The Cost of Living: Alleviating the crisis

May 2022

The Centre for Social Justice

www.centreforsocialjustice.org.uk

Table of Contents

About the Centre for Social Justice

Established in 2004, the Centre for Social Justice is an independent think-tank that studies the root causes of Britain's social problems and addresses them by recommending practical, workable policy interventions. The CSJ's vision is to give people in the UK who are experiencing the worst multiple disadvantages and injustice every possible opportunity to reach their full potential.

The majority of the CSJ's work is organised around five "pathways to poverty", first identified in our ground-breaking 2007 report Breakthrough Britain. These are: educational failure; family breakdown; economic dependency and worklessness; addiction to drugs and alcohol; and severe personal debt.

Since its inception, the CSJ has changed the landscape of our political discourse by putting social justice at the heart of British politics. This has led to a transformation in government thinking and policy. For instance, in March 2013, the CSJ report It Happens Here shone a light on the horrific reality of human trafficking and modern slavery in the UK. As a direct result of this report, the Government passed the Modern Slavery Act 2015, one of the first pieces of legislation in the world to address slavery and trafficking in the 21st century.

Our research is informed by experts including prominent academics, practitioners and policy-makers. We also draw upon our CSJ Alliance, a unique group of charities, social enterprises and other grass-roots organisations that have a proven track-record of reversing social breakdown across the UK.

The social challenges facing Britain remain serious. In 2022 and beyond, we will continue to advance the cause of social justice so that more people can continue to fulfil their potential.

Acknowledgements

With thanks to: Sir Iain Duncan Smith MP and Miriam Cates MP, Chair and Deputy Chair of the parliamentary Social Justice Caucus; Deven Ghelani and the team at Policy in Practice, who helped with the costings presented in this report.

Foreword

The Rt. Hon. Sir Iain Duncan Smith MP

Britain is facing an inflationary surge unprecedented this century. At the time of writing, the rate of inflation was at an historic high of 9 per cent, with the Bank of England now forecasting the Consumer Price Index (CPI) to breach 10 per cent this year. This is already piling pressure on household incomes. With prices now rising at double the speed they were following the 2008 financial crisis, the average family will find themselves £1,200 worse off in real terms.

The Bank of England now predicts at least a quarter of negative growth in 2023 and almost zero growth for the foreseeable future. The UK is facing a triple whammy – rising interest rates, rising taxes and rapid inflation

The Chancellor took steps at the Spring Statement to alleviate the worst effects of surging inflation, including a £200 loan to help with energy bills, a Council Tax rebate and putting more money into the Household Support Fund. These measures, however, do not go anywhere near far enough to help the very worst off. That is why the Centre for Social Justice (CSJ) is calling for a special fiscal event to tackle this crisis, and to provide an inflation shield for those most struggling.

In Universal Credit (UC), the UK has a world-class social security system that is data-rich and effectively targeted at the households that need it most. Rebates and discretionary funds represent a step in the wrong direction for tackling poverty. UC links benefits to work, ensuring those that are able can move into and progress within employment. Thus it is a "hand up", not a hand-out.

While the decision to cut the UC taper in the Autumn Budget put £1,000 back into the pockets of 1.9 million households, much of its value will be wiped out by inflation. And it will do nothing to protect those who are not in work. With UC only uprated by 3.1 per cent in April, those who rely on welfare for their income will experience a 7 per cent cut. To prevent this, the Chancellor and Secretary of State for Work and Pensions should implement an emergency in-year uprating, bringing UC into line with inflation to ensure it covers the true cost of living.

There is more the Government can do, as this CSJ report lays out. The Chancellor should seek to remove those parts of each household's energy bill for which it is directly responsible – the Green levies. These add needlessly to the cost of energy, piling unnecessary taxes on top of the rising price of electricity and gas.

Crucially, the Chancellor and Secretary of State should restore work allowances to their pre-2015 level – this would operate as an effective tax cut for those who are in work but are struggling on low incomes. This will also increase incentives to move off UC towards financial independence.

Most importantly, the Government should complete the reform of the welfare system, started in 2012, by rolling out Universal Support. This will help those who are furthest from the jobs market into the record number of vacancies in our economy, boosting labour market participation and reducing dependence on benefits.

