers to consider as they develop the Child Poverty Strategy.



The analysis in this report is presented at the UK level. Data limitations due to low survey sample sizes in the devolved nations and the complexity of the different policy environments means that it has not been possible to model policy impacts at the individual nation level.

1. Child poverty in the UK

1.1 How is poverty measured?

Poverty is about money. A lack of income from earnings or social security that means a family's income falls below the poverty line. A family is in poverty if they have a net household income (after tax and other deductions) of less than 60% of the median for that year. Whether you are in poverty is determined by how your income compares to the average (median) income of the population. The poverty line will therefore move as average incomes rise or fall each year. The relative poverty after housing costs measure best reflects the financial resources required to meet a contemporary standard of living. It's used throughout this report to refer to the main child poverty rate, defined as the percentage of children living in households below the relative poverty line. We also include in the report an additional relative measure of deep child poverty, referring to families with a net household income below 50% of median income for that year.

1.2 What is the poverty line?

The poverty line is set at 60% of median household income for a given year. In cash terms, this threshold looks different for different types of families: a couple with two children needs a higher income to enjoy the same standard of living as a single person without children. The poverty statistics published annually by the Department for Work and Pensions (DWP) use a process called equivalisation to adjust for differences in household size and composition.

In 2022/23, the poverty line across the total population was a net, equivalised household income of £327 per week (after housing costs). For a single person without children, this is equivalent to £190 a week, for a single parent with two children it is £392 a week, while a couple with two children need more than £530 a week to clear the poverty line.

1.3 Child poverty today: key facts and figures

Three in 10 children (4.3 million) are now growing up in poverty in the UK (30%). Children are much more likely to be in poverty compared to working-age adults (20%) and pensioners (16%).

Other indicators can help to validate and enrich our understanding of the headline poverty rates. A range of hardship indicators support the view that levels of poverty and hardship among families with children are indefensibly high, and getting worse:

- 1 million children experienced destitution, the most extreme form of poverty, in 2022 – a 186% increase since 2017.[3*]
- 160,000 children were living in temporary accommodation in June 2024, a 15% increase on 2023 and the highest number since records began. Compared to a decade ago, child homelessness numbers are up by 81%.[4]
- The number of food parcels given out by Trussell passed 3 million in 2023/24, including 1.1 million provided for children – a 133% increase since 2017/18.[5]
- According to official government figures, the proportion of children living in food insecure households increased by 46% between 2021/22 and 2022/23, from 1.7 million (12% of all children) to 2.3 million children (17%).[6]

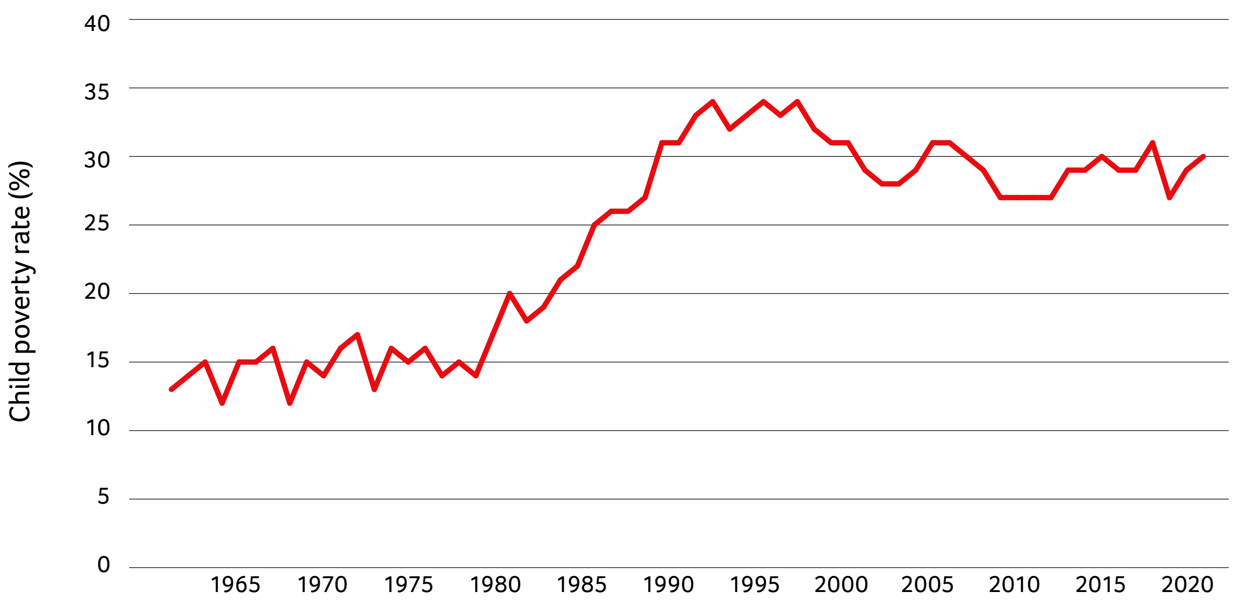
* Destitution is defined as either lacking two or more of six essentials (shelter, food, heating, lighting, clothing and basic toiletries) over the previous month, or having an extremely low income (£125 a week for a single parent of one child, or £205 a week for a couple with two children).

1.4 Trends in child poverty

Looking at historical trends in child poverty, four distinct periods can be identified:

- **The 1980s surge:** Throughout much of the 1960s and 1970s, fewer than one in six children were in poverty. Child poverty increased dramatically during the 1980s, rising from only 15% of children in 1978 to more than a third of children by 1993 (34%).
- **New Labour years from 1997 to 2005:** From the late 1990s onwards, the New Labour government committed extensive energy and resource to addressing child and pensioner poverty, with billions invested in social security and other programmes. The child poverty rate fell significantly from 34% in 1998/99 to 28% in 2004/05, lifting 700,000 children out of poverty.
- **The inverted U-shape, 2004/05 to 2010/11:** Progress on child poverty by the Labour government slipped into reverse between 2004/05 and 2007/08, a period marked by a slowdown in earnings growth for parents and markedly less generous growth in social security entitlements for families with children.[7] Child poverty levels then fell during the Great Recession (2008 to 2010) due to falling average incomes: the gap between the poorest households and the middle got narrower as a consequence of the recession, rather than because poorer households were substantially better off.
- **2010 onwards:** The child poverty rate remained flat during the early years of the coalition government but has been steadily rising since 2013/14, coinciding with a series of major changes to the social security system, including the introduction of Universal Credit, the benefit cap and two-child limit policies, a 1% cap on annual increases to benefit levels from 2014 to 2016 – followed by a total freeze until 2020, and repeated cuts to Local Housing Allowance. A blip in the first year of the pandemic saw child poverty rates momentarily fall back, after the temporary £20 a week increase to Universal Credit helped to push up average incomes at the lower end of the income distribution. The withdrawal of that support and the subsequent income shock caused by the cost of living crisis pushed child poverty levels back up again. Without sustained policy action, a further 400,000 children will be pulled into poverty by the end of the decade.[8]

Figure 1: Child poverty rate (relative, after housing costs), 1961 to 2023



Source: Institute for Fiscal Studies, based on data from the Family Resources Survey for 1994/95 to 2022/23 and the Family Expenditure Survey for data for data from 1961 to 1993. Years refer to financial years from 1993 onwards (for example, 2005 refers to 2005/06).[9]

Tackling child poverty in the devolved nations: a coordinated approach

Child poverty rates vary significantly between the UK nations. Rates in Northern Ireland (23%) and Scotland (24%) are much lower compared to England (30%) and Wales (29%).

Attempts to develop child poverty strategies in Scotland, Northern Ireland and Wales have met with varying degrees of success. The Scottish government passed the Child Poverty (Scotland) Act in 2017, setting statutory targets to reduce child poverty by 2030. The introduction of the Scottish Child Payment has kept tens of thousands of additional children out of poverty.[10] The take-up of benefits in Scotland are also far higher than for equivalent benefits in the rest of the UK, supported by a Benefit Take-Up Strategy published in 2019 and updated in 2021. Despite progress, the child poverty rate in Scotland remains well above target. According to the Joseph Rowntree Foundation, only Scotland is on track to see improvements in child poverty by the end of this Parliament, due largely to the Scottish Child Payment and a recent commitment to mitigate the two-child limit from April 2026.[11]

In Northern Ireland, the 2016 to 2020 Child Poverty Strategy was criticised by the Public Accounts Committee for failing to deliver meaningful progress on child poverty. The committee pointed to the lack of ringfenced funding to implement the strategy, the absence of time-bound targets, a lack of ownership and ineffective governance as key issues.[12] The Welsh government published its child poverty strategy in July 2024, but suffers from a lack of targets and a clear action plan for achieving them.

The Welfare Mitigation Package in Northern Ireland, universal primary free school meals in Wales, and the Scottish Child Payment and two-child limit mitigations in Scotland, will continue to cushion families in the devolved nations. However, these are limited in their impact without changes to UK policies and joined-up action coordinated at the UK government level.

1.5 What works to reduce child poverty?

International evidence on poverty reduction supports a multi-dimensional view of child poverty as a complex issue involving material, social and emotional deprivation that demands a comprehensive response. Key policy levers in the literature include access to high-quality and affordable childcare, education, health and family services, as well as policies that provide affordable housing, improve job quality and support parental employment. Above all, the adequacy of cash transfers through the social security system is critical to effective poverty reduction.[13]

In shaping a new child poverty strategy, policymakers should leverage the lessons of the past 25 years. The New Labour government's objectives on poverty, famously articulated in Tony Blair's 1999 pledge to end child poverty within a generation, were driven by clear direction from the centre of government. This extended beyond benefits and tax credits, encompassing a broad array of levers that included investment in family services like Sure Start, free childcare, the introduction of the minimum wage, paid leave and employment programmes like the New Deal for Lone Parents.

The combined impact of these initiatives played a crucial role in tackling deprivation and exclusion, increasing employment (particularly among single parents) and improving life chances. However, it was the very significant increases in social security spending that particularly drove the substantial reductions in child poverty achieved during this period. Between 1997 and 2010, spending on benefits for families with children increased by £18 billion a year.[14]

The reversal of progress on child poverty between 2005 and 2008 shows the consequence of policy action that is not sustained. The pandemic experience, where poverty levels fell following the increase in Universal Credit and surged again after it was reversed, further underscores just how responsive child poverty levels are to changes in the generosity of social security. The central insight across academic research and past practice on poverty reduction is the explicit recognition that it is fundamentally about money, and cannot be effectively addressed without government spending.

Alleviating the impacts and addressing drivers of child poverty: Action for Children's family support services

Action for Children is a leading third sector provider of family support services across the UK, including 68 children's centres and Family Hubs and 61 targeted and intensive family support services. Poverty and financial hardship are major drivers of the challenges faced by families that access our services.

