Is cost of living support enough?

Incomes for the worst-off families compared to if they were uprated reflecting living costs.

Professor Donald Hirsch, Loughborough University
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Introduction

Gordon Brown, UK Prime Minister from 2007-2010

We are facing a humanitarian crisis that Britain hasn't seen in decades. As living costs continue to skyrocket, families on the brink of making ends meet cannot bridge the gap. Despite the additional support from government, millions of people are at risk of being pushed deeper into poverty by forces outside of their control.

It is the urgent task of the next Prime Minister to ensure that families have enough to live, through this crisis and beyond. I am grateful that this paper outlines the gap the government must urgently fill before the next wave of rising costs overwhelms people. Together with faith groups and charities working on the front-lines to offer urgent support, we have listened to the people who are at risk of falling through the gaps if action isn't taken. We have heard from the families we've met and those highlighted in the report that the flat-rate payments offered by the government won't stretch far enough for families who each have different needs and circumstances. These must be the people the next Prime Ministers prioritises as we look for solutions.

Alongside the organisations, charities and faith groups who have endorsed this paper, I call on the government to take immediate action to bridge the shortfall and ensure families have enough to live.

Summary

- Low income households receiving Universal Credit (UC) will have faced three blows to their income between October 2021 and October 2022:

  - The loss of the £20 a week uplift introduced during the pandemic
  - An annual uprating in April 2022 of 3.1%, rather than the 9% that the Consumer Prices Index had risen over the past year (including the effect of energy cap rises up to that time).
  - A further jump in the energy cap in October 2022, originally forecast to be £800 but now subject to upward further revision.

- The Government is paying an additional £1200 this year to those on low incomes to help them cope with this cost of living crisis.

- This paper looks at the extent to which the extra payment offsets the effect of these three setbacks, looking at the net effect on incomes in 2022/23.

- It finds that across households, the extra help falls short of compensating the losses.

- The loss for an out-of-work couple with two children is nearly £1,300, or £1,600 if higher inflation for worse-off households is taken into account. This is based on an £800 rise in the energy price cap, and will be higher to the extent that the cap increases further.

- The larger the household, the bigger the loss, and a couple with three children is losing almost as much again from rising prices as they did from last year's cut in the UC uplift. Flat-rate payments undermine UC's purpose of basing payments on household size.

- On top of these setbacks, the escalating cost of food and petrol will cause further pain for families if they have to wait the usual year for the next inflation-based upratings, given the unusual speed at which these costs are rising this year.

Background

People on the lowest incomes are facing the most serious cost of living crisis in decades. The principal reason is that inflation has taken off at an unprecedented rate, with the annual CPI increase going from below 1% in March 2021 to above 10% forecast for the second half of 2022. Increases in earnings and in benefits have not kept up. Benefits have been uprated based only on an out-of-date inflation rate (applying September inflation in April). The resulting real-terms loss has come on top of last year's £20 a week cut in Universal Credit (UC), ending a temporary strengthening of an inadequate safety net during the pandemic. A third hit will come with an exceptional rise in costs halfway between April upratings: the projected £800 a year increase in the energy price cap in October.[1] In response to this third setback, the government has strengthened its additional support to households for 2022/23. Working age households on UC and other means-tested benefits will get £1200 additional help – a £400 reduction in energy bills, a £150 reduction in council tax and two lump-sum payments totalling £650 (plus a further £150 for those with disabilities).

The calculation

This paper presents a comparison between the actual incomes of people on benefits in 2022/23 and what they would have been if they had been uprated in line with inflation in April, and if additional payments fully covered the additional costs associated with the October increase in the energy price cap. It shows these comparisons based on uprating 2021/22 benefits both before and after the £20 UC cut.

This calculation is a simplified means of showing the extent to which additional help is addressing the three hits to incomes identified above. It is not a full comparison of how much better or worse off people will have become by late 2022 compared to the previous year, which would need to include, for example, an estimate of the impact of escalating food inflation after April. [2] The government is having to respond to a rapidly deteriorating situation. The estimates below show the adequacy or otherwise of what it has done so far in adjusting benefits to cover inflation up to April plus additional fuel inflation in October.

