Enough to get through the winter

Will additional cost of living support be enough for families on low-incomes?

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In August, 56 faith groups, charities and politicians supported a call by Gordon Brown for the UK government to take urgent action to bridge the cost of living gap faced by the lowest income families. The subsequent Ofgem announcement of an 80% increase in the energy cap in October contributed to a consensus that much more help is needed. The government's decision to raise the cap by 'only' about 25% to £2500 for an average family ended the fear of this catastrophic rise in bills.

But on its own, this will not be enough to make families on the lowest incomes a lot worse off this winter than last.

This paper sets out in simple terms what more will be needed as a minimum to stop the worst-off families from falling further behind from October onwards, in terms of their ability to meet their fuel bills and other essential costs. The paper does not propose a comprehensive solution to the very difficult medium and long-term problem of ensuring that energy and other living costs are affordable to those with the lowest incomes. Rather, it extends the earlier analysis, which asked a simple, limited question:

What incomes are people on benefits getting in 2022/3, compared to what they would have got had they not been hit by three big blows over the past year: the £1000 year cut in Universal Credit in October 2021, the uprating of benefits by just 3% in April 2022 rather than the 11% price increases that low income families were actually experiencing and enough in addition to cover the further rise in energy costs in October 2022?

The paper concluded that people were falling behind in these terms, even after taking account of the cost of living package worth £1200 in total to low income households. Because the assistance was flat rate, larger households lost out more. For a couple with two children, the net loss would be £1,600, while for a single person, it was £750.

These broad estimates were based on households with average fuel bills. In practice, the difference between larger and smaller households would have been even greater, since fuel bills vary by household size.

The main new calculation in this paper simply adjusts these estimates to take account of the energy cap increase in October 2022 being just over £500 a year for a typical family, rather than the £800 expected when the earlier package was announced in May, on which the earlier paper's calculations were based.

Note that, as with the original paper, the calculation does not take account of increases in non-energy costs since April. Inflation-based benefit upratings are normally applied once a year in April, rather than continuously throughout the year, and it is only in the exceptional context of household energy costs being projected to more than double within the course of the year that mid-year help has become so essential. However, the increase in food prices since April, by 7% so far, together with the rising cost of other items, will in practice make it even harder for families to make ends meet if the shortfalls show in this paper are not met.