A survey of our practitioners in November 2024 found that 79% were supporting a child, young person or family experiencing poverty or extreme financial hardship, whilst 89% said that poverty is a 'very important' or 'important' contributory factor in the wider non-financial challenges faced by the families accessing their service. Our services help to mitigate the impacts of poverty through emergency grants and support, advice and advocacy, referrals and signposting and skills and confidence building.

Family support services can also play an important role in helping parents to address challenges in their lives that can drive poverty and create barriers to the labour market. For families with specific or complex needs, targeted and intensive family support services help to strengthen family cohesion, improve parental relationships and prevent entries into care. By drawing on relational and strengths-based models of practice and evidence-based interventions, these services improve family functioning and resilience and can help move parents closer to employment.

There is an extensive evidence base on the positive impact that family support policies and practices can have on outcomes for children and families that are highly relevant to child poverty. But the operating context for family support services is a fraught one. Rising demand for children's and adult's social care has consumed an ever-greater proportion of council budgets, threatening some with insolvency. Spending on children's services has skewed towards high-cost, late intervention like supporting children in care and away from early intervention and family support.[15] The Child Poverty Taskforce has said it will consider ways that local services can alleviate the negative experience of living in poverty, but this must come alongside investment to support these services and facilitate the necessary rebalancing of the system towards prevention.

"When families have got so much going on, they've got the finance problems, they've got the education issues, they've got their health, they've got parenting issues, I think for family support teams it's having somebody to sit there and pick it apart and get the priorities done, which is usually the financial. That's what families will come with first, the financial bits and pieces. But the teams are great at then building that relationship to dig around and see actually, there's a lot of issues going on here, so we need to pull it all apart..."

Manager,
Action for Children intensive family support service

2. Policy options to reduce child poverty

2.1 Methodology

Action for Children commissioned Public First to undertake detailed modelling and economic analysis to identify policy scenarios that could plausibly enable the government to reach a set of ambitious targets for child poverty reduction within a realistic timeframe.

Three stretching poverty reduction targets were identified for inclusion in the analysis:

- Reducing child poverty by a quarter, lifting at least a million children out of poverty, by the end of the decade.
- Halving the child poverty rate in the long-term.
- Eradicating, or very substantially reducing, deep child poverty.

A key component of the research approach was that it should take a broad, cross-government view to reform and investment that would:

- Provide direct financial assistance through the social security system.
- Reduce costs.
- And improve opportunities to increase income from employment.

A wide range of policy levers were considered for inclusion in the model informed by a review of existing evidence, including previous Action for Children work on child poverty and barriers to work, academic and grey literature, and analysis by Public First of the Family Resources Survey and the Living Costs and Food Survey. Table 1 sets out the measures adopted in our modelling.

Table 1: Policy measures included in the modelling

Benefit adequacy for families with children	Scrapping the two-child limit on benefits.
	Removing the overall benefit cap.
	Introducing a 'benefits escalator' for the child-related parts of Universal Credit (the child element and the disabled child additions) of CPI inflation plus 2%.
Benefits take-up	Improving the take-up of benefits through a targeted campaign aimed at low-income households not receiving means-tested benefits.
Childcare support	Increasing Universal Credit childcare support from 85% of costs to 100%.
Work incentives in the social security system	Reducing the Universal Credit taper rate from 55% to 50%.
	Introducing a second earner's work allowance in Universal Credit of £400 per month.
Pay and conditions	Increasing the minimum wage to match the 'real' living wage.
	Increasing the rate of Statutory Sick Pay to the real living wage and making it available from day one of sickness.
Employment support	Investing in targeted employment support programmes for single parents, carers and those with disabilities.
Housing	Building more social housing, gradually ramping up to 90,000 extra homes a year.
Child maintenance	Introducing universal Collect and Pay of child maintenance and the removal of fees in the Child Maintenance Service.

Public First simulated the impact of various policy scenarios on child poverty rates, employment rates and fiscal outcomes. These scenarios, based on different combinations of potential poverty reduction measures, are outlined in Table 2. The primary data source for the modelling was the Family Resources Survey (FRS), which offers the most detailed account of household finances in the UK. Further detail on the approach used and the underlying assumptions is available in Appendix 1.

Table 2: Policy scenarios included in the modelling

Scenario one: Scrapping the two-child limit and benefit cap	The only policy changes are the removal of the two-child limit and the overall benefit cap.
Scenario two: As above, plus benefits escalator, and childcare support	In addition to removal of the two-child limit and benefit cap, the child-related parts of Universal Credit are increased by CPI inflation plus 2% (compared to a baseline assumption of just uprating by inflation). This scenario also sees Universal Credit childcare support increase from 85% to 100% of costs.
Scenario three: As above, plus benefits take-up	In addition to the measures in scenarios one and two, this includes a targeted campaign to increase the take-up of means-tested benefits among low-income households that are not currently receiving these benefits.
Scenario four: As above, plus employment support and incentives	In addition to scenarios one to three, this includes investment in employment support programmes for key disadvantaged groups. Scenario four also includes lowering the Universal Credit taper rate from 55% to 50% and introducing a second earner's work allowance in couples of £400 a month.
Scenario five: As above, plus labour market and housing reforms	In addition to scenarios one to four, this would set the wage floor at the level of the 'real' living wage, reforms to Statutory Sick Pay and increased social housing supply. It assumes that social housebuilding scales up in 10,000 increments to reach an extra 90,000 a year, and that private renters in poverty are shifted into social housing as more homes become available. This scenario also includes efforts to ensure that child maintenance is paid in full and the removal of fees.
Scenario six: Everything except the two-child limit and benefit cap	This includes all policies up to scenario six, except the removal of the two-child limit and benefit cap.
Scenario seven: Scrapping the two-child limit, benefit cap and some employment measures	This includes the removal of the two-child limit and benefit cap, alongside investment in employment support programmes, lowering the taper rate in Universal Credit from 55% to 50% and introducing a second earner's work allowance.
Scenario eight: Just some employment measures	This just includes employment support, the Universal Credit taper rate reduction and a second earner's work allowance.

2.2 Reducing child poverty by at least a quarter by 2030

According to our modelling, scenarios one and two would reduce child poverty by around an eighth (13%) and a fifth (19%) respectively. Scenarios three to six would all lead to child poverty falling by at least a quarter by the start of the next Parliament.

- **Scenario one:** Just scrapping the two-child limit and benefit cap would result in an instant, substantial reduction in child poverty of 400,000, at a cost of £2.7 billion in 2025. This would rise to £3.9 billion annually by 2030, while the number of children kept out of poverty would increase to 600,000 (13%).
- **Scenario two:** Scrapping the caps and then introducing an escalator for the child-related elements of Universal Credit would go even further. This would reduce child poverty by 19% and lift 800,000 children out of poverty. The child poverty rate would fall from 30% in 2025 to 24.5% in 2030. This would be almost as significant as the 6 percentage point fall achieved by the last Labour government during its peak poverty-reducing period from 1999 to 2005. We estimate this would cost £3.1 billion in 2025, rising to £6.6 billion annually by 2030.
- **Scenario three:** Scrapping the two-child limit and benefit cap would get the government more than halfway to cutting child poverty by a quarter by 2030, but it would not be enough by itself. To achieve a persistent reduction in child poverty across the Parliament, the government would need to introduce a 'benefits escalator' that increases the child-related elements of Universal Credit above the rate of inflation each year, alongside action to improve the take-up of means-tested benefits. The child poverty rate would fall from 30% in 2025 to 22% in 2030 – lifting almost 1.2 million children out of poverty and reducing child poverty by well over a quarter (28%). **This is the most cost-effective route to reducing child poverty by at least a quarter by 2030.**
- **Scenarios four to six** would see child poverty reduce even more, up to a further 2.4 percentage points. However, our modelling suggests that implementing scenarios four to six by 2030 would come at an implausibly high cost to the government – as much as £24 billion in extra spending a year by 2030.
- **Scenarios seven and eight** presents two mixed social security/employment scenarios. Scenario seven includes scrapping the caps, alongside three employment measures: investment in employment support programmes to raise the employment rate among single parents, disabled people and carers, reducing the Universal Credit taper rate and introducing a second earner's work allowance. Scenario eight just includes those employment measures, without the abolition of the caps.

Figure 2: UK child poverty impacts of policy scenarios between 2025 and 2030

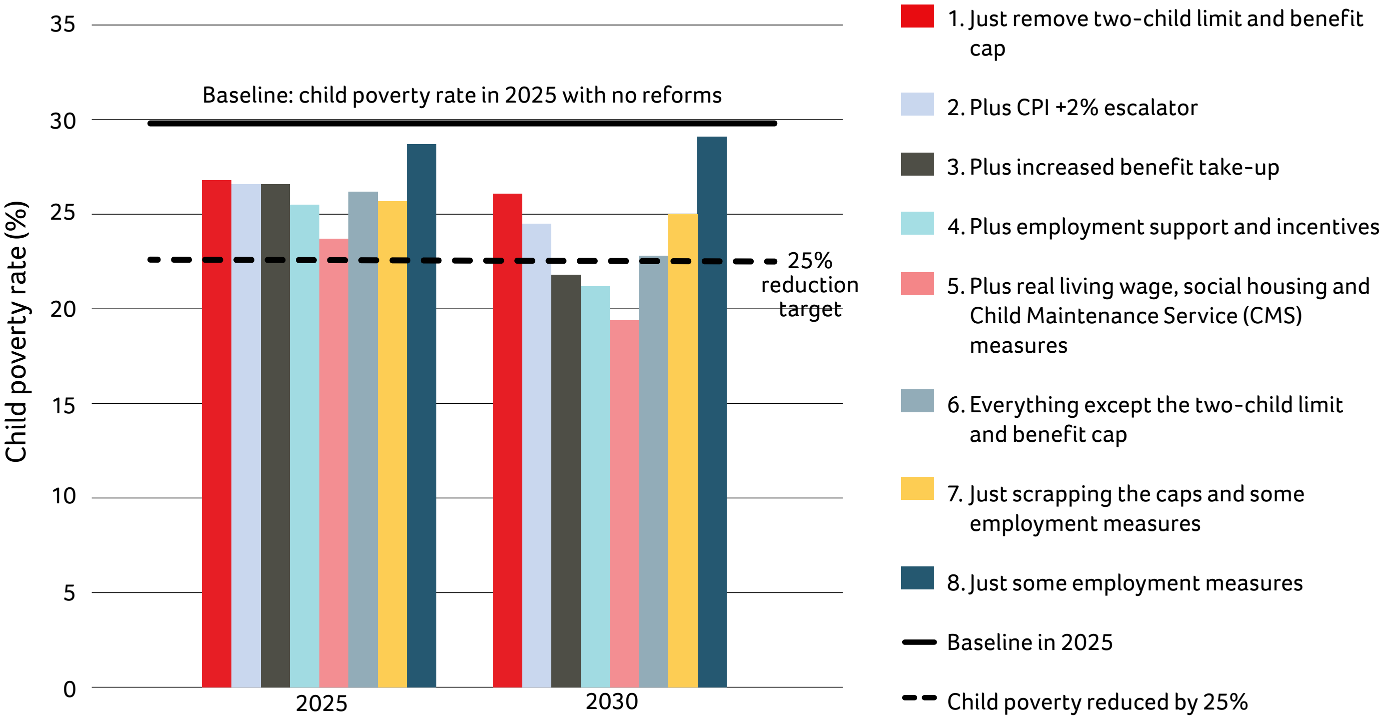


Figure 3: Annual policy costs by 2030 under each scenario (£ billions), 2025 prices

