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Summary

This research note explores historical changes in the value of income-replacement benefits and child benefit in relation to RPI inflation.

Changes in the value of social security benefits are analysed both in relation to aggregate measures of inflation – either RPI or the New Rossi index, depending on the pre-2011 uprating policy used for the respective benefit – and in relation to a range of individual items in the RPI basket of goods, including housing rents, food and rail travel. For almost all social security benefits, data permits time series analysis running from April 1992 through to April 2014, though with the possibility of extending this into the 1980s if given time to make further adjustments. Changes in the real value of Employment and Support Allowance (ESA) are only analysed from 2008-2014, however.

To allow for easy comparison of social security benefit rates and inflation, changes in both are represented as an index, in which their respective values in the first year in the time series are assigned the value of 100. This allows us to understand how successive governments have altered the real value of social security benefits. If benefits keep their value in relation to inflation, the two lines – RPI/New Rossi inflation and benefits – would follow each other, and there would be little/no difference in trends. Indeed this is what is observed for many social security benefits, over much of the period under study.

But this is not the case for every year, or for every benefit: successive governments have manipulated their value above or below the headline inflation measure. There has been a particularly marked divergence in the value of most social security benefits in relation to inflation since 2010, which is considerably reducing the real value of various benefits – most notably, the real value of child benefit for additional children has now gone below that observed in the early-1990s, before successive above-inflation increases under the Conservatives and New Labour.

Changes in the value of social security benefits in relation to specific items in the RPI basket of goods are also revealing. Over the period 1992-2010, inflation for a whole range of basic goods – from rents to fuel and train travel – has outpaced the rate of increase in most (though not all) social security benefits. For some such items, such as motoring expenditure and rail travel, this is a consistent trend across the time series: these items have always increased in value above the rate of increase in benefits. For others, however, the trend is not consistent: historically, the price of fuel & light has increased below social security benefits’ value, but this trend has since reversed and the cost of all these items has increased markedly over the past ten years.

Background

A brief history of social security benefits uprating

It has been a routine process, ever since the 1970s, for governments to uprate of social security benefits in line with some measure of inflation, so as to retain their real value. However, various technical aspects of this uprating policy, from the month in which the benefits are uprated, to the precise measure of inflation used, and the reference points on which to measure an increase in inflation – have changed markedly over the decades.
From April 1992, however, the uprating policies of various social security benefits have remained broadly consistent in a number of ways. This aids in consistent time-series analysis:

- Since April 1988, benefits have been uprated in April every year.
- Also since April 1988, they have been increased in line with inflation in the 12 months up to the previous September, i.e. an April 1993 uprating in benefits would be based on the increase in inflation from September 1991 to September 1992.
- Since April 1992 and until very recently, one of two different measures have been used to uprate benefits:
  - Incapacity Benefit (est. Apr 1995) has been uprated according to the all-items RPI.
  - JSA, Child Benefit, Income Support and (est. Oct 2008) Employment and Support Allowance (ESA) have been uprated in line with the New Rossi index: all RPI items less rent, local taxes and mortgage interest payments.

However, since the Coalition have taken office, we have seen some significant changes in benefits uprating. Fortunately for our purposes, they have not changed the month of uprating (April) or the inflation reference point (September - September), but they have changed the basis on which various benefits are uprated:

- For the financial years 2011/12 and 2012/13:
  - Child benefit has been frozen at its previous year’s rate (April 2010), in money terms.
  - The uprating policy for all other benefits in Table C has been changed to CPI, which reports a generally lower inflation rate than RPI.
- For the financial years 2014/15, 2015/16 and 2016/17:
  - Some benefits – the Support Group of ESA, Incapacity Benefit and Income Support – have continued to / will continue to be uprated in line with CPI.
  - Other benefits – JSA, Child Benefit and the Work-Related Activity Group (WRAG) of ESA – are subject to a 1% uprating cap for the three financial years: their value will not increase by more than 1% over this period, regardless of the rate of inflation.

Methodological issues

Limitations with the sources used

Data on inflation is easily-accessible online via the ONS’s Consumer Price Indices Data Set Selector. All of the RPI inflation data in this research derives from this source. The specific tables accessed online are all referenced in Tab 3 of the attached spreadsheet.