Specifically, calculations compare actual incomes on basic out-of-work benefits (Universal Credit allowances plus Child Benefit in 2022/23), plus the £1200 payment, with the income people would have received if 2021/22 benefits had increased by 9% to reflect inflation to April, and £550 had been added to cover additional fuel costs in the second half of the financial year.[3]

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[1] The calculations and graphs in this paper are based on the £800 October increase, as previously forecast. If the actual increase in the cap is several hundred pounds higher than this (as anticipated but not confirmed at the time of writing), the actual effects will be higher (as noted below).

[2] Making this sort of calculation would be complex, requiring assumptions to be made about how much households spend on food over the whole financial year, and monthly projections of how much food will rise in price. This would also raise the question of what other items with high inflation rates, including petrol, should be factored in.

[3] Not all of the £800 annual increase from October will be spent in the current financial year, but spending on household fuel is on concentrated in the winter. In 2021, 68.6% of domestic fuel

Results

Figures 1 and 2 set out the main results. Figure 1 shows that, for a range of working age households of different compositions, benefit income in 2022/23 is significantly lower than it would have been if benefits had been set 9% higher than they were a year earlier in April 2022, and further assistance had covered additional fuel bills from October. Figure 2 shows the size of this gap, both taking account of the £20 UC cut in October 2021 (as is the case with figure 1) and alternatively using benefits without the £20 uplift as a starting point. This shows that if this cut is taken into account, households of different types are between about £700 and £1500 worse off than they would have been with uprating to cover higher costs. The larger the family, the greater this loss. Even compared to benefits without the £20 uplift, most of the families with children shown are worse off, by up to £360 a year. The use of flat-rate payments, such as the £650, worth £13 a week for someone living alone but just over £3 for each member of a family of four, contrasts with the more equitable effect of fully uprating Universal Credit, whose entitlements are based on family composition.

These losses can be seen as a baseline, since several other factors are likely to make the situation a lot worse for many families. In particular:

- As noted above, this paper was written before anticipated upward revisions in the £800 increase in the energy cap in October were confirmed. Each £100 increase in the annual increase above this level will add an estimated £68.60 to costs this winter.

- The CPI inflation rate tends to underestimate the overall increase in the cost of living for people on low incomes at a time when inflation is particularly high for items such as food and home energy, which comprises a higher than average proportion of expenditures among lower income households. The Institute for Fiscal Studies estimates that the poorest 10% of households had inflation of 11% rather than 9% in April 2022, a gap that it expects to grow to an estimated 4 percentage points by the autumn. Figures 3 and 4 shows the results based on 11% uprating of benefits in April, showing that on this basis, all the families with children are worse off even than after the £20 cut in UC, by up to £760 a year, and close to £2,000 when the loss of the UC uplift is included. For a couple with two children the loss is above £1,600.

- Inflation in the coming months will not just be concentrated on domestic energy. Recent forecasts suggest that, whereas in May the focus was on compensating households for the projected jump in energy bills later in the year, food price inflation is now accelerating, and is forecast to raise the food bill for a family of four by £43 a month (around £500 a year) over the course of 2022. Combined with the rapidly increasing cost of petrol, this means that incomes uprated in April will have fallen even further behind the cost of living by late 2022.

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consumption was in the first and fourth quarters (National Statistics, *Energy Trends*, Total Energy Table 1.3), suggesting that around £550 out of the £800 will fall between October and March.