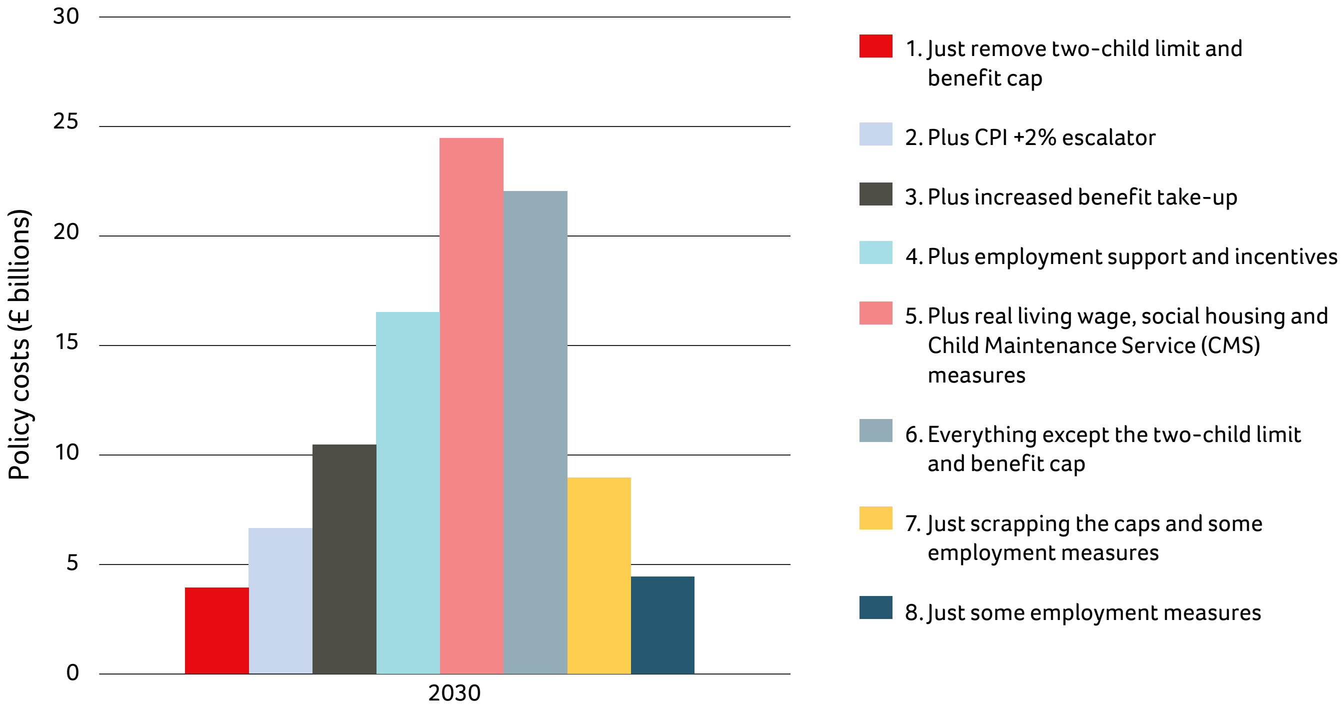


Table 3: Scenario scorecard for UK child poverty reduction by 2030

Policy scenario	Reduction in child poverty by 2030	Percentage reduction in child poverty by 2030	Annual fiscal cost by 2030 (2025 prices)	Cost per child taken out of poverty (2025 prices)
One: Scrapping the two-child limit and benefit cap	600,000	-13%	£3.9bn	£6,900
Two: With a benefits escalator, and childcare support	800,000	-19%	£6.6bn	£8,400
Three: With benefits take-up	1,200,000	-28%	£10.4bn	£8,900
Four: With employment support and incentives	1,200,000	-30%	£16.4bn	£13,200
Five: With labour market and housing reforms	1,500,000	-36%	£24.3bn	£16,200
Six: Everything except the two-child limit and benefit cap	1,000,000	-24%	£21.9bn	£21,400
Seven: Just scrapping the caps and some employment measures	700,000	-17%	£8.9bn	£12,600
Eight: Just some employment measures	150,000	-4%	£4.4bn	£29,700

Exploring the impact of scenario three on child poverty

As Table 3 shows, scenario three represents the most cost-effective route to reducing child poverty by at least a quarter by 2030.

The two-child limit and benefit cap

- The government could not meet any remotely ambitious child poverty reduction goal in a cost effective way without scrapping both the two-child limit and the overall benefit cap. Scrapping both caps is highly cost effective, costing around £6,900 per child taken out of poverty by 2030. Without scrapping the caps, policymakers would need to implement every other policy in our model to reduce child poverty by at least a quarter by 2030, at a cost of £22 billion a year.
- Policymakers may consider scrapping the two-child limit but leaving the overall benefit cap in place. This would reduce child poverty by 11% by 2030. However, it's the combination of these reforms together that has the maximum impact. Without scrapping the overall cap, some of the very poorest families would see little gain from the end of the two-child limit, as they would just hit the overall cap instead. Families affected by the benefit cap are also far more likely to be living in deep poverty, while seven in ten are single parents, over half of whom have a child under five.[16]

A 'benefits escalator'

- To deliver sustained falls in child poverty, benefit levels for families with children would need to systematically rise over time to close the gap with median incomes. Various mechanisms to achieve this have been suggested, including linking benefits uprating to earnings growth or introducing a double lock that guarantees child-related benefits rise by whichever is the highest out of prices or wages.[17]
- Our modelling suggests that a more aggressive pace of uprating would be needed to meet ambitious poverty reduction goals by the end of this Parliament and over the coming decades. A benefits escalator, where the child-related elements of Universal Credit would be guaranteed to rise by a set percentage above inflation (we suggest CPI plus 2%), would ensure that the incomes of households most at risk of poverty are both growing in real terms and catching up with average incomes.[*]

* The child-related elements of Universal Credit include the child element, paid for all children or qualifying young people (and currently restricted by the two-child limit policy), and the disabled child and severely disabled child additions, that are payable for children in receipt of Disability Living Allowance.

Improving the take-up of means-tested benefits

- Billions of pounds in benefits go unclaimed each year due to the complexity of the system, a lack of awareness and negative stigma around claiming benefits.[18] Our modelling suggests that improving the take-up of means-tested benefits would have a high impact on child poverty numbers. We estimate that 750,000 households with children in poverty are not claiming means-tested benefits – about 36% of all households with children in poverty. When factored into our model, achieving 100% take-up of means-tested benefits for the 750,000 households with children in poverty not currently claiming them would lead to average income gains of close to £5,000 a year (though there is significant uncertainty around how much this could be improved).
- One approach to improve the take-up of benefits would be through a targeted campaign to increase awareness and encourage those eligible to make use of their entitlements. Increasing the responsibilities on employers to notify government about people entering and leaving work could also help with this targeting.

Universal Credit childcare support

- Scenario three also includes reforms to increase the generosity of childcare support within Universal Credit, from the current 85% of costs to 100% of costs. Our model indicates that this would have a negligible impact on child poverty, as most claimants currently receiving this support are concentrated within the middle of the income distribution (to claim Universal Credit childcare support, all claimants must be in paid work). However, this does not account for the potential impacts that increased Universal Credit childcare generosity could have by incentivising more parents on low incomes into work or to increase their hours.

The cost of implementation

Taken together, implementing all the policy measures in scenario three would **reduce child poverty by 28% by 2030**, lifting **1.2 million children** above the poverty line. The child poverty rate would fall by 8 percentage points, from 30% to 22%. We estimate this would cost around **£10.4 billion** in additional spending a year by 2030 (in 2025 prices).

While this would be a significant commitment, particularly in the current fiscal environment, it is important to place this figure into context. An additional £10.4 billion would amount to around 0.8% of total projected government spending in 2030, or a 6% increase in working-age welfare spending. Scenario three is an especially cost-effective policy mix, costing an estimated £8,900 a year per child taken out of poverty.

The child poverty impact of measures to increase income from employment

The government has indicated that the Child Poverty Strategy will prioritise policies that increase parental employment. In principle, this is an important aim. Having parents in work, particularly full-time work, drastically reduces a child's risk of growing up in poverty. Yet many of the families in poverty today face complex barriers to employment. The stark rise in working poverty over the past 20 years also underscores how work alone doesn't offer a guaranteed route out of poverty: half of children from working households are now growing up in poverty, up from 33% in 2005.[19]

Previous Action for Children research has explored how barriers to the labour market drive and entrench poverty. Almost two-thirds of the children in poverty live in families with at least one significant potential barrier to work (64%). This includes families where a parent or child has a disability or long-term health condition, those with very young children, and almost 600,0000 children in full-time working families that still live below the poverty line.[20]

Action for Children has long called for government action on child poverty that prioritises urgent improvements to the adequacy of social security, alongside wider reform that tackles barriers to work and opportunity. We believe that policies to increase income from employment have an important place within the child poverty strategy as part of a comprehensive plan that draws on all available levers.

Nevertheless, as Table 3 shows, such measures are likely to be considerably less cost-effective than those that increase income from social security.

There are two key reasons for this:

- Labour market measures are, by their nature, less targeted at low-income families with children and therefore less cost-effective for reducing child poverty.
- There is more uncertainty about the potential impact of labour market measures on employment, incomes and child poverty rates. Employment support programmes to help people into work are costly to implement and only a small proportion of those who access this type of support go onto find and sustain work.[*] Similarly, it is difficult to predict how people will respond behaviourally to changing work incentives in Universal Credit.

With that said, there are other advantages to pursuing some of these policies that can support policy objectives beyond achieving reductions in the headline child poverty rate.

