Turning the tide

What it will take to reduce child poverty in the UK

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All errors remain the sole responsibility of the authors.

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Summary

The Government is due to publish a Child Poverty Strategy later this year, with a promise to bring about "an enduring reduction in child poverty" in this Parliament, and to set out a 10-year plan for lasting change. Reducing child poverty is indisputably a welcome goal. In 2022-23, 4.3 million children in the UK (30 per cent) were growing up in relative poverty after housing costs – the Government's preferred headline measure – considerably higher than the 16 per cent of pensioners and 18 per cent of working-age non-parents. In 2022, more than one-in-ten British 15-year-olds (11 per cent) said they had skipped a meal in the past month because there was not enough money in the household to buy food, compared to only 3 per cent in Portugal, the Netherlands and Finland, and the UK's child poverty rate, after housing and utility costs, is higher than in any EU or EFTA nation bar Greece.

To date, the Government has not said whether it will adopt targets, but there must be some criteria against which the Child Poverty Strategy can be measured a failure or a success. The very lowest bar a successful strategy must clear is to reduce child poverty from its projected 31 per cent in 2024-25 (the Government's likely baseline, and a higher, and therefore less exacting, starting point than 2022-23 or 2023-24). Going further, the Government could aim to reduce rates below 29 per cent, the average child poverty rate across the Conservative-led years of 2011-12 to 2023-24. And a stretch target might be to drive down child poverty rates below 27 per cent – the level inherited by the Coalition Government in 2010-11 – and to their lowest since the 1980s. (A comparable goal would be to get the number of children living in relative poverty back below 4 million – a milestone noted by the new Government, and equivalent to around 28 per cent.)

But the Government faces a substantial challenge to achieve any of these goals. On present policies and economic forecasts, we project that UK child poverty will rise over this Parliament and the next, hitting 33 per cent (4.6 million children) in 2029-30: the highest rate since 1998-99, and the highest number of children on record. This is partly because the outlook includes £3 billion of scheduled welfare cuts through the ongoing roll out of the two-child limit and family element abolition, and real-terms cuts each year in the value of Local Housing Allowance and the benefit cap.

There is, of course, plenty the Government can do to beat these forecasts. Growth alone would provide additional fiscal resources that could allow for other reforms, but would not directly help to reduce poverty: the lesson from past decades is that growth in isolation will increase the gap between the middle and the bottom of the income distribution. But targeted measures within a growth strategy could help lower poverty directly. First, it is right that the Government should try to get more parents into work,

or working or earning more, as it seeks to achieve an 80 per cent employment target. Entering work remains the most effective – if far from surefire – way for out-of-work families to exit poverty; parental employment gains played a significant role in the child poverty successes of the 2000s; and boosting family incomes through increasing parental employment would be a fiscal gain to the Government. But the make-up of families in poverty has shifted considerably since the 2000s: 70 per cent of families in poverty now have at least one adult in paid work, up from 49 per cent in 2000-01. And it is unlikely that future parental employment trends will be able to replicate the progress of the last three decades, as close to nine-in-ten (87 per cent) of the remaining workless families with children in poverty face at least one barrier to entering employment or working more, be that caring responsibilities for young children, multiple children to juggle, or a disabling health condition. We do not set out a package of measures that could boost parental employment further, but the prevalence of these barriers suggests progress could be achieved through improvements to childcare provision (including for school-age children), boosting parents' skills, or supporting parents with health conditions into work. Second, action on housing costs could also play a part in the Government's child poverty reduction plans: 1.1 million children in the UK today live in a household with an income that would not fall below the poverty line if housing costs were not taken into account. A significant and sustained increase in housing supply that slows the growth in rents would clearly be widely welcomed, although unlikely to affect poverty rates in the near term.

If we assume the Government takes action on both these fronts, then a more optimistic – but still plausible – scenario for parental employment patterns and the housing market would cut the projected number of children living in poverty by 100,000 (for higher employment) and 30,000 (for improved rental affordability) by 2029-30. This would also be worth £2 billion per year to the Exchequer in additional revenues from Income Tax and National Insurance and reduced benefit spending. This would be important progress compared to our baseline, but would not be sufficient to prevent child poverty from rising over the Parliament – from its projected 2024-25 rate of 31 per cent to a post-2000 high of 32 per cent by 2029-30.

So, if the Government wants to preside over meaningful reductions in child poverty, it will need to increase income support for poorer parents. The two-child limit introduced in 2017 is incompatible with a credible Child Poverty Strategy: half of children in poverty now come from larger families (i.e. with three or more children), and the numbers impoverished by the limit will continue to grow over this decade, such that 50 per cent of children in larger families will be in poverty by the end of the Parliament. Abolishing the two-child limit (alongside the benefit cap, whose continued existence would dull the impact of repealing the two-child limit) would make a major difference to the poverty outlook, with 500,000 fewer children in poverty in 2029-30; and if this could be done in addition to progress on parental employment and rents, then child poverty in 2029-30 would be 28 per cent. This would come with a significant price tag (£4.5 billion in 2029-30 to scrap the two-child limit and the benefit cap), but our work confirms that this is the most cost-effective major option that the Government could choose, equivalent to a cost of £10,000 per child lifted out of poverty by the end of the Parliament. In addition to this, an important option would be to extend the coverage of Free School Meals, which are worth around £500 a year per recipient child, to all families on UC. This would cost around £1 billion, but should be taken from existing departmental spending plans in the coming Spending Review in support of the Government's 'opportunity' mission – which will be made harder if children's progress is being held back by economically insecure family circumstances. This would take an additional 100,000 children out of poverty (costing around £12,000 per child lifted out of poverty), and – in combination with the changes above – cut the poverty rate back to around its 2011-12 level.

But an ambitious strategy could go further still, boosting family incomes more broadly, delivering a clearer break with the poverty rates of the past 15 years and preventing a rise in poverty for one- and two-child families. We suggest two further priorities: addressing UC adequacy for parents by restoring the coverage and value of the family element in UC, phased out by George Osborne from 2017, which would be worth up to £800 per family in 2029; and repegging the Local Housing Allowance to local rents, which would avoid ongoing real cuts to housing support. Together these would cost a further £3 billion but would reduce child poverty by a further 140,000 children (equivalent to a cost of around £21,000 per child lifted out of poverty).

All of these steps together would drive down the relative child poverty rate to 27 per cent in 2029-30 – its lowest level since the 1980s. Instead of a projected default rise of 130,000 children living in poverty by the end of the Parliament, poverty numbers could fall by 740,000: a total difference of 870,000. For the first time since 2015 outside of the 2020-21 pandemic year, child poverty would fall below 4 million, to as low as 3.7 million by 2029-30. Meanwhile, absolute child poverty could be reduced to its lowest on record, rather than rising as is currently projected to be the case, suggesting that substantial progress would also be made against any 'deep poverty' measure that the Government plans to track.

However, although these changes would lead to a large and immediate reduction in child poverty, longer-term upwards pressure on poverty rates would remain. The only way to future-proof the Strategy and maintain progress is to reform the existing poverty-increasing uprating rules in the social security system. Non-pensioner benefits need to be uprated in line with earnings over the medium-term (alongside reform of the triple lock to follow the same approach) to ensure that family incomes maintain their value relative to pay and the State Pension.

It should be clear that achieving poverty reductions would require significant additional spending. The options we have explored would cost around £8.5 billion in total, falling to £5.5 billion if the extension of Free School Meals were funded within existing departmental budgets and the Government can succeed in raising employment and building more homes. However, this should be seen in the context of the current shape of the social security system and a baseline that leaves poverty on an upwards trajectory. Past governments have banked the savings from future cuts to benefits in ways that are clearly unsustainable, and these policies must now be undone to get child poverty under control. Our proposals would reverse some of the previous Government's cuts, but would still represent only a partial reversal of post-2010 trends. Even our ambitious package would involve spending far less than the New Labour Government's family benefit increases of the 2000s (totalling around £40 billion) and would reduce poverty by less than the changes made by the first Blair government; while proportionately, it is broadly in line with the scale of efforts delivered so far by the Scottish Government. Clearly, fiscal circumstances are strained, but child poverty will rise without a significant change in approach, not least because the Government is overseeing ongoing cuts in many parts of the benefit system. Of course, cheaper options are available. For example, as this report was being finalised, it was reported that the Government was considering an option of turning the two-child limit into a 'three-child limit'; this change would have around two-thirds of the cost of abolishing the two-child limit, and would have about two-thirds of the impact on poverty (if the benefit cap were also scrapped, it would cost around £3 billion in 2029-30, while reducing child poverty by 320,000). But we are clear that it would be worth raising some taxes to lower child poverty, and we note for example that the cost of even the ambitious welfare package above would soon be exceeded by the cost of continued Fuel Duty freezes and failure to add an electric vehicle equivalent. A Child Poverty Strategy that does not involve any significant trade-offs elsewhere is likely to be one that fails, and may well leave child poverty higher than under the previous Government. The new Government should instead choose to deliver for the UK's families, just as it promised in opposition.

The Government is right to seek a reduction in child poverty

Following a manifesto commitment, the Government is due to publish a Child Poverty Strategy later this year, which it says will bring about "an enduring reduction in child poverty in this Parliament, as part of a 10-year Strategy for lasting change". [1]

The Strategy will focus on four key themes: increasing incomes, reducing essential costs, increasing financial resilience, and better local support.[2] But the overwhelming driver

1 Tackling Child Poverty: Developing Our Strategy, Cabinet Office, October 2024.
2 Tackling Child Poverty: Developing Our Strategy, Cabinet Office, October 2024.

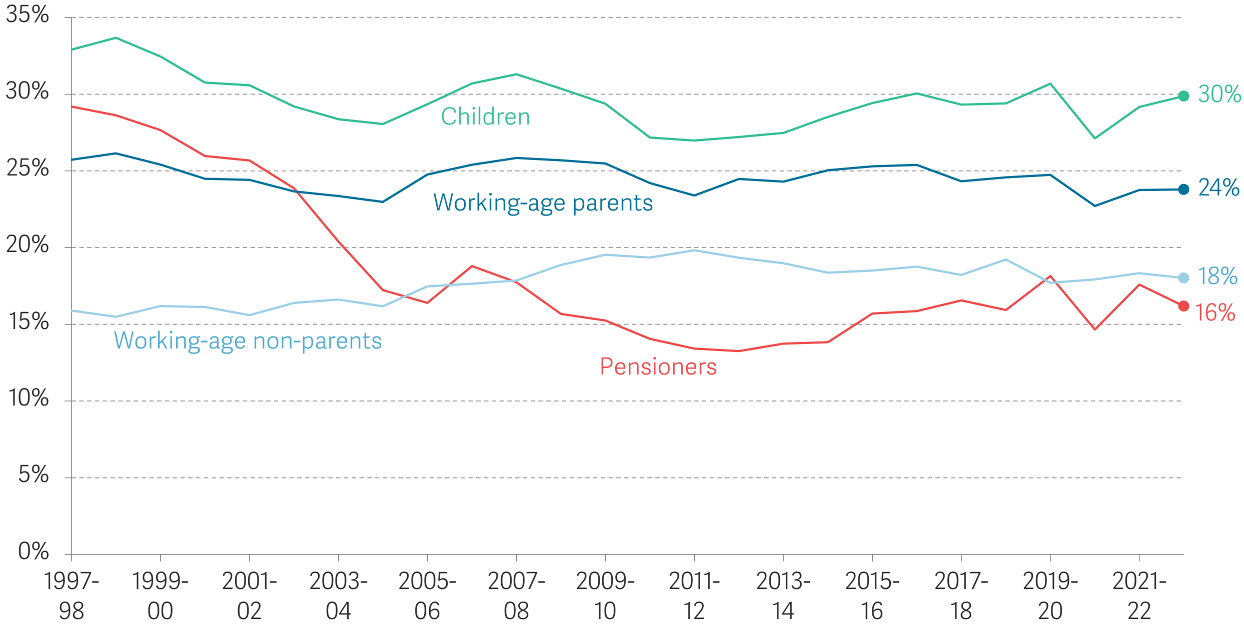
of poverty is insufficient income, especially in the UK in the twenty-first century, and the prescriptions we outline in this report largely focus on methods to boost incomes for families with children, although we consider the role of action on housing costs too. Boosting incomes in this type of society remains the quickest, most effective and most reliable means of lifting families out of poverty[3] and has been shown to substantially reduce differences in school achievements and improve children's health and wellbeing.[4] Reducing essential costs and increasing financial resilience are both clearly essential to ensure incomes remain adequate and secure, while strong public services are of great importance to families' quality of life, health, security and future prospects. But adequate incomes are the necessary foundation upon which these other pillars must stand.

The ambition to tackle child poverty is welcome and much needed, as child poverty outcomes in the UK are poor when compared across multiple fronts, be it other age groups, other decades, or other countries. In 2022-23 (currently the most recent year covered by official data), 4.3 million children in the UK (30 per cent) were growing up in relative poverty after housing costs, considerably higher than the 16 per cent of pensioners and 18 per cent of working-age non-parents who had a low household income on this metric (see Figure 1). [5] This compares to a post-1980s low of 3.6 million children in poverty in 2011-12 (27 per cent), and an average child poverty rate of 29 per cent during the 2010-2024 period of Conservative rule. As discussed in Box 1, the exact level of child poverty may be due for revision – and better child poverty data would be a welcome part of the Strategy – but for now we base our analysis on the current, official statistics.

3 See Introduction of J Strelitz & R Lister, Why Money Matters, Save the Children, 2008.
4 K Cooper & K Stewart, Does money affect children's outcomes?, Joseph Rowntree Foundation, October 2013.
5 The Government has said it will focus on relative poverty after housing costs as its key metric, i.e. where children are living in poverty if their equivalised household income is below 60 per cent of the national median once housing costs have been deducted; we use that measure throughout this note unless stated otherwise. It also said it intends to track measures of 'deep poverty'. See Tackling Child Poverty: Developing Our Strategy, Cabinet Office, October 2024. 'Children' are defined, as is standard, as dependent children aged 0-19.

FIGURE 1: **Children are much more likely than adults to be in relative poverty**

Proportion of individuals living in relative poverty after housing costs, by demographic group: GB/UK



NOTES: GB before 2002-03. Final data point is for 2022-23. Relative poverty is defined as having an income below 60 per cent of the median income in a given year.

SOURCE: RF analysis of DWP, Households Below Average Income.

BOX 1: **Improving poverty data should be a priority**

Official figures on relative poverty and material deprivation come from the DWP's Households Below Average Income data, based on the Family Resources Survey (FRS).[6] This is the key source of information for assessing poverty levels and trends, and forms the basis of our own projections. However, there is work to be done to improve the accuracy of these statistics and – given the added attention of the Child Poverty Strategy and any related policy measures – this needs to happen with some urgency; the FRS as it stands is likely to under-state the impact of any future anti-poverty income policy changes.

There are broadly two categories of problems, both of which may be fixable through existing plans for an 'FRS transformation'.[7]

First, survey respondents' answers may not be entirely accurate when completing a long, complicated survey about their household

6 Department for Work and Pensions, Households below average income, March 2024.
7 Department for Work and Pensions, Family Resources Survey Transformation: integrating administrative data into the FRS, March 2024.

finances. Perhaps most significantly for poverty statistics, some may not accurately recall or respond about their benefit income. Fortunately, 'FRS transformation' work has shown that survey responses can be linked to individuals' benefit records to automatically check their accuracy. Early work by DWP has shown that using administrative data on benefit receipt to make corrections boosts total benefit income in the data by around £20 billion a year, and this should lower estimates of relative poverty (all else equal).[8] Using administrative data held by HMRC on earnings and savings should also in principle improve the accuracy of the survey estimates, although it is not clear what impact this would have on estimated poverty rates.

Second, the work that DWP has already done also suggests that the FRS may be under-representing the number of benefit claimants, presumably due to such households being less likely to respond to the survey in a way that is not being accounted for by the existing set of post-survey grossing weights. Once individuals' responses have been checked against administrative records, it should be possible to adjust for such biases through reweighting. All else equal, this is likely to increase estimates of poverty and deprivation. As these two factors should go in opposite directions, it is not obvious what the net impact on child poverty levels or trends will be.

As DWP has said, there is "the opportunity to achieve substantial data quality, timeliness and cost efficiency gains through the integration of administrative data into the FRS" and much of the necessary work has already been completed.[9] In 2023, the plan was to release benefit-linked results in March 2024.[10] In 2024, the project was expected to be completed by March 2025.[11] Getting this over the line by March 2026, to improve the quality of all poverty and related policy analysis, should be a priority within DWP.