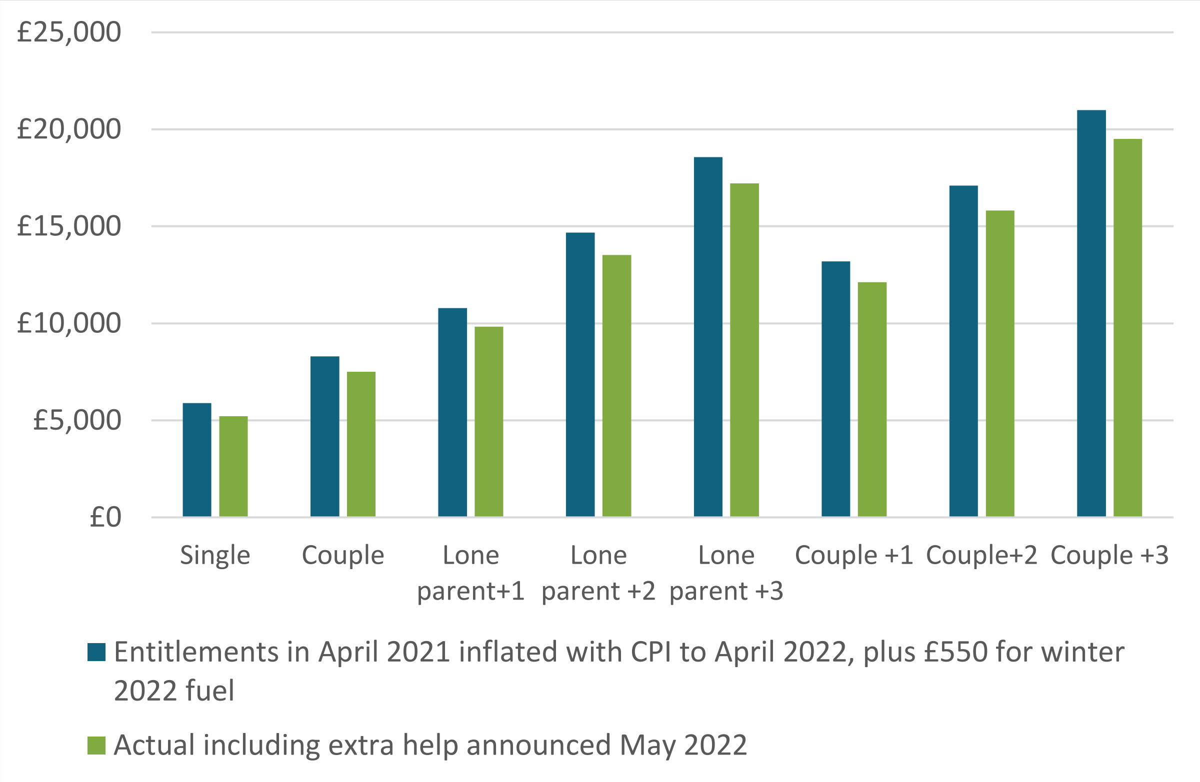
- The calculations here cover only what is happening in the present financial year, and therefore do not count for the full effect of the £800 projected increase in energy bill over a 12 month period from October. However, in April 2023, benefits will rise by an amount not taking any account of the October price rise, since they will be based on September CPI. There is not any indication that the Government plans a further increase to compensate higher energy bills in April, and therefore the additional support may need to cover a period longer than the six months shown in these calculations.

The above figures have demonstrated in simplified terms why additional support is going only part of the way to compensating the worse off households for rising living costs. In fact, people's lives are complex, and the second half of this paper reports some human examples of how people are falling behind, supplied by organisations supporting this initiative. First, however, it is important to note the situation for two types of household not covered by the above calculations.

- ***Working families on Universal Credit*** have suffered similar losses to out of work families, in terms of losing the £20 uplift and receiving a sub-inflation uprating in April. On the other hand, the November 2021 reduction in the UC taper rate, combined with an increase in the Work Allowance, brought gains to working families. Those with the highest earnings qualifying for UC gained most from the reduced taper, but for those with very low earnings, the gains were much less than losses for elsewhere. As an illustration, a lone parent with two children, who Figure 2 shows to lose £1,150 a year if they were not working, would lose £850 a year if working ten hours a week on the National Living Wage, nearly £370 if working 20 hours and £70 if working 30 hours. Note that these losses are compared to if Universal Credit and Child Benefit had kept up with inflation, but do not take account of the loss from sub-inflation pay rises (the National Living Wage rose 6.6% this year) so the actual fall in living standards is greater.