Scenario seven may offer a particularly attractive choice for policymakers. Scrapping the caps, boosting work incentives in Universal Credit, and raising employment among key disadvantaged groups could reduce the poverty rate to 25%, lift **700,000 children** out of poverty by 2030 and increase employment by **125,000** – at a cost of **£8.9 billion** a year by 2030. This would be a significantly less cost-effective approach than policy scenarios that prioritise income from social security, but would also support other economic priorities in addition to delivering a significant reduction in child poverty.

Scenario eight highlights the inherent weaknesses of an approach that only includes policies aimed at increasing income from employment. Under this scenario, child poverty would fall by around 4%, or **150,000** children, while employment would rise by **83,000** – at a cost of **£4.4 billion** a year by 2030.

These estimates provide a useful indicator of the relative strengths and weaknesses of different policy mixes, but the high uncertainty around the extent to which the government could plausibly increase the employment rate by the end of this Parliament – particularly among groups with high labour market barriers – should invite a heavy dose of caution.

* Within our model, we assume that employment support policies achieve job outcomes for an additional six percentage points of scheme participants, in line with DWP assumptions for the Restart scheme.

2.3 Reducing child poverty by half by 2045

The government has said that its Child Poverty Strategy will look ahead over a 10-year horizon up to the mid-2030s. In this section, we consider impact of these policy scenarios over a longer timeframe to assess potential pathways to reducing the child poverty rate by half.

Figure 4 shows the child poverty impacts of scenarios one to eight from 2025 through to 2045. Figure 5 shows the annual policy costs to government.

Figures 4 and 5 illustrate the trajectory of our various scenarios at the 10-year mark, in 2035, showing that:

- **Scenario one**: If the government were to only scrap the two-child limit and benefit cap, more than a quarter of children would still be living in poverty by 2035 (26%).
- **Scenario two:** (scrapping the caps and introducing a benefits escalator) would deliver a 25% reduction in child poverty, a full five years later than under scenario three (which includes improvements to the take-up of means-tested benefits). This would cost £6.6 billion in 2030, rising to £9.5 billion a year by 2035.
- **Scenario three**: Under this pathway, which includes the policies in scenario two plus action to improve benefits take-up, the child poverty rate would fall a further two percentage points between 2030 and 2035 (to 20%) – with 1.3 million fewer children in poverty compared to today. Annual costs would rise from £10.4 billion in 2030 to £13.3 billion in 2035.

Looking ahead to 2045, we can see that:

- Child poverty rates continue to fall under the **scenario three** pathway, reaching 18% of children by 2045. To reach even more ambitious reduction goals – a bigger policy intervention would be required.
- **Scenario five:** Under scenario five, the child poverty rate would fall to 15% by 2045. **Our modelling suggests that this is the only pathway (of those modelled) to halving the child poverty rate within 20 years,** with 2 million fewer children growing up in poverty compared to today. This includes the reforms in scenario three, the labour market measures, plus a real living wage, social housebuilding and reforms to the Child Maintenance Service and Statutory Sick Pay.

Figure 4: UK child poverty impacts of policy scenarios between 2025 and 2045

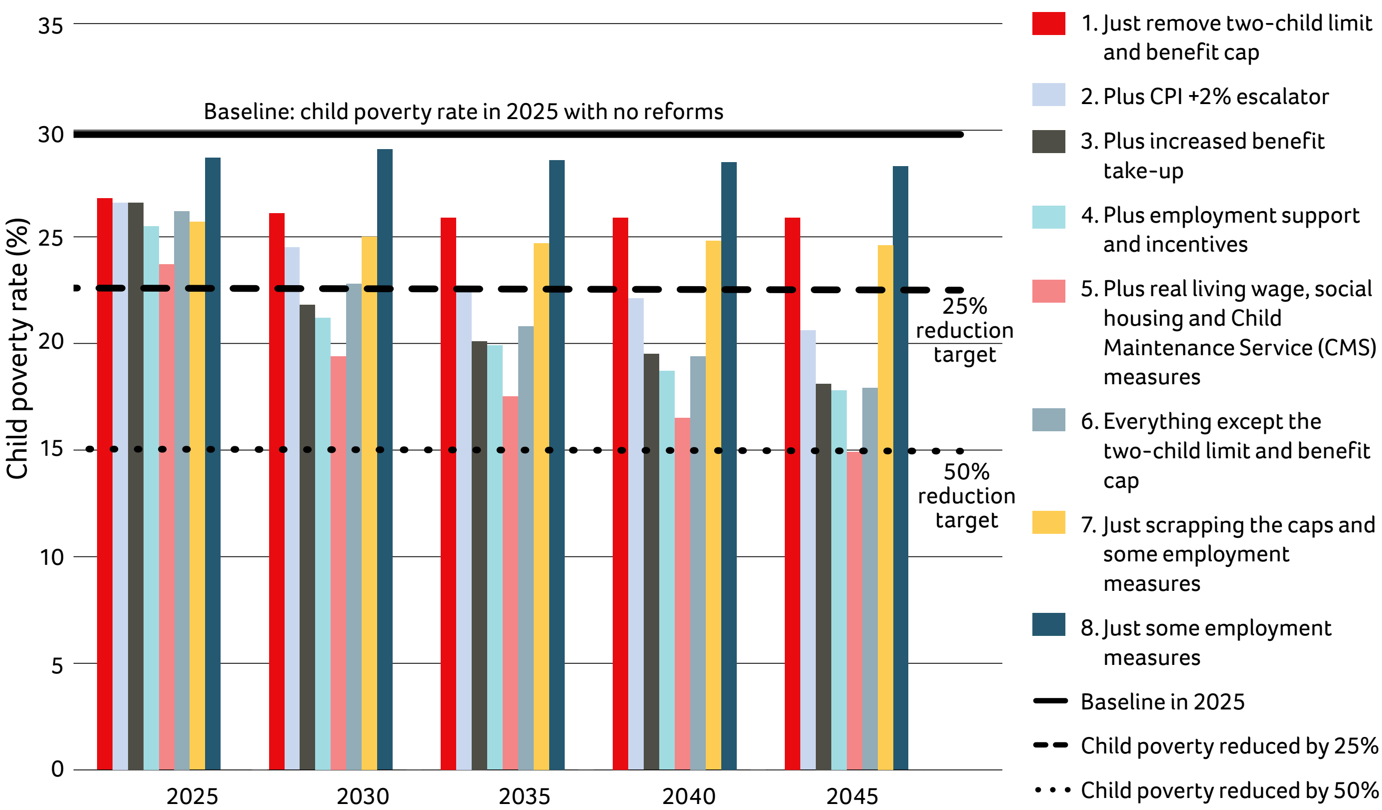
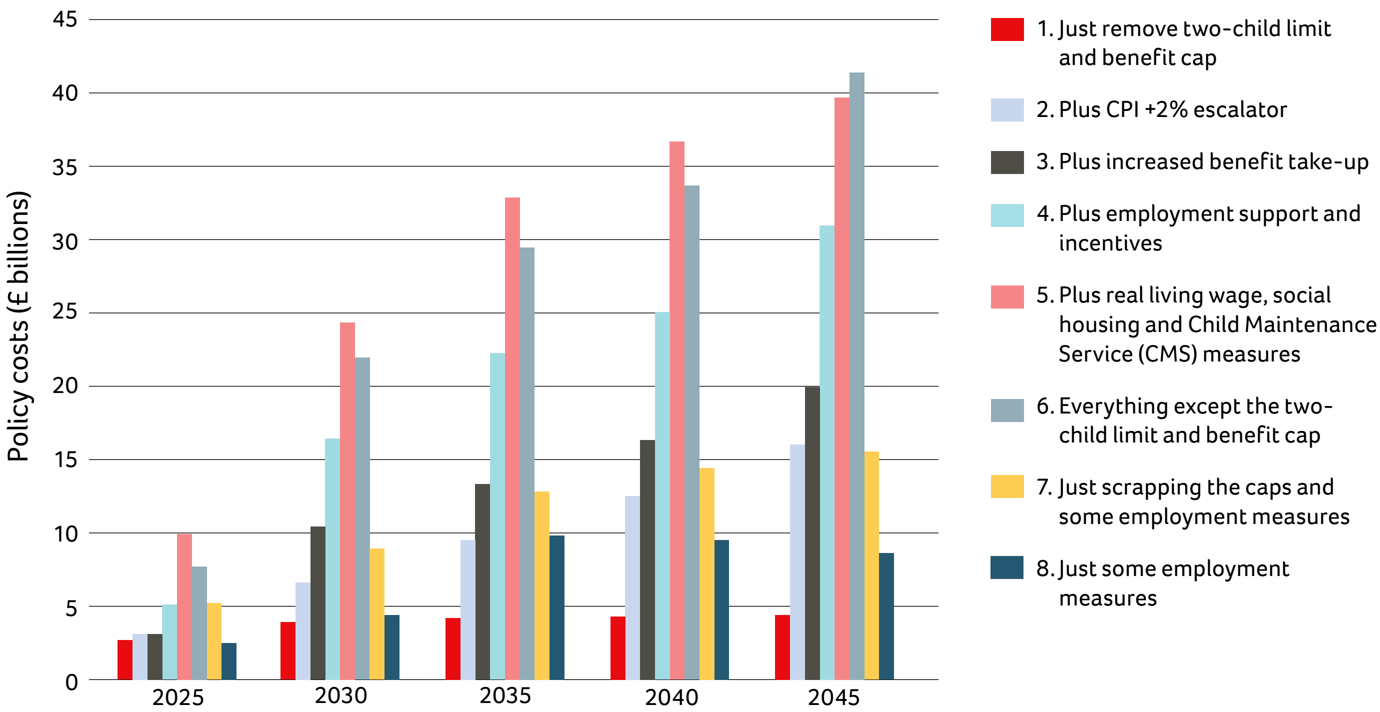


Figure 5: Annual policy costs 2025 to 2045 (£ billions), 2025 prices



Exploring the impact of scenario five on child poverty

Scenario five is the only scenario of those modelled that would see child poverty reduced by half over the long-term. In addition to the social security and employment measures already discussed, we now consider what impact the additional policies in scenario five could have on child poverty.

Introducing a real living wage

- Our modelling suggests increasing the minimum wage to match the real living wage would have a moderate impact on child poverty. Several factors limit the potential benefits of a real living wage on low-income families with children. Most minimum wage earners are in middle income households (many are second earners) and therefore are already above the poverty line. The very poorest families are not in work so would see no benefit from a higher minimum wage, while self-employed workers (including many in the gig economy) are not covered by the minimum wage. Working parents in poverty that receive means-tested benefits also see their benefit income withdrawn as their earnings increase, limiting the gains from higher wages. Consequently, the biggest winners from rises in the minimum wage are middle income households.[21]
- Nevertheless, our model indicates that a real living wage would have a reasonable impact, lifting around 220,000 children above the poverty line by 2030 or 160,000 by 2045.[*] However, a more generous minimum wage could result in higher unemployment. Within our model, this would effectively cancel out the employment gains generated by the other labour market measures – with a close to net zero impact on employment in the long run (see Appendix 3 for more on the employment effects of policy scenarios).