The Government's response to the inflation crisis should have three goals at its centre: adequate financial support for the worst off, helping those who are able into work, and restoring growth to our economy by reducing the overall burden of taxation. The Government is right to say that work is the best route out of poverty, so as the costs on those who are doing the right thing spiral, now is the time to act.

Executive Summary

The UK is currently experiencing a cost of living crisis. At the time of writing, CPI inflation was running at 9 per cent, with the Bank of England expecting it to rise above 10 per cent this year. This has been caused by a combination of factors, including the reopening of the economy after Covid-19, the squeezing of global supply chains and the war in Ukraine, leaving households on average £1,200 worse off in real terms.[1] This trend is taking place across the developed world.

A major factor behind current inflationary pressures is the rising cost of electricity and gas. This has been caused by a spike in global wholesale energy prices following the global pandemic, the embargo on oil from Russia and plans to end Russian gas imports by the end of the year. This has been experienced by many as a major increase in household bills – an average of 54 per cent – when the Ofgem price cap increased on 1 April. This is causing and will continue to cause many, especially those on the lowest incomes – who spend the highest percentage of their incomes on energy – to struggle.[2]

Benefits have been uprated by only 3.1 per cent, a much lower rate than the forecast inflation rate for 2022, leaving millions of households worse off. While the Government is (rightly) observing vigilance over the public finances and does not wish to spend irresponsibly or disproportionately on welfare, the real value of benefits has now been eroded to its lowest level since the early 1990s.[3]

Historical decisions to freeze benefits arose from the twin drivers of: 1) restraining public spending from 2010 onwards, and 2) the principle of public policy that one should always be better off in work. The CSJ would suggest that the (laudable) latter objective has, to a large degree, been achieved. The former goal remains important in the post-pandemic economy but, we suggest, must be seen within the context of the real value of benefits needing to cover the basic cost of living.

Meanwhile, Government policy choices relating to the mechanism for funding renewables investment are compounding the problem. Environmental and renewables levies charged to businesses and energy suppliers, which are passed on to consumers, add on average 25 per cent to the average monthly electricity bill, and as much as 15 per cent to a combined energy bill.

Governments and central banks around the world are tightening monetary policy as a counter-inflationary measure. However, the UK is unusual in that it is choosing this moment to tighten fiscal policy, too, including the Chancellor's decision to pursue an increase in National Insurance Contributions (NICs), effective from 1 April. Fiscal tightening risks "baking in" the economic slowdown by allowing incomes to fall and demand to slump. The Governor of the Bank of England has said he anticipates "a very sharp slowdown" in the latter half of 2022, with the Bank itself warning of at least a quarter of negative growth.[4]

A perfect storm, and the need for a fiscal event

Soaring energy prices, National Insurance rises, wider consumer price inflation for basic goods and the cost of Net Zero projects falling on the poorest are all combining to form a perfect storm. Meanwhile, for those at the very sharpest edge of the cost of living crisis, CSJ research suggests that up to one million people are already in debt to illegal money lenders.[5] And for the thousands of people experiencing debt deductions of up to 25 per cent of the monthly UC standard allowance, financial survival will be near-impossible.

1 https://www.resolutionfoundation.org/press-releases/britain-faces-the-biggest-income-squeeze-in-generations-as-ukraine-conflict-pushes-inflation-towards-40-year-highs/

2 Office for National Statistics, *Energy prices and their effect on households*, February 2022.

3 https://www.jrf.org.uk/press/main-out-work-benefit-sees-its-biggest-drop-value-fifty-years

4 The Bank is not currently forecasting two consecutive quarters of negative growth (the formal definition of a recession), https://www.ft.com/content/5001ffb8-96d6-4e1a-a9dc-5ad4470930c7, https://www.itv.com/news/2022-05-05/bank-of-england-forecasts-a-recession-in-the-uk-as-inflation-tops-10

5 https://www.centreforsocialjustice.org.uk/library/swimming-with-sharks

The Prime Minister has made a welcome commitment that the Government will "use all our ingenuity and compassion for as long as it takes" to help families through the turbulence. He has asked the Cabinet to produce non-fiscal solutions that may aid with the cost of living.