- Households where people have ***disabilities*** will see overall costs go up more, with extra help not going as far to cover the increase. Even though they have been given an additional £150, this will not cover the additional cost of inflation applied to disability-related benefits. For example, on Universal Credit, the supplement for someone unable to work or engage in work-related activity rose by around £240 a year less than if it had been CPI-uprated. In addition, someone receiving the daily living component of PIP is worse off by £185 on the standard rate and £274 on the enhanced rate, as a result of sub-inflation upratings. The loss of automatic access to the Warm Homes Discount for people receiving disability benefits is a further blow to those affected. Many disabled people have needs which make heating and electricity use to power equipment particularly central to well-being, so that economising on energy can bring severe hardship.

Figure 1, Annual Income on Universal Credit, when out of work, 2022/23*



*Based on children born before 2017. Universal Credit excluding rent element plus Child Benefit.

Figure 2, Difference – annual gain/loss, including and excluding £20 UC uplift

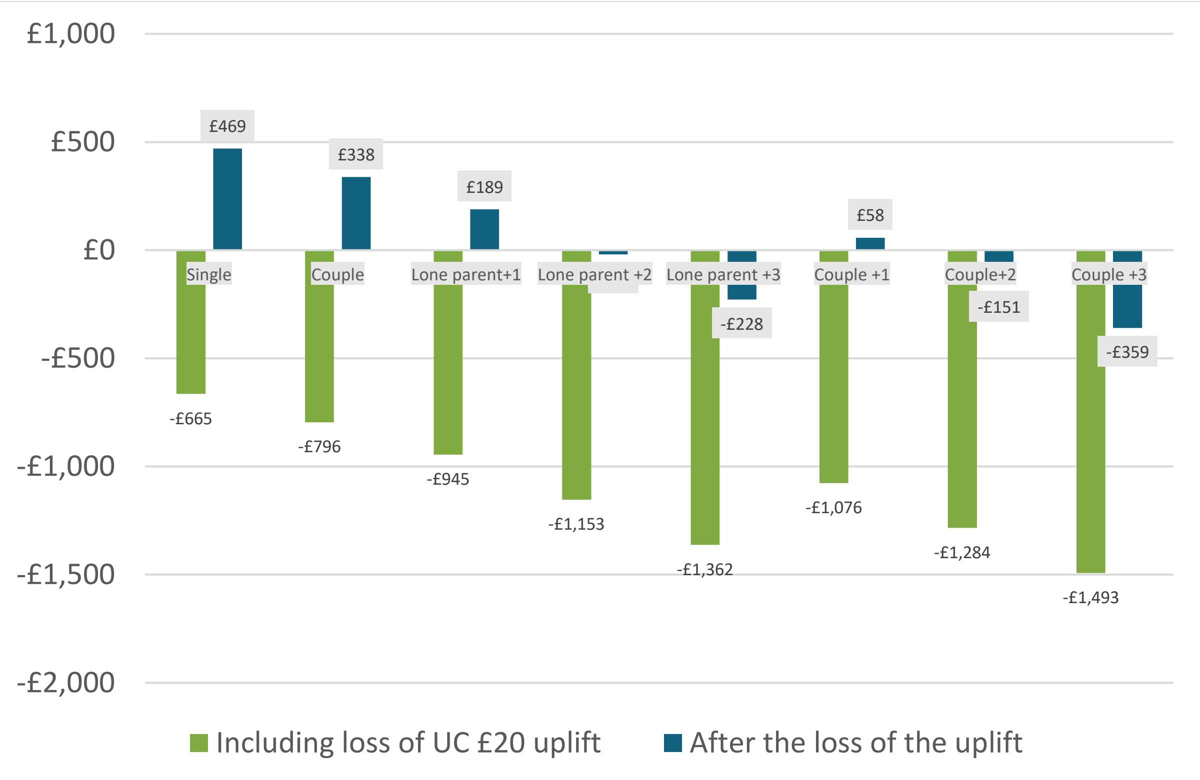


Figure 3, Annual loss with different upratings, including loss of £20 uplift

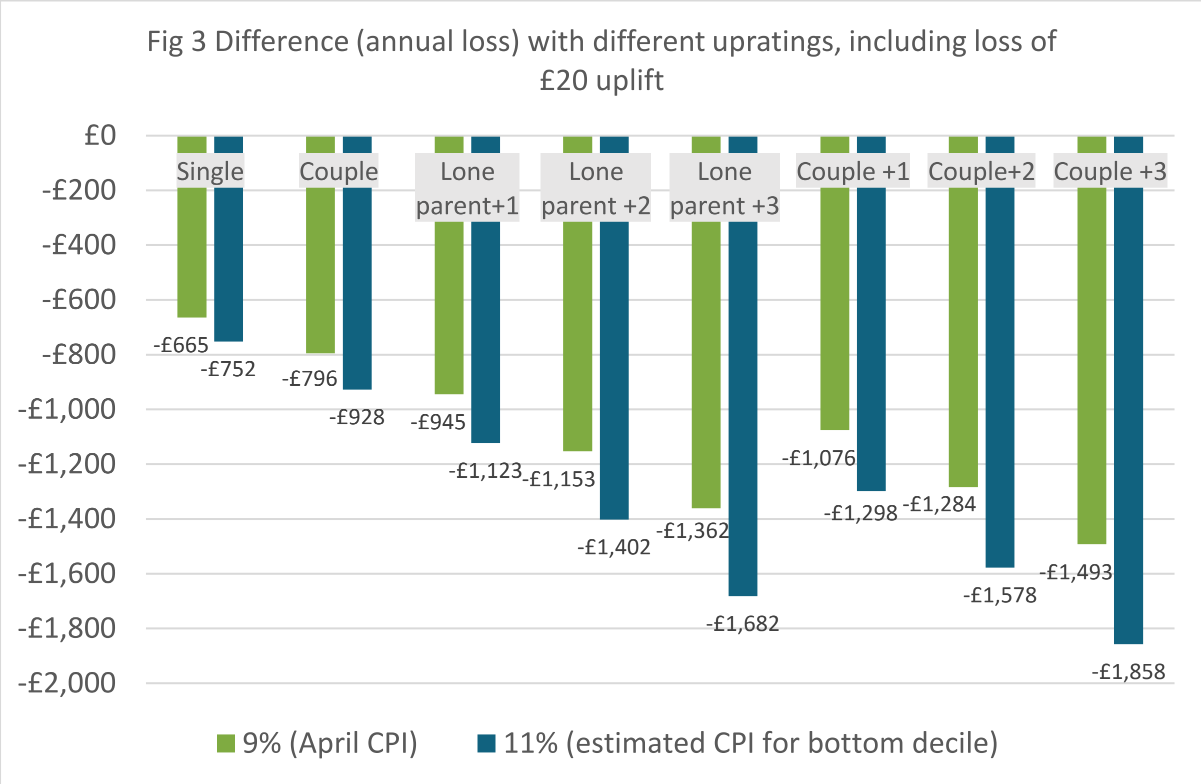
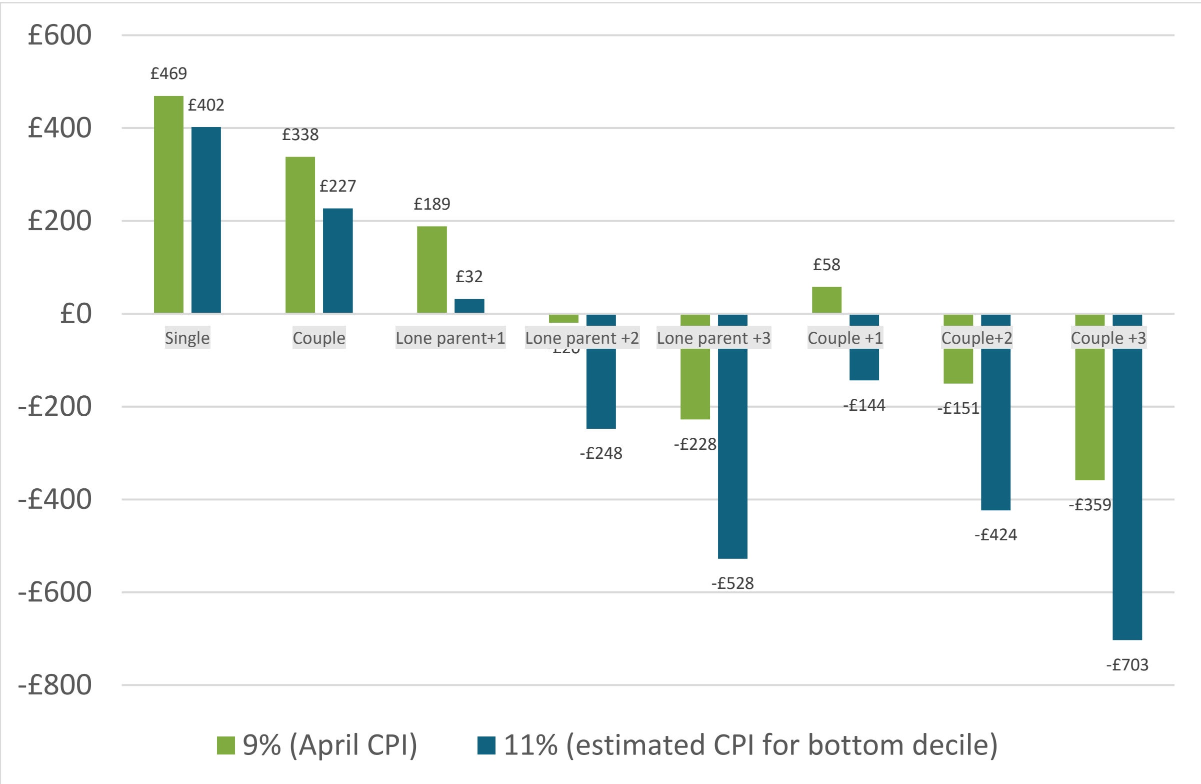