It is relatively more challenging to find data on the level of social security benefits over the decades. The bulk of the data on social security benefits is derived from the Department for Work and Pensions’ (2014) Annual Abstract of Statistics – 2013 Edition. However, there are some gaps in the Abstract, which have been overcome by drawing from other data sets:

- The latest Annual Abstract was published on 19 March 2014. It only includes figures up to 2013/14 – before the onset of the 1% cap. However most (but not all) figures for later years have been obtained from elsewhere, taking us up to the years 2014/15 and 2015/16:

1 N.B. this does not mean that someone in the support group will not experience the effects of the 1% cap – on the contrary, part of their benefit will be uprated in line with CPI, whilst another part will see its increase capped at 1%. This is because any ESA payment is made up, as a minimum, of two distinct payments. The first is a base payment which is higher/lower depending on one’s age and marital status. This payment is identical to JSA and is subject to a 1% uprating cap. The second is a top-up component comprised of two distinct groups – a Work-Related Activity Group (WRAG) and a Support Group. All recipients are placed in one of the two groups. The WRAG is subject to a 1% cap, and the Support Group is uprated in line with CPI. This is a technical but important distinction, because the comparator benefits to the ESA Support Group – IS and Incapacity Benefit – are uprated by CPI on the basis of their entire value, rather than just a component of their value. Hence the ESA tables in the attached spreadsheet show that whilst the value of benefit for the ESA Support Group hasn’t declined as markedly as for WRAG, the difference is not remarkable.

2 N.B. that child benefit is thus being uprated by more than it was in the preceding three financial years.

3 This suggests that the next annual abstract may be published imminently. However, earlier abstracts have been published annually in June/July. I have thus sent an FOI Request to the DWP to confirm when the 2014/15 abstract will be published. It can be followed at: www.whatdotheyknow.com/request/re_foi_request_annual_abstract_of_incoming-624998.
- For the most part, figures on JSA, ESA, Incapacity Benefit and Income Support have been obtained from the DWP’s 2014 booklet, *Benefit and Pension Rates for 2014/15*; and DWP (2014), *Proposed Benefit and Pension Rates for 2015/16*. However, these sources do not contain figures on Income Support for four categories of people, constraining time series analysis for these groups.⁴
- 2014/15 figures on child benefit have been obtained from the gov.uk website, whilst those for 2015/16 are calculated based on the assumption of a 1% cap.

- The Abstract does not list all rates for every sub-category of benefits. This should not matter so long as the uprating policies are the same for every sub-category, but in cases where this is known not to be the case, or where sub-categories’ uprating policies are ambiguous, data from other sources has been consulted:
  - The Abstract’s figures on ESA are for someone in the Work-Related Activity Group. This fails to account for the fact that, as noted earlier, benefits for individuals in the Support Group are uprated differently. All figures on ESA, broken down by whether a recipient is in the WRAG/Support Group, are thus obtained from alternative sources, namely:
    - For the years 2009/10 to 2013/14, the DWP’s respective *Benefit and Pension Rates* booklets. These were obtained in an earlier FOI Request to the DWP by this author.⁵
  - Conversely, only one measure of Incapacity Benefit is taken from the Abstract for use in this spreadsheet: the short-term, lower IB rate for someone under the pensionable age. This is because, as a House of Commons Library report has noted,⁶ all IB rates are subject to the same up-rating policy, and analysis of only one particular benefit is needed.
  - The Abstract only states figures for Contributory JSA for individuals and couples. It was not immediately clear that the same uprating policy applied to income-based JSA for couples – a report by the Commons Library omitted this benefit from a list of benefits subject to a 1% cap.⁷ More modern figures on Income-based JSA were thus obtained and compared with changes in the rates of Contributory JSA, which confirmed that both benefits were set at the same level and subject to the same uprating policy. Income-based JSA is thus not analysed separately in this research – the Abstract’s figures for Contributory JSA are considered to represent all JSA.
  - Between for the years 1988-1990 inclusive, the Abstract does not give the rates for child benefit. These have thus been obtained from an Institute for Fiscal Studies table, which shows that the rates were frozen in these years.

### Constraints in the Time Series

Consistent all-items RPI time series data is available going back decades, into the post-war period. However, figures for individual items in the RPI basket are only available from April 1988, as are figures for the New Rossi index. This constitutes the immediate, most obvious constraint on constructing a time series dating back to 1980. However, there are two additional constraints with on the data on social security benefits:

- Firstly, there have been changes in the reference period in which inflation is measured. For reasons outlined below, in order to ensure one is not misrepresenting the historic trends, one needs to correctly identify the reference period used to measure inflation. From April 1988, this has been the 12 months up to the previous September, which allows for consistent time series analysis. But a variety of other reference periods have been used in earlier years. Incorporating these years would require further adjustments. However, this

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⁴ The categories are Income Support for: a single parent with 1 child aged under 11; for a couple with 1 child aged under 11; for a couple with 2 children aged under 11; and for a couple with 2 children aged 13-16. The *Annual Abstract* does include figures for these categories of people dating up to 2013/14, which show a divergence in trends in these categories of IS and others, in relation to inflation – quite possibly because of changes in the way children have been supported. It would thus be fruitful to obtain these figures for future years, and an FOI Request will be lodged with the DWP to this end. It can be followed at: [www.whatdotheyknow.com/request/re_foi_request_value_of_certain](http://www.whatdotheyknow.com/request/re_foi_request_value_of_certain).

