UPRATING BY INFLATION

CPAG BRIEFING FOR MPS

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Background

We have seen historically high levels of inflation over the past 12 months, and forecasts suggest that inflation will be even higher this winter. This will have a significant impact on low-income families in 2022/23 and 2023/24. It will make life harder for the 4 million children already living in poverty, and risks increasing the number of children living in poverty.

It is also important to acknowledge that the baseline level of support is very low to start with. Benefits have fallen in value in eight of the last ten years.[1]

The costs of living support in 2022/23

In April 2022, when inflation was running at 9 per cent, benefits were uprated by 3.1 per cent in line with inflation in September 2021. Since then, prices have risen even further[2] and CPAG estimates the average inflation rate over 2022/23 to be 10 per cent.[3]

The prices of essentials like energy and food have risen most. As low-income families spend more on essentials as a proportion of their income, their costs have increased by 12 per cent in 2022/23 – four times more than the increase in benefits last April.

The additional cost of living support has helped to mitigate some of this pressure on family budgets (through the one-off payments to households on means-tested benefits, the energy bill support scheme and council tax relief).

[1] House of Commons Library, *Benefits Uprating 2022/23*, 2022

[2] Normally, the inflation rate in September is a reasonable estimate for the average inflation rate in the following year, however this is not true in these uncertain times.

[3] The inflation figures are author's calculations from ONS CPI inflation and Bank of England forecasts of inflation adjusted to account for the energy price guarantee. The inflation rate for low-income households is calculated by using the lowest quintile weights calculated from Table 3.1E5, Detailed household expenditure by disposable equivalised income quintile group (OECD-modified scale), UK 2020/21.

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But, as these payments do not account for household size, these mitigations were less impactful for households with children, who spend 30 per cent more on energy than households without children.[4]

Uprating benefits in April

The cost of living support aimed at helping families with inflation will end in April 2023. At this point, annual benefit uprating will take place. Last May, the then Chancellor committed to increasing benefits in 2023 in line with September 2022's inflation rate, expected to be around 10 per cent.[5] Honouring this commitment is the minimum that is needed. Given that lower-income families face high levels of inflation, even this will still leave them worse off than before.

CPAG estimates that prices will be on average 16 per cent higher in 2023/24 compared to two years earlier, but for lower-income families prices will be 19 per cent higher.[6] If benefits are uprated by earnings (estimated at 5.4 per cent), families will be 10 per cent worse off than in 2021/22.[7] If benefits are uprated by inflation (estimated at 10.2 per cent) families will still be 5 per cent worse off than in 2021/22, a base level which is already far too low after cuts to social security during the 2010s.

Increasing benefits helps the most vulnerable and low-paid workers

The majority of households on universal credit or equivalent benefits[8] are working households. These households will lose out from earnings increasing by less than inflation, and will suffer even more if benefits lag behind. Households who are unable to work, due to caring for young children or disabilities, and those who are in between jobs, are going to be pushed even deeper into poverty.

Choosing to uprate benefits by earnings, instead of inflation, will mean an additional 200,000 children in poverty.[9] Families have already been pushed to breaking point by the £20 cut to universal credit last year. Benefits have to increase by more than inflation to prevent additional hardship.

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[4] *Gaping £1,000 gap for worst-off families as energy price cap rises*, CPAG, 25 August 2022

[5] The energy price guarantee means inflation is lower than it otherwise would have been, but energy and other prices have still risen substantially.

[6] It makes most sense to compare to 2021/22 as this shows the effect over two years without the temporary cost of living supports confusing calculations for 2022/23.

[7] All calculations exclude the £20 cut to universal credit; families are even worse off if the £20 cut is included.

[8] Households Below Average Income (DWP) indicates that more than half of households on means-tested benefits are in work. Around 40 per cent of people on universal credit are in employment but the figure is higher for in-work households on means-tested benefits overall for several reasons: (1) some of the people not in work will live in households where one partner works and one does not; (2) the 40 per cent does not include self-employed people; and (3) it does not include households on legacy benefits. Three-quarters of households still on tax credits are in work.

[9] The poverty results presented here are based on UKMOD version A3.5+. UKMOD is maintained, developed and managed by the Centre for Microsimulation and Policy Analysis (CeMPA) at the University of Essex. The process of extending and updating UKMOD is financially supported by the Nuffield Foundation (2018-2021). The results and their interpretation are the author's sole responsibility. Calculations are for financial year 2023/24 and the poverty measure used is relative after housing costs. The estimated increase in benefits by wages is 5.4 per cent (August 2022 earnings growth) and the increase in September CPI inflation by 10.2 per cent (estimated small rise from August 2022 CPI figure of 9.9 per cent).

The benefit cap must go

Not all households receiving benefits will gain from uprating in April. The 130,000 households affected by the benefit cap, some of the poorest families across the country, will not receive any extra help. Despite the soaring cost of living, the benefit cap has remained frozen since it was lowered in 2016.

An average capped couple with two children is £150 a week below the poverty line.[10] Removing the cap would mean an additional £65 a week, on average, in the pockets of capped households, invaluable in the current cost of living crisis. If the benefit cap had been uprated from its inception, 94 per cent of households would not be capped.

The benefit cap is sometimes defended as a work incentive, but many of those it affects are parents caring for young children – earning the required amount to escape the cap simply isn't possible. The evidence suggests that the cap has a very small effect on work incentives.[11]

Recommendations

To protect families from the worst effects of inflation, the government must urgently take two steps:

- Uprate all benefits by at least inflation – uprating by earnings will leave low-income families 10 per cent worse off than in 2020/21; uprating by inflation will leave then 5 per cent worse off. Uprating by 15 per cent would still only restore the value of benefits to their level *after* the £20 cut to universal credit.
- Remove the benefit cap – capped households are some of the poorest across the country and will receive no additional support in April as the cap has been frozen since 2016. The benefit cap would only cost £500 million to remove – 0.2 per cent of total spending on social security.

In the longer term, the support available through the social security system must be adequate to keep the living standards of children and families at a decent level. The government needs to invest again in social security - through policies like removing the two-child limit, increasing child benefit and rolling-out free school meals to all pupils.

Conclusion

Families have been telling us all year that they have no room left in their budgets, and that they were on the brink of survival long before inflation started to rise. They are not just concerned about how to make it through the next couple of months, but are worried that winter 2023 will be at least as tough as winter 2022, with many unsure how they will make it to that point.

We know that poverty in childhood affects children's mental and physical health, their education and career prospects, and even their life expectancy. Increasing benefits in line with earnings next April would mean a 10 per cent real-terms cut to support since 2021 – the biggest two-year reduction in social security ever – at a time when

[10] *Benefit cap: Cost of living in a crisis*, CPAG, 2022
[11] Re-employment was only 4.7 percentage points higher in the capped group compared to a control group (*The benefit cap: a review of the first year*, Department for Work and Pensions, 2014). Even without the benefit cap, a substantial share of people would re-enter paid employment in order to increase their household income.

families are in desperate need of more support. It would plunge an additional 200,000 children into poverty on top of the almost 4 million who already live below the poverty line. In the UK, in 2022, we must do better.

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.