However, the CSJ argues here that any non-fiscal intervention will take time in order to produce any felt benefit, and will be insufficient to meet the scale of need.

Taking into consideration both above-expectations tax receipts and total spending, the Chancellor had in the region of £20bn available to him at the Spring Statement.[6] The Treasury is also expected to have £27bn of above-forecast receipts over the coming year.[7] The Chancellor should deploy some of these available funds to provide more support to those most struggling, while also setting out measures to help those who are capable into work.

The Government should use this fiscal headroom to announce a £3.8bn inflation shield, targeted at those who are worst affected by the surge in the cost of living. This would see Universal Credit allowances lifted to reflect the true level of inflation, with 4.2 million households to receive an additional £729 on average annually. It would also help claimants keep more of their earnings, with an effective tax cut worth £733 million, benefiting 1.66 million of the poorest working families.[8] The Government should also initiate the roll-out of Universal Support, to help those furthest from the labour market take advantage of rising vacancies.

The Government has said it "stands ready to do more" to help our nation through the turbulence of inflation. In this paper we provide an action plan it can take to alleviate the cost of living crisis.

Summary of recommendations

Inflation shield action plan

Recommendation: *The Government should immediately announce a special fiscal event in order to set out a fiscally responsible action plan to shield the public from the worst effects of rising inflation, including energy prices.*

Energy price cap review

Recommendation: *The Ofgem price cap should be reviewed at least quarterly rather than six-monthly in order to avoid cliff-edges in prices. If necessary the Domestic Gas and Electricity (Tariff Cap) Act 2018 should be amended to ensure quarterly reviews.*

Universal Credit – uprating

Recommendation: *The Chancellor should announce an 'emergency' review and uprating of Universal Credit at the end of the present quarter as part of a special fiscal event, bringing benefits to a level reflective of the level of inflation in the year to May 2022, as measured by the CPI. A 10 per cent increase to UC allowances would require HM Treasury to allocate £3.1bn of the fiscal headroom accumulated through above-forecast tax receipts.*

Recommendation: *The Government should consider amending the Social Security Administration Act 1992 to require the Secretary of State to review the rate of benefits quarterly rather than annually, at least for the duration of the current period of unusual inflationary pressure.*

6 https://www.resolutionfoundation.org/app/uploads/2022/03/Catch-2022.pdf

7 https://www.bloomberg.com/news/articles/2022-03-23/u-k-treasury-to-raise-36-billion-more-tax-despite-sunak-s-cuts

8 Policy in Practice analysis, May 22

Recommendation: *The system of uprating benefits according to the CPI rate of inflation in the September of the previous financial year should be scrapped. If benefit upratings are to remain annual, they should be based on the CPI rate of inflation in April, i.e. the beginning of the financial year. This would prevent the uprating of benefits reflecting out of date inflation figures.*

Recommendation: *If HM Treasury and the Department for Work and Pensions were to move to a more frequent review mechanism for benefit levels, the Chancellor and Secretary of State should take into consideration anticipated rises in the Ofgem price cap, in addition to the CPI rate of inflation, when reviewing the level of benefits*

Recommendation: *The DWP should consider consult on hypothecating an "energy" element within UC which can fluctuate dynamically in synchrony either with average household energy bills or with fluctuations in the Ofgem price cap, at least for as long as energy prices remain volatile.*

Recommendation: *Work allowances should be restored to their pre-2016 level. This would represent an effective 'tax cut' for 1.66 million working households worth £733 million.*[9]

Debt deductions within Universal Credit

Recommendation: *Tax credit debt resulting from HMRC overpayments that is older than three years should be remitted.*

Recommendation: *Reduce the maximum level at which private debts and benefit overpayments can be recovered through UC should be reduced from 25 to 10 per cent of the standard allowance.*

Recommendation: *Debt repayment within UC should be suspended for 6 months, as it was at the beginning of the Covid pandemic, to allow households to adjust to new energy prices.*

Universal Support

Recommendation: *The Government should initiate the rollout of Universal Support, jointly administered by the Department for Work & Pensions and Department for Levelling Up, Housing & Communities, to help those furthest from the labour market take advantage of rising job vacancies.*