Figure 4, Annual gain/loss with different upratings, excluding loss of £20 uplift



Illustrative case studies

All names have been changed in these case studies.

Christmas reduced to a zoom call?

Ian, a separated man in his 50s, fears he may not be able to see his children this Christmas, as he will not be able to afford to host them in his home, or travel to see them. An additional £650 this year will be a big help, but he does not think it will prevent his pared back lifestyle shrinking further. A Zoom call with his family on Christmas day may be all he can afford.

Ian lives on his own in social housing, and has a separated family with two children in third level education. Following a successful professional career, he suffered from deteriorating mental health, causing him to split from his family and lose his job.

He receives Universal Credit, but has £30-40 a month deducted following an overpayment during a period of residential care after being sectioned under the Mental Health Act. He has intermittent agency warehouse work, which he describes as 'feast or famine', and has not worked since early April. Previously he had worked an average of 25 hours a week for £9.45 an hour. However, he says he does not really feel better off when working, both because of the direct costs of work and the increase in food bills when he cannot employ strategies to economise requiring him to be free at specific times of day.

Ian has recently used a foodbank for the first time in over a year. He is full of plans to economise on food and energy. He maintains a cheap, unhealthy diet, but considers it sufficient. He tries to use no energy to heat or cook, limits use of light bulbs in his flat and has got more blankets in from the local Charity shop. But he finds it hard to contemplate next winter, after the next energy price rise.

The main negative effect he worries about is that he will not be able to invite his kids to see him as he won't be able to offer hospitality, and there is clear worry about how they will view him as he strips back his lifestyle further. Going to see them himself is too expensive so feels that even at Christmas will be forced to make do with a Zoom call.

Ian is trying to focus on staying well so he can re-engage with his family and "be a good grandad one day". He is adamant he will cope and has multiple plans and strategies to do it – his big regret is that he doesn't have the money to spend time with his family or invite them to visit him.

Making do for the family with "kettle packs" from the foodbank

Mariana, a single mother, loses £120 a month of her Universal Credit in an unexplained deduction and a rent top-up, leaving her with minimal resources to provide for her two primary-school children, one with learning disability. Her focus is on minimising energy bills, while still maintaining internet access for her daughter's school work. Most months she gets help from the food bank. Kettle packs, originally introduced for people with limited cooking facilities, are ready meals requiring only boiling water to be added, and Mariana uses them to avoid the cost of heating the cooker.