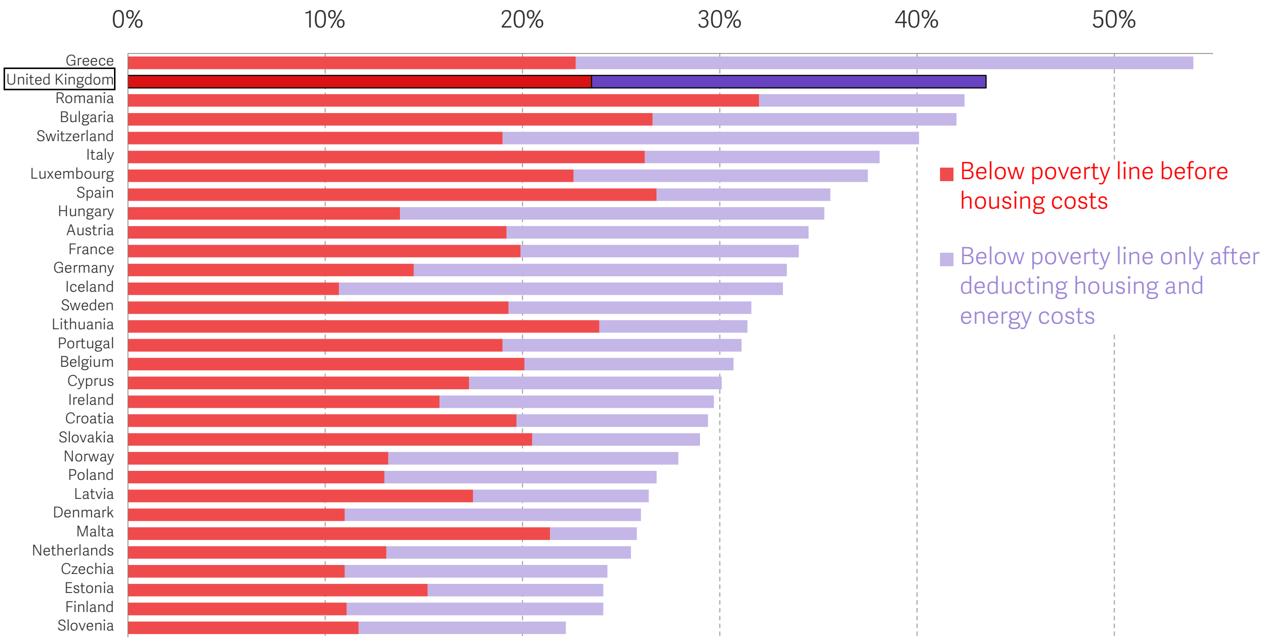
The UK does not fare well on child poverty compared with other countries either. Figure 2 shows that child poverty measured before housing costs are taken into account was higher in the UK than in 25 European countries in 2018, and twice as high as it was in Denmark.[12] On a slightly different after housing costs metric to that used in UK statistics (the measure also deducts energy costs from income but uses the 'before housing costs' income threshold), our child poverty rate was worse than all European nations except Greece.[13] This poor international comparison is also reflected in measures of deprivation:

8 A Corlett & L Try, Five takeaways from new living standards data, Resolution Foundation, March 2024.
9 Family Resources Survey Transformation: integrating administrative data into the FRS, Department for Work and Pensions.
10 DWP, Presentation at Family Finance Surveys User Conference 2023, July 2023.
11 Family Resources Survey Transformation: integrating administrative data into the FRS, Department for Work and Pensions.
12 Eurostat, At-risk-of-poverty rate by poverty threshold, age and sex, 14 February 2025.
13 Eurostat, At-risk-of-poverty rate after deducting housing costs by age and sex, 14 February 2025.

11 per cent of UK 15-year-olds reported that they skipped a meal in 2022 because there was not enough money to buy food; in the Netherlands and Finland this figure was 3 per cent.[14]

FIGURE 2: **The UK is among the worst nations in Europe for child poverty**

Children at-risk-of-poverty based on before-housing-costs thresholds: 2018



NOTES: Children defined as under 18s. Data covers the UK, every EU-27 nation and every EFTA nation bar Liechtenstein. The poverty line is 60 per cent of the median income before housing costs. Note the 'after housing costs' measure is not the same as that used in UK statistics as energy costs are also included, while the threshold used is the 'before housing costs' one. 2018 is the latest year of UK Eurostat data.
SOURCE: Eurostat.

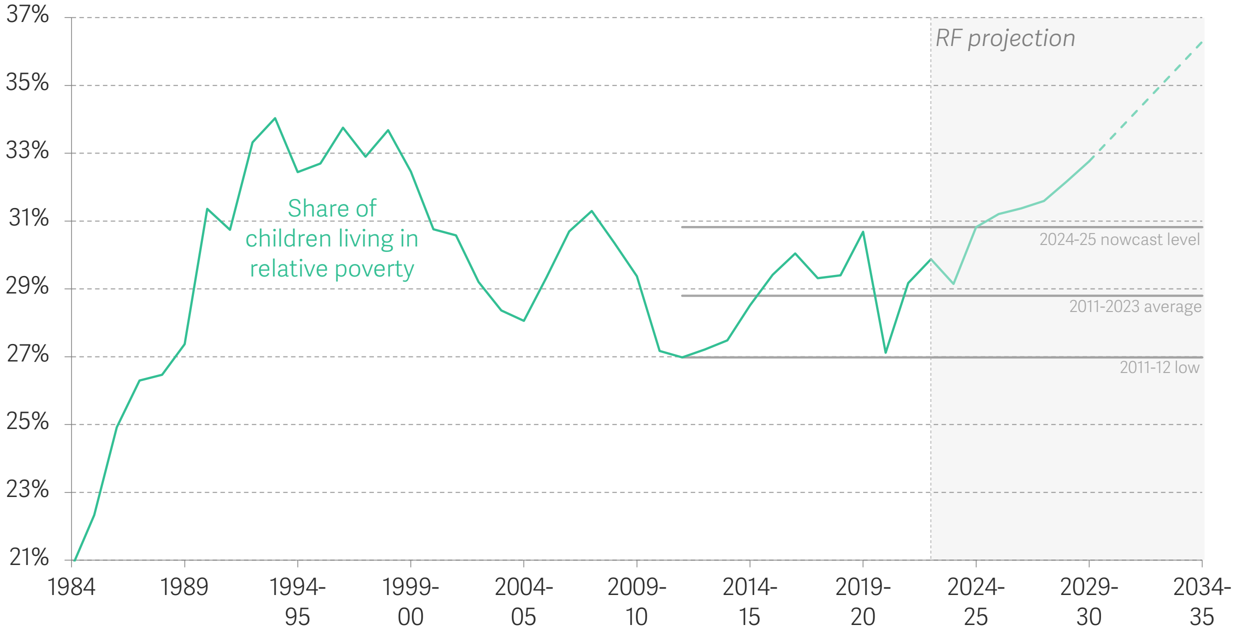
But the number one reason why a strategy to reduce child poverty is so important is that child poverty is currently on an upward trend, and, without action, we forecast it will continue to rise over the course of this Parliament and the next. The latest official estimates of child poverty are for 2022-23, but our projections suggest that child poverty has worsened since then, jumping to 4.4 million children (31 per cent) living in poverty in 2024-25, following a few years of middling results aided by temporary support during the Covid pandemic and the cost-of-living crisis. (See Annex 1 for details of our projection methodology.) Should the Government continue with existing policy, we project child poverty will hit 33 per cent in 2029-30, a level not seen since 1998-99. And, although projections this far into the future are very difficult (see Box 2 for some of the issues), by the end of the Child Poverty Strategy's expected 10-year timeframe in 2034-35, child

14 PISA 2022 Results (Volume I), OECD, December 2023.

poverty is set to hit 36 per cent in the absence of policy change and if current economic forecasts hold.

FIGURE 3: **Child poverty is projected to increase dramatically over the next decade in the absence of policy change**

Proportion of children living in relative poverty, after housing costs: GB/UK



NOTES: All figures beyond 2022-23 are modelled projections. GB before 2002-03. Relative poverty is defined as having an income below 60 per cent of the median income in a given year.
SOURCE: RF analysis of DWP and IFS, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; ONS, various, and OBR, Economic and Fiscal Outlook, October 2024.

Our forecast for child poverty to rise ultimately reflects that we project that the disposable income of low-income households with children will grow more slowly than the median income. There are a number of factors causing this:

- a large proportion of household income at the lower end of the income distribution is comprised of benefits,[15] which by convention are uprated each year in line with CPI. Earnings, which make up the bulk of household incomes at the median, tend to grow faster than this, and the triple lock ensures that this is also usually true of the State Pension;
- our forecast is for private rents to rise by 16 per cent and Council Tax to rise by 23 per cent in nominal terms between 2024-25 and 2029-30, both of which will disproportionately impact low-income households; and,

15 L Try, Money, money, money, Resolution Foundation, February 2025.

- current policy is for the next few years to see £3 billion worth of real-terms benefit cuts, including the benefit cap and Local Housing Allowance that are frozen in nominal terms, and the continued roll-out of the two-child limit and the abolition of the Family Element.

It is important to understand, though, that factors both within and outside the Government's control will no doubt deviate from our current, conditional projection and could push child outcomes in either direction. Box 2 sets out some key sources of uncertainty and how these could impact child poverty outcomes.

BOX 2: **Some key sources of uncertainty**

There are many ways in which our projections could turn out to be too low or too high (see Annex 1 for further discussion of our methodology).

First, our projections are explicitly based on current policies. We do not take a view on how likely or not it is that any policy changes will be enacted. Our projections are a conditional projection of what might happen if policy is not changed, in the same vein as the OBR's fiscal forecasts.

Second, the OBR economic forecasts that we use will inevitably not be perfect predictions. The degree of real wage growth in particular will have a large impact on future poverty rates, but perhaps not in the way that it is expected: if wage growth undershoots the current forecast, then relative child poverty will rise by less, because the impact will be greater on the median income than on low-income families.

Third, any HBAI inaccuracies (such as those discussed in Box 1) will feed through to our projected poverty levels. If the 2022-23 child poverty figure is too high or low due to random noise or a systematic bias – and both effects are likely – then our projected levels will have the same error.

Fourth, our model may of course fail to capture some important real-world trends, even if the OBR perfectly forecast the inputs that we use. One known simplification is that we do not directly model increases in disability and incapacity-related benefit receipt since 2022-23 (which might boost incomes), nor scheduled cuts in that area.[16] It is also possible that within the OBR's employment rate forecasts, employment may be redistributed towards or away from parents, potentially affecting child poverty (as we later explore through scenarios). And we assume there are no changes in the prevalence of different family types, such as single parenthood or having larger families:

16 M Brewer & L Murphy, Cutbacks ahead: Considering the impact of proposed changes to disability benefits on living standards and the public finances, Resolution Foundation, October 2024.

trends up to 2022-23 do not suggest a clear projection, but this is a source of uncertainty for child poverty.

Altogether, we believe the outturn HBAI poverty series itself likely currently under-estimates the impact of real-world changes in benefit incomes (and investment income) – in both directions (Box 1) – but we have no reason to think our projected changes are one-sidedly more pessimistic or optimistic than they should be. They are, therefore, are a useful tool even in the face of uncertainty.

In the light of this very worrying baseline, the rest of this note considers what targets the Child Poverty Strategy might set itself, and what policy measures would be needed.

At the very least, poverty will need to come down for the Strategy to be considered a success, and ideally there would be a material reduction

There are pros and cons to outlining a specific goal for the Strategy, and the Government has not yet said whether it is minded to have one.

Working towards a defined reduction in child poverty would help to keep the Strategy accountable, and a particularly ambitious target would act as a counter pressure against any desires to dilute the Strategy's scope in the face of inevitable fiscal pressures. On the other hand, child poverty can be quickly swayed by factors outside the Government's control, and data issues mean that there is extra uncertainty around the baseline levels of child poverty (see Box 1). Furthermore, the Government has identified four different themes for the Strategy, and it's not clear all of them are amendable to quantifiable targets, nor whether a single target would appropriately recognise progress across all four themes (although in our opinion the theme on 'increasing incomes' is the most important).

But whether or not the Government sets a specific target, the Child Poverty Strategy will be judged on the extent to which it lifts children out of relative poverty. We suggest three meaningful bars it might want to clear:

- Any reduction relative to 2024-25. Child poverty falling must surely be the minimum that the Government would want to achieve.[17]
- Getting below the average of the Conservative-led years of 29 per cent of children in poverty. This would enable the Government to argue categorically that their child poverty record is better than that of their predecessors. If achieved, child poverty

17 2024-25 is, for the Government, a fortunate base year for comparisons, in that the rate in 2024-25 is likely to be higher than in 2022-23 and 2023-24. A more appropriate baseline might be the three-year average from 2022-23 to 2024-25 to control for noise in a single year of data, but we use the 2024-25 rate in our analysis in line with the Government's likely baseline to avoid confusion.

would be at its lowest level since 2014-15 (outside the pandemic year of 2020-21).

- Achieving the lowest rate since the 1980s, below 27 per cent of children in poverty. This would at least return child poverty to its level in 2011-12, following the success of the New Labour Government in bringing it down across the 2000s.

And although poverty rates are more meaningful than the number of children in poverty, getting the latter below 4 million (equivalent to 28 per cent of children in poverty) for the first time since 2015-16 (again, outside of 2020-21) would be an obvious marker of success.

The scale of the task in front of the Government's Child Poverty Taskforce is significant, then, but it is not insurmountable. Recent history has shown that child poverty rates are amenable to policy changes, and the Government has levers it can pull that could make a considerable impact. We look below first at employment patterns and housing costs, and then move on to policies that directly affect household incomes.

Work is an effective route out of poverty, but the landscape for parental employment has changed a lot since the mid-2000s

Labour's 2024 election manifesto stated that "good work will be the foundation of our approach to tackling poverty and inequality"[18] and increasing parental employment should form part of the Child Poverty Strategy.[19] At the aggregate level, significant improvements in the employment rates for lone parents and mothers in couples in the early 2000s played a substantial role in the last Labour Government's child poverty success (see also Box 5), and further progress in the 2010s kept child poverty rates from rising more steeply in the face of regressive benefits reforms.[20] For individual families, entering work or working more remains a highly effective way to exit poverty.[21] And increasing parental employment will increase tax revenues and reduce spending on benefits.

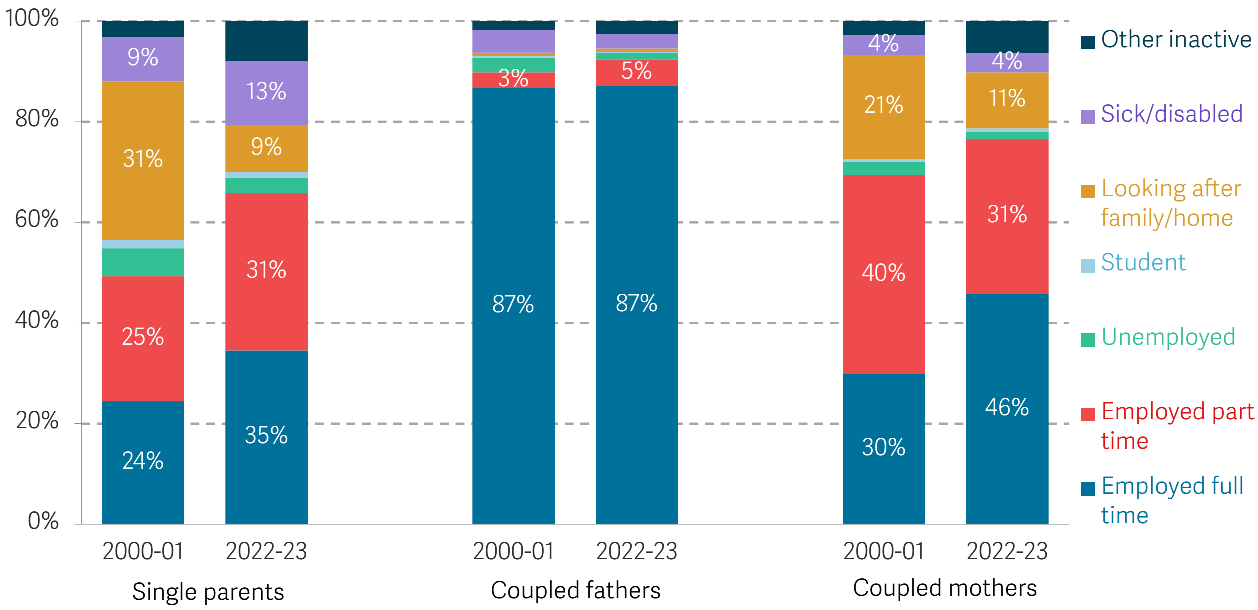
So, what progress could be expected on child poverty through improvements in employment? First, we note that higher employment for non-parents and higher real pay experienced across the economy as a whole (as opposed to concentrated within parents) will actually make relative measures of child poverty worse (by moving up the median), although they will increase tax revenues that can then be used to undertake poverty-reducing reforms elsewhere. So, alongside general efforts to raise the employment rate overall, the Child Poverty Strategy needs to focus on improving employment rates among parents.