Environmental and renewables levies ('Green Levies')

Recommendation: *environmental and renewables levies should, where legally possible, be paused for the duration of the current energy crisis and placed under review, with the aim of bringing levies out of household bills and absorbing them into general taxation.*

Recommendation: *The Warm Homes Discount should be retained, and the government should remove the funding of the scheme from household energy bills, instead funding it directly from taxation.*

Clamping down on illegal moneylending

Recommendation: *The Illegal Money Lending Team should be allocated additional funding to scale up its operation in light of the cost-of-living crisis.*

Recommendation: *The Government should re-write the Credit Union Act 1979 to address the key challenges preventing credit union growth.*

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9 Policy in Practice analysis, May 2022

1. Cost of living crisis: the picture and Government action so far

In April 2022, over 9 in 10 (91 per cent) of adults reported that their cost of living had increased in the last month. Of those who reported an increase in costs, 92 per cent reported that their food bill had gone up and 86 per cent cited higher gas or electricity bills.[10]

More broadly, UK households are expected to experience their biggest income squeeze since the 1970s as a result of inflationary pressures, with the average household losing £1,200 this year in real terms.[11]

Certain measures announced by the Government at the 2021 Budget and Comprehensive Spending Review will go some way towards mitigating this squeeze. Those in receipt of in-work benefits will receive some financial assistance via the cut to the Universal Credit taper to 55p, leaving households on average £1,000 better off in cash terms over the coming year, though the real value of this boost will be eroded away by inflation.[12]

The increase to the National Living Wage of 9 per cent will also help shield those earning at this level from the worst effects of inflation. However, given recent projections that CPI inflation will rise above 10 per cent, even those benefiting from the NLW increase will find themselves little better off.

More recently, the Government has cut the main rates of fuel duty for petrol and diesel by 5 pence per litre for 12 months, representing a saving of £2.4bn (although the price of fuel has continued to rise rapidly).[13] £500 million has been put into the Household Support Fund, a local authority administered discretionary grant for which households can apply for support with food, clothes and utilities.[14] Alcohol duty has also been frozen.[15]

Finally, while the rate of National Insurance Contributions (NICs) has increased to 13.5 per cent, the Government's increase in the threshold before which people pay means those on the lowest incomes will make some savings in the short term. Indeed, this will offset other tax rises for most workers.[16] For instance, those earning £20,000 will save £178 per year in cash terms. However, again, over time this will be eroded by inflation.

Perhaps most importantly, the 1.25 per centage point increase in employers' National Insurance Contributions will likely be passed down in the form of lower gross wages, leaving workers less able to weather inflationary headwinds through receiving or negotiating pay rises.[17]

Recent fiscal adjustments aside, the majority of UK households are expected to experience a severe increase in the cost of living relative to their incomes, and current events in Ukraine are putting yet further pressure on the price of energy for UK consumers, with the Chancellor warning of a "tough few months ahead."[18]

10 Office for National Statistics, Opinions and Lifestyle Survey.

11 The Resolution Foundation, *Crunch Time*.

12 https://ifs.org.uk/cost-of-living

13 https://www.gov.uk/government/publications/government-support-for-the-cost-of-living-factsheet/government-support-for-the-cost-of-living-factsheet

14 Ibid

15 Ibid

16 Resolution Foundation, *Happy New Tax Year?*

17 Resolution Foundation, *Happy New Tax Year?*

18 https://www.itv.com/news/2022-05-18/chancellor-calls-for-business-to-invest-and-innovate-more-amid-economic-storm

2. Inflation and energy bills

The UK is in the midst of an inflationary surge unprecedented this century. Inflation measured by the Consumer Price Index (CPI) was 9 per cent in the 12 months to April 2022,[19] and as high as 11.1 per cent as measured by the Retail Price Index – the highest reading since 1991.[20]

Rising energy bills have been a major underlying driver, though broader consumer and household goods, especially clothing and footwear, are an important component, too. In March 2022 the 12-month inflation rate for electricity was an enormous 19.2 per cent, and 28.8 per cent for gas.[21][22] A key component of this was the 12 per cent rise in the energy price cap by the Office of Gas and Electricity Markets (Ofgem) in October 2021. It should be noted that retail gas and electricity prices closely reflect movements in the Ofgem price cap.[23]

Inflation is expected to rise still more steeply over the coming months, with the Bank of England projecting a rise in the CPI rate to 10 per cent during the course of 2022.[24] The most significant component in the current inflationary trajectory has been the increase of £693, or 54 per cent, in the energy price cap from 1 April, with further predicted price rises in the Autumn adding to the cost of energy still further. Movements to reduce imports of Russian energy as a consequence of the Russia-Ukraine conflict are already placing yet more pressure on wholesale prices.