* Employment gains reduce over time due to the negative employment impacts of an ever-rising real living wage over time that are predicted by our model. Additionally, as many beneficiaries are higher up the income distribution a real living wage would place upwards pressure on median incomes, raising the poverty line.

Building more homes for social rent

- Almost a third of children in poverty live in the private rental sector, where rents are much higher than in the social housing sector. Building more homes for social rent would lower housing costs for low-income families by facilitating a transition from the private rental sector into the social housing sector. Our model draws on research from Shelter and assumes a ramping up of social housebuilding over time to reach 90,000 homes a year.
- According to our model, this could have a very substantial impact on child poverty rates in the long run, though with high upfront costs to government during the construction phase. By 2045, we estimate that a programme of social housebuilding – before considering the impact of other poverty reduction measures – would result in 450,000 fewer children in poverty.

Reforms to the Child Maintenance Service

- The Child Maintenance Service (CMS) supports financial arrangements within separated families. Currently, separated families that have a child maintenance arrangement through the CMS can choose to make the payments directly between themselves (Direct Pay) or have the CMS collect and distribute payments (Collect and Pay). Collect and Pay incurs fees for paying and receiving parents. Public First analysis of the Family Resources Survey suggests that 17% of receiving parents are missing payments through the CMS and 13% are only receiving a partial payment.
- One approach that could help to increase household income from child maintenance payments would be for the CMS roll out Collect and Pay on a universal basis and remove the associated fees. Our modelling suggests this could have a moderate impact on child poverty, reducing the number of children in poverty by around 70,000. The removal of fees for those who currently have an arrangement through the CMS would cost an estimated £100 million annually.[**]

Increasing the rate of Statutory Sick Pay

Scenario five also includes reforms to increase the rate of Statutory Sick Pay to match the real living wage and to make it available from day one of sickness. Our modelling suggests this would have a negligible impact on child poverty, though with high uncertainty due to the poor official data on sick pay.

The cost of implementation

- Overall, implementing scenario five would **result in a 50% reduction in child poverty by 2045**. The child poverty rate would fall by 15 percentage points, from 30% to 15% – returning it to levels not seen since the 1970s.
- A policy agenda of this magnitude has very significant cost implications. As illustrated in Figure 5, we estimate that costs would increase over time to reach **£39.6 billion a year by 2045** (2025 prices). This would be equivalent to a 2.2% increase in current government spending.

[**] Implementing a system of universal Collect and Pay could also come with significant administrative costs attached which are not accounted for in the model.

2.4 Impact of policy scenarios on deep child poverty and key socioeconomic groups

So far, this report has assessed the impact of various potential policy scenarios on the headline child poverty rate. But this is not the only metric that matters. Ministers leading the Child Poverty Taskforce have highlighted action to address deep child poverty as a particular priority for the strategy. We also know that children within certain socioeconomic groups – single parents, larger families, families with disabled members, and Black and minority ethnic families – are at a markedly greater risk of growing up in poverty.

Next, we consider the impact of our policy scenarios on deep child poverty and on these key socioeconomic groups.

Figure 6 shows the impact of our policy scenarios on the deep child poverty rate (less than 50% median income) between 2030 and 2045, compared to a 2025 baseline of no reforms.

This shows that:

- Deep child poverty would fall significantly by 2030 under almost all scenarios.
- Scrapping the caps would see deep child poverty fall from 20% to 17% by 2030.
- Introducing a benefits escalator would push it down to 16% of children.
- Going further to improve benefits take-up would see the rate fall to 13% by 2030.

Looking further ahead to 2045, full implementation of the reforms in scenario five would **come tantalisingly close to eradication of deep child poverty over 20 years** – with the rate falling to 8% of children (a 60% fall).

Figure 6: Impact of policy scenarios on the deep child poverty rate, compared to a 2025 no reform baseline

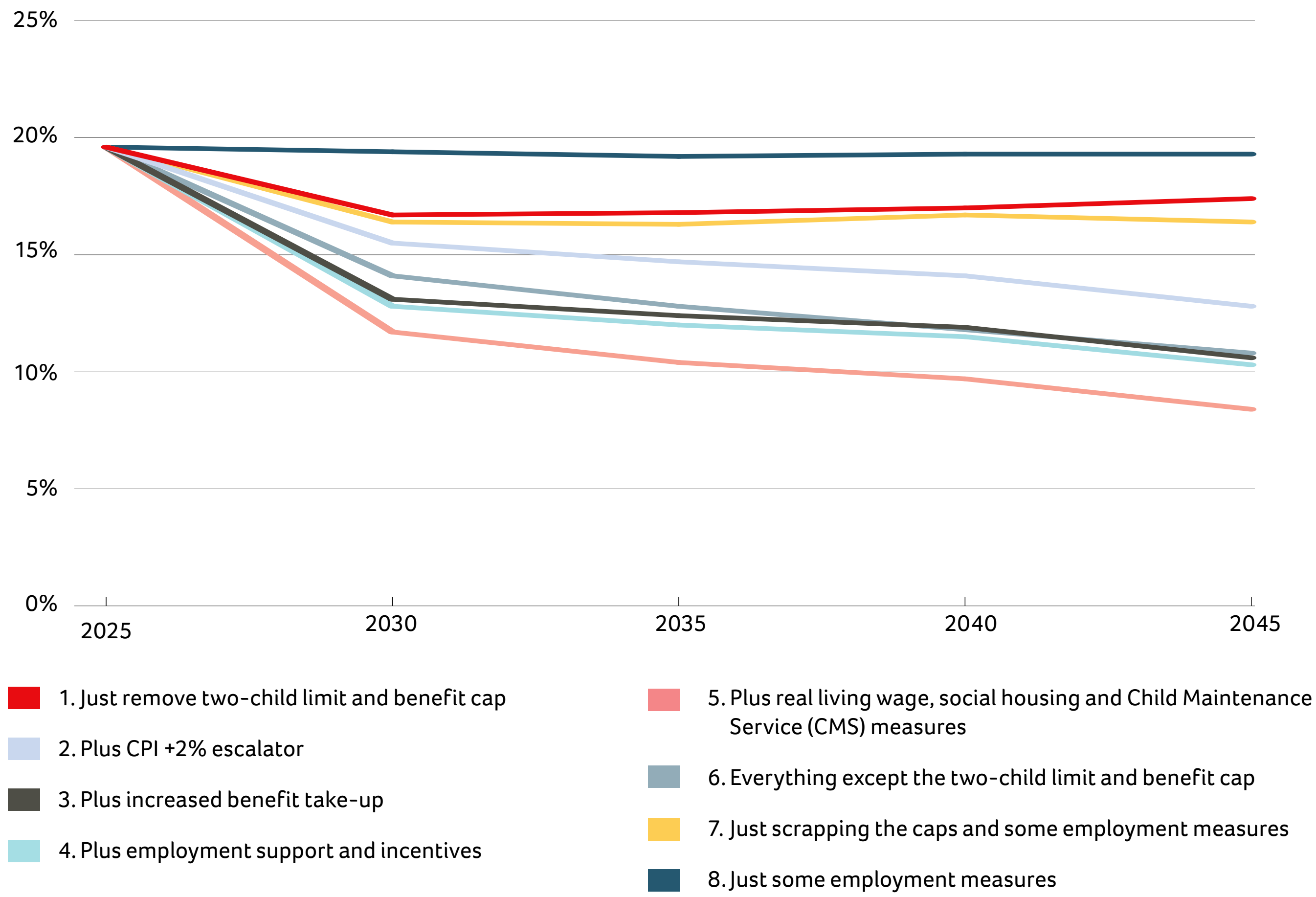
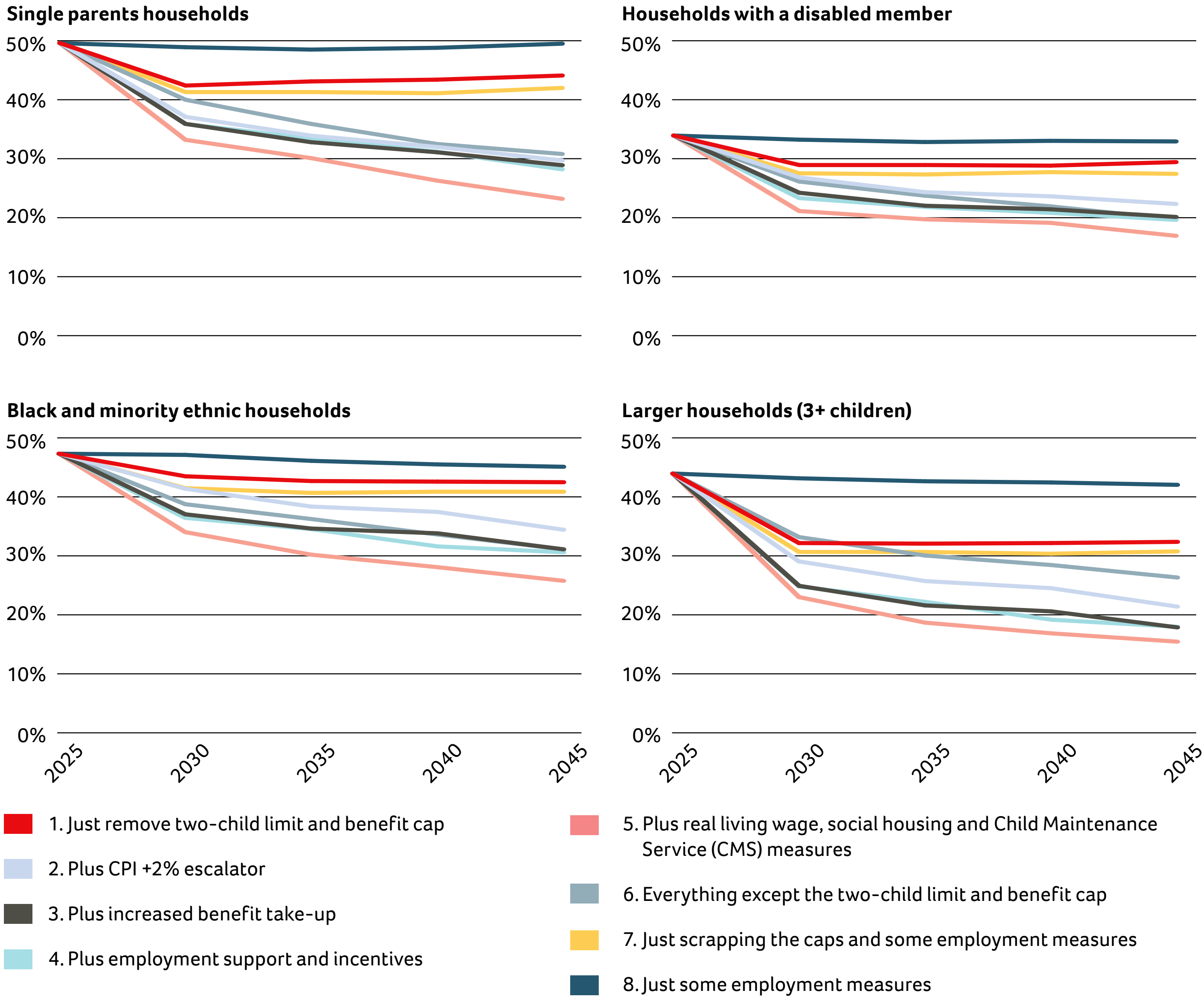


Figure 7 shows the impact of the policy scenarios on child poverty rates within single parent households, households with a disabled adult or child, Black and minority ethnic households and larger households with three or more children.