⁵ See [www.whatdotheyknow.com/request/benefit_and_pension_rates_april#incoming](http://www.whatdotheyknow.com/request/benefit_and_pension_rates_april#incoming-581224).

⁶ See Rutherford, Tom (2013), *Historical Rates of Social Security Benefits*, Commons Library Standard Note 6762, p. 4: Incapacity benefit has various levels and rates depending on a person’s circumstances, and how long their incapacity is expected to last … [but] all rates change in harmony with one another, and increase by the same proportion.”

change on its own relates to the period before 1988, and so does not constrain the data more than the inflation issues outlined above.

- Secondly, there have been changes in the inflation measure used. It was only in April 1992 that the measure of inflation used for the bulk of social security benefits in this research – New Rossi – was introduced. Prior to that, from 1983-1993, an earlier form – Rossi – was utilised. In order to develop consistent time series analysis which does not misrepresent trends, one would have to measure the change in inflation from 1988-1992 as changes in Rossi, rather than New Rossi, in the 12 months up to the previous September, which would require more time. It is for this reason that this research begins the analysis at April 1992.

Other Limitations

There are three additional limitations which need to be considered:

- The inflation measures are indices – there is no time series data showing the actual value of large subsets of goods: data is available on the RPI retail prices of a range of specific food items dating from 1988, but not for whole categories of items in the RPI basket, e.g. food, transport, housing, etc. This slightly constrains the kind of data analysis which can be performed, but not in a way which prevents us – using the method outlined below – from learning much about trends in the value of benefits in relation to inflation.

- To avoid misrepresenting trends, the rate of benefits needs to be compared with the precise reference period on which social security benefits are uprated: the Abstract attempted similar analysis to that which is being undertaken in this research: it looked at changes over time in the real value of particular benefits, in money terms, at RPI and CPI. However, it calculated this value on the basis of changes in inflation in the 12 months both up to the date of uprating (April); and the average in the 12 months up to April. This is a useful form of analysis if one is interested in exploring the problems associated with uprating on the basis of inflation up to the previous year’s September. But if one is interested in assessing merely how benefits have kept pace with inflation, it is more appropriate to use the reference point which the government use and focus on inflation in the 12 months up to the previous September. Otherwise, one risks misinterpreting a fluctuation in inflation between the different reference periods as a government policy decision to uprate benefits above inflation. Indeed, this likely explains why the Abstract’s figures show that despite the shift to CPI uprating, the value of JSA and other benefits increased in 2012/13 in terms of RPI.

- Any change in the value of individual items in the RPI basket of goods is sensitive to changes in weightings: in any given year, the weightings attached to changes in the value of items in the RPI basket are adjusted. It should thus be emphasised that a marked divergence in the value of a specific item in relation to benefits will likely partially be a result of a change in weightings in a given year, pushing down the value of benefits lower than it would have been were the previous weightings adopted.

Methodology of this research

In consideration of the above issues, this research adopts the following methodology:

- Trends in the value of the following social security benefits are analysed over various time periods:
  - Incapacity Benefit = 1995/96-2015/16

Some of these benefits are separated into different sub-categories to analyse divergent trends within benefits:

  - JSA – no sub-categories.
  - Child Benefit – two sub-categories:
    - Child benefit for first child.
    - Child benefit for additional children.
  - Income Support – seven sub-categories:
    - IS for an individual (any age) or for a couple (on under-18, one over-18) with no children.
    - IS for a couple or single parent with 1 child under 11.
- IS for a couple with 2 children under 11.
- IS for a couple with 2 children, aged 13-16.
- Incapacity benefit – no sub-categories.
- ESA – two sub-categories:
  - ESA for someone in the Work-Related Activity Group.
  - ESA for someone in the Support Group.