Overall inflation is expected to remain high for a number of years, with the Bank estimating that it will not hit its 2 per cent target until the second quarter of 2024.[25]

3. 'Compassion and ingenuity' – the policy response to the rising cost of living

Recent polling has consistently shown that the public's number one concern is the rising cost of living. Confidence in household finances over the short term hit an all-time low in the monthly survey from YouGov and the Centre for Economics and Business Research in April.[26] Polling conducted by Opinium for the CSJ found that one in three UK adults are 'very worried' about the squeeze on incomes, rising to 42 per cent of those earning under £20,000.[27] The continuing economic pressures experienced by households are increasingly reflected in political pressure to act.

As the CSJ argued at the time, the Spring Statement (while including welcome protections from the NICs rise for lower earners) did not go far enough to support those at the sharpest edge of the cost of living crisis.

The Government conceded it needed to do more in April, when the Prime Minister instructed his Cabinet to suggest additional 'non-fiscal' measures the Government could take to reduce the spending burden on households. Regulatory changes to childcare and MOTs have since been briefed to the media. A reductions in the number of officials has also been touted as a way to release funds to address the cost of living challenge.

19 https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/march2022

20 https://tradingeconomics.com/united-kingdom/retail-price-index

21 Office for National Statistics, RPI: Percentage change over 12 months – electricity; Office for National Statistics, RPI percentage change over 12 months – gas.

22 Ibid

23 https://www.ons.gov.uk/economy/inflationandpriceindices/articles/energypricesandtheireffectonhouseholds/2022-02-01

24 https://www.bankofengland.co.uk/knowledgebank/will-inflation-in-the-uk-keep-rising#:~:text=Inflation%20in%20the%20UK%20is,2%25%20in%20around%20two%20years.

25 https://www.instituteforgovernment.org.uk/explainers/cost-living-crisis

26 https://news.sky.com/story/cost-of-living-worries-sends-consumer-confidence-into-freefall-says-study-12611019

27 https://www.centreforsocialjustice.org.uk/library/swimming-with-sharks

While regulatory changes or departmental cuts can help to marginally release the cost of living pressures, these will take time to be felt. This is time the Government cannot afford to waste. The National Institute of Economic and Social Research (NIESR) estimates 1.5 million British households will soon face bills for food and energy which will exceed their disposable income after housing costs.[28]

Responding to the cost of living crisis with a clear action plan would resonate strongly with public opinion and is in the interest of social justice. The Government should introduce targeted fiscal and welfare policy changes in a new plan to shield the public from inflation.

This should be based on the principles that 1) providing financial support should be done in a fiscally responsible manner; 2) those on the lowest incomes require targeted support; and 3) people furthest from the labour market should be better supported to take advantage of existing job vacancies. The proposed action plan in this document below follows these three principles.

Recommendation: *The Government should immediately announce a special fiscal event in order to set out a fiscally responsible action plan for shielding the public from the worst effects of rising inflation, including energy prices.*

4. Steep rises in the energy price cap

The Ofgem cap is the maximum amount that energy suppliers are allowed to charge per kWh of gas and electricity (known as the “unit rate”) per year. It also includes a maximum daily standing charge reflecting the cost of delivering power to a household. The operation of the Ofgem price cap and the requirements of the review process are governed by the Domestic Gas and Electricity (Tariff Cap) Act 2018.[29]

The cap applies to domestic consumers paying standard variable rate energy tariffs (SVTs). It does not affect those with a fixed-rate energy tariff.

Projected rises in bills as a result of a rise in the price cap reflect an average household’s consumption. Those using more or less energy than this average will pay more or less accordingly, since the cap applies to units of energy and not to overall bills.