18 Labour Party Manifesto 2024.
19 Some of this subsection draws on M Brewer & A Clegg, Working poverty out, Resolution Foundation, January 2025.
20 L Try, Money, money, money, Resolution Foundation, February 2025.
21 L Judge & H Slaughter, Working hard(ship), Resolution Foundation, February 2020.

The success story since the early-2000s is informative. Between 2000-01 and 2022-23, the employment rate of lone parents rose from 49 to 66 per cent, with a greater proportion working full-time. Likewise, the proportion of mothers doing paid work who were living with a partner rose from 70 to 77 per cent (see Figure 4). There is a broad consensus on the policy drivers of these gains: stronger incentives to do paid work,[22] a minimum wage, an expansion of childcare provision and in the amount of government support,[23] and various DWP initiatives or obligations, especially for lone parents.

FIGURE 4: **The proportion of parents doing paid work has increased since the early-2000s**

Economic activity status of working-age parents, by year: GB/UK



NOTES: GB in 2000-01. There are very few single fathers, so we look at all single parents together.
SOURCE: RF analysis of DWP, Family Resources Survey and Households Below Average Income.

These changes in the labour market patterns of parents helped to shift the profile of parents in poverty, which we show in Figure 5. The chart uses colours to organise these different family types into three broad groups, to illustrate further potential for the parents of children in poverty to increase the amount of paid work. These groups are:

- those where the adults are not doing any paid work at all (non-working lone parents and couples where neither adult works), shown in red;

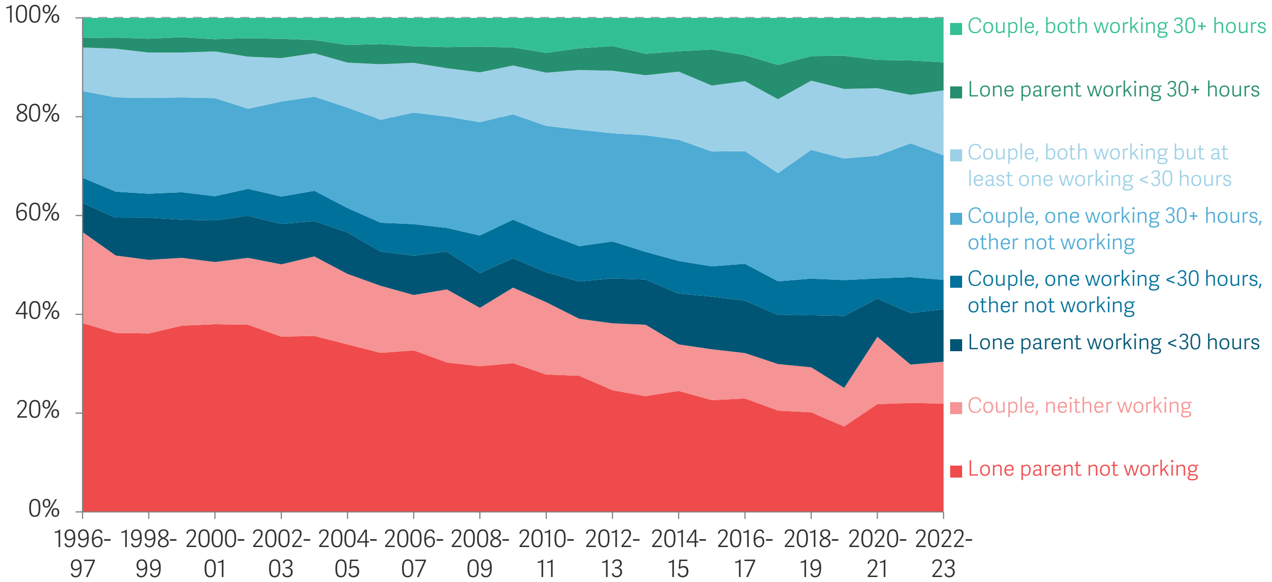
22 M Brewer & H Hoynes, In-work credits in the UK and the US, Institute for Fiscal Studies, February 2020.
23 E Drayton et al., Annual report on education spending in England: 2023, Institute for Fiscal Studies, December 2023.

- those where the adults are doing some paid work but – subject to the caveats that we discuss below – there could be the potential for more (lone parents working part-time, and couples with either only one adult in paid work, or two in part-time work, or one full-time and one part-time worker), shown in blue; and,
- those where the scope for more paid work is limited (lone parents working full-time, or couples with two full-time workers), shown in green.

As a result of these trends, there has been a big shift since 2000 towards families in poverty working: the proportion of families in poverty where the adults are doing some paid work has risen from 49 per cent to 70 per cent; the proportion of families in poverty where all adults are working full-time has doubled from 7 to 15 per cent; and the proportion of families in poverty where some adults are working but there is potentially scope to work more is up from 43 to 55 per cent (see Figure 5).

FIGURE 5: **The proportion of families with children in poverty who are in work has increased over recent decades**

Economic status of families with children in relative poverty after housing costs: GB/UK

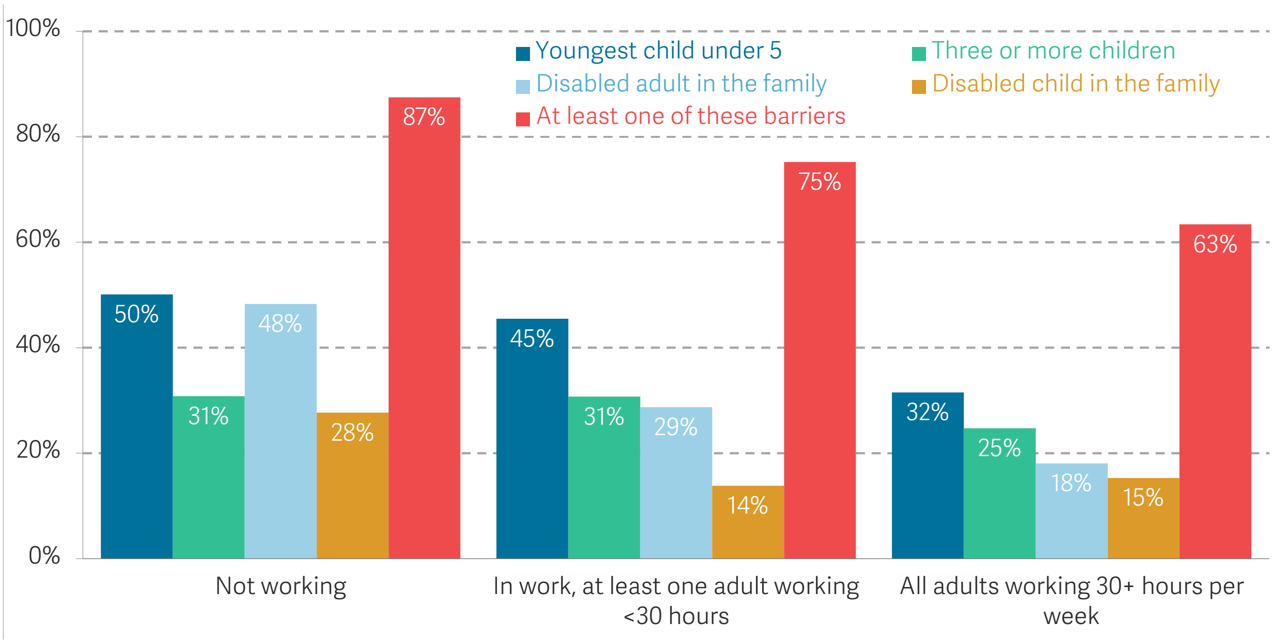


NOTES: GB before 2002-03. Family refers to benefit unit. Hours worked are estimated for some families where data is not available, based on full-time or part-time status.
SOURCE: RF analysis of DWP, Family Resources Survey and Households Below Average Income.

But the considerable progress over either of the past two decades is unlikely to be repeatable, for two reasons: more families in poverty are now in work already, reducing the pool of families in poverty that can be helped through employment gains; and much of the relatively easier gains that can be achieved through policy action may have already been banked.[24] Indeed, the majority of parents in poverty who remain out-of-work face at least one barrier to entering work; as Figure 6 shows, 87 per cent of families with children in poverty where nobody works face one of the following barriers: having a child under 5, having a disabled adult or child in the family, or having three or more children. For families where the parents work part-time, or where one adult is out-of-work (the group shown in blue in Figure 5), this figure is 75 per cent, suggesting that getting adults in working families to work more is also likely to be difficult.

FIGURE 6: **The majority of families in poverty that are not working face significant barriers to work**

Proportion of families with children in relative poverty after housing costs with specified barriers to work: UK, 2022-23



NOTES: Family refers to benefit unit. Hours worked are estimated for some families where data is not available, based on full-time or part-time status. 'In work, at least one adult working <30 hours' includes families in work where no one works more than 30 hours per week, or couples where one works 30+ hours and the other works fewer than 30 hours per week or is not working.
SOURCE: RF analysis of DWP, Family Resources Survey and Households Below Average Income.

There are also limits to the extent that employment gains can lift families out of poverty. For many low-income families, high marginal tax rates due to benefit withdrawal when they enter work or work more mean the majority of gains go to the government. A family on Universal

Credit paying Income Tax and employee National Insurance faces a marginal tax rate of 68 per cent, meaning they keep only 32p of every extra pound they earn.[25]

Repeating the parental employment success of the past two decades would be a tall order, then, but this does not mean that targeting a child poverty reduction through increasing employment is not worth it as material gains can still be achieved. There are still 480,000 lone parents and 1.2 million parents in couples who are out of work due to being unemployed, sick or disabled, or looking after family, suggesting further gains would most likely come from areas such as improvements to childcare provision (including for school-age children), boosting parents' skills, or supporting parents with health conditions into work. It is possible that measures to strengthen financial incentives to work could also play a role; we discuss those in Box 3.

BOX 3: **A second earner disregard in Universal Credit?**

As discussed above, high marginal tax rates limit the extent that employment gains can lift families out of poverty. This raises the question whether reforms to UC should strengthen financial incentives to work. This could be done for all working adults currently receiving UC, by reducing the taper rate, but at the cost of bringing more workers into UC.

Another suggestion is to reform the system of work allowances in UC. At present, families with children have a work allowance of £673 a month (or £404 if they are a renter), meaning that the first £673 a month of earnings does not reduce their entitlement to UC. This effectively means that the first earner in a couple on UC sees some of their earnings disregarded before applying the taper, whereas the second earner in a couple has the taper applied to all of their earnings.[26]

One suggestion is that work allowances should be reformed by giving each adult in a couple their 'own' allowance. Introducing a work allowance for the second earner in a couple at the value of eight hours per week on the National Living Wage (equivalent to the lower work allowance received by first earners receiving housing support) would cost

25 This is mitigated in part through Universal Credit's work allowances, which mean families with children or limited capability for work can earn a certain amount each month before benefit withdrawal kicks in, currently £404 for a family receiving housing support and £673 for families not receiving housing support. Families earning below these thresholds (approximately 8 and 13 hours per week on the National Living Wage respectively) will typically have marginal tax rates of 0 per cent but will likely have incomes that put them in relative poverty; families with earnings above the thresholds face high marginal tax rates but work allowances lower their participation tax rates (the total amount of their earnings lost to tax and benefit withdrawal).

26 A Clegg, In credit?, Resolution Foundation, April 2024.

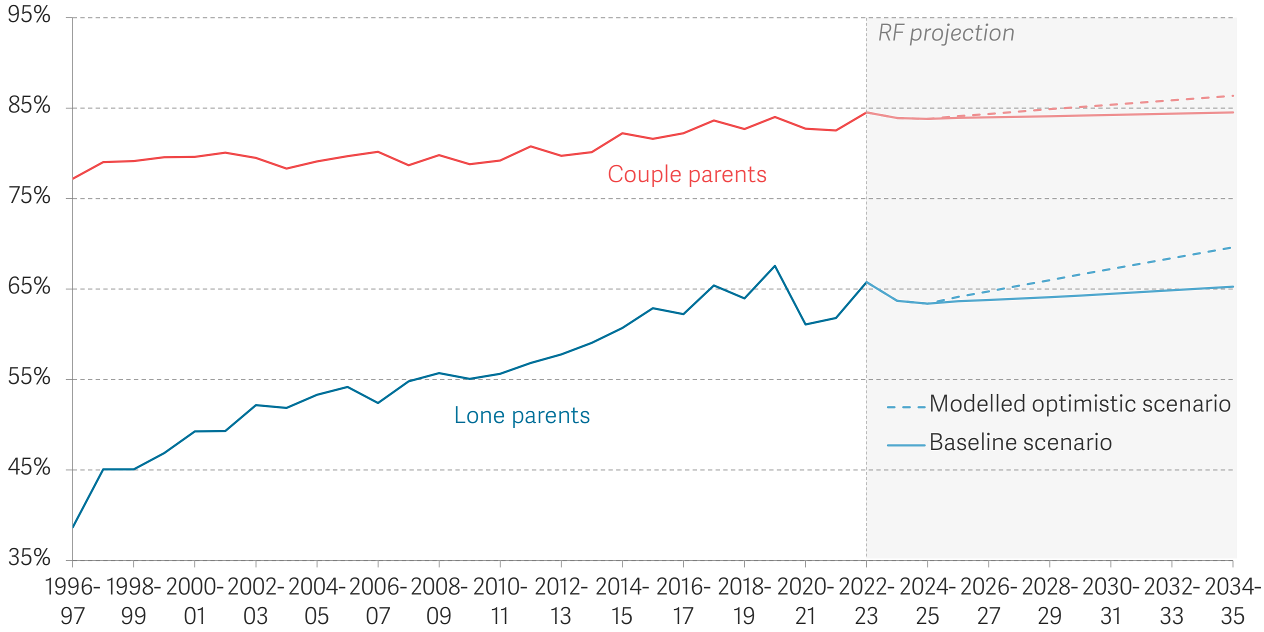
around £1.8 billion in 2029-30. Such a move would strengthen the financial incentive for second earners in couples with children to work. Our assessment, though, is that such spend is not the priority for a Child Poverty Strategy, given that much of the additional spending on UC would go to families not in poverty. Nevertheless, the Government should consider reform of UC as part of its strategy to move towards an 80 per cent employment target.

To illustrate how far progress on this front could lower child poverty, we model a more optimistic but still plausible scenario for parental employment. We increase employment by 5 percentage points for lone parents (90,000 workers) and 2 percentage points for adults in couples with children[27] (a 235,000 boost) between 2024-25 and 2034-35 – adding around 1 percentage point to the overall 16-64 employment rate. This would be slower growth than in the decade leading up to the pandemic, in which the employment rate increased by 8 percentage points for lone parents and 5 percentage points for adults in couples with children. But it is more optimistic than our baseline projection of a 1.6 percentage points rise for lone parents and 0.6 percentage points rise for couples with children between 2024-25 and 2034-35. The baseline here is consistent with the OBR's October economic outlook, in which the employment rate is lower in 2024-25 than in 2022-23, and does not fully recover by 2029-30 (while the Bank of England is even more pessimistic) (see Figure 7).

27 The employment rate is boosted for couples with children as a family type. In practice, this means around 80 per cent of those in couples with children that are moved into work are women, as their baseline employment rate is lower. Half of new workers are placed in part-time work, split equally between 8, 16 and 24 hours per week, and half are placed in full-time work split equally between 32 and 40 hours per week. Wages are distributed to match those of new entrants to work.

FIGURE 7: **Our optimistic scenario involves parental employment rising over the next decade, but more slowly than it did in the last two decades**

Parental employment rate by family type: UK



NOTES: GB before 2002-03.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; ONS, various, and OBR, Economic and Fiscal Outlook, October 2024.

Under our more optimistic jobs assumption, there would be 100,000 fewer children in relative poverty in 2029-30 than there is in our default projection.

