POST-AUTUMN STATEMENT

CPAG BRIEFING FOR MPS

21 November 2022

Introduction

There are currently almost 4 million children living in poverty in the UK. The Autumn Statement included a handful of hard fought for announcements that will blunt some of the effects of high prices faced by children and families in poverty. But this was not a statement that will make much improvement to the living standards and life chances of the poorest children in our society. These families are living at the sharp end of the cost of living crisis, with the cumulative impact of a decade of austerity, the pandemic and recent economic turmoil pushing their budgets to breaking point over the long term. Supporting them out of poverty will require more.

It is a relief to hear that benefits will be uprated by September's inflation (10.1 per cent) – although this falls short of the inflation rate at the moment, and this is the minimum step the government should take to protect families in poverty. It is significant that households affected by the benefit cap will also receive this uprating. The cap has never been increased, and has driven more and more children into deep poverty.

Other measures to shore up household budgets, including support with energy costs, will help families with current high costs. However, these pots of additional support are temporary, and the one-off payments do not adjust to household size, making it harder for families with children to cover their higher costs. Additional funding for the household support fund will provide a sticking plaster, when what is needed is long-term sustainable funding for local welfare assistance.

The changes to universal credit (UC) announced in the Autumn Statement must work for families with children. Increasing in-work conditionality in UC without addressing the structural barriers faced by parents and carers trying to work more hours – most notably access to affordable high-quality childcare – will only serve to increase stress and anxiety in households that are already worrying about the bills. And of course we cannot forget the many families who cannot work – for reasons such as disability or caring duties – and the poor level of support available to them through the social security system. The pause on managed migration for some claimants should give the Department for Work and Pensions (DWP) time to address the current problems, however it does not

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extend to families in receipt of child tax credit, hundreds of thousands of whom will be worse off on UC.[1]

Other measures included in the Autumn Statement are necessary steps but blunt tools for tackling child poverty. The increase in the minimum wage is welcome, but is not on its own a solution to in-work poverty. The reduced cap on social housing rents will make a difference to many families, however there is nothing to help the 1.4 million children living in poverty in the private rented sector with their housing costs.[2]

We are also concerned about the longer-term impact of the statement on public services, which provide crucial support for all of us, including children and families in poverty.

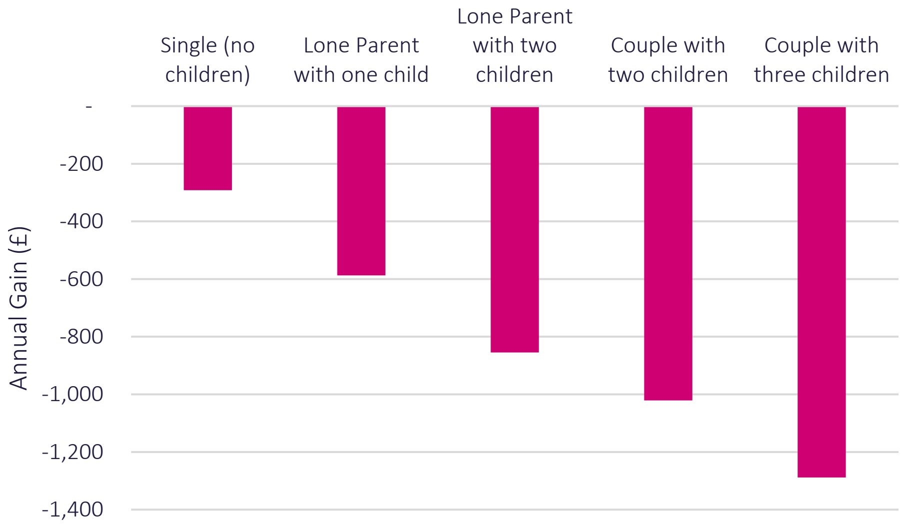
Overall, this was a statement that will take the edge off some – but not all – of the additional difficulties with prices that families will face over the next year. However it will leave far too many struggling to get by, and does very little to address the fact that 4 million children in the UK are currently living in poverty. The statement also failed to take advantage of universal approaches that would have helped families living on the verge of poverty – such as reinvesting in the value of child benefit or universal free school meals.

1. Uprating benefits

The decision to uprate benefits by September 2022 CPI (10.1 per cent) is a relief for families who have been left worrying for months about the extent to which the hole in their budgets will grow, but it will not mitigate all cost increases. In 2023/24, benefits will be 14 per cent higher than in 2021/22 (following a 3.1 per cent rise in April 2022 and a 10.1 per cent rise in April 2023). But over this same period, prices will be 17 per cent higher for the average household and 21 per cent higher for low-income families.[3] This is because low-income households spend a higher proportion of their income on necessities like energy and food which have risen more sharply than other items. As a result, many families will still be considerably worse off over the two-year period. And this is not to mention the fact that even before the current crisis families simply didn't have enough to live on. That will remain the case, despite this increase.

