



# NOTHING LEFT TO CUT BACK

## RISING LIVING COSTS AND UNIVERSAL CREDIT

February 2022

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### Millions of families are facing a huge real-terms cut to their benefits

New statistics out today show that in November 2021, 3.6 million children were in families relying on universal credit (UC).<sup>1</sup> With prices set to rise at twice the rate of benefits, these families and others receiving social security face a significant real-terms cut to their benefits.

In April, UC will increase by 3.1 per cent, just as inflation is predicted to peak at 7.25 per cent.<sup>2</sup> This means the value of UC for families with children will fall by around £570 a year, on average.<sup>3</sup> The 180,000 families subject to the benefit cap will experience an ever greater fall in the value of their UC.<sup>4</sup>

Without further government action, out-of-work families with children will be the furthest away from being able to afford an acceptable standard of living since records began in 2008.<sup>5</sup>

### Families in poverty will be hardest hit by rising prices

Families with children living in poverty will be among the worst hit by rising supermarket prices and soaring energy bills. With energy bills due to increase by 54 per cent in April, these families are set to spend three times the share of their income on energy, compared to better-off families.<sup>6</sup>

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<sup>1</sup> Department for Work and Pensions, *Households on Universal Credit*, Stat-Xplore, 2022

<sup>2</sup> Bank of England, [Monetary Policy Report](#), 2022

<sup>3</sup> We estimated the difference between uprating the average UC award for families with children (£1,032.97 in November 2021) in line with inflation in April 2022 and the current approach to uprating certain UC elements by 3.1 per cent.

<sup>4</sup> 179,227 households were subject to the benefit cap in August 2021. See DWP, *Benefit Cap statistics*, Stat-Xplore, 2022

<sup>5</sup> CPAG analysis drawing on the Minimum Income Standard (MIS) methodology developed by Donald Hirsch. We compare the extent to which benefits from 2008 (JSA, child tax credit and child benefit) to 2022 (universal credit and child benefit) reach the MIS for out-of-work lone and couple parent families with two children. Prices have been deflated using the Bank of England's inflation estimates for April 2022 (7.25 per cent). We account for the council tax rebate scheme by assuming all households in poverty receive the £150 rebate and spread it over 6 months.

<sup>6</sup> CPAG analysis of the Living Costs and Food Survey (2019/20), Ofgem's energy price cap data, and the council tax rebate scheme. In April 2022, we estimate that families with children living in poverty will be spending 17% of their disposable income, after housing costs, on energy bills – compared to 5% for better off families with children.

Even after the council tax rebate scheme, lone-parent families in poverty face having to spend around £1 in every £4 of their disposable income, after housing costs, if they are to continue using the same amount of energy.<sup>7</sup>

## Budgets are already beyond breaking point



*'To cut costs we go without heating. There is simply nothing left to cut back.'*

Aurora, Covid Realities

A number of real-terms cuts to benefits over the last decade have pushed the budgets of families receiving benefits to breaking point. The £20 a week increase to UC and working tax credit temporarily restored some of the value lost over the past decade, but its removal has put out-of-work benefits at their lowest level in 30 years.<sup>8</sup>

In 2009, an out-of-work lone parent could afford two-thirds (66 per cent) of the goods and services required for a minimally acceptable standard of living. In April 2022, they will only be able to afford half (54 per cent) of the required goods and services.<sup>9</sup>

The reduced UC taper rate and slightly more generous work allowances, introduced in last October's Budget, will help cushion some of the loss of £20 a week for working people on UC – particularly higher earners. However, those most in need of support will face the greatest exposure to rising costs.

While most families will see their benefits increase by 3.1 per cent in April, household bills and supermarket prices are set to increase by over twice that rate. Families will receive more money but they will be able to afford significantly less with it – effectively losing £570 a year, on average. That's equivalent to around 3 months of energy costs after bills rise in April.

The 180,000 families subject to the benefit cap will see no increase in their benefits come April. The benefit cap restricts the amount of money some families receiving benefits get. The cap hasn't increased since 2016, while the cost of living has increased by around 18 per cent in that time,<sup>10</sup> pushing families deeper into poverty.

## The council tax rebate scheme won't be enough

In April, energy bills for families with children in poverty are set to rise by around £60 a month.<sup>11</sup> The council tax rebate scheme will mitigate around two fifths of that cost through spring and summer, leaving families in poverty to cover around £35 in additional energy bills each month.<sup>12</sup>

<sup>7</sup> See note 6

<sup>8</sup> Centre for Economic Performance and the Resolution Foundation, *Social Insecurity*, 2022

<sup>9</sup> We compare the extent to which benefits in 2009 (JSA, child tax credit and child benefit) and 2022 (universal credit and child benefit) reach the MIS for an out-of-work lone parent with two children. We account for the council tax rebate scheme by assuming all households in poverty receive the £150 rebate and spread it out over 6 months. The equivalent figures for couple parent families are 60 per cent in 2009, falling to 51% in 2022.

<sup>10</sup> We estimate inflation at 18 per cent over the six-year period from April 2016 to April 2022. See ONS, *CPI index time series*.

<sup>11</sup> CPAG analysis of ONS, *Living Cost and Food Survey (2019/20)*. We have projected forward the energy costs for families with children in poverty using Ofgem's energy price cap data.

<sup>12</sup> We have assumed that every household in poverty receives the £150 rebate in April and spreads it over 6 months of energy bills. This represents a best-case scenario as particular groups risk receiving the rebate later in the year or missing out on it altogether, including: households who don't pay council tax by direct debit or by any other method, students who are exempt from council tax, and private renters who don't pay their council tax directly.

But this isn't just about energy bills soaring overnight when the next price cap kicks in. The cost of other essentials – including food, transport, childcare and clothes – has been increasing significantly over the past year. This spring, food costs alone are set to be £26 a month higher than last year for families with children in poverty.<sup>13</sup>

### **Benefits must keep pace with rising living costs**

Families need help with rising living costs across the board, not just the soaring cost of energy. Benefits must keep pace with the rising cost of essentials – this means increasing benefits by 7 per cent in April to match inflation. Anything less risks pushing those with already stretched budgets past breaking point and into debt or forced to go without. To make sure all families receiving social security feel this increase, the benefit cap also needs to be lifted.

This alone won't fix the problem but it will prevent it from getting significantly worse. Much more is needed for the level of support to reflect what people need to get by – this must be the first step.

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### **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.

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<sup>13</sup> CPAG analysis of ONS, *Living Cost and Food Survey (2019/20)*. We have projected forward the food costs for families with children in poverty using the Bank of England's forecast for inflation in April 2022 (7.25 per cent). The ONS has recently acknowledged that their current methodology to calculate inflation, particularly for food costs, may underestimate the price increases experienced by lower-income families. This figure may therefore be an underestimate.