This shows that:

- Child poverty rates within single parent households, larger households and households with disabled members would all fall by at least 25% by 2030 under scenario three, and by at least 50% by 2045 under scenario five.
- Child poverty would be reduced particularly sharply within single parent households, with scope to cut the rate by more than half, from **around 50% of children in single parent households in 2025 to 23% by 2045**. Similarly impressive reductions could be achieved under scenarios three and four, with the rate falling to 29% and 28% respectively.
- Poverty rates within households with three or more children would also see large reductions. **Just removing the two-child limit and benefit cap alone would lead to a 27% reduction in child poverty among these households by 2030**.
- Child poverty within Black and minority ethnic households would also see big reductions of almost a quarter by 2030 (scenarios three and four) and approaching 50% by 2045 (scenario five), though with slightly lower falls than the other groups.

Figure 7: Impact of policy scenarios on UK child poverty rates within socioeconomic groups, compared to a 2025 no reform baseline



Case study: **Jo**

Jo from North Devon has a three-year-old son and is a full-time mum. She is supported by Action for Children as her son has developmental delays and behavioural issues. Her partner works full time, but they also depend on Universal Credit. Before the pandemic and having her son, Jo also worked full-time. She says it's now impossible to keep up with her family's bills and buy everything that they need.

"I have to pick and choose which bills to pay each month and sometimes I can't afford to buy food or nappies for my son. I've skipped meals before to make sure I can feed my child and that he has what he needs. Pretty much all my money is gone the day it comes into my account…I've cut back on absolutely everything, including essentials. I'm already in debt and end up taking on more to cover bills.

"I worry my son is going to miss out on things in his life because I can't afford them, and that's really hard. It has a negative impact on my mental health, it's overwhelming and upsetting when you see the cupboards are empty. Not being able to afford the basics makes me feel useless.

"…Since having my son, and giving up work to care for him, things are so different. I would love to go back to work, but it's not possible right now with the high cost of childcare and my son's additional needs."

Case study: **Sean**

Sean is a full-time carer for his partner Jeordan, who is unable to work as she suffers from severe and chronic back pain, can only walk or stand for short periods and uses a wheelchair. Sean takes on most of the caring needs for their four children. Before Jeordan's condition worsened, he worked in a hospital catering department, but they now rely on benefits as their sole income.

The family fell into thousands of pounds of debt with their energy company after prices shot up. They are worried about falling further into debt, so only turn the heating on if the temperature falls below zero, and they frequently go without food.

Jeordan said: *"We've had the school nurse put us in touch with foodbanks and a charity who run a subsidised community shop, and Helen from Action for Children drops food off to us now and again… But even with that, Sean still has to go without because it's just not enough to feed six people."*

This has taken a toll on Jeordan's mental health, causing her to worry about being able to provide for her children.

"I think not giving my kids what they want and what they deserve plays a big impact on my state of mind… I can't do that unless things change – and they're not changing and it's getting worse and worse."

Sean said: *"It's hard when the kids compare themselves to other children, when they say "my friend at school can do this, why can't we?" They're too young to understand that mummy's disabled and I can't go out and work because I'm a full-time carer for them all – it's a very difficult situation."*

3. The social and economic benefits of reducing child poverty

As our analysis has shown, there is no plausible path to achieving significant reductions in child poverty in the medium or long term without increasing spending. The order of magnitude required to meet any remotely ambitious poverty reduction goals is in the billions, rather than the millions. It's for the government to determine how to balance its competing priorities and best utilise its fiscal levers to meet its policy objectives. In doing so, they should also consider the long-term benefits to the economy and wider society of reducing child poverty.

The long-term benefits of tackling child poverty exceed the costs

Previous work by Donald Hirsch has quantified the considerable costs that child poverty imposes on society in terms of public service demand, welfare spending and reduced tax revenue. Public First has drawn on this and other work on the impact of child poverty on adult earnings to produce new estimates of the societal gains from reducing child poverty.

One approach to appraising the costs and benefits of policies, employed by HM Treasury, is to quantify their present value across the life course for those affected. Applied to our model, we can assess the impact that reducing child poverty by 1.2 million by 2030 and a half by 2045 would have for those cohorts of children across their lifetime, accounting for reduced public service demand and longer-term gains to the Exchequer as those children become adults and enter the labour market.

The long-term benefits of reducing child poverty by 28% under scenario three

Figure 8 presents the lifetime benefits of reducing child poverty by 28% by 2030. It shows that if child poverty were reduced by this amount by 2030:

- The current value of the lifetime benefits to society for the 2030 cohort of children would be worth twice as much through reduced public service demand, higher tax revenues and lower welfare spending.
- In cash terms, the total policy costs of reducing child poverty by 28% for children in 2030 would be **£80 billion, but the lifetime benefits would be worth £164 billion**.

The long-term benefits of reducing child poverty by 50% under scenario five

Figure 9 presents the lifetime benefits of reducing child poverty by half by 2045:

- If child poverty rates were reduced by half for children in 2045, the lifetime societal benefits would be about the same as the policy costs needed to achieve this. As a cumulative cash figure, the lifetime policy costs would be **£317 billion** but would generate **£322 billion** in lifetime benefits.
- This is a lower return on investment than reducing child poverty by 28% as the per child cost of halving child poverty is about four times greater.
- There are likely to be other benefits of poverty alleviation that are not covered in these calculations, such as from improved health in adulthood.

Figure 8: Lifetime benefits of reducing poverty by 28% among the 2030 cohort of children (£bn, discounted present value, 2025 prices)

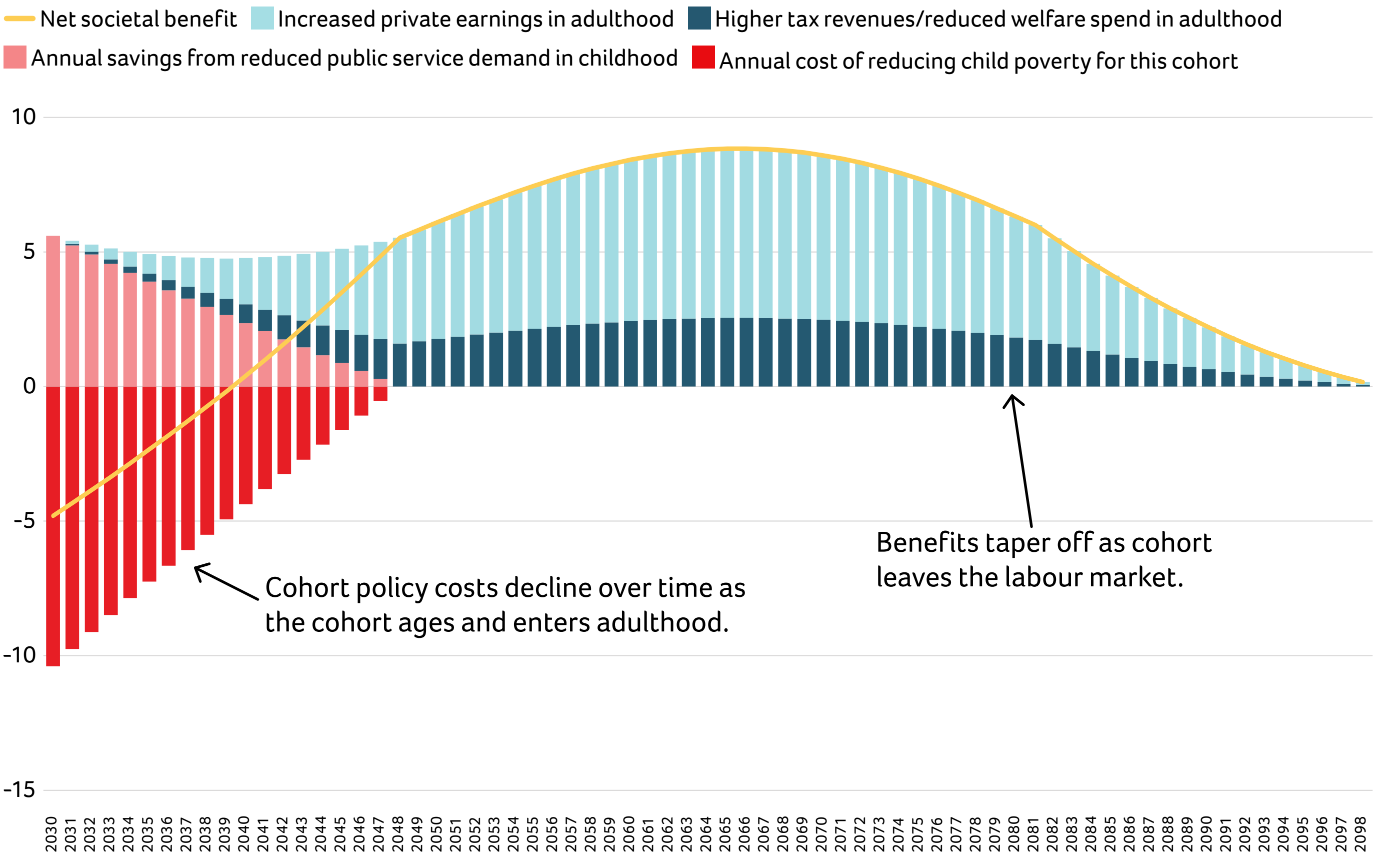
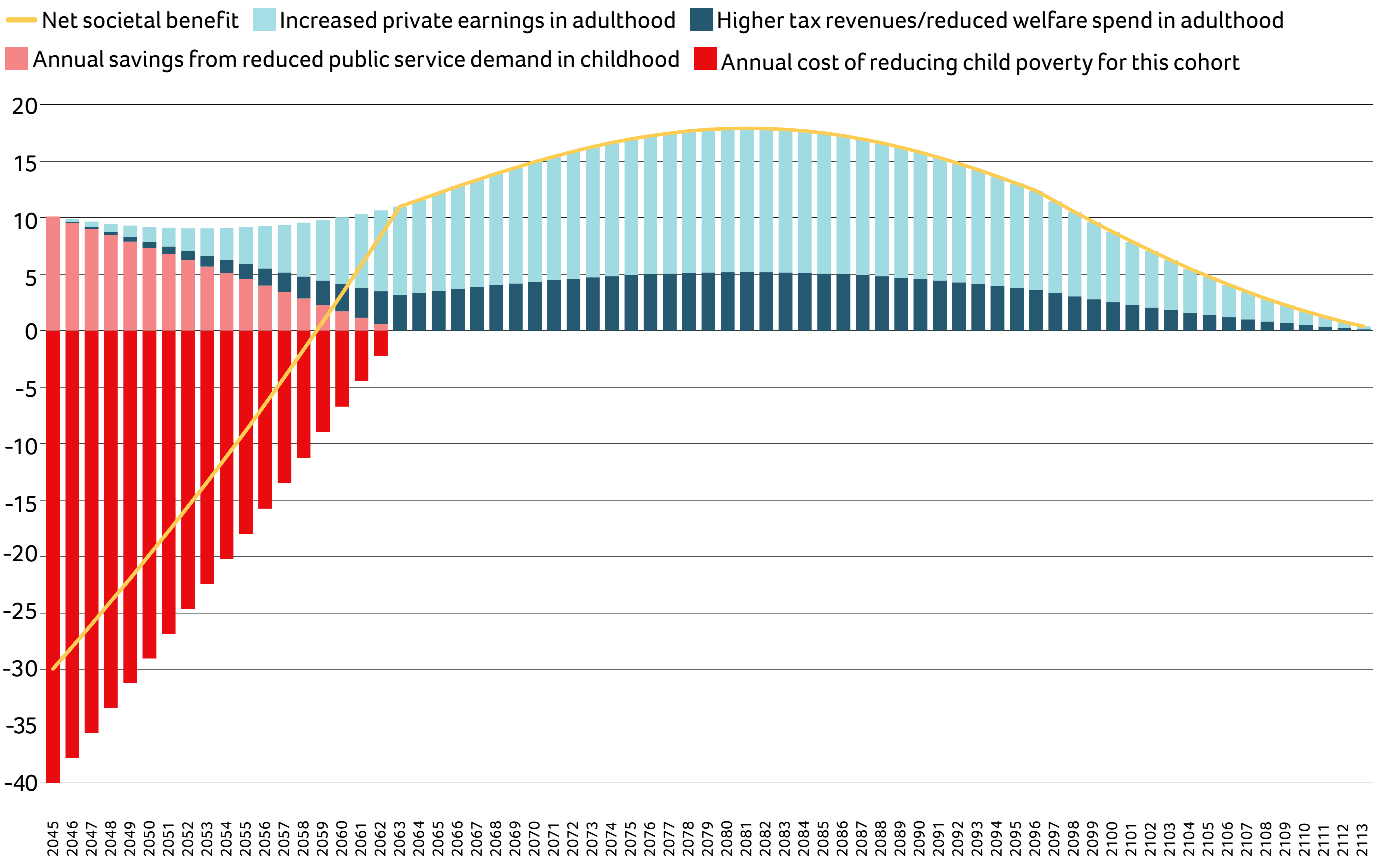