Originally from Brazil, Mariana has a son aged 6 with learning disabilities and a daughter aged 9. Her son's Educational Health and Care Plan has been delayed by the pandemic, and the family has applied for Disability Living Allowance.

The family gets no support from Mariana's separated husband. They rent privately, and Mariana must pay £70 a month to the landlord over and above the direct payment from DWP. She is unclear why, in addition, she had £50 deducted from her UC, but thinks it is back charges from NHS use before she became a British citizen.

She works a core seven and a half hours a week at just above the National Living Wage as a school catering assistant.

Mariana requires help from foodbank most months to make it to the end of the month. She has no idea how to economise further. The uses energy only for essentials. She is hugely worried about supporting her daughter's learning, by making sure internet, laptops are able to be used.

Her estimated bill for next year has frightened her greatly. In common with many others, she has the feeling "I don't know what more I can do". Having grown up in a warm country, she believes she uses more than average energy when it gets cold, making her all the more scared about next winter.

"I had to sell my daughter's bike to pay the bills. I feel like a failure as a mother"

Lowri is 51 and lives in Lancashire, looking after her dad and her daughter. Lowri has spent five years in "survival mode". She lost her job with an events company at the start of the pandemic, and struggles daily to get by on Universal Credit. She is desperately worried about the cost of living, especially rising fuel costs and the stress school holidays will bring.

"I was just managing to pay household bills and then in March 2020 Covid hit. Classed as freelance by the companies I worked for, I was first to lose my work and within a week the event industry was closed by the Government, and I lost all my income except Universal Credit as I work in events industry.

"I have spent the last 5 years living in survival mode, just about surviving each day, worrying about money constantly. I am emotionally and mentally exhausted living like this. It is not living, merely existing.

Breaks for school holidays bring added stress as I can't take my daughter to places due to cost to go out for the day, or parking or cost of fuel. I feel that my daughter is not getting life experiences due to lack of money. Friends travel abroad, and we can't even afford to get passports done. Every activity or day out with children costs between £30-£50I have just had to sell my daughters bike to raise money for this month to make sure I pay the bills. She has grown out of it but I now won't have the money to replace her bike. I feel like a failure as a mother. It breaks my heart.

"Food costs have doubled; fuel has doubled in cost; there is just no way people can manage to pay all their bills, and all we are doing is existing to pay bills. Terrified is an understatement. Without food banks thousands of people would be hungry, destitute and children would be without basic provisions."

A pensioner terrified at what lies ahead

Cameron is already preparing for winter out of fear of not being able to afford the essentials.

> “As a pensioner, I'm dreading winter, terrified in fact. Every time I go shopping, I'm adding a packet of dried food, lentils, rice, couscous, or a tin of vegetables, hoping it’s going to get me through. I eat porridge a lot, its filling but boring. Buying fleece throws from charity shops to wrap up in. We need fuel prices to be slashed, especially diesel for the wagons who deliver the food. We need a voice.

“Energy use for disabled people is vastly different from any other household”

Breadline voices testimony from Dan White, Disability Rights UK.

> "Disabled people in 2022 now face a wave of poverty unlike anything they have experienced before or since and there seems to be little if no help forthcoming to reverse these decades old issues…
>
> "Energy use for disabled people is vastly different from any other household, it involves energy use for life’s sake, energy to maintain health both physical and mental. The list of essential equipment required to breathe, move, eat and live is vast and all of it relies on energy to function.
>
> "Disabled people’s energy costs are higher than those of non-disabled people because they need to run the heating more, why? Well as an example my daughter has spina bifida, which means she has little mobility below the waist due to nerve damage.
>
> "This in turn means she cannot regulate her body temperature, and if the household temperature is not constant her legs will go purple with cold and that could mean skin damage or worse, so the heat stays on and the bills soar and soar.
>
> "My daughter’s scenario is repeated across the country and it’s not just extra warmth that prevents a hospital dash for people with temperature regulation issues or weakened immune systems, that is just the tip of the energy-related iceberg.
>
> "Disabled people live with a dependency on equipment and the majority of it needs power.”