[1] DWP, *Completing the Move to Universal Credit: Our 2022-24 strategy for implementing the final phase of Universal Credit*, 2022, Table 1
[2] DWP, *Households below average income 2019/20*, 2021, via StatXplore
[3] The inflation rate for low-income households is calculated by using the lowest quintile weights calculated from Table 3.1E5 in ONS, *Detailed household expenditure by disposable equivalised income quintile group (OECD-modified scale)*, UK 2020/21.

Figure 1: Real loss in social security for out-of-work households, 2021/22 - 2023/24 (excluding cost of living payment)



Note: Author's calculations from Consumer Price Index, Office for National Statistics and Numerical Parameters of Monetary Policy Report Probability Distribution November 2022, Bank of England. The figures refer to universal credit (except housing element) and child benefit. Inflation figures are adjusted to account for different spending patterns of low-income households. These calculations do not include the £900 cost of living payment.

Figure 1 shows the real loss in social security support between 2021/22 and 2023/24 for different household types. We can see that the losses are greater for larger households. This is because their costs and their overall benefit entitlement are greater (the percentage loss of total entitlement would be similar across different households).

2. Benefit cap

The announcement that the benefit cap will increase in April 2023 in line with September 2022 CPI will come as a relief for the 127,000 households currently affected by the cap. These households, the vast majority of whom are families with children, will be able to gain from this year's benefit uprating like other low-income households. Affected families outside of London will gain £168 a month and those in London will gain £194.

This long-overdue increase to the benefit cap is a move in the right direction, but it does not go far enough. It does not undo the damage done by the cap being frozen since 2016 (when it was *reduced* from the level it was first set at in 2013). The benefit cap would need to increase by a further £942 a month outside of London and £666 in London to reverse the loss since 2013.[4]

But ultimately no increase to the threshold will stop the cap from harming children. It pushes children deeper into poverty. The government may say people can work, or increase their hours to escape it, but these families face

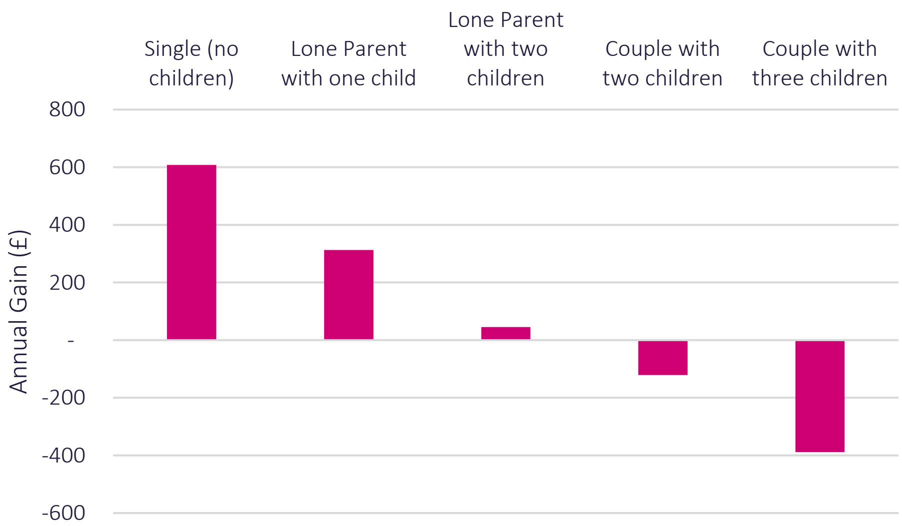
[4] In 2016 the benefit cap was cut from £26,000 to £23,000 in London and £20,000 outside of London. This is why the level of the cap would need to increase by more outside of London to return to the level it was in 2013.

considerable barriers to work. Of the 127,000 households subject to the cap 110,000 (87 per cent) are households with children, including 58,000 (45 per cent) with a child aged under 5. Abolishing the benefit cap would only cost £350 million, or 0.1 per cent of total spending on social security, and help 300,000 children living in poverty.

3. Energy support

It will be reassuring for households to know that the energy price cap will continue in some form, but all households will have to spend more on energy as the cap rises to £3,000 from April.[5] The £900 cost of living payment will help some families meet this extra cost, but the impact on household finances depends on household size. Figure 2 shows that a single person without children is £600 better off as a result of the uprating and cost of living payment, while a couple with three children is £400 worse off. This is because the larger the household, the higher the energy cost, meaning the £900 does not stretch as far. Households with children spend 30 per cent more on energy than households without children.[6]

Figure 2: Real gain/loss in social security for out-of-work households, 2021/22 - 2023/24 (including cost of living payment)



Note: Author's calculations from Consumer Price Index, Office for National Statistics and Numerical Parameters of Monetary Policy Report Probability Distribution November 2022, Bank of England. The figures refer to universal credit (except housing element) and child benefit. Inflation figures are adjusted to account for different spending patterns of low-income households. These calculations include the £900 cost of living payment.