Figure 9: Lifetime benefits of reducing poverty by a half among the 2045 cohort of children (£bn, discounted present value, 2025 prices)



Case study: **Natasha**

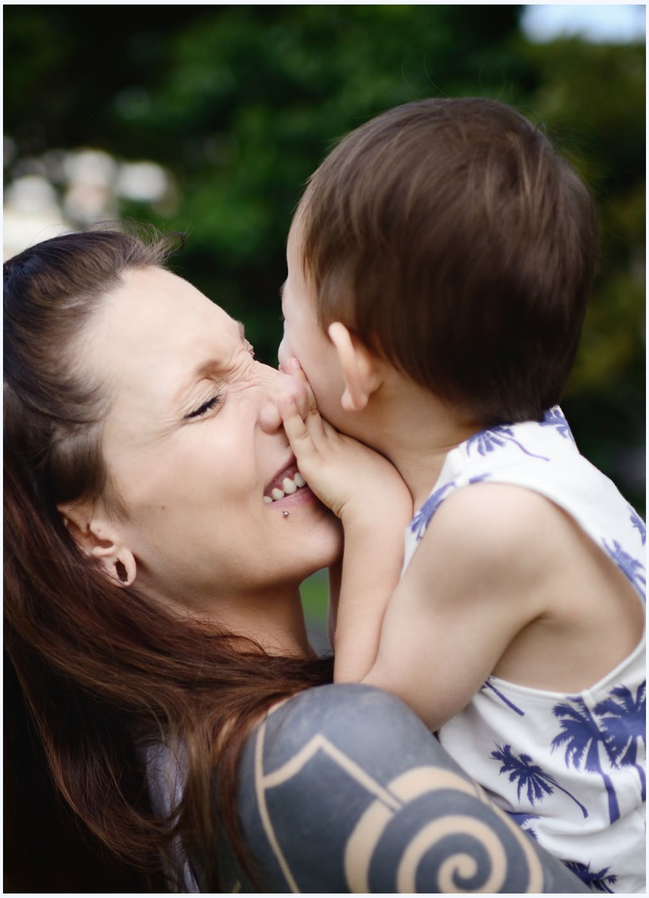
Natasha is a single parent to 10-year-old Rosie and seven-year-old Rory. The cost of living crisis meant that Natasha struggled to afford essentials like heating oil, school uniforms, and Christmas presents for her children.

Samantha realised that Rosie was aware of their financial struggle after seeing her daughter messaging her friends discussing money worries. Rosie also asked for very little for Christmas, and told Action for Children that she wanted oil so that her mother wouldn't have to worry about keeping the house warm over the holidays.

"It just broke my heart" said Natasha. *"It really was heartbreaking to think at 10 years of age, you're worrying about these sorts of things."*

Additionally, the worries and stresses that Natasha faces were only exacerbated by the increasing cost of living. She feels uncertain about the future and cannot see an end to the struggles she faces.

"Nobody knows what's going to happen. Will we have enough money to put oil in the tank? Will we have enough money to go to the food shop? Will we have enough to keep the electricity going?"



"As someone who experienced poverty, it affected me in every walk of life. For example, I couldn't go on certain school trips with my friends. I didn't know at the time my mum didn't really have the money, I thought I was being punished."

- Young person campaigning with Action for Children

4. Conclusion

The Child Poverty Strategy presents a once in a generation opportunity to transform the lives and life chances of millions of children that are paying the price of poverty. We have examined a range of policy pathways the government could pursue, including two ambitious goals to cut child poverty by at least a quarter by 2030, and halve it by 2045. In drawing together our findings, we present six key insights to help inform the government's approach.

First, it is perfectly plausible that child poverty can be brought down to much lower levels over time. The UK could rank among the best performing high-income countries on child poverty internationally, rather than one of the worst.[22] However, this will require ambitious thinking backed by short, medium and long-term goals that look beyond just one or two parliamentary terms.

Scrapping the two-child limit and benefit cap is the most cost-effective policy intervention and will have an immediate impact – but is insufficient on its own.
If this was the only significant spending commitment in the strategy, more than a quarter of children will still be living in poverty by 2035.

If low-income families are to keep pace with rising living standards and catch up with median incomes over time, the child-related elements of Universal Credit will need to see sustained increases above the rate of inflation. Improving the take-up of means-tested benefits and delivering social housing are particularly powerful levers the government should reach for. Employment measures have an important role to play in the strategy, but are less targeted, less cost-effective and the impacts on child poverty more modest and uncertain. A carefully balanced approach is essential.

Finally, there is no clear path to achieving substantial and sustained reductions in child poverty without increasing government spending, but the long-term societal and economic benefits of doing this are, at the very least, equal to the costs. For the millions of children lifted out of poverty, the positive impacts will last a lifetime. The UK has the sixth largest economy in the world – we can consign high levels of child poverty to the distant past, if we choose to do so.

Child poverty in migrant and asylum-seeking families

Children from migrant backgrounds are at much greater risk of poverty and hardship: around half of children of non-British born parents are in poverty, almost twice the rate of children with British-born parents (26%).[23] A third of children experiencing destitution are from migrant households.[24] Migrants to the UK on temporary visas, and those who are seeking asylum, have no recourse to public funds (NRPF). This is a condition applied to their immigration status that prevents them from accessing financial support through the social security system.

Action for Children services support families driven into severe hardship by the NRPF policy. Many of these children were born in the UK, or have British citizenship, but are denied access to public funds because of their parent's immigration status. Families with children that can prove they are destitute can apply to the Home Office to have the NRPF condition lifted, but the process is marred by strict requirements, high thresholds and long waiting times. UK immigration policies also place additional restrictions on asylum-seeking families, who generally cannot work.

It's vital the Child Poverty Strategy recognises the specific harms experienced by children from migrant and asylum-seeking families and includes concrete action to support them. This could include reviewing settlement routes and reducing fees for children and families, so they can secure permanent settlement sooner. The Change of Conditions process must be improved, so that all low-income families with children can access adequate support. Parents seeking asylum could be granted the right to work without restrictions while waiting for a decision.

Bobo Malik is a family support practitioner at an Action for Children service that offers targeted support to pregnant women and their babies.

"I've never come across a migrant or asylum seeking family with a mother and father who are not both desperate to work. But asylum seekers are not allowed to work, and for families with NRPF, they face systemic barriers – high costs, often low pay, and they're not treated properly by employers, as employers know they won't challenge it."

Bobo met Ada*, who came to the UK as a student, at an antenatal home visit. The family were under financial strain as Ada had lost her job and they were relying on her husband's part-time income. Ada was dismissed from her role as a receptionist due to a high-risk pregnancy and ongoing pain caused by uterine fibroids, which meant that she missed work. Bobo was able to provide the family with baby clothes, a pram and a moses basket, as there wasn't enough room in their accommodation for a full-sized cot. Now with a five-month old baby, and with her husband in a full-time role, Ada is hoping to return to work soon.

"When I came to the country, I knew about [the NRPF policy]. I'm trying my best to work hard, my husband is working hard to give our child the best that we can – we're not leaving our children in the hands of the government. But a child should be given the same level of opportunities as the children who are already in this country. If the parents of this child are working so hard and contributing to the economy of the country – this child should be given opportunities and not just left out there to cater for themselves."