We, the undersigned, ask the Government to consider appropriate measures to bridge the shortfall in family finances documented in this paper.

Rabbi Charley Baginsky, CEO, Liberal Judaism

Revd Fiona Bennett, Moderator of the General Assembly, United Reformed Church

Lord John Bird, Founder, The Big Issue

Anthony Boateng, Vice-President, The Methodist Church in Britain

Paul Bodenham, Programme Leader for Social Action, Caritas Diocese of Nottingham

Tracy Brabin, Mayor of West Yorkshire

Nicola Brady, General Secretary, Churches Together in Britain and Ireland

Andy Burnham, Mayor of Greater Manchester

Rt Revd Paul Butler, Bishop of Durham, Chair of ChurchWorks Commission on Covid Recovery

Heidi Chow, Executive Director, Debt Justice

John Coleby, CEO, Caritas Westminster

Niall Cooper, Director, Church Action on Poverty

Revd R Creswell, Chair, The Methodist Fund for Human Need

Archbishop Leo William Cushley, Archbishop of St Andrews and Edinburgh

Colin Date, Acting Chair, Christian Concern for One World

Claire Donovan, Campaigns Manager, End Furniture Poverty

Rt Hon Mark Drakeford MS, First Minister of Wales

Jamie Driscoll, Mayor of North Tyne Combined Authority

Andy Elvin, Chief Executive, TACT Fostering

Revd Archie Ford, Moderator, United Free Church of Scotland

Alison Garnham, Chief Executive, Child Poverty Action Group

Ben Gilchrist, CEO, Caritas Shrewsbury

Revd Lynn Green, General Secretary, Baptist Union of Great Britain

Revd James Green, Executive Director, Together Liverpool

Ruth Harvey Leader, The Iona Community

Mia Hasenson-Gross, Director, René Cassin

Rev Karen Hendry, Acting Convenor, Faith Impact Forum, Church of Scotland

Joseph Howes, Chair, End Child Poverty Coalition and CEO of Buttle UK

Imran Hussain, Director of Policy and Campaigns, Action for Children

Revd/Parchg Beti-Wyn James, President Union of Welsh Independents/Llywydd Undeb yr Annibynwyr Cymraeg

Archbishop Andrew John, Archbishop of Wales and Bishop of Bangor, Church in Wales

Sadiq Khan, Mayor of London

Rajnish Kashyap, General Secretary, Hindu Council UK

Peter Kelly, Director, Poverty Alliance

Paul Kissack, Chief Executive, Joseph Rowntree Foundation

Red Dr Ellen Loudon, Chair Together Liverpool

Peter Lynas, UK Director, Evangelical Alliance

Paul McNamee, Editor, The Big Issue

Jon Miles, Senior Development Worker, Transforming Communities Together

Zara Mohammed, Secretary-General, Muslim Council of Britain

Dan Norris, Mayor of the West of England

Elizabeth Palmer, CEO, St Vincent de Paul Society (England & Wales)

Taidgh Pledger, Political Officer, National Education Union

Marvin Rees, Mayor of Bristol

Fr Dominic Robinson SJ, Chair, Justice & Peace Commission, Diocese of Westminster

Revd Paul Rochester, General Secretary, Free Churches Group

Steve Rotheram, Mayor of the Liverpool City Region

Bishop Mike Royal, General Secretary, Churches Together in England

Rev Ian Rutherford, Chairperson, Greater Manchester Food Security Action Network

Adam Scorer, Chief Executive, National Energy Action

Paul Southgate, Chair, National Justice and Peace Network

Most Revd Mark Strange, Bishop of Moray, Ross and Caithness, Primus of the Scottish Episcopal Church

Paula Stringer, UK Chief Executive, Christians Against Poverty

Anna Taylor, Executive Director, Food Foundation

Revd Graham Thompson, President, Methodist Church in Britain

Anna Turley, Chair, North East Child Poverty Commission

Matthew Van Duyvenbode, CSO , Trussell Trust

Natalie Williams, Chief Executive, Jubilee+

Jo Wittams, Interim Executive Director, The Equality Trust