They are compared with changes in the following general measures of inflation over the same period:
- New Rossi = JSA, Child Benefit, Income Support, ESA
- RPI All-Items = Incapacity Benefit

All of the benefits are also compared with the value of the following five items in the RPI basket of goods:
- Rail Fares
- Motoring Expenditure: Petrol & Oil
- Fuel & Light
- Housing: Rent
- Total Food

So as to compare trends between social security benefits and inflation, both are represented as an index, where the first year of analysis = 100. The ONS’s inflation measure is indexed from 1988, but it is possible to adjust this index to start at 100 in any year one desires – be it 1991/2, 1993/4 or 2007/08. The calculations performed in order to do this are all set out in Tab 3 of the attached spreadsheet.

Care is also taken to adopt the appropriate reference point for the inflation, so as to avoid incorrectly interpreting a change in month-by-month inflation as a conscious government decision to change uprating policies. Therefore, for a benefit rate in April in any given year, the associated inflation measure adopted is of the 12 months to September in the previous year.

Results

Headline Results – RPI v. Benefit Rates

The graphs show that all social security benefits, except for Incapacity Benefit, have failed to keep pace in terms of their value with RPI/New Rossi inflation. The first graph, below, shows how the real value of JSA has changed since 1992.

It shows that in the 1990s, small reductions and below-inflation increases in JSA for individuals and couples had the effect of reducing their real value. Although New Labour continued to uprate JSA in line with New Rossi, they did not make up this lost value.

The Coalition’s 2010-2014 uprating reforms, however, have brought about a marked and unprecedented reduction in the real value of JSA, which has increased considerably below inflation over the past five years. We have also seen considerable changes in the value of child benefit and ESA (see below).

The graphs show that the value of both has failed to keep pace with inflation as the Coalition have implemented changes to their uprating policy. Even those in the Support Group of ESA – who have been assessed as unfit to work – have seen the value of their benefit fall behind inflation. The value of their benefit is little better than for those in the Work-Related Activity Group for the reasons outlined above: only part of their benefit – the Support Group element – is uprated in line with CPI, whilst increases in the other portion of the benefit are also capped at 1%.

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8 This is largely because of unexpectedly-high rates of CPI inflation relative to RPI inflation during the Coalition’s term in office, which has had the effect of uprating the benefit by a higher level than anticipated. In addition, in 2009, RPI fell, but the Brown premiership nevertheless opted to increase Incapacity Benefit. This also contributes to the higher rate relative to the inflation index in future years.
The changes in income support (see below) are consistent with this trend. This is partly because the last Labour Government opted to increase IB in spite of a fall in RPI in one year, but the above-inflation increase is still apparent if one removes these increases. However, the graph does show a downward trend 2014/15 and 2015/16: the value of IB in relation to RPI is declining.
This change is most marked in relation to Child Benefit, which has been frozen for two successive years and is now subject to a 1% cap.

The graph overleaf shows that starting this coming financial year (2014/15), New Rossi inflation is set to exceed the value of child benefit for additional children. This means that, in effect, the past five years have seen a complete reversal of over a decade of above-inflation increases in child benefit for additional children: in real terms, the benefit is now worth less than it was in the 1990s.
In other words, looking from the perspective of the changes in the value of the benefits in money terms, the figures show that:

- Child benefit for *additional* children is worth less now than at any point in the past 35 years. All of the 1992-2010 increases in the real value of the benefit have now been erased by inflation. In 1992, the benefit was worth £7.50 – or £14.05 in today’s money, using RPI. But today’s child benefit for additional children is worth just £13.70.

- Half of the 1992-2010 increase in child benefit for the *first* child has now been erased by inflation. In 2009, at its most generous, the benefit was worth the equivalent of £23.28 in today’s money, a third (129%) increase on its previous value in 1992 (£18.07 equivalent). It is now worth £20.70, or just 115% of its 1992 value.

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More detailed findings – individual items in RPI basket of goods

The graphs below and overleaf set out the value of a range of social security benefits in relation to the five individual items in the RPI basket of goods. They show that inflation for all five of the basic goods, save food, has outstripped the rate of growth in social security benefits over this period. For three of these items – rent, rail travel and motoring expenditure – this is consistent across the whole period we are looking at. However, this has not always been the case for costs associated with Fuel & Light: they increased below the rate of social security benefits in the 1990s, but have since seen a marked rise in their value.

The trend for Employment and Support Allowance over the period from 2008 is broadly similar. However it does show that rent has increased less than it has historically in relation to social security benefits. This is why it sits below the benefits in the ESA graph but not that for the other social security benefits: both the 2008-2015 and the 1992-2015 graphs are representing the same trend, but rents have simply increased by less in recent years than they have previously.