High housing costs push over a million children into poverty, so any action to reduce rents will be welcome

The Government has chosen to target a measure of child poverty measured after housing costs have been deducted, something that is welcome, as this measure captures the way that high housing costs can severely reduce some families' disposable income.[28] Indeed, high housing costs play a significant role in driving child poverty. Figure 8 shows that, in 2022-23, more than one-quarter (27 per cent) of children living in relative poverty after housing costs (AHC) lived in households with an equivalised income that did not fall below the 'before housing costs' (BHC) relative poverty line. As a result, 1.1 million children lived in families with housing costs that weighed down on their household income to such an extent that they were pushed below the AHC poverty line.

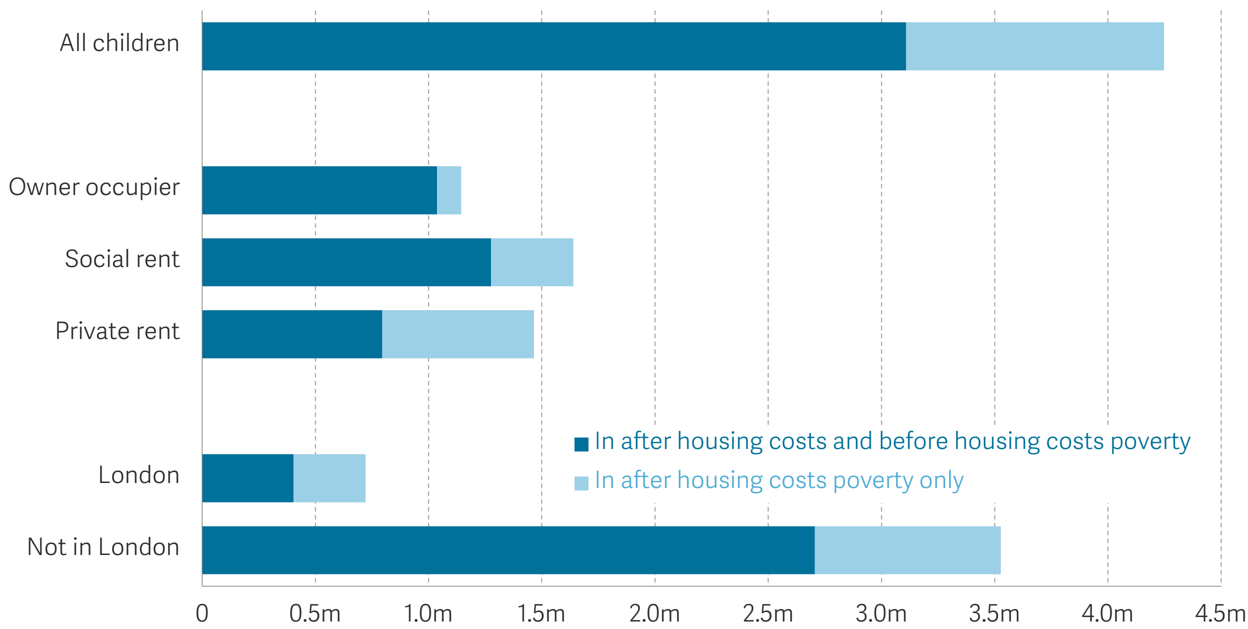
Figure 8 also illustrates how growing up in different types of housing tenure impacts a child's risk of being in poverty. 56 per cent of children living in a social rented home

28 This subsection draws on A Clegg & L Judge, Housing Outlook Q4 2024, Resolution Foundation, December 2024.

and 46 per cent in private rented properties were in AHC relative poverty in 2022-23, compared to 14 per cent growing up in owner occupation. But although the rate and number of children that are in AHC poverty is highest in the social rented sector, housing costs increase poverty risk the most for children living in private rented homes. Close to half (46 per cent) of the 1.5 million children growing up in poverty in the private rented sector in 2022-23 lived in households with an income that was above the poverty line before housing costs are taken into account. And there are stark regional differences too. Given the high cost of housing in the capital, it is not surprising that 320,000 out of the 720,000 children (or 44 per cent) growing up in AHC poverty in London in 2022-23 were in poverty due to their family's housing costs.

FIGURE 8: **Housing costs push an additional 1.1 million children into poverty in the UK**

Number of children in relative poverty after housing costs, by housing tenure and before housing costs poverty status: UK, 2022-23



NOTES: Relative poverty is defined as having an equivalised household income below 60 per cent of the equivalised median household income in the given year. The poverty line is recalculated for before housing costs and after housing costs poverty (i.e. the line is different for each measure).
SOURCE: RF analysis of DWP, Households Below Average Income.

The Government has set an ambitious target to build 1.5 million new homes in England by the end of the Parliament and has signalled its intention that a significant proportion of these will be for social rent.[29] However, housebuilding on the scale of the Government's ambition will require significant investment and a long timeframe, and the extent to

29 Housing targets increased to get Britain building again, Ministry of Housing, Communities and Local Government, July 2024; Deputy Prime Minister speech at Social Housing Conference, Ministry of Housing, Communities and Local Government, November 2024.

which a large boost in supply will feed through to lower (or at least slower growing) housing costs is uncertain.[30] The potential for lower housing costs to impact child poverty directly is also limited by the interaction with housing benefit support. For families in social rented homes, or those renting privately who do not have their support capped by the Local Housing Allowance (currently 54 per cent of privately renting families receiving Universal Credit), lower housing costs would simply be matched by lower benefit support, meaning their disposable income would remain the same, with the savings going entirely to the government. Families that do have their support capped by the LHA would gain the difference between their applicable LHA rate and their new rent.

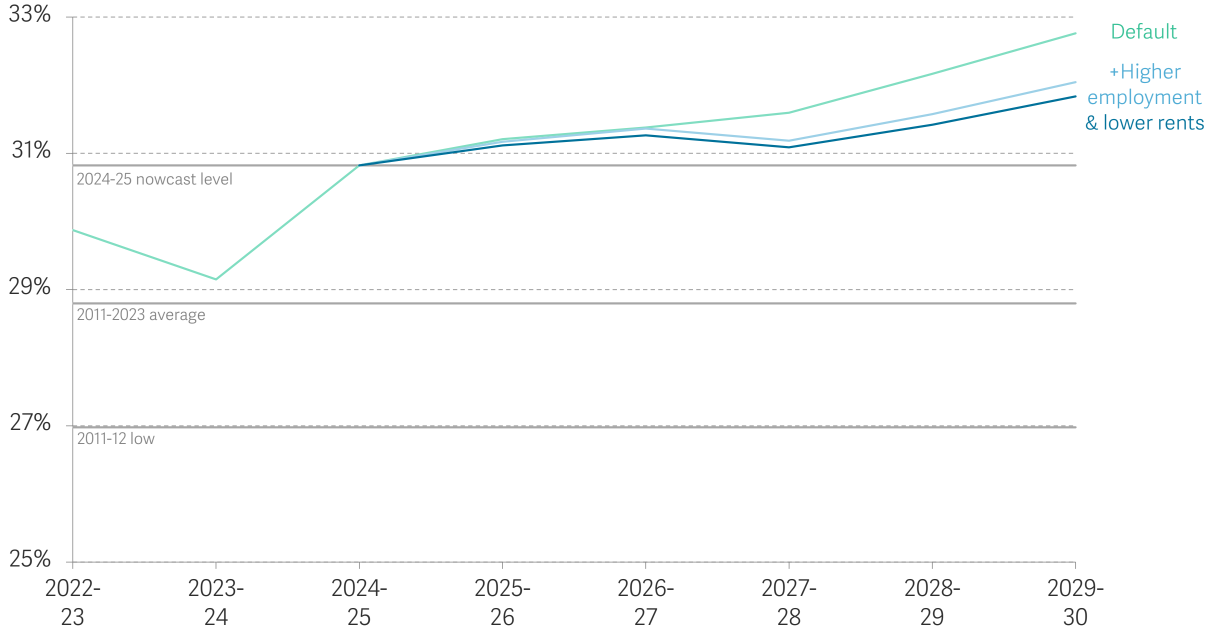
A large increase in housing supply would have some impact on rents, though. We therefore add an optimistic housing scenario to the employment scenario set out above to illustrate how far progress on these two fronts together could lower child poverty. If the Government can meet its target of building 1.5 million new homes by the end of the Parliament, this would represent a 1.1 per cent increase in housing supply above that required to keep up with projected population growth. Assuming an elasticity between increased supply and lower private rents of 1.75, this could leave private rents around 2 per cent lower than projected in 2029-30.[31] On top of this, the Government's ambition to significantly boost the number of social homes would further reduce rents: we estimate moving 300,000 privately renting families into the social rented sector by 2029-30 would result in a decline in rents of around 1.5 per cent in that year.[32] We therefore scale down our rent growth forecast to achieve a reduction in private rents of 3.5 per cent in 2029-30.

This scenario would further reduce child poverty from its projected rate in 2029-30 by 30,000, meaning the combined impact of our employment and rents scenario would leave child poverty 130,000 lower than it is in our default projection. But this still would not be enough to prevent child poverty rising from its projected 2024-25 rate of 31 per cent to 32 per cent in 2029-30 and 34 per cent in 2034-35, and so a strategy that encompassed only these two areas would likely fail to reduce child poverty over the Parliament.

30 I Mulheirn, Why building 300,000 houses per year won't solve the housing crisis – and what will, London School of Economics, August 2019.
31 "Multiple modelling exercises, for the UK and elsewhere, find that a 1% increase in the stock of houses tends to lead to a decline in rents and prices of between 1.5% and 2%, all else equal." I Mulheirn, Why building 300,000 houses per year won't solve the housing crisis – and what will, London School of Economics, August 2019.
32 RF analysis of DWP, Family Resources Survey using the IPPR Tax Benefit model.

FIGURE 9: **Optimistic changes in parental employment and average rents may not be enough in isolation to stop child poverty rising**

Projected proportion of children living in relative poverty, after housing costs, under alternative employment and housing costs scenarios: UK



NOTES: All figures beyond 2022-23 are modelled projections. Relative poverty is defined as having an income below 60 per cent of the median income in a given year. In our scenarios, parental employment is gradually boosted beginning in 2025-26 and rental growth slowed.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; ONS, various, and OBR, Economic and Fiscal Outlook, October 2024.

Importantly, these outcomes would also raise revenues that could help the Government to pay for income support measures that would have a more sizable, immediate and predictable impact on child poverty rates. We estimate that the employment and rents scenario outlined above would be worth at least £2 billion to the Exchequer in 2029-30 in increased tax revenue and lower benefit spending.[33] But it is highly unlikely that these measures alone would reduce child poverty to the extent that the Government could call their strategy a success, even with outcomes at the optimistic end of the spectrum.

Reducing relative child poverty is likely to require substantial well-targeted spending to boost family incomes

Our conclusion from the modelling presented above is that, if the Government wants to preside over meaningful reductions in child poverty in this Parliament, then it will need to increase income support for poorer parents in some form. That is also what history tells

33 We include here the impacts on Income Tax and National Insurance, and benefit means-testing, but do not include any broader impacts on tax revenue via e.g. consumption or capital taxes.

us. In particular, as discussed in Box 4, the last Labour government set out to significantly lower child poverty, announced very significant spending changes to help achieve that, and made a notable difference.

BOX 4: **When New Labour targeted child poverty**

The last time a UK government had a child poverty strategy was under New Labour.[34] In 1999, Prime Minister Tony Blair pledged to abolish child poverty in a generation, and the Government eventually set a target (which it missed) for relative child poverty in 2010 to be half its 1997 level or below. It also set up a Child Poverty Unit in government. [35] As its final parliamentary term came to an end, it passed the Child Poverty Act, which required future governments to establish a Child Poverty Commission, to set out policies to get child poverty down below 10 per cent by 2020, and to report annually on progress. These obligations were initially ignored by the 2010-2015 Coalition government, and the obligation to consider child poverty amended into one about social mobility (leading to the still existent Social Mobility Commission).

The New Labour child poverty strategy was wide ranging, but it is informative to focus on the part of the strategy that focused on family incomes, and to review actual outturns on measures of relative child poverty (and see also Figure 16). In essence, the fall in child poverty was due both to significant above-inflation increases in entitlements to benefits and tax credits for families with children, as well as changes in parental working patterns.

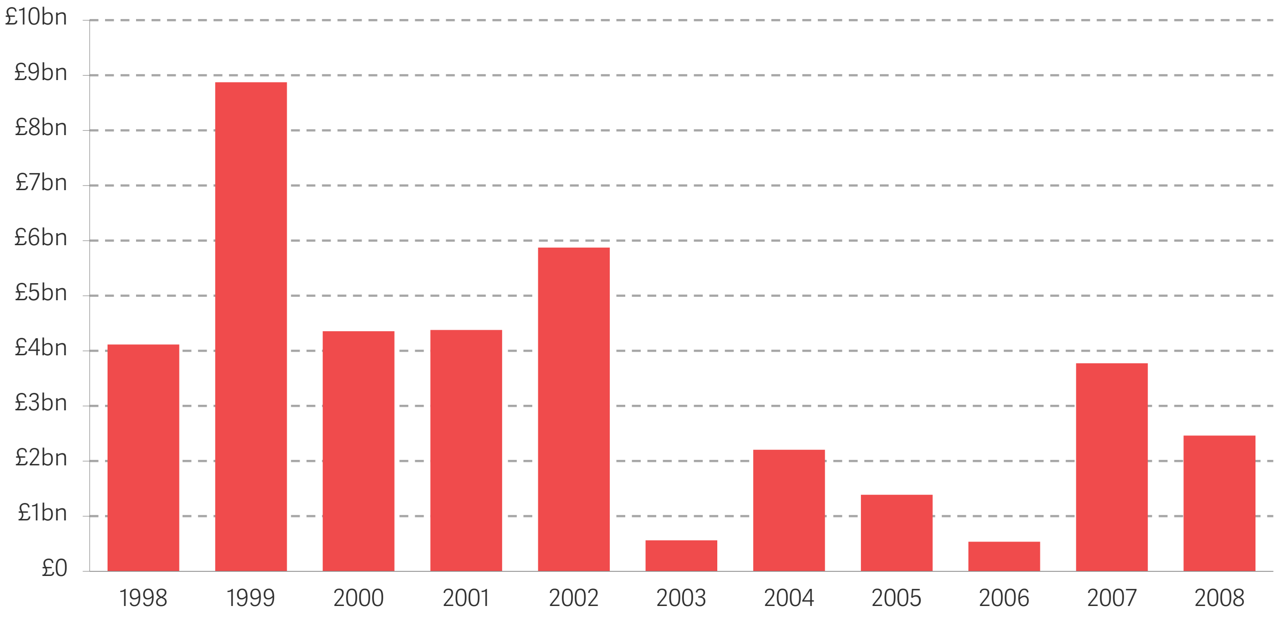
Figure 10 shows just how much fiscal firepower was brought to bear against child poverty, and to more broadly support family incomes, over the New Labour years. Using Budget (and Pre-Budget Report) costings from the time, extrapolated to 2029-30, family benefit increase announcements over 1998-2008 totalled around £40 billion a year – particularly via tax credits – with over £4 billion of new spending announcements in every year from 1998 to 2002. One study estimated that the impact of these changes is that "child poverty in 2010-11 is estimated to be between 1.3 million and 1.9 million lower than it would be if the tax and benefit system had not been reformed since 1998-99"; the figure of 1.9 million applies if the counterfactual is that benefit entitlements were increased in line with price inflation over the 13-year period (which is consistent with the costings shown in Figure 10) , but child

34 For a comprehensive assessment, see: J Waldfogel, Britain's War On Poverty, Russell Sage Foundation, April 2010.
35 What follows draws on: M Brewer et al., Child poverty in the UK since 1998-99: lessons from the past decade, Institute for Fiscal Studies, October 2010. See also: R Joyce & L Sibieta, An assessment of Labour's record on income inequality and poverty, Oxford Review of Economic Policy, 2013, and J Hills, Labour's Record on Cash Transfers, Poverty, Inequality and the Lifecycle 1997 – 2010, Social Policy in a Cold Climate WP 5, July 2013.

poverty in 2010-11 was still an estimated 1.3 million lower than if benefit entitlements had been increased in line with (higher) GDP growth.[36] It should also be noted that default annual uprating also tended to be in line with a variant of RPI inflation, whereas today (since changes made by the Coalition government) CPI inflation is used and this is typically lower: in CPI-adjusted terms, there were therefore further increases in family support during the New Labour years that Figure 10 does not include.