The price cap is reviewed by Ofgem twice per year, in February and August, and the new cap is applied from 1 October and 1 April respectively.[30]

The price cap rise in April 2022 was an increase of 54 per cent, or a £693 increase for the average household. The Ofgem price cap is anticipated to rise by between 30 and 50 per cent in October 2022,[31] with a typical household paying as much as £2,600 per year for electricity and gas.[32]

One effect of the infrequent reviewing of price caps is that consumers can be “hit” by an unexpected and sudden rise in their household bills, since prices do not fluctuate naturally according to market principles. This can therefore generate a “cliff-edge” effect making financial planning difficult.

28 https://www.niesr.ac.uk/publications/sailing-treacherous-seas?type=uk-economic-outlook&utm_content=207583387&utm_medium=social&utm_source=twitter&hss_channel=tw-870591852

29 https://www.legislation.gov.uk/ukpga/2018/21/notes/division/6/index.htm

30 https://www.ofgem.gov.uk/publications/default-tariff-cap-level-1-april-2022-30-september-2022

31 https://researchbriefings.files.parliament.uk/documents/CBP-9491/CBP-9491.pdf

32 https://www.bbc.co.uk/news/business-60959357

5. Impact on the poorest

Households on the lowest incomes pay the largest proportion of their income towards covering essentials bills, including energy, with households in the bottom 10 per cent of the income distribution spending as much as 54 per cent of their average weekly expenditure on essentials.[33]

As such, they are likely to be disproportionately affected by the price cap rise (and by inflation generally), in comparison with wealthier households. Almost half of people on low incomes say they cannot afford to heat their home to a comfortable level.[34]

Recent ONS data shows that even before the pandemic, one in three households were regularly spending more than their income.[35] The impact of the pandemic and lockdowns is likely to have made this picture still worse. One in seven households fell behind on an essential bill during the course of 2020, and one third of low-income households (earning £25,000 per year or less) were found to be in arrears on rent, utility bills, council tax bills or personal debt repayments in October 2021.[36]

Furthermore, average inflation rates experienced by different households masks a lot of variation. IFS research shows that the poorest tenth of households spend 4.8 per cent of their income on gas, for example, but a tenth of this group spend as much as 12 per cent.[37] ONS analysis suggests that the poorest 10 per cent spend as much as 7.3 per cent of their income on electricity and gas.[38]

Given that the lowest-income households pay a disproportionate share of their income towards the cost of energy, they are the least able to absorb a rapid increase in electricity and gas prices of the kind that occurred in April 2022.

While the government cannot keep prices artificially below market levels indefinitely, it can "smooth" the impact of sudden price rises or "cliff-edges" by introducing more frequent reviewing of the Ofgem price cap, which currently takes place only every six months.

Recommendation: *The Ofgem price cap should be reviewed at least quarterly rather than six-monthly in order to avoid cliff-edges in prices. If necessary the Domestic Gas and Electricity (Tariff Cap) Act 2018 should be amended to ensure quarterly reviews.*

6. The Chancellor's support scheme

In February 2022, the Chancellor announced a £9.1bn emergency plan to provide cash flow relief for families struggling to absorb the impending spike in the energy price cap.

The scheme involves a £200 upfront discount on energy bills, applied from October 2022, to be repaid in £40 annual instalments from 2023 for a five-year period.

In addition, he announced a Council Tax rebate of £150 for those in houses in Council Tax bands A to D, benefiting around 80 per cent of households. This will be paid directly by local authorities and will not need to be repaid.