[5] This was already accounted for in the inflation forecasts from the Bank of England in November 2022 and therefore the uprating/real loss calculations in the previous section.

[6] Author's calculations from ONS, *Disposable income and energy expenditure for different fuel type households and household types, UK: financial year ending 2018*, 2020 and Share of households with children calculated from DWP, *Households Below Average Income 2019/20*, 2021.

There is no evidence that costs will return to pre-crisis levels. Families will clearly need long-term support with higher energy costs and this needs to be factored into considerations about the adequacy of the benefit system more broadly. Short-term schemes which generate uncertainty over who receives support, when they receive support and whether/how this support will be replaced with something else are worrying for families who are anxious about how they will cover costs in the future. Ensuring that benefit levels are adequate to support families to have an acceptable standard of living that keeps them out of poverty is the most appropriate and effective way for government to target support.

4. Household support fund

Local welfare assistance (LWA) schemes play an important role in helping families when something unexpected goes wrong – such as when a washing machine breaks down, or there is the onset of a health problem and before they have managed to get a social security claim processed. The household support fund is the current iteration of LWA in England and the statement announced funding for another 12 months. However, the current system is overburdened, often picking up after the failings of the broader social security system and filling holes in local authority budgets. Recent research has found that one in four local authorities in England were offering no support at all, and instead using the money to top up existing entitlements.[7]

LWA is chronically under-funded, even with this new injection of funding, although the commitment of funding for a 12-month period will come as a relief for local authorities who have had to manage with 6-month funding pots for too long. However, for councils to deliver a coordinated and coherent system of support for families in their time of need, they need a multi-year funding commitment for LWA from Westminster. Similar to the devolved nations, England needs a centrally-funded scheme with proper guidance, decision-making and a data trail to ensure support is guaranteed across the country. LWA should be part of but not a replacement for a well-funded and inclusive social security system.

5. Managed migration to UC

The Chancellor announced that the process of moving people who claim employment and support allowance (ESA) to UC will be postponed until 2028 – four years later than planned. This amounts to a saving for the government as around 600,000 benefit claimants who would be better off on UC will have their move to UC considerably delayed.

CPAG welcomes the slower roll out of the Move to UC programme, which was due to be rapidly scaled-up, despite the lack of assessment of the process and the risks it posed to claimants. A slower roll out of Move to UC should allow the process to be tested and refined before it is applied to sick and disabled ESA claimants – arguably some of the most vulnerable. However, it appears that the decision to delay was based on cost alone and took no account of the vulnerabilities of particular groups, and there is no guarantee that the delay will in fact be used to improve processes. We continue to be concerned about:

- The 100,000 ESA claimants with children who are still going to be migrated by the end of 2024. We are concerned about the impact of managed migration on these very vulnerable families;

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[7] K Handscomb, *Sticking Plasters: an assessment of discretionary welfare support*, Resolution Foundation, 2022

- the impact of the untested managed migration process on the 880,000 families in receipt of child tax credit, hundreds of thousands of whom will be worse off on UC;[8]
- the lack of accountability the DWP has to parliament on the progress of managed migration to UC;
- the flaws in the transitional protection scheme for claimants who are estimated to be worse off on UC;[9]
- the 600,000 ESA claimants who will miss out on a higher UC income for four years due to the managed migration delay.[10]

The pause in managed migration for ESA claimants is an opportunity to get things right. CPAG encourages the DWP to take this opportunity to implement the recommendations from the Social Security Advisory Committee on how to improve the managed migration process.[11]

6. In-work conditionality

The government will bring forward plans to require 600,000 more working UC claimants to attend regular Jobcentre appointments to September 2023. Currently, this requirement applies to claimants who earn less than the equivalent of working 15 hours a week at the minimum wage, but the government plans to expand this to anyone earning less than the equivalent of 35 hours a week. This change is completely out of step with the reality of the 2.3 million families with children claiming UC. Many of these families are already juggling the demands of working life and childcare responsibilities such as school and nursery pick-ups and drop offs, childcare costs and commuting. They shouldn't be burdened further with Jobcentre appointments which will often cost them time and money (for example travel costs, requiring extra childcare support etc.). Parents, who may only need to work part time for a temporary period while they raise their children, should be supported to work part time.