FIGURE 10: **New Labour directed a lot of money to families with children, albeit with the advantage of better fiscal circumstances**

Estimated cost of permanent child-related benefit increases set out in New Labour's Budgets, 2029-30 terms: UK



NOTES: Data unavailable for 1997, and no relevant long-term policies were found for 2009 or 2010. Pre-Budget Report changes are included in their subsequent Budget. Costings from each fiscal event are cast forward to 2029-30 in line with nominal GDP. Tax credits are included.

SOURCE: RF analysis of HMT Budget documents.

36 M Brewer et al., Child poverty in the UK since 1998-99: lessons from the past decade, Institute for Fiscal Studies, October 2010. That study also estimates that, had no changes to the tax and benefit system been made over the 13 years of New Labour governments, then relative child poverty would have risen by 900,000; this is essentially due to the point we make later in this paper: if any part of the package of income received by families with children does not keep pace with median income, then relative measures of poverty will rise.

In the labour market, there were considerable changes in parental working patterns, particularly among lone parents (as discussed elsewhere in this note), as well as a sharp decline in the proportion of couples where no one was in paid employment. At a finer level, the same study found a clear link between parental employment patterns and child poverty, concluding that, for example, "[B]etween 1998–99 and 2004–05, the fall in child poverty was driven largely by the northern regions of England and by Scotland, the regions of Great Britain where parental employment rose the most. More recently, child poverty has risen particularly sharply in the West Midlands, where the impact of the recession on parental employment has been the most marked. And the rise in child poverty since 2004–05 has been felt most by the children of one-earner couples, whose earnings have been falling in real-terms."[37]

So below we set out a number of policy options that could make a significant difference to child poverty.[38] As we discuss in further detail at the end of this report, this is not a time of high growth and overflowing public coffers, and this only adds to the need to prioritise. So we look at three sets of options for this Parliament (and one for the next), beginning with the most crucial.

Scrapping the two-child limit and benefit cap should be a priority

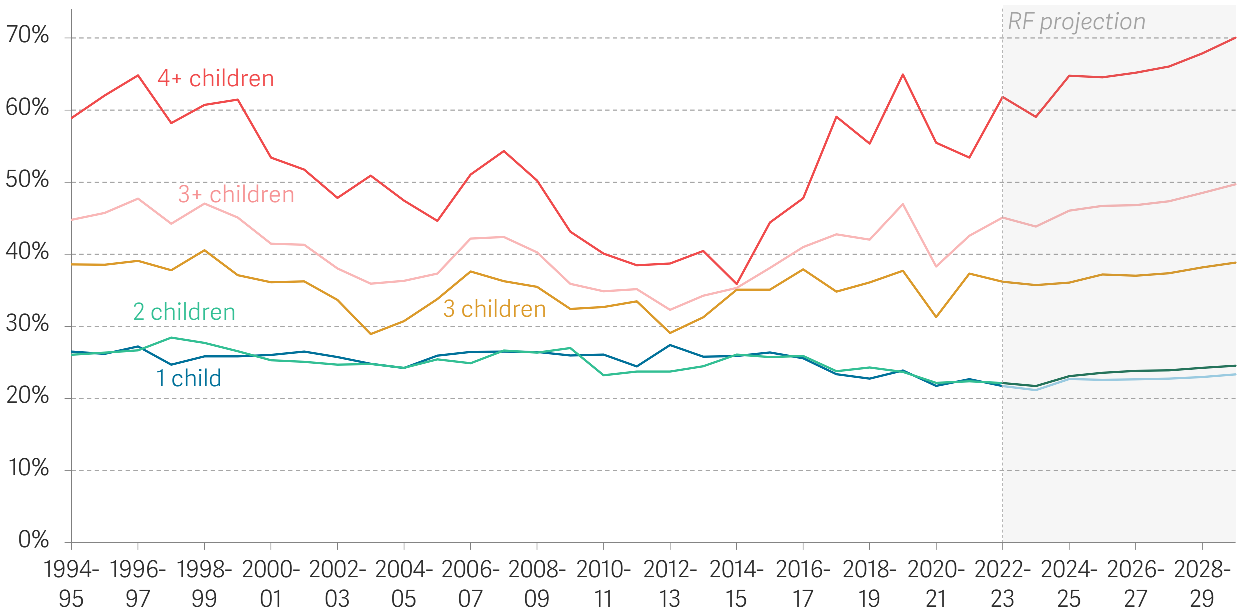
Work by the Institute for Fiscal Studies has shown that abolishing the two-child limit would be the most cost-efficient way to reduce child poverty (a finding that we share).[39] But that is not the only reason why this policy should be at the top of the list of policy options for a Child Poverty Strategy.[40] First, the two-child limit fundamentally breaks the link between need and entitlement that should be a part of any sensible welfare system. Second, its unfairness and discriminatory nature can be seen clearly in the data on the risk of child poverty by the number of children. In 2014-15, children in larger families (those with three or more children) were only around a third more likely to be in poverty than two-child families, but by 2024-25 they are estimated to be around twice as likely, leading to a situation where half of children in poverty are now in families with three or more children. And, as noted earlier, the two-child limit is still being rolled out over time as more and more third children are born after April 2017, meaning that it will be a continued headwind against poverty progress until the 2030s, at which point all third

37 M Brewer et al., Child poverty in the UK since 1998-99: lessons from the past decade, Institute for Fiscal Studies, October 2010.
38 A similar exercise is undertaken in: A Henry & T Wernham, Child poverty: trends and policy options, Institute for Fiscal Studies, October 2024.
39 A Henry & T Wernham, Child poverty: trends and policy options, Institute for Fiscal Studies, October 2024.
40 Some of this subsection draws on: L Try, Catastrophic caps: An analysis of the impact of the two-child limit and the benefit cap, Resolution Foundation, January 2024.

children will be covered by the new rules. As a result, we project that half of children in large families will be in poverty in 2029-30 (see the pink line in Figure 11). For all these reasons, the two-child limit is incompatible with a credible Child Poverty Strategy.

FIGURE 11: **Poverty levels and trends have been much worse for larger families since the early 2010s**

Proportion of children living in relative poverty, after housing costs, by number of children in the household: GB/UK



NOTES: All figures beyond 2022-23 are modelled projections. GB before 2002-03. Relative poverty is defined as having an income below 60 per cent of the median income in a given year.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; ONS, various, and OBR, Economic and Fiscal Outlook, October 2024.

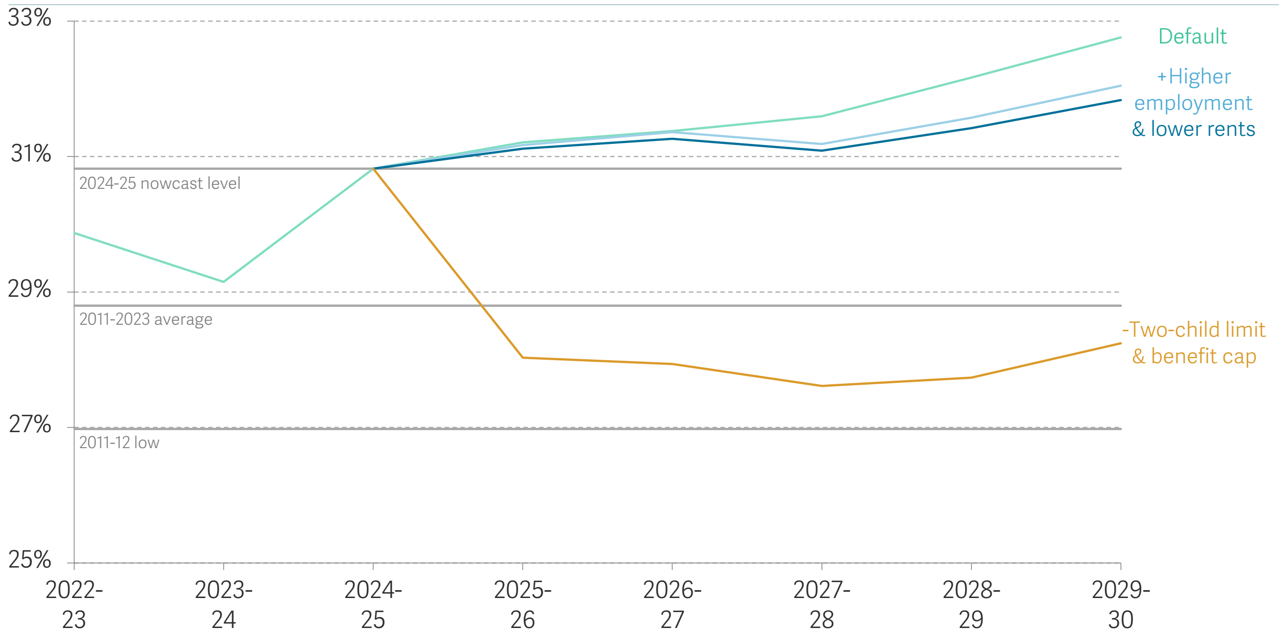
The impact of the benefit cap will also grow over time, as its values are permanently frozen by default. To give a sense of how this can have a big impact over time, if the benefit cap had been uprated in line with inflation each year since 2017-18, by 2029-30 it would be £29,100 for parents outside London instead of £22,100 – 32 per cent higher – and £33,500 rather than £25,400 in London. As a result, the trend is for more and more households to be 'benefit-capped'.[41] And that would be all the more true if there were new benefit increases such as ending the two-child limit: scrapping the two-child limit without scrapping the cap would mean that many large families would see no benefit from the former.[42]

41 DWP, Benefit cap: number of households capped to August 2024, December 2024.
42 It is true that the benefit cap in theory gives an extra strong incentive for out-of-work benefit units to earn at least the equivalent of 16 hours per week on the wage floor (and therefore be exempted), and the cap has been found to slightly boost employment. However, this is easier said than done for many parents, and the cap has also had unintended side-effects, with more people taking up disability-related benefits that exempt them from the cap, and more people becoming economically inactive (with fewer unemployed). See: C Emmerson & R Joyce, What impact did lowering the benefit cap have?, IFS, April 2023; and: A Reeves et al., Capping welfare payments for workless families increases employment and economic inactivity: Evidence from the UK's benefit cap, International Journal of Social Welfare, February 2024.

The Government should scrap both limits in order to base entitlements on needs once more. Removing the two-child limit and benefit cap would lower the number of children in relative poverty by an estimated 400,000 in 2025-26, rising to 500,000 by 2029-30 – around one-in-nine children in poverty.[43] In combination with our boosted jobs and housing assumptions, these policies would lower our 2029-30 child poverty projection from 32 per cent to 28 per cent (see Figure 12): enough to get child poverty below the 2011-2023 average.

FIGURE 12: **Ending the two-child limit and benefit cap would make a big difference to the poverty outlook**

Proportion of children living in relative poverty, after housing costs, under various scenarios: UK



NOTES: All figures beyond 2022-23 are modelled projections. Relative poverty is defined as having an income below 60 per cent of the median income in a given year. In our scenarios, parental employment is gradually boosted beginning in 2025-26 and rental growth slowed; the two-child limit and benefit cap are scrapped in 2025-26.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; ONS, various, and OBR, Economic and Fiscal Outlook, October 2024.

43 All of our policy impacts assume our more optimistic scenarios on employment and housing – as set out earlier – have already been achieved.

Scrapping the two-child limit and the benefit cap would come with a significant price tag of around £4.5 billion in 2029-30.[44] But no other major policy option will have such cost-effectiveness – at around £10,000 per child lifted out of poverty. And, fundamentally, the two-child limit is an unwelcome policy that does not exist in any other country, and achieves nothing beyond making fiscal savings at the expense of higher child poverty and deprivation.[45]

The idea of changing the two-child limit into a three-child limit has been floated recently.[46] Unlike the two-child limit, this would have at least some international precedent, with the federal Earned Income Tax Credit in the US paying the same maximum regardless of child numbers beyond three;[47] child tax allowances in Bulgaria are limited to three children; and support in Spain is limited to four dependents including adults.[48] We estimate that moving to a three-child limit would have around two-thirds of the poverty impact as scrapping the limit entirely, for around two-thirds of the cost. In combination with scrapping the benefit cap, it would cost around £3 billion in 2029-30, while reducing child poverty by 320,000 (therefore saving around £1.5 billion while leaving 180,000 more children in poverty, compared to complete abolition). Before considering the benefit cap interactions, every family affected by the two-child limit would see their maximum UC entitlement raised by around £3,800 in 2029-30 under a three-child limit. All in all, a three-child limit would be much preferable to the two-child limit, but we consider that there is a strong principled argument for the social security system to return to allocating support in line with need, and that would require fully abolishing the two-child limit.[49]

As an added practical and political incentive to scrap the two-child limit, the Scottish Government has stated its intention to effectively scrap the limit in Scotland from 2026-27, as discussed in Box 5 alongside other points of divergence. The UK Government should make that unnecessary by scrapping the limit UK-wide as soon as possible.

44 We round our policy costings in this report to the nearest £0.5 billion to reflect a range of uncertainties. There are a range of published costings for scrapping the two-child limit. For example: A Henry & T Wernham, Child poverty: trends and policy options, Institute for Fiscal Studies, October 2024. Note that our number here includes also scrapping the benefit cap, and the interaction of these two policies; that it is based on projected roll-out in 2029-30; is in 2029-30 terms; includes a small adjustment for exemptions; is UK-wide; adjusts for projected child population changes after 2022-23; and is based on our best guess of UC take-up rates (in the absence of any published statistics).

45 Y Chzhen & J Bradshaw, The two-child limit and child poverty in the United Kingdom, International Journal of Social Welfare, January 2025.

46 G Scott, Push for three-child benefit limit from multiple wings of Labour, The Times, 21 February 2025; T Helm, School breakfast clubs in England 'will be used to justify keeping the two-child benefits cap', The Guardian, 24 February 2025.

47 Y Chzhen & J Bradshaw, The two-child limit and child poverty in the United Kingdom, International Journal of Social Welfare, January 2025.

48 K Stewart, R Patrick & A Reeves, The sins of the parents: Conceptualising adult-oriented reforms to family policy, LSE Centre for Analysis of Social Exclusion, April 2023.

49 The Government could, of course, scrap the two-child limit or move to a three-child limit while keeping the benefit cap in place. We estimate that scrapping the two-child limit alone would cost around £3.5 billion in 2029-30 and would lift around 470,000 children out of poverty, while moving to a three-child limit and keeping the benefit cap would cost around £2 billion and lift around 280,000 children out of poverty. These are still sizable child poverty reductions, but leaving the benefit cap in place would blunt the impact of removing the two-child limit as many larger families (who are most likely to be struggling) would see no benefit. It would also retain the distorted incentives and unfair outcomes that come with breaking the link between need and entitlement in the benefit system.

BOX 5: **Child poverty is projected to diverge further between Scotland and England**

In 2017, the Scottish Government enshrined ambitious child poverty reduction targets into law. These targets require Scottish ministers to reduce relative child poverty in Scotland to below 10 per cent and absolute child poverty to below 5 per cent by 2030 (both measured after housing costs).[50] Such ambition has led to Scotland enacting measures that directly boost the incomes of parents claiming means-tested benefits: the Scottish Child Payment, currently worth £1,400 per child per year; Best Start Grants (currently worth a total of £2,450 for the first child and £1,000 for subsequent children in three grants from pregnancy up to the start of school) and Best Start Foods (currently £5.30 per week during pregnancy and when a child is aged 1-3 and £10.60 per week when a child is under one), which help with the costs of pregnancy and looking after young children; and Free School Meals (FSMs), which were extended to all children in primary 4 and 5 in April 2022. However, the plan to extend FSMs to all children in primary 6 and 7 was ditched last year, and eligibility will now only be widened to primary 6 and 7 pupils whose parents receive the Scottish Child Payment (which is itself passported via UC).