The Chancellor also announced a £150 "discretionary fund" through which local authorities could provide support to those living in higher banded properties if they deem it necessary. [39]

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33 https://www.ons.gov.uk/economy/inflationandpriceindices/articles/energypricesandtheireffectonhouseholds/2022-02-01

34 YouGov, 13th – 14th January 2022; "low incomes" defined as earning £5,000 to £14,999 per year), https://docs.cdn.yougov.com/5j3sq410ws/Internal_Heating_220114_extraXbreak_W.pdf

35 https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/articles/incomespendingandwealthhowdoyoucompare/2022-03-09

36 https://www.theguardian.com/money/2021/oct/21/third-of-low-income-households-unable-to-pay-bills-finds-research

37 https://ifs.org.uk/publications/15834

38 https://www.ons.gov.uk/economy/inflationandpriceindices/articles/energypricesandtheireffectonhouseholds/2022-02-01

39 https://www.bbc.co.uk/news/business-60245696

The Council Tax rebate scheme has been criticised by the Institute for Fiscal Studies (IFS), since Council Tax property bands were last re-evaluated in 1991, meaning that support may not be most effectively directed. Furthermore, 11 per cent of households in the lowest third of the distribution by income will not benefit automatically from the rebate and will have to rely on the discretionary fund.[40]

Moreover, the £200 discount has been attacked as a "buy now, pay later" scheme designed to be cost neutral to the Treasury, which will not fix the underlying problem and will result in costly repayments from consumers for a number of years.

Rather than alleviating rising energy bills through what is effectively a loan scheme, the Government should take action to remit the parts of a household's energy bill for which it – and not the market – is directly responsible.

As a modus operandi for redressing hardship, the Chancellor and Secretary of State for Work and Pensions should seek to use UC to get support to the most vulnerable households, rather than relying on local authority-administered discretionary funds.

7. Universal Credit – the lag in uprating

After having been frozen since 2015, the benefits freeze ended in April 2020, shortly after the onset of the pandemic. Prior to this, the freeze meant that benefits were falling in real terms year on year, though inflation was relatively low.

After the ending of the freeze, Universal Credit (UC) standard allowances will be uprated in line with inflation. However, the calculation for the uplift is based on the 12-month inflation rate as it stood in September 2021, which was 3.1 per cent. As such, benefits will be uprated at a much lower rate than the expected CPI rate for 2022,[41] and indeed at a lower rate than the annual rate for 2021.

The Secretary of State for Work and Pensions is expected to review the rate of benefits each year under the Social Security Administration Act 1992.[42]

There is a significant drawback in the uprating policy of the Department for Work and Pensions (DWP) in that:

- It occurs annually, whereas Ofgem energy price cap changes take place on a six-monthly basis.
- It suffers from a significant data lag, since the CPI rate of inflation changed by several percentage points between September 2021 (the date at which the rate was fixed) and April 2022 (the date the new rate is applied).
- Bank of England forecasts suggest that the CPI rate of inflation may reach 10 per cent in 2022, whereas inflation-linked benefits will rise only by 3.1 per cent.

The impact of these lags in data and responsivity are avoidable. Universal Credit is a dynamic mechanism and can respond to changes in generosity and in the taper immediately – when the Chancellor announced a cut to the taper rate of UC at the Autumn Budget, this was implemented within a month. Likewise, the 2020 temporary increase to Universal Credit standard allowances of £20 per week was implemented with near immediate effect. The dynamic responsivity within UC should therefore be harnessed to tackle contingent challenges such as a rapid rise in wholesale energy prices. The CSJ recognises that there are legitimate concerns about an "inflationary ratchet" taking hold in the benefits system. However, it should be noted that a more frequent, dynamically responsive reviewing of benefit rates would allow inflation-

40 https://ifs.org.uk/cost-of-living

41 https://commonslibrary.parliament.uk/research-briefings/cbp-9439/

42 https://www.legislation.gov.uk/ukpga/1992/5/section/150/enacted

linked benefit rises to slow as well as to accelerate, depending on actual inflation levels over the preceding review period. In this way, increases in the level of benefits would not need to be "pegged" to a single, annualised inflation figure.

The CSJ has long held that poverty is not solely a financial problem, and that the root causes of poverty are social in nature, as established in our five Pathways. However, it can and should be recognised that the primary and immediate cause of the present cost of living crisis is rising prices. This requires a fiscal response.

There are therefore several 'levers' the Secretary of State for Work and Pensions can pull. First and foremost, she can introduce an in-year increase to standard allowance generosity in order to reflect the rising cost of living. At the same time, work allowances – which were increased by the Chancellor at the Autumn 2021 Budget[43] – could be restored to their pre-2016 level, providing a boost to incomes and an effective tax cut for those in receipt of in-work benefits, further enhancing incentives to take on more hours. This will also help boost labour market participation. We examine the cost and financial impact of these policies below.