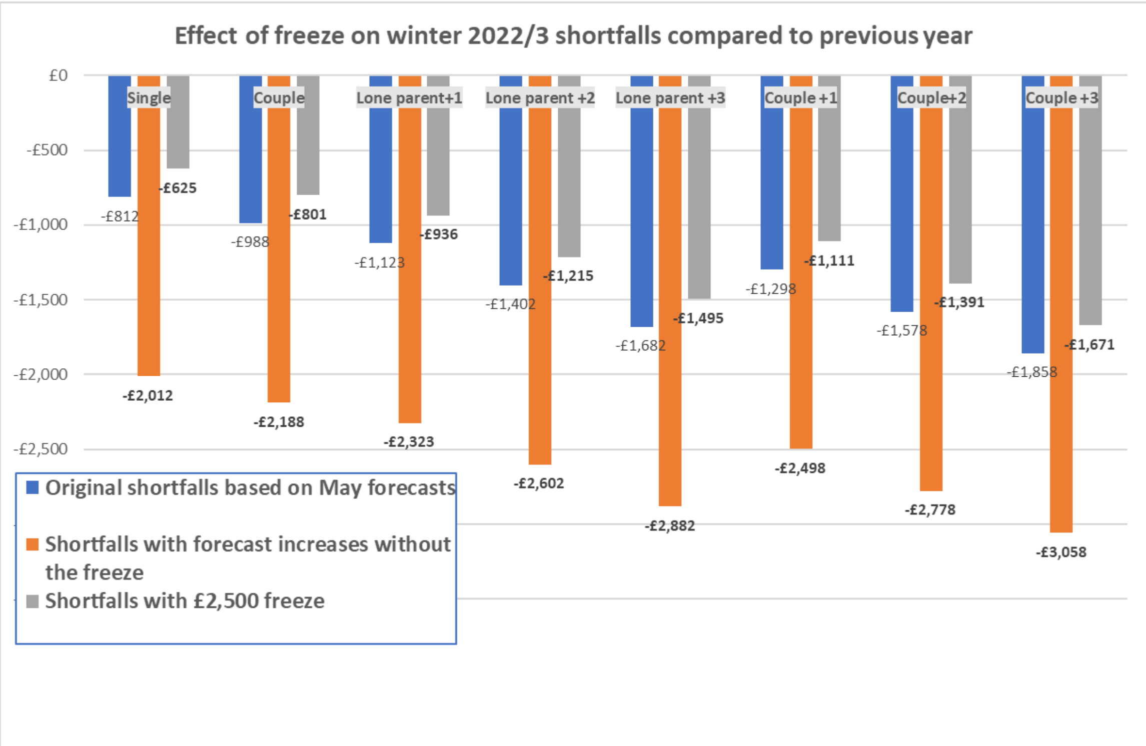
The calculation

The previous paper's calculation was based on an £800 increase in the energy cap. Instead, it will be £529 (from £1,971 to £2,500).

The assumption was that £550 of the £800 would be spent between October and March – i.e. prior to the next uprating of social security benefits. (This was based on data on the distribution of fuel use through the year.)

The lower increase in October will mean that it will still increase energy costs by an average of around £350. So the shortfalls set out in the original paper will be reduced by just £200, in most cases only a small proportion.

Figure 1 shows how the freeze avoids the catastrophic increases had the cap been allowed to rise by over £1500 in October and then (as forecast) by a further £1,800 in January. It shows that a couple with two children on out-of-work benefits will still be nearly **£1,400** worse off than last year, even before recent rises in food and other non-energy costs are taken into account. A single person will be over **£600** worse off.



These figures show that there remains an urgent need to provide more help to the most vulnerable families, who are already living on the edge and cannot afford to cover these additional costs. Such support needs to be targeted to ensure that larger households, with much greater shortfalls, get proportionately more assistance.

As well as requiring immediate support for this winter, these families need to know what will happen in the months and year ahead. Households will continue to face higher energy and other bills beyond this date this winter, and so far cost of living support has been announced only a one-off basis. With present rules, Universal Credit and other benefits will be uprated in April 2023 according to September 2022 inflation – which will therefore not take into account the still substantial rise in energy prices in October: benefits will not being adjusted to reflect this until April 2024. There is thus a strong case for changing the reference period, at least to October if not later, given the importance of energy price increases in that month to the overall increase in the cost of living.

The forthcoming fiscal statement provides an opportunity both to make up the shortfalls highlighted here and to provide greater clarity about what lies ahead.

Three tests by which to evaluate the effect of the effect of the fiscal measures announced this month, combined with the effect of the energy freeze

In order to address the cost of living crisis being felt by households on the lowest incomes, public support needs to meet three criteria:

1) It must be *adequate.* It needs to make inroads into the hardship that people depending on benefits are facing, rather than allowing them to continue becoming worse off.
2) It must be *targeted by need.* Flat rate payments such as those already announced give very unequal help, relative to need, to larger and smaller households. Larger households have lost much more, in absolute terms, from the under-uprating of benefits, and typically their energy costs will rise by more due to the size of their accommodation
3) It must be *timely.* A fast delivery system is obviously required. In addition, any plan needs to consider the known dates at which new price caps are announced, and create a clear expectation among those in most need about how payments will help cover subsequent increases. The timing of inflation uprating of benefits also needs better alignment with energy price cap rises, reforming a system which if left unchanged would only take account of an October price rise 16 months after it has occurred.

The alternative to a system of timely responses to the current unprecedented energy price inflation is for families to struggle from one crisis to the next, with no way of planning their future finances.