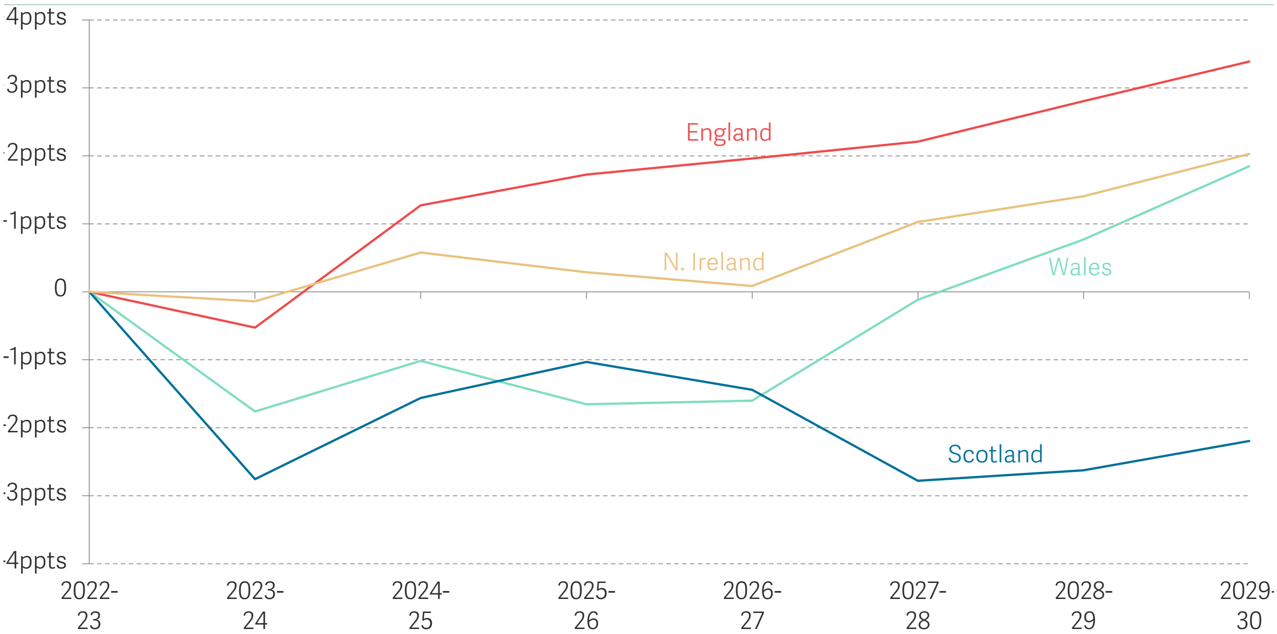
The Scottish Government has also used its devolved social security powers to pursue a different social security agenda to the UK as a whole, introducing mitigations for national policies that break the link between a family's circumstances and their benefit entitlement, such as the benefit cap and the removal of the spare room subsidy (commonly referred to as the 'bedroom tax'). And in December 2024, the Scottish Government announced its intention to "effectively scrap" the two-child limit in 2026 by introducing automatic mitigation payments to affected families.[51] This commitment will require cooperation from the Department for Work and Pensions on data sharing, as well as new UK legislation to ensure that mitigation payments are not treated as income by the benefit system nor subject to the benefit cap.[52] But it is difficult to envision the UK government completely blocking such an ambition; we therefore assume it will happen and include it in the projections presented in this report.

50 data.gov.scot, Child poverty summary, 20 February 2025.
51 Universal Credit – mitigation of the two-child limit: consultation, Scottish Government, February 2025.
52 Scottish Fiscal Commission, Mitigating the two-child limit and the Scottish Budget, January 2025.

These income-boosting measures are projected to drive a (further) wedge between Scottish and English child poverty rates, as shown in Figure 13. We project that child poverty in Scotland fell by 1.5 percentage points between 2022-23 and 2024-25, compared to a 1.3 percentage point rise in England. This divergence is set to grow across the current Parliament: under current policy assumptions, we project that Scottish child poverty in 2029-30 will be 2.2 percentage points below its 2022-23 level, compared to 3.4 percentage points higher in England. Based on 2022-23 rates (which come with big margins of error, especially for Scotland), child poverty in 2029-30 could reach 33 per cent in England, 9 percentage points higher than Scotland's projected 24 per cent.

FIGURE 13: **Poverty is projected to diverge further between Scotland and England**

Projected change in the proportion of children living in relative poverty, after housing costs, by nation: UK



NOTES: All of these changes are projected. Relative poverty is defined as having an income below 60 per cent of the UK median income in a given year.
SOURCE: RF projection including use of the IPPR Tax Benefit Model; ONS, various, and OBR, Economic and Fiscal Outlook, October 2024.

However, despite its ambition, our analysis suggests that Scotland is likely to have missed its interim target of less than 18 per cent of children in relative poverty in 2023 (we project it was at 24 per cent in 2023-24, although single-year data is noisy), and based on current policies is set to comprehensively miss its (very ambitious) target of having less than 10 per cent of children in relative poverty in 2030-31 (we project 24 per cent in 2029-30 and 26 per cent in 2034-35).

Extending Free School Meals would be a substantial boost to working families on low incomes

Scrapping the two-child limit and benefit cap would clearly make a major difference to the child poverty outlook, but there are a range of options for going further – including to prevent a rise in poverty for one- and two-child families. In the case of Free School Meals (FSMs), those options also include support through departmental budgets rather than welfare spending (and note that FSMs are valued as income within HBAI poverty data).

FSMs are worth around £500 a year per child, and therefore a significant potential tool for reducing child poverty and deprivation.[53] There is also evidence to suggest they may even improve children's health and academic performance.[54] Any expansion of FSMs would build on the Labour manifesto's commitment to free school breakfast clubs ("we will take initial steps to confront poverty by introducing free breakfast clubs in every primary school") but would be a much larger and more expensive commitment.

There are multiple ways in which FSM entitlement could be extended beyond the status quo, which in most of England consists of universal primary FSMs up to Year 2 and means-tested meals for those receiving benefits and with family incomes below £7,400 a year after tax. One approach would be to raise this low – and frozen – threshold, which roughly excludes any family earning more than the equivalent of 12 hours a week on the National Living Wage (in 2025-26). For example, the National Food Strategy in 2021 recommended raising this threshold to £20,000, and in Northern Ireland the threshold is already £15,000.[55] Going further, eligibility could be extended to all families in receipt of UC (or equivalent). The Scottish Government have done this for primary 6 and primary 7 (via Scottish Child Payment passporting) and are beginning to do the same for junior years at some secondary schools. In our modelling, we look at extending FSMs to all primary and secondary children in families receiving UC, across the UK from 2026-27 – which would benefit around 3

53 In 2024-25 this is £2.58 per meal for 190 days. Education & Skills Funding Agency, Universal infant free school meals (UIFSM): conditions of grant 2024 to 2025, December 2024.
54 J Cribb et al., The policy menu for school lunches: options and trade-offs in expanding free school meals in England, IFS, March 2023.
55 H Dimbleby et al. National Food Strategy: The Plan, July 2021.

million children overall.[56] There are clearly various margins available for making changes gradually if required by fiscal pressures, with choices about both the threshold and the age range over time.

While this is not a detailed paper on FSM policy, two implementation questions are worth highlighting. First, rather than leave parents with full responsibility for applying for FSMs, using DWP data to auto-enrol eligible pupils could ensure higher and more even take-up, and the imminent full roll-out of UC will make this more straightforward.[57] Second, from March 2025 (in England), a family's eligibility will be maintained – up until the end of primary/secondary school – even if their income rises above the threshold.[58] This ensures that earning £1 extra does not lead immediately to the loss of that £500 a year in-kind support (or more if more than one child is receiving means-tested FSMs), although it does provide a strong incentive to meet the eligibility criteria once (especially at the start of secondary school). We do not attempt to answer whether this would still be the optimal rule with a higher threshold (and we are not able to include any persistent eligibility in our modelling).

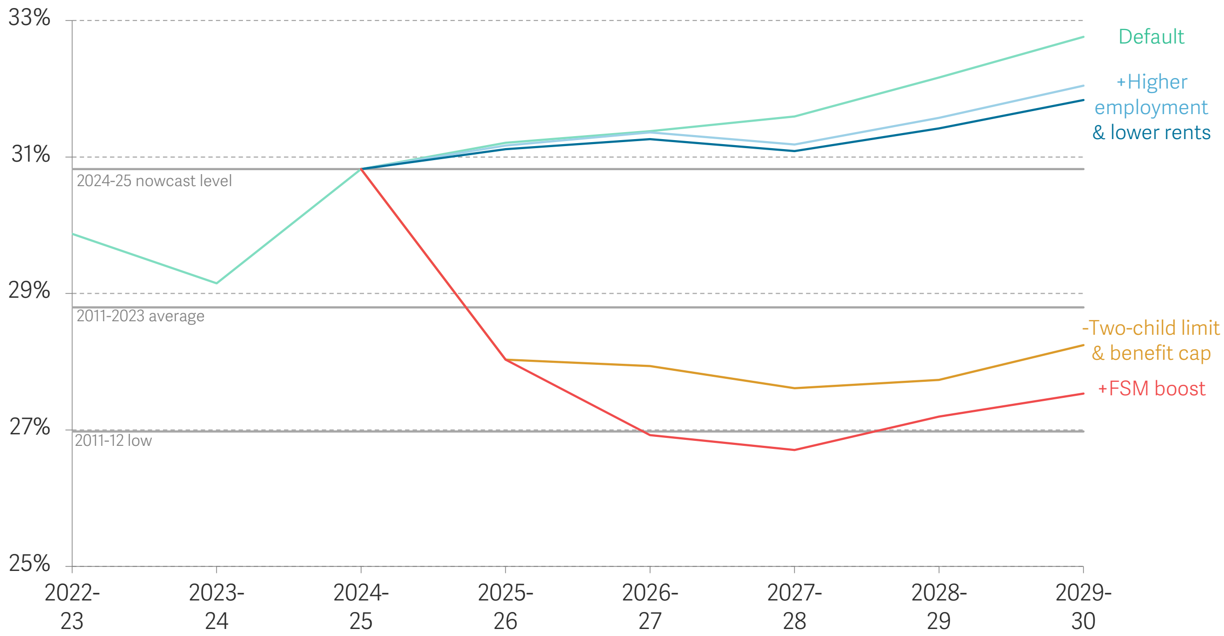
An alternative approach would be to expand universal FSMs, i.e. with no means-testing. Primary schools in Wales and London now have universal FSMs, and in Scotland these have been rolled out up to 'P5', indicating a degree of political appetite for such movements. Universalism here has some advantages in terms of removing stigma and boosting take-up among those who were already eligible,[59] but does of course cost considerably more money, with lower cost-effectiveness when assessed solely against a metric of reducing child poverty.[60]

In combination with the outlook changes we have already discussed, the extension of FSMs UK-wide would take 100,000 children out of poverty, and take the rate down from 28 per cent to 27 per cent in 2029-30: roughly equal to the lows of 2011-12 and 2020-21 (see Figure 14). This policy would cost around £1 billion a year (with a cost of around £12,000 per child taken out of poverty), but this could be funded from existing departmental spending plans in the upcoming Spending Review.

56 This includes all children in households that would benefit. The number of children who would newly receive FSMs would be around 2 million in England: J Cribb et al., The policy menu for school lunches: options and trade-offs in expanding free school meals in England, IFS, March 2023. We do not apply any top age limit.
57 H Dimbleby et al. National Food Strategy: The Plan, July 2021; Impact on Urban Health, More than a meal: An independent evaluation of universal primary free school meals for children in London, November 2024.
58 Department for Education, Free school meals: Guidance for local authorities, maintained schools, academies and free schools, March 2024.
59 Impact on Urban Health, More than a meal: An independent evaluation of universal primary free school meals for children in London, November 2024.
60 Opinion polling suggests very high support for our modelled policy of extending means-tested support to all families on UC; lower support for universal primary FSMs; and only marginal net favourability for universal primary *and secondary FSMs: YouGov / Food Foundation*, Survey Results, September 2022.

FIGURE 14: **Extending Free School Meals, on top of our other measures so far, would take projected child poverty back down to around its 2011-12 level**

Proportion of children living in relative poverty, after housing costs, under various scenarios: UK



NOTES: All figures beyond 2022-23 are modelled projections. GB before 2002-03. Relative poverty is defined as having an income below 60 per cent of the median income in a given year. In our scenarios, parental employment is gradually boosted beginning in 2025-26 and rental growth slowed; the two-child limit and benefit cap are scrapped in 2025-26; FSMs are extended in 2026-27.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; ONS, various, and OBR, Economic and Fiscal Outlook, October 2024.

To get child (and overall) poverty down further, we suggest changes in UC adequacy and local housing allowances

An ambitious strategy could of course go further still, boosting family incomes more broadly and delivering a clearer break with the poverty rates of the past 15 years. We highlight two further options to tackle problems with the benefits system in this Parliament – on UC adequacy and Local Housing Allowance – before looking at what impact all of these steps could have in combination.

Boosting UC adequacy

Our first recommendation is to increase the basic UC entitlements that all families with children receive. Alongside the roll-out of the two-child limit, the £545 'family element', i.e. the higher child element for the first child, is also being slowly abolished through the exclusion of children born after April 2017. This is another headwind to reducing child poverty, and so the Child Poverty Strategy would do well to remove these differences between children born before or after April 2017. We propose restoring the family element by removing that age rule, and restoring its real-terms value to its 2016 level by increasing it to £750 in 2026-27 and £800 by 2029-30.[61] Under such a reform, most families on UC would therefore receive an extra £800 in 2029-30 if affected by the year-of-birth test, or around £250 extra if they were already benefiting from the higher first child element.

It is also worth noting that we have favoured increasing per-family support over increasing UC's child element for all children. We have done this because ending the two-child limit would already mean substantial income boosts for larger families (as would our FSM proposal below), and there is no significant poverty rate difference between one- and two-child families (suggesting that there is no need for two-child families to receive much more support than one-child families). Ramping up the child element, although cost-effective in terms of child poverty reductions, risks further unbalancing the benefit system and arriving at a situation where an extra child is judged to need more spending than an out-of-work 24-year-old, for example (this year the respective amounts are £288 and £312 per month).

Unfreezing Local Housing Allowance

Local Housing Allowance rates were re-set to the 30th percentile of local rents in April 2024 but by default are now permanently frozen in cash terms.[62] This means a real decline in the value of potential housing support every year at the same time as private rents are expected to keep increasing in real terms (average rents grew by 8.7 per cent over the year to January 2025).[63] This divergence is a major concern for the living standards of the 1.5 million children in poverty in privately rented homes and their parents, as well as for affected non-parents and pensioners too.[64] There are, therefore, very good grounds for LHA to be re-pegged to the 30th percentile of local rents as soon as possible, and then stay there, so that it rises in line with local rent growth.[65] A permanent freeze is clearly an unsustainable policy, and the reality of the past decade – continued freezes followed by sporadic jumps when the situation of deprivation and homelessness looks particularly indefensible – is poor policy making.

61 Given this report's focus on child poverty, we only look here at boosting UC adequacy for parents. But there is a broader case for doing the same for non-parents. It is well-established that basic UC rates do not cover basic living costs, and interventions such as the £1,000 a year boost during Covid-19 were needed in partial recognition of that fact. Ideally then, UC rates might be increased for all (in which case the higher child element could be scrapped to end the 2017-birth-year divide). There is also a fiscal and fairness case for narrowing the gap between those who do or do not receive the UC health element (for the Limited Capability for Work Related Activity group). An increase in basic adequacy would afford the option of narrowing that gap (by reducing the health element by the same amount or less) to reduce the make-or-break nature of health assessments and reduce the incentive to be classified as not expected to look for work, but we do not include such policies in our modelling here.

62 See: A Clegg, A temporary thaw: An analysis of Local Housing Allowance uprating over time, Resolution Foundation, December 2023, and references therein, for a discussion of the history of LHA uprating.

63 ONS, Private rent and house prices, UK, February 2025.

64 As of November 2024, there were 0.7 million privately renting families on Universal Credit who had their housing support capped because of LHA, plus an unknown number of pensioners receiving Housing Benefit.

65 A Clegg, A temporary thaw: An analysis of Local Housing Allowance uprating over time, Resolution Foundation, December 2023.