*Name has been changed to protect anonymity

Appendix 1:

Methodology notes

Action for Children commissioned Public First to produce the statistics and modelling projections used to inform this report. The primary data source for the modelling is the Family Resources Survey (FRS) - the most detailed account of household finances in the UK. FRS raw data has been 'nowcasted' and projected forward based on the known uprating of benefits for 2025/26, population projections and Office for Budget Responsibility (OBR) forecasts of inflation and earnings growth.

Behavioural change
The modelling aims to account for behavioural change as a result of policies being introduced. In particular:

We account for potential job losses from rising minimum wages. The 'own-wage employment elasticity' (the ratio of the percentage change in employment for affected workers, divided by the percentage change in the average wage for affected workers) is –0.17 in our modelling.[25]

In response to taper rate changes, we assume a taxable income elasticity of 0.4 in line with academic literature and the OBR.[26] [27] This captures the responsiveness of taxable income to changes in marginal tax rates (for example, people choosing to work longer hours if marginal tax rates are reduced).

Employment support
Return to work from employment support and job loss from a higher minimum wage is assigned probabilistically to relevant individuals in our data. This means that re-running our model can produce slightly different results given the 'luck of the draw' in who benefits or loses out. We assume that employment support policies achieve job outcomes for an additional six percentage points of scheme participants, in line with DWP assumptions for Restart.[28]

Statutory Sick Pay
Statutory Sick Pay reforms are not easily modelled using the Family Resources Survey alone. To estimate this, we drew on Trades Union Congress (TUC) survey data on worker experiences of sick pay when absent due to illness or disability, by wage rate. We then mapped this onto the FRS dataset probabilistically, according to the probabilities implied by the TUC survey.[29]

Increasing the take-up of means-tested benefits
To estimate the impact of increased benefits take-up, the Family Resources Survey was used to identify low-income households not claiming any means-tested benefits and with assets of <£16,000. A predictive model was then used to estimate benefits entitlement based on household characteristics (income, number of children and adults, employment status).

Social housebuilding
In estimating the impact of increased social housebuilding, we assume a transition of households in poverty from the private rented sector to the social rented sector as new homes become available. We assume that net housing costs are reduced by half as a result of this move. Research from Shelter shows that social renting is around 60% more affordable than private renting.[30]

It is assumed that average grant funding per social rented home is £183,000.[31] Costs to the government per unit are reduced to a third of this once we account for reduced Housing Benefit spend and construction tax revenues, in line with analysis by the Centre for Economic and Business Research.[32]

Child Maintenance Service
To estimate the effects of implementing universal Collect and Pay on child maintenance payments we used the Family Resources Survey to identify those with missed and partial child maintenance payments. We then used the maintenance payments data from the Family Resources Survey to estimate the amount missed each week. The modelling assumes that a universal Collect and Pay system would ensure that all those who we estimate should be receiving maintenance payments but aren't, do so. Additionally, it assumes that all those receiving partial child maintenance payments receive the estimated full amount, regardless of the arrangement between the paying parent and receiving parent.

We further assume that for each fee, the parent paying the fee kept the money instead. For example, the 4% fee paid by the receiving parent is kept by the receiving parent.

Long-term benefits of reducing child poverty
Our estimates of the societal gains from reducing child poverty draws heavily on the work of Donald Hirsch on the impact of child poverty on public services demand. In particular, children's social services, school education, policy and criminal justice, healthcare, fire and rescue, Pupil Premium spending and early years entitlement for two-year-olds.[33]

We also draw on the work of Blanden et al on the lost earning potential of adults who grew up in poverty.[34] We used their lower bound estimate that being in poverty as a child can reduce earnings potential by 15% and reduce the probability of being in employment by four percentage points. We used Office for National Statistics (ONS) data on earnings and employment rate by age to produce estimates of the impact of poverty on labour market outcomes for each age of an individual.

Using these two sources, we can estimate the reductions in public service demand implied by the poverty declines in our model, as well as the longer term gains to the Exchequer as children become adults and enter the labour market. We account for both increased tax revenues and reduced welfare spending. In our assessment of societal benefits, we also considered increased private earnings for the individuals themselves.

Appendix 2:

Scenario scorecard

	2030			2045			Annual fiscal costs (£ billions)	
	No. of children lifted out of poverty	% fall in child poverty	Child poverty rate by 2030	No. of children lifted out of poverty	% fall in child poverty	Child poverty rate by 2045	2030	2045
Scenario one: Scrapping the caps	0.6m	-13%	26%	0.6m	-13%	26%	3.9	4.4
Scenario two: With a benefits escalator, and childcare support	0.8m	-19%	25%	1.3m	-31%	21%	6.6	16
Scenario three: With benefits take-up	1.2m	-28%	22%	1.7m	-39%	18%	10.4	19.9
Scenario four: With employment support and incentives	1.3m	-30%	21%	1.7m	-40%	18%	16.4	30.9
Scenario five: With labour market and housing reforms	1.5m	-36%	19%	2m	-50%	15%	24.3	39.6
Scenario six: Everything except the two-child limit and benefit cap	1m	-24%	23%	1.7m	-40%	18%	21.9	41.3
Scenario seven: Scrapping the two-child limit, benefit cap and some employment measures	0.7m	-17%	25%	0.8m	-18%	25%	8.9	14.6
Scenario eight: Just some employment measures	0.15m	-3.5%	29%	0.2m	-5%	28%	4.4	8.6

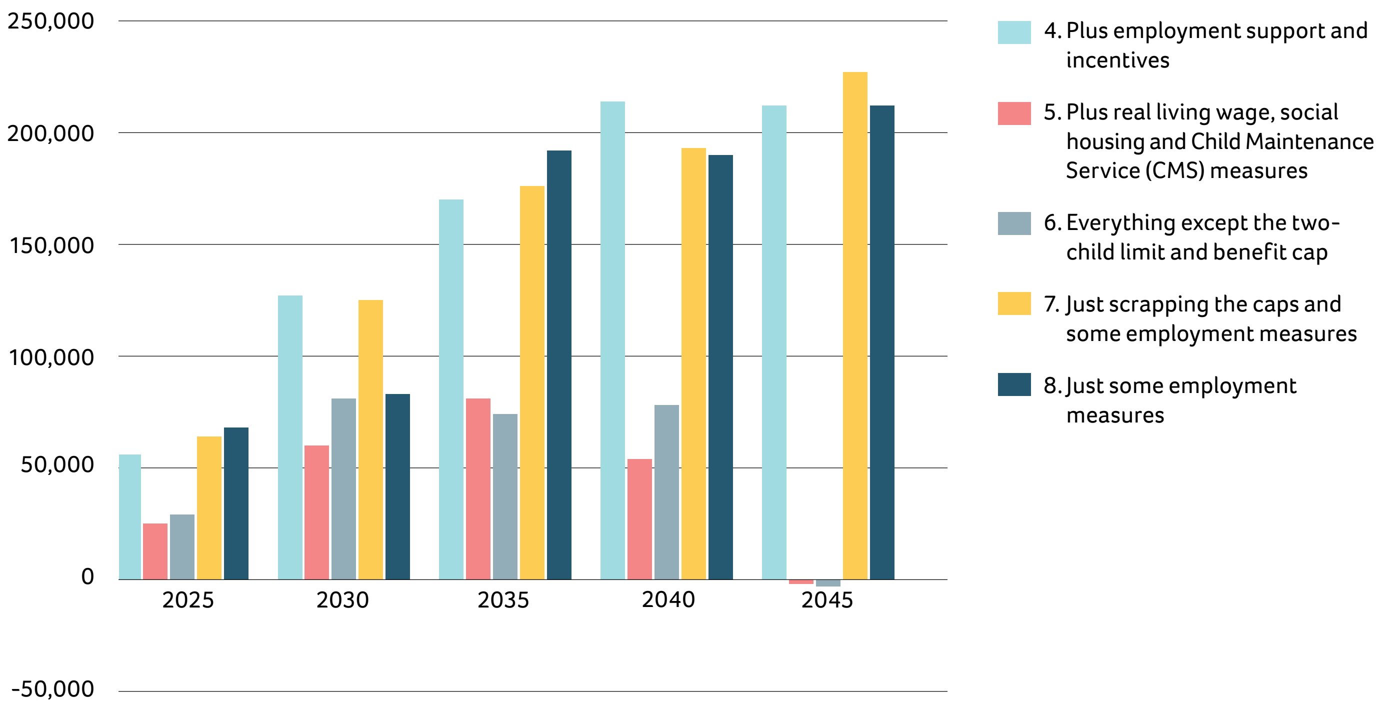
Appendix 3:

Employment effects from scenarios

	Scenario four: With employment support and incentives	Scenario five: With labour market and housing reforms	Scenario six: Everything except the two-child limit and benefit cap	Scenario seven: Scrapping the two-child limit, benefit cap and some employment measures	Scenario eight: Just some employment measures
2025	56,000	25,000	29,000	64,000	68,000
2030	127,000	60,000	81,000	125,000	83,000
2035	170,000	81,000	74,000	176,000	192,000
2040	214,000	54,000	78,000	193,000	190,000
2045	212,000	-2,000	-3,000	227,000	212,000

Note that variation between scenarios four, seven and eight is driven by statistical variation. Return to work from employment support and job loss from a higher minimum wage is assigned probabilistically to relevant individuals in our data. The model is based on percentage chance of being brought into employment, so re-running our model can produce slightly different results given the 'luck of the draw' in who benefits or loses out. The key observed trend is that employment support and incentives increase employment by circa 200,000, while layering a real living wage on top of this leads to close to net zero impact on employment in the long run.

Change in employment under policy scenarios



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"I grew up in poverty. I can deal with not having enough to eat or the flat being cold. It's more the psychological and emotional impact that I struggle with."

- Young person campaigning with Action for Children

"We've come in from outside, and it's probably colder in that room as it's just stagnant coldness. And the pregnant mother is there wrapped up in a hat and gloves because she can't afford to heat the home."

- Action for Children practitioner

"There's so much shame to it that we knew from the age of six or seven that if someone asked if we were eating, we said yes. If someone asks why the fridge was empty, we said, 'Oh, mummy's doing the shopping tomorrow.'"

- Young person campaigning with Action for Children

"These families, mums and dads are sacrificing meals just so they can feed their children a little bit in the evening – it happens. You read about it, but it's not until you have someone face to face saying it to you that it really hits you."

- Action for Children practitioner

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Action for Children

3 The Boulevard
Ascot Road
Watford
WD18 8AG

actionforchildren.org.uk

/actionforchildren

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