If the government is serious about supporting parents and carers to work more hours, they should tackle the structural barriers they face moving into the labour market – most notably the provision of high-quality, affordable childcare. Families on UC can get support for 85 per cent of childcare costs but design issues make this difficult to access and the amount they can claim is capped (at £175 a week for one child or £300 for two or more). These caps were set in 2005 and have been frozen ever since, despite a significant increase in the cost of childcare since then, meaning the shortfall grows larger and larger over time.[12]

7. Minimum wage

The announced increase in the minimum wage is a vital step but is not, on its own, a solution to poverty.

For low-income families with children, the effects of the increase on their household budget are likely to be marginal. Families with children are more likely to be working part time due to caring responsibilities, and the combined impact of inflation and the taper rate in UC will claw back much of the projected gains. The taper rate means households on UC will lose over half (55 per cent) of any financial gain from the minimum wage. And as

[8] Freedom of Information Request FOI2022/66579, 18 November 2022
[9] Transitional protection is a top-up to someone's UC award if their benefit entitlement is lower on UC than it was on legacy benefits. It preserves a claimant's income at its pre-UC level. Transitional protection is temporary and 'erodes' away when a claimant's UC award changes, such as the annual uprating of benefits.
[10] DWP, *Completing the Move to Universal Credit: Our 2022-24 strategy for implementing the final phase of Universal Credit*, 2022, Table 1
[11] Social Security Advisory Committee, *The Universal Credit (Transitional Provisions) Amendment Regulation 2022: A report by the Social Security Advisory Committee (SSAC) on the regulation and response from the Secretary of State for Work and Pensions*, 2022
[12] CPAG, *The Cost of a Child in 2022: summary and recommendations*, 2022

outlined above, low-income households spend a higher proportion of their income on food and energy – their effective two-year rise in prices is 21 per cent, higher than the 17 per cent increase in the minimum wage.

Minimum wage increases tend to benefit middle- and higher-income households – just 19 per cent of minimum wage workers are living in poverty.[13] A key reason for this is that minimum wage workers are often the second earner in households that already have a larger income from a primary earner.

Tackling in-work poverty effectively requires addressing the inadequacy of the social security system, the high cost of living, and the barriers parents and carers face moving into the labour market or increasing their hours, such as childcare costs and availability. This is even more pressing if the government is committed to increasing conditionality for UC claimants, as outlined above.

8. Housing costs

The government announced that rent increases in social housing will be capped at 7 per cent in April 2023 instead of the usual increase of CPI+ 1 per cent (equivalent to 11 per cent). This will be reassuring for low-income families living in social housing. But, as most social tenants are entitled to support with housing costs through the benefits system, this change saves the government rather than the tenant money through reduced housing benefit spending. Cash-strapped social housing providers are left to absorb the loss instead.

Meanwhile the government has not done anything to protect the 1.4 million children in poverty growing up in private rented housing from rising rents.[14] The government has frozen the level of housing support available to private tenants (via local housing allowance, LHA) leaving families completely exposed to rent increases. The government must increase LHA rates to protect children living in the private rented sector from rent hikes in 2023. Otherwise families will be facing rent increases alongside increases in their energy bills, and the cost of living payments announced in the Statement won't cushion families from these additional costs.

9. Conclusion

The Chancellor was keen to highlight how his Autumn Statement would deliver a bright future for children and young people, where they have access to high-quality education, jobs and opportunities, and a healthy economy in which to flourish. While some of the announcements included in the Statement will help low-income families deal with recent and forthcoming increases in costs, they fall short of protecting children from poverty – the single biggest determinant of life chances. We know that poverty in childhood means kids face long-term risks to their mental and physical health; their education and career prospects can suffer; and their life expectancy can even be cut short.

As a result of cuts to social security throughout the 2010s, we have seen a dramatic rise in child poverty. Pre-Covid there were 700,000 more children in poverty than at the start of the 2010s.[15]

It is only through ambitious policy changes that we can begin to reverse this trend. These include increasing benefits for children, universal provision of free school meals, and abolishing harmful policies such as the benefit

[13] J Cribb, R Joyce and X Xu, *The future path of minimum wages*, Institute for Fiscal Studies, 2019
[14] DWP, *Households below average income 2019/20*, 2021, via StatXplore
[15] DWP, *Households Below Average Income 2020/21*, 2022

cap and the two-child limit which are driving more and more children into poverty. Last week's Statement provided some immediate relief for children and families living in poverty, but it does not match up to the scale of the challenge if we are to end child poverty for good.

About CPAG

Child Poverty Action Group works on behalf of the more than one in four children in the UK growing up in poverty. It doesn't have to be like this. We use our understanding of what causes poverty and the impact it has on children's lives to campaign for policies that will prevent and solve poverty – for good. We provide training, advice and information to make sure hard-up families get the financial support they need. We also carry out high profile legal work to establish and protect families' rights.