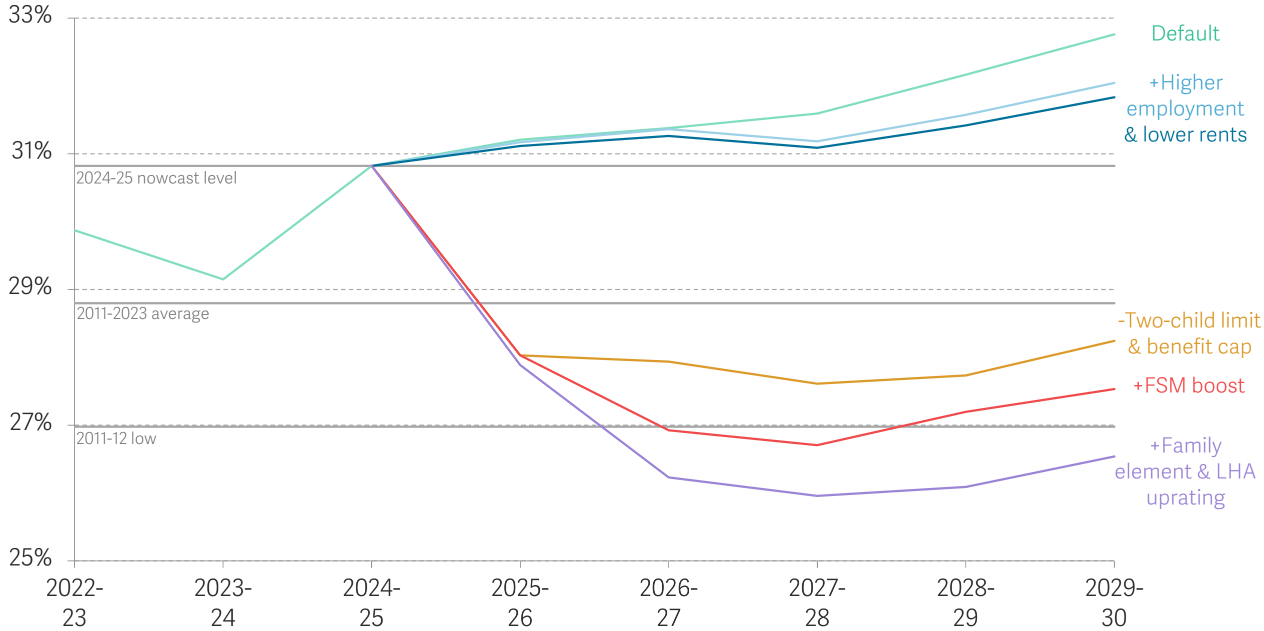
Together boosting UC adequacy and unfreezing the LHA would cost around £3 billion by 2029-30 – based on our more optimistic rental scenario – but would reduce child poverty by a further 140,000 children (equivalent to around £21,000 per child lifted out of poverty).

These measures could get poverty to its lowest rate in decades, and the number of children in poverty could be lowered below 4 million

Figure 15 presents the results of all of our scenarios for this Parliament, including the final addition of changes to UC adequacy and LHA. With this full package (purple line), the child poverty rate would fall to around 27 per cent in 2029-30 – (narrowly) beating the lows of 2020-21 and 2011-12 and therefore getting to its lowest point since the 1980s.

FIGURE 15: **Boosting family support would take poverty rates to respectable lows in this Parliament**

Proportion of children living in relative poverty, after housing costs, under various scenarios: UK

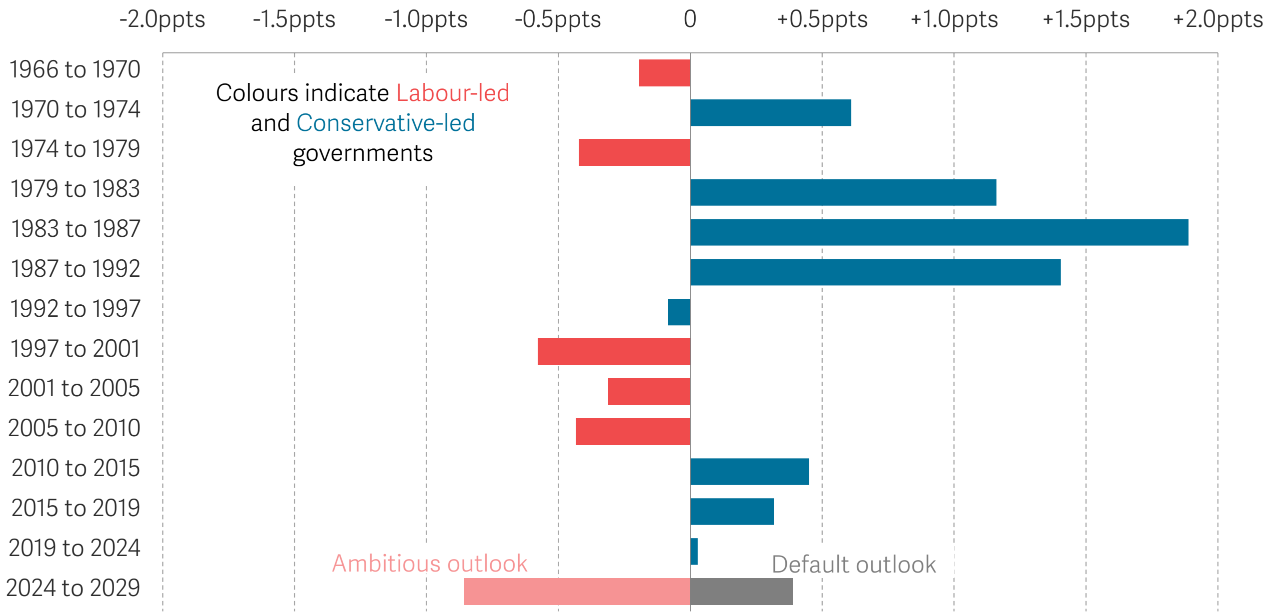


NOTES: All figures beyond 2022-23 are modelled projections. Relative poverty is defined as having an income below 60 per cent of the median income in a given year. In our scenarios, parental employment is gradually boosted beginning in 2025-26 and rental growth slowed; the two-child limit and benefit cap are scrapped in 2025-26; FSMs are extended in 2026-27; the family element is restored and boosted in 2026-27 alongside re-pegging LHA.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; ONS, various, and OBR, Economic and Fiscal Outlook, October 2024.

A child poverty rate of 27 per cent may sound superficially similar to 2022-23's 30 per cent, but achieving the lowest rate since the 1980s would still be laudable. And, as Figure 16 shows, the pace of change – averaging around a 0.9 percentage point drop each year over the Parliament (in the case of the red line above) would be fast compared to previous parliaments (the fall from 1997 to 2001 was about a 0.6 percentage point fall per year).[66]

FIGURE 16: **With policy ambition, this could be a parliament of rapidly falling child poverty**

Average annual percentage point change in the proportion of children living in relative poverty, after housing costs, by parliament: GB/UK



NOTES: All figures beyond 2022-23 are modelled projections. Two parliaments within 2015 to 2019 have been combined to show 4-5 year periods.
SOURCE: RF analysis of DWP and IFS, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; ONS, various, and OBR, Economic and Fiscal Outlook, October 2024.

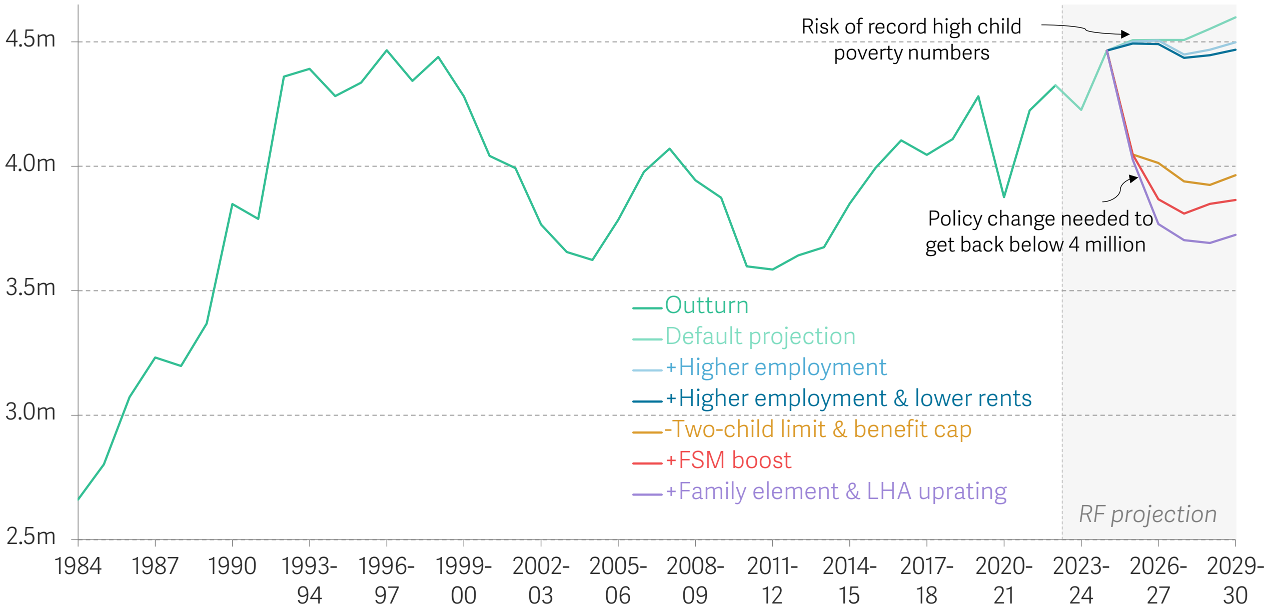
The actual number of children living in poverty is a function of population as well as poverty rates, so is not the fairest metric for comparisons over the long-term, but it will inevitably continue to attract attention. As noted, in the latest data (2022-23), 4.3 million children were living in relative poverty. In our default projection – the green line in Figure 17 – this rises to 4.6 million by the end of this Parliament: the highest ever (with records going back to 1961).[67] This is despite the fact that the overall number of dependent

66 Although it is worth noting that the historic data may *underplay New Labour's poverty reductions; see: A Corlett et al.,* The Living Standards Audit 2018, Resolution Foundation, July 2018. In addition, the scale of change in relative poverty is also a function of changes in median incomes: Box 4 shows how significant New Labour's family support increases were, but a large fraction of this was necessary simply to keep pace with rising real earnings and prevent relative child poverty from increasing.
67 No UK-wide poverty data is available for 1994-95 to 2001-02. For years before 2002-03, we have adjusted IFS figures for Great Britain upwards to incorporate child poverty in Northern Ireland based on post-2002 and pre-1994 relativities.

children in the UK (consistent with HBAI) is projected to decline from 14.4 million in 2022-23 to 13.5 million by 2029-30.

FIGURE 17: **Significant policy change could lower child poverty numbers below 4 million again**

Number of children living in relative poverty, after housing costs, under various scenarios: UK



NOTES: All figures beyond 2022-23 are modelled projections. Figures before 2002-03 incorporate an estimate of child poverty in Northern Ireland, to allow UK-wide comparisons over time. Relative poverty is defined as having an income below 60 per cent of the median income in a given year. In our scenarios, parental employment is gradually boosted beginning in 2025-26 and rental growth slowed; the two-child limit and benefit cap are scrapped in 2025-26; FSMs are extended in 2026-27; the family element is restored and boosted in 2026-27 alongside re-pegging LHA.
SOURCE: RF analysis of DWP and IFS, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; ONS, various, and OBR, Economic and Fiscal Outlook, October 2024.

Relative to this gloomy outlook, our more ambitious package would make a difference of almost 900,000, and reduce numbers to 3.7 million. Such a fall would be somewhat less than the anti-poverty efforts brought in by the first Blair government, but it would be the first time, outside of 2020-21, that the number of children living in relative poverty has been below 4 million since 2015-16.[68]

68 The 2001 Budget report claimed that "tax and benefit reforms announced in this Parliament [i.e. 1997–2001] will lift over 1.2 million children out of relative poverty", defined as '60% of median income, after housing costs'; see: HM Treasury, Investing for the Long Term: Building Opportunity and Prosperity for All, 2001. Academics reached similar conclusions: "the results of the micro-simulation of the policy changes announced up to April 2000 suggest that the number of children in poverty will fall by about 1.23 million" (see: D Piachaud & H Sutherland, How effective is the British government's attempt to reduce child poverty?, Economic Journal, 2001). For further discussion of New Labour's first term, see: M Brewer, T Clark & A Goodman, The government's child poverty target: how much progress has been made?, Institute for Fiscal Studies, April 2002.

The Government has said it will also track material deprivation, and the policies set out in this note will also help on that measure

The Government has said that relative child poverty will be its headline measure, and so that has been the focus of our analysis so far. But it has also said that:

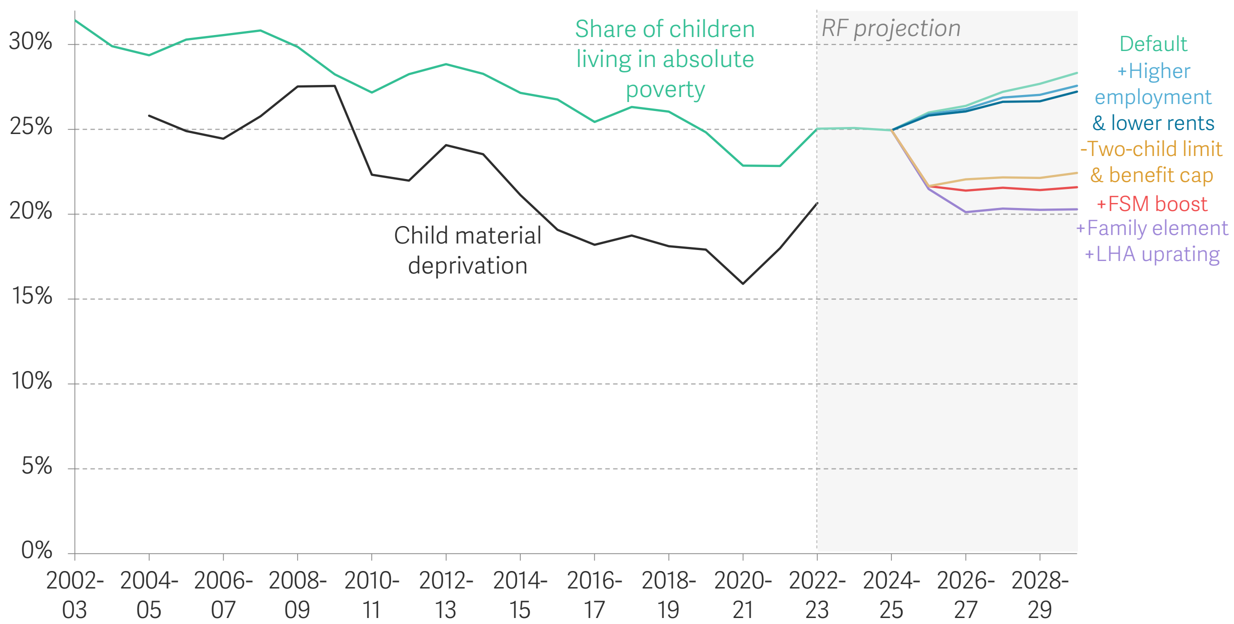
"[t]he Strategy is not just about this headline measure. Our metrics must reflect the experience of poverty in households across the UK and the urgent need to focus on those children experiencing the most severe and acute forms of poverty. We will consider how best to measure this as we develop the strategy…".[69]

Figure 18 includes existing data on child material deprivation, which has declined overall between 2004-05 and 2022-23 but with a recent uptick. The new measure is likely to differ to the old one to at least some degree (as the methodology is being revised), but in any case material deprivation is not something that can be projected as easily as can income.[70] However, Figure 18 also shows that absolute child poverty has moved broadly in line with material deprivation in the past, and our projections suggest that, with sufficient policy ambition, absolute poverty could be cut to record lows (in contrast to our default projection of rising absolute poverty). This would still not be sufficient to achieve a halving of child poverty, as implied by the UN Sustainable Development Goals, but would at least be a decline.[71]

69 Tackling Child Poverty: Developing Our Strategy, Cabinet Office, October 2024.
70 DWP, Review of the UK Material Deprivation Measures, March 2024.
71 A Corlett, Half time: The UK's commitment to halve poverty by 2030, Resolution Foundation, September 2023.

FIGURE 18: **Absolute poverty would fall to its lowest on record in our more ambitious scenarios, potentially taking material deprivation down with it**

Proportion of children living in absolute poverty, after housing costs, or material deprivation, under various scenarios: UK



NOTES: All figures beyond 2022-23 are modelled projections. Absolute poverty is defined as having an income below 60 per cent of the median income in 2010-11, adjusted for inflation. In our scenarios, parental employment is gradually boosted beginning in 2025-26 and rental growth slowed; the two-child limit and benefit cap are scrapped in 2025-26; FSMs are extended in 2026-27; the family element is restored and boosted in 2026-27 alongside re-pegging LHA.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; ONS, various, and OBR, Economic and Fiscal Outlook, October 2024.

To keep child poverty from rising again after this Parliament, further changes would be needed, such as earnings-linked uprating

We have focused thus far on the outlook and priorities for this Parliament, but the Government has said that it wants the Child Poverty Strategy to set out a 10-year approach and, as we showed in Figure 3, the outlook is even worse – and the need for policy changes even more apparent – if we look into the 2030s.

