

# Impact of inflation on low-income households in the UK

ESPN Flash Report 2022/19

JONATHAN BRADSHAW – EUROPEAN SOCIAL POLICY NETWORK

JUNE 2022

*The UK rate of inflation rose to 9% in April 2022, the highest rate for three decades. A cap on domestic fuel prices also increased in April which will double household's fuel bills. Initially the government did rather little to respond to what is being called "The Cost-of-Living Crisis", especially for those with low incomes. However when the energy regulator announced that there would be a further 32% increase in the fuel cap in October 2022 the UK Chancellor announced a package of support costing £37 (€43.7) billion this year.*

#### LEGAL NOTICE

*This document has been prepared for the European Commission. However, it reflects the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.*



## Description

In September 2021 inflation was 3.1%. This is an important number because by convention the inflation rate in the previous September determines the increase in most social security benefits in the following April. So, in April 2022, benefits went up by 3.1% but prices were then rising by 9%. The usual exception to this convention is that the state pension is normally covered by the "triple lock" which increases pensions by the best of the following three elements: prices, wages or a minimum of 2.5%. In October 2021, wages were increasing by 8% thanks mainly to employment emerging from the pandemic. As a result, the government decided to drop the triple lock for this uprating and increase the state pension only by inflation (3.1%).

The pressures on low-income households had already been exacerbated by the decision of the government in October 2021 to end the £20 (€24) per week uplift in the standard allowance for Universal Credit and the basic rate of Working Tax Credit which had been introduced to mitigate the impact of the pandemic. The latest poverty estimates covering 2020/21 reveal that this uplift had been the main reason for a reduction in both relative poverty (income less than 60% of the current median) and absolute poverty (income less than 60% of the median anchored in 2018 and adjusted for inflation) rates in that year (Department for Work and Pensions, 2022). The percentage of individuals in relative poverty fell by two percentage points (from 18% to 16% before housing costs and from 22% to 20% after housing costs) and absolute poverty fell by one

percentage point both before and after housing costs (from 14% to 13% and from 18% to 17%, respectively) between 2019/20 and 2020/21.

In the Spring 2022 Budget, it was expected that the UK Chancellor would announce specific measures to mitigate price rises or protect incomes by increasing benefits by actual inflation. The Scottish Government doubled the Scottish Child Payment to £20 (€24) per child per week in April 2022 and promised to increase it again in October 2022. But the UK Chancellor merely announced an increase in the funds that local government can use to make discretionary payments to people in hardship; a temporary £150 (€180) reduction in Council Tax payable by those in the lower rate bands (based on the value of the house); an increase in the Warm Homes Discount, a scheme run by energy companies to reduce energy costs for poorer consumers and funded by other consumers; and a 5p (6c) a litre cut in fuel duty. There was also a reduction in fuel bills for consumers, but to be paid back over future years. An already announced increase in the national minimum wage in April 2022 would provide some relief for low wage earners but this was offset by the decision to increase National Insurance Contributions, a broadly regressive tax. The Office for Budget Responsibility (2022a) also predicted that real wages would fall by 3.6% over 2022. The Chancellor promised that with these measures he would be able to cut income tax before the next election.

After criticism of paucity of this package and the announcement by the energy regulator that fuel prices would rise by an additional 34% in October, the UK Chancellor announced in May 2022 a new

package of measures including a £400 (€472) grant to all energy customers, a £650 (€767) payment to all households receiving means-tested benefits, a £300 (€354) payment to all pensioner households, and £150 (€177) payment for those receiving disablement benefits.

## Outlook and commentary

The inflation rate in September will determine the uprating of the basic minimum benefits that come into effect in April 2023, meanwhile the level of benefits will be at their lowest real level for 50 years. This package will certainly mitigate the cost-of-living crisis for this year. The Resolution Foundation (2022b) describes the package as “big and well targeted” and progressive. Together with other tax measures all except the top decile of the household income distribution will have gained. Overall, the package offsets 82% of the rise in energy prices and over 90% for the poorest households in 2022/23. The only slight reservation about the package is that the flat rate household payments make no

allowance for variations in household size or composition.

### Further reading

Department for Work and Pensions (2022). [Households below average income: an analysis of the income distribution FYE 1995 to FYE 2021](#). Updated 8 April 2022

House of Commons Briefing (2022). [Rising Cost of living in the UK](#)

Office for budget responsibility (2022). [Economic and Fiscal Outlook](#)

Resolution Foundation (2022a). [Inflation Nation: Putting Spring Statement 2022 in context](#), Briefing, March 2022.

Resolution Foundation (2022b). [Back on Target: Analysis of the Government's additional cost of living support](#), 27 May 2022.

### Author

[Jonathan Bradshaw](#) (University of York)

*The Flash Reports are produced by the European Social Policy Network (ESPN) established in 2014 to provide the European Commission with independent information, analysis and expertise on social policies in 35 European countries. The topics covered are identified by ESPN experts in the light of significant developments in their countries, or in some cases suggested by the Commission or the Flash Reports' editorial team (Anne-Catherine Guio, Eric Marlier and Slavina Spasova). The ESPN is managed by LISER (Luxembourg Institute of Socio-Economic Research), APPLICA and the OSE (European Social Observatory). More information on the ESPN: <http://ec.europa.eu/social/main.jsp?catId=1135&langId=en>.*

Quoting this report: Bradshaw, J. (2022), *Impact of inflation on low-income households in the UK*, ESPN Flash Report 2022/19, European Social Policy Network (ESPN), Brussels: European Commission.