



# AUTUMN STATEMENT

## CPAG BRIEFING FOR MPS

15 November 2022

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### Background

As the UK heads into recession, it is clear that high inflation and tough economic times will continue to put pressure on families with children. Disappointingly, the short-term cost of living support packages announced by the government to date do not match up to the scale of the challenge. Lower-income families are already at breaking point and are looking to the government to demonstrate that they will honour their promise to protect the most vulnerable.

This is an important moment for the new government to fulfil this promise by taking urgent action to prevent and reduce child poverty. We need to see a move away from blunt, short-term responses towards a sustained investment in social security that protects those most in need.

CPAG recommends that:

1. Benefits are uprated by at least September 2022 CPI (10.1 per cent)
2. The benefit cap is abolished
3. Families with children are provided with comprehensive support with energy costs
4. Eligibility for free school meals is extended to all families on means-tested benefits
5. Cuts to social security since 2010 are reversed



## Uprate benefits with inflation

Lower-income families are at the sharp end of the cost of living crisis. In 2023/24, prices will be 17 per cent higher than in 2021/22,<sup>1</sup> but **for low-income families prices will be 21 per cent higher.**<sup>2</sup> This is because low-income households spend more on necessities like energy and food, which have risen sharply.

Even if benefits are uprated by September's CPI (10.1 per cent), families will be worse off in 2023/24 than they were *after* universal credit was cut last year. If this happens, benefits will be 14 per cent higher in 2023/24 than in 2021/22, considerably below the 21 per cent inflation rate lower-income families face.

**Uprating benefits by earnings (5.5 per cent) instead of CPI (10.1 per cent) will mean an additional 200,000 children in poverty.**<sup>3</sup> The exact amount lost will vary by family type but an in-work couple with two children will lose out by £752.<sup>4</sup> It is vital that all benefits are *at least* uprated by September 2022 CPI as a minimum.

## Abolish the benefit cap

It is essential that the **benefit cap, which has been frozen since 2016, is scrapped.** The cap will prevent 130,000 households from getting any extra help in April, regardless of the uprating decision. In addition, if uprating by inflation goes ahead, 35,000 more households will reach the cap in April and will not receive the full increase in the benefits they are due.<sup>5</sup> Capped families are some of the poorest across the country – an average couple with two children will be £150 a week below the poverty line in April. Removing the cap would put an additional £65 a week, on average, in the pockets of these households, invaluable in the current cost of living crisis.

## Provide comprehensive support for energy costs to families with children

In 2022/23 the one-off cost of living payments (in conjunction with the £2,500 energy price cap freeze) were an invaluable lifeline for low-income families. It is vital that additional support is provided to help low-income families in 2023/24. We recommend that this support is:

- **Proportional to household size** - Families spend 30 per cent more on energy than households without children.<sup>6</sup> Larger households have also lost out by more due to sub-inflationary uprating.<sup>7</sup> Even if benefits are uprated by September 2022 CPI, an out-of-work couple with two children will be £1,000 worse off in 2023/24 than in 2021/22.<sup>8</sup> An out-of-work lone parent with one child will be £600 worse off.

<sup>1</sup> Author's calculations from *Consumer Price Index*, Office for National Statistics (ONS) and *Numerical Parameters of Monetary Policy Report Probability Distribution November 2022*, Bank of England. The Bank of England inflation forecasts assume that (1) there will be some spending cuts/tax rises in the Autumn Statement, and (2) the government will do something to replace the price cap but it will be half as generous and there will be no additional cost-of-living payments.

<sup>2</sup> 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, ONS, 2022.

<sup>3</sup> 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.

<sup>4</sup> *National insurance gains to be dwarfed by income losses if benefits uprated with wages*, CPAG, October 2022

<sup>5</sup> *Benefit cap: cost of living in a crisis*, CPAG, September 2002

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

<sup>7</sup> This is because their costs and therefore universal credit entitlement are greater.

<sup>8</sup> Author's calculations from Note 1 and benefit rates.

- **Permanent** - There is no evidence that costs will return to pre-crisis levels. The uncertainty over who receives support, when they receive support and whether/how this support will be replaced with something else is worrying for families. Low-income families need certainty as they budget for the upcoming months.

### Increase eligibility for free school meals

The government should roll-out free school meals to all families receiving means-tested benefits in England – this would help 1.3 million children (800,000 of whom are living in poverty) in working households, and support families who are struggling financially by lowering their everyday costs.<sup>9</sup>

### Reverse the cuts to social security since 2010

The social security system was suffering from a lack of investment prior to the cost of living crisis. Cuts to social security throughout the 2010s has driven a spike in child poverty – pre-COVID there were 4.3 million children in poverty, an increase of 700,000 from 2010/11.<sup>10</sup>

The government must:

- **Remove the two-child limit** to ensure that all children receive financial support.
- **Increase child benefit by £20 a week.** Child benefit has lost 25 per cent of its value since 2010. Increasing the value of child benefit would provide invaluable support for middle-income families as well as low-income families.
- **Allow families to access more of their benefit entitlement** by reducing the maximum amount that can be deducted from universal credit for debt repayments to 15 per cent of the standard allowance. This cost-neutral intervention would provide up to £53 more a month for a couple and up to £33 more a month for a single person or lone parent.<sup>11</sup>

### Conclusion

Families have been telling us that they have no room left in their budgets, and they have been on the brink of survival since 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 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.

Rapid and sustained investment in the social security system will support those most in need through difficult times, reassure families up and down the country, and help ensure that children don't bear the brunt of the current crisis.

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<sup>9</sup> 800,000 children in poverty not getting free school meals, CPAG, June 2022

<sup>10</sup> Households Below Average Income 2020/21, Department for Work and Pensions, 2022. The poverty measure used is relative after housing costs (AHC).

<sup>11</sup> Reducing deductions, CPAG, May 2022

## 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.