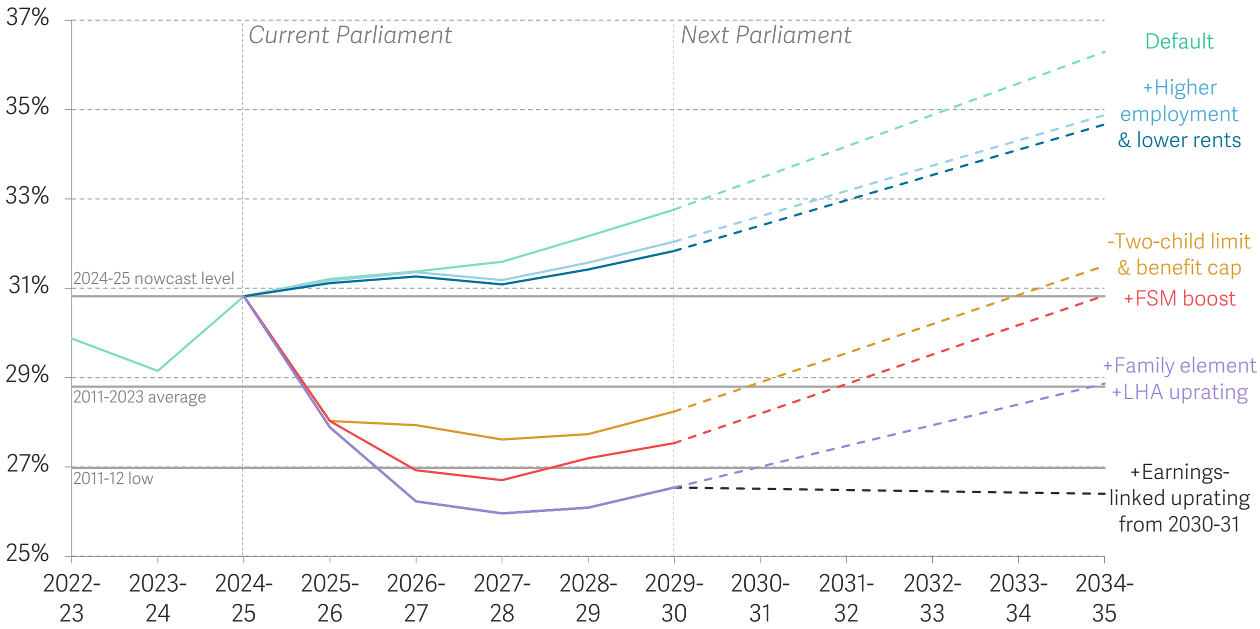
In particular, Figure 19 shows the relative child poverty outlook for all of our economic and policy scenarios out to 2034-35.[72] Although greater success on parental employment (which we assume continues to improve in the next Parliament) and rents improves the

72 The exact scale of future increases is sensitive to assumptions about earnings growth. We assume that real earnings growth picks up beyond the current five-year fiscal window, in keeping with: OBR, Long-term economic determinants – March 2024 Economic and fiscal outlook, May 2024.

outlook, our more optimistic assumptions are not enough to prevent the child poverty rate rising to an all-time high by 2034-35, at 35 per cent. Indeed, these projections show that the Government could be successful in raising employment and improving housing affordability; scrap the two-child limit and benefit cap; and extend FSMs, and still fail to lower the child poverty rate over these 10 years.

FIGURE 19: **Earnings uprating of non-pensioner benefits is needed to avoid any progress on relative poverty in this Parliament being undone**

Proportion of children living in relative poverty, after housing costs, under various scenarios: UK



NOTES: All figures beyond 2022-23 are modelled projections. Relative poverty is defined as having an income below 60 per cent of the median income in a given year. In our scenarios, parental employment is gradually boosted beginning in 2025-26 and rental growth slowed; the two-child limit and benefit cap are scrapped in 2025-26; FSMs are extended in 2026-27; the family element is restored and boosted in 2026-27 alongside re-pegging LHA; and then benefits are linked to earnings from 2030-31.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; ONS, various, and OBR, Economic and Fiscal Outlook, October 2024.

Although the specifics of our 10-year projections should be seen as extremely uncertain, there is a clear reason why relative child poverty will tend to rise: it reflects that the package of income going to low-income households with children is projected to rise less quickly than that of the median household, whose disposable income is largely determined by growth in real earnings, and personal tax policies. And the main reason why low-income households with children are set to see lower growth than the median household is the rules governing how social security benefits are uprated, with the default being that non-pensioner benefits rise by inflation – at best – so less than earnings (outside of recessions) and pensions.

The policies we have discussed so far make up our suggested priorities for this Parliament (the two-child limit, benefit cap, basic UC adequacy, FSMs and LHA). But to keep poverty down in the medium-term, and as we have discussed at length in previous work, the only sustainable solution is for all working-age benefits to be indexed to growth in earnings, thereby allowing all households to share in the benefits of GDP growth and living standards improvements.[73]

Without such a change, if the generosity of the social security system is fixed in real terms while market incomes and the State Pension rise faster, then it is almost inevitable that relative poverty for non-pensioners will increase over time, given that social security is an important component of many households' incomes.[74] And seemingly small differences in uprating rules can have large impacts over time. This can be seen in the case of the Basic State Pension, which declined markedly relative to earnings over decades until that forced action via the New State Pension and Triple Lock.[75] Similarly, basic unemployment support has declined remarkably from 20 per cent of average pay in the early 1990s to 14 per cent today and a projected 13 per cent by 2029-30.

So our final scenario links growth in all social security benefits to average earnings growth (which is incidentally what the OBR assumes when making its assessment of the long-term sustainability of the public finances), and the result of this is shown in Figure 19 too: it keeps child poverty stable.[76] Ideally, the same treatment would be applied to the State Pension as to other benefits, so their relative values did not diverge, and this would reduce the cost of the policy shift given that the triple lock leads to above-earnings growth in the long run.[77]

Given that uprating decisions take time to compound, and that the near-term outlook for earnings growth above inflation is weak, we have focussed on more immediate priorities, but uprating rules remain key for the longer-term, and our 10-year projections further highlight that the Child Poverty Strategy cannot credibly hope to cut relative child poverty without some significant spending increases.

73 Resolution Foundation & Centre for Economic Performance, LSE, 'Ending Stagnation: A New Economic Strategy for Britain', December 2023.
74 L Try, Money, money, money, Resolution Foundation, February 2025.
75 M Brewer & A Clegg, Ratchets, retrenchment and reform, Resolution Foundation, June 2024.
76 We show the impact of changing uprating after doing all of the other polices discussed earlier, but it could clearly be introduced without the earlier reforms, and would still do a great deal to keep child poverty from rising, although the roll-out of the two-child limit and family element abolition and the lack of link between LHAs and rents would independently put upwards pressure on child poverty over time.
77 Resolution Foundation & Centre for Economic Performance, LSE, 'Ending Stagnation: A New Economic Strategy for Britain', December 2023. The best specific mechanism for uprating would be a 'smoothed' earnings link that allows for benefit entitlements to temporarily respond to periods of high inflation. At those times, benefits might rise faster than earnings, through a 'double lock' but – unlike with the triple lock – increases afterwards would then be in line with prices until they had returned to the same proportion of average earnings.

The Chancellor's fiscal forecasts put her in a difficult position, but the manifesto promise of "an ambitious strategy to reduce child poverty" can't be delivered without significant new commitments

The new Government has a broad agenda, with welcome aspirations to raise the pace of growth and improve public service outcomes, all while meeting its fiscal rules. But it will also need to ensure that its record includes lower-income households getting richer rather than poorer, with the Labour manifesto promising "an ambitious strategy to reduce child poverty" and "to end mass dependence on emergency food parcels, which is a moral scar on our society".[78] At the moment the outlook is concerning, with reason to think that all of these indicators are going in the wrong direction, and with the 10-year poverty strategy's first financial year about to begin with no signs of action to halt those trends.

In this report we have explored the likely impact of moves to further boost parental employment and to keep housing costs down, but have shown that significant increases in family income support are needed just to prevent relative child poverty from rising over the Parliament ahead.

Table 1 brings together the costings and impacts of the spending priorities that we have covered for this parliament. Scrapping the two-child limit and benefit cap would cost around £4.5 billion by 2029-30 (in nominal terms), but with a very large poverty impact. Extending FSMs to all families on UC would cost around £1 billion, while increasing per-family support and re-linking LHAs to rents would cost around £3 billion. If the Government were to adopt all of these policies, the combined cost in 2029-30 would be around £8.5 billion (roughly 0.25 per cent of GDP). As we have set out, this would make a big difference to the poverty outlook, with 740,000 fewer children in relative poverty in 2029-30 than without these policy changes (or 870,000 with our more optimistic employment and rent assumptions), and a cost of around £12,000 per child taken out of poverty. And it should be emphasised that movements across the poverty line are only an indicator of the broader impact: around 6 million children – all those in families receiving UC – would benefit from higher household incomes under these changes.

While that is the gross cost, FSMs are something that could be funded at the upcoming Spending Review from within existing plans for the departmental spending envelope, lowering the total cost to £7.5 billion, and if the Government were successful in boosting employment and constraining housing costs that would boost revenue and lower benefit spending – to the tune of £2 billion in our scenario – leaving a net cost of £5.5 billion.

78 Labour Party Manifesto 2024.

TABLE 1: **We have set out a broad range of policy options to reduce child poverty**

Impacts of policy scenarios in 2029-30: UK

	Cost in 2029-30, £bn	Reduction in child poverty in 2029-30	Cost of each child lifted out of poverty	Number of children who gain
Scrapping the two-child limit & the benefit cap	4.5	- 500,000	- £10,000	3 million
Extending Free School Meals	1	- 100,00	- £12,000	3 million
Restoring the family element & uprating LHA	3	- 140,000	- £21,000	6 million
Total	**8.5**	**- 740,000**	**- £12,000**	**6 million**
Total welfare change (exc. FSMs)	7.5			
Net total with higher employment & lower rents (exc. FSMs)	5.5	- 870,000		

NOTES: Total costs rounded to the nearest £0.5 billion, and figures may not sum due to rounding. Our illustrative costing net of higher employment and lower rents includes the impacts on means-tested benefits and housing support, Income Tax and personal and employer National Insurance, but does not include any positive changes in other taxes, nor any costs of policies to achieve those outcomes. Number of children who gain includes all those in a household that benefits.
SOURCE: RF analysis of DWP and IFS, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model; ONS, various, and OBR, Economic and Fiscal Outlook, October 2024.

While any of these sums would represent significant outlays, even an £8.5 billion policy would be under half of what the previous Government spent on National Insurance rate cuts ahead of the general election; it is far less than the roughly £40 billion of new family support announced under New Labour (albeit in better fiscal circumstances; see Box 4); smaller than the package of benefit cuts announced in 2015; and broadly equivalent to spending on the Scottish Child Payment (even excluding any new two-child limit mitigation), which would be around £7 billion if replicated UK-wide in 2029-30.

Of course, at the time of writing the fiscal position is difficult, with calls for higher defence spending, an uncertain economic outlook and binding fiscal rules all contributing to what is already shaping up to be a tight departmental Spending Review later this year. Recent media speculation has suggested that the Treasury view is that any income boosts for families will – at best – need to wait until there is more fiscal leeway.[79] But there are also pressures in the other direction. First and most importantly, there is the urgent need to end deprivation, particularly when the outlook is for further income falls (see our absolute poverty projections) and given that there are a range of knock-on costs to doing nothing. Second, there are clear political risks to publishing a Child Poverty Strategy that does not contain a substantial plan to reduce child poverty, and progress on the Government's Opportunity Mission will be much harder if it has not addressed the problems caused by children growing up with inadequate incomes. Third, if the Government wants to demonstrate success in reducing poverty and deprivation, it needs to bear in mind the lag involved: if it does not start cutting child poverty until 2026-27, the data showing that would likely not be available until Spring 2028 (and, correspondingly, action in 2027-28 would not be apparent until Spring 2029). Delays could mean that this Parliament is dominated by bad statistical news on child poverty and deprivation.

We think it is worth making difficult decisions to tackle child poverty and deprivation, and that there are options available. As mentioned above, expanding FSMs should be prioritised in the upcoming departmental Spending Review, and it would be worth raising taxes to make broader changes.[80] Previous work has, for example, highlighted that many forms of income are taxed less than wages, and in some cases this bias was worsened at the last Budget due to the employer NI rise.[81] There may be a case for further extending major tax threshold freezes. In addition, we can note a trade-off with motoring taxation. If the Chancellor continues to freeze Fuel Duty, by 2029-30 those choices will cost £6 billion in that year, while failure to extend an equivalent tax to electric vehicles will cost £8 billion by 2029-30 – and much more beyond.[82] And it should be noted that in these cases – and many others – boosting the incomes of families makes it easier to deliver reforms that might otherwise be criticised to some degree for their distributional impacts.

It's time to move on from warm words and start cutting child poverty.

79 T Helm, "School breakfast clubs in England 'will be used to justify keeping the two-child benefits cap'", The Observer, 23 February 2025.

80 We do not believe any of the tax options discussed briefly here would worsen relative poverty and some are likely to further reduce it. Many revenue raising options will worsen absolute poverty and deprivation by some small degree, but are unlikely to be significant in comparison to how that revenue is used to reduce poverty.

81 Resolution Foundation & Centre for Economic Performance, LSE, 'Ending Stagnation: A New Economic Strategy for Britain', December 2023.

82 A Corlett, Revenue and reform: What tax changes could – and should – we see in Autumn Budget 2024?, Resolution Foundation, September 2024.

Annex 1: Method

A detailed methodology for our income projections can be found in previous work.[83] In brief:

- We use the DWP's latest, 2022-23 Family Resources Survey / Households Below Average Income microdata as our starting point.
- The IPPR Tax Benefit model is used to roll this data forward to future years (i.e. 2023-24 through to 2029-30, plus 2034-35), by, for example, increasing earnings to reflect outturn and forecast growth, including the impact of the wage floors, and applying appropriate uprating factors to other financial variables. Savings income is projected separately using inputs from the ONS Wealth and Assets Survey, Bank of England and market expectations (as of 7 February 2025).
- The key economic inputs are taken from the OBR's Economic and Fiscal Outlook from October 2024.[84] For 2023-24 and 2024-25, we are able to reflect outturn numbers on pay, prices, rents and more. For pay growth up to 2034-35, we make use of the OBR's 'long-term economic determinants'.[85]
- Given projected market incomes, the IPPR Tax Benefit model estimates disposable incomes for years beyond 2022-23 using outturn or default tax and benefit rules (e.g. some elements will rise in line with CPI uprating).
- Survey weights are adjusted for each year to reflect demographic projections and the OBR's labour market forecast.[86]
- We estimate future changes in poverty rates relative to 2022-23, and apply these to the 2022-23 outturn.

Key sources of uncertainty – including in the underlying HBAI data – are discussed in Boxes 1 and 2.

83 A Clegg & A Corlett, The Living Standards Outlook 2024, Resolution Foundation, August 2024.
84 OBR, Economic and fiscal outlook – October 2024, October 2024.
85 OBR, Long-term economic determinants – March 2024 Economic and fiscal outlook, May 2024.
86 ONS, National population projections: 2022-based, January 2025.

Annex 2: Data citations

Family Resources Survey:

- Department for Work and Pensions, NatCen Social Research. (2021). Family Resources Survey. [data series]. 4th Release. UK Data Service. SN: 200017, DOI: http://doi.org/10.5255/UKDA-Series-200017

Households Below Average Income:

- Department for Work and Pensions. (2021). Households Below Average Income. [data series]. 3rd Release. UK Data Service. SN: 2000022, DOI: http://doi.org/10.5255/UKDA-Series-2000022

Institute for Fiscal Studies Households Below Average Income (for pre-1994 data):

- Institute for Fiscal Studies. (2022). Institute for Fiscal Studies Households Below Average Income Dataset, 1961-1993. [data collection]. 2nd Edition. Department of Employment, Central Statistical Office, [original data producer(s)]. Department of Employment. SN: 3300, DOI: http://doi.org/10.5255/UKDA-SN-3300-2

Wealth and Assets Survey:

- Office for National Statistics. (2019). Wealth and Assets Survey. [data series]. 2nd Release. UK Data Service. SN: 2000056, DOI: http://doi.org/10.5255/UKDA-Series-2000056

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