The CSJ recognises the technical difficulties in raising all benefits, particularly for legacy benefits which rely on older technology or are less responsive, such as Tax Credits. In these instances, the Government could consider supporting those on legacy benefits by providing a one-off payment as a bridge prior to the next Budget. This also highlights the continued need to migrate those who remain on legacy benefits to Universal Credit – a more advanced and dynamic support system.[44] Indeed, a majority of claimants would be better off post-transfer.[45]

At the same time, the ambition of the government should not be limited to providing enough financial support to those who rely on UC for all or some of their income. The ultimate goal should be to move benefit claimants off UC and into work, if they are able.

In June 2021, HM Treasury estimated that retaining the £20 uplift to UC standard allowances and Working Tax Credits (WTCs) for a year would cost £6.6bn.[46] This compares to the £9.1bn cost of the Chancellor's Energy Bills Rebate, announced in February 2022.[47] The £20 uplift represented a 13 per cent increase to the average UC claimant's entitlement – and a 25 per cent increase to the standard allowance – but has since been removed.[48]

Given the impact on the poorest examined above and the considerable lag between historically low UC rates and the immediate impact of the cost of living crisis, we believe there to be a strong case for further fiscal intervention.

Taking into consideration both above-expectations tax receipts and total spending, the Chancellor had in the region of £20bn available to him at the Spring Statement.[49] The Treasury is also expected to have £27bn of above-forecast receipts over the coming year.[50] The Chancellor should deploy some of these available funds to provide more support to those most struggling, while also setting out measures to help those who are capable into work.

The Government should use this fiscal headroom to announce a £3.8bn package, targeted at those who are worst affected by the spiking cost of living. This would see Universal Credit allowances lifted to reflect inflation of 10 per cent, with 4.2 million households to receive an additional £729 on average this year.

43 https://news.sky.com/story/universal-credit-chancellor-rishi-sunaks-changes-come-into-force-today-but-charities-issue-warning-that-millions-will-still-be-worse-off-12476707

44 https://ifs.org.uk/publications/16050

45 https://www.gov.uk/government/publications/completing-the-move-to-universal-credit/completing-the-move-to-universal-credit--2#estimating-entitlement-analysis2

46 https://ifs.org.uk/publications/15528

47 https://www.gov.uk/government/news/millions-to-receive-350-boost-to-help-with-rising-energy-costs

48 https://ifs.org.uk/uploads/CH8-IFS-Green-Budget-2020-Temporary-benefit-increases.pdf

49 https://www.resolutionfoundation.org/app/uploads/2022/03/Catch-2022.pdf

50 https://www.bloomberg.com/news/articles/2022-03-23/u-k-treasury-to-raise-36-billion-more-tax-despite-sunak-s-cuts

Restoring UC work allowances to their pre-2016 levels would also help claimants keep more of their earnings, increasing low-income households' capacity to weather the crisis. This move would be an effective tax cut worth £730 million, benefitting 1.66 million of the poorest working families who would receive an additional £442 on average.[51]

It should be noted that an inflationary uprating would be better targeted than the 2020-21 "£20 uplift", which was awarded to all UC and WTC claimants. This is because it would provide a proportional uplift based on the actual level of UC award each household currently receives; a household with a higher UC entitlement would benefit from an inflationary uplift more than a household with a lower award, meaning the extra fiscal support would go to the households that need it most.

Recommendation: *The Chancellor should announce an 'emergency' review and uprating of Universal Credit at the end of the present quarter as part of a special fiscal event, bringing benefits to a level reflective of the level of inflation in the year to May 2022, as measured by the CPI. A 10 per cent increase to UC allowances would require HM Treasury to allocate £3.1bn of the fiscal headroom accumulated through above-forecast tax receipts.*[52]

Recommendation: *The Government should consider amending the Social Security Administration Act 1992 to require the Secretary of State to review the rate of benefits quarterly rather than annually, at least for the duration of the current period of unusual inflationary pressure.*

Recommendation: *The system of uprating benefits according to the CPI rate of inflation in the September of the previous financial year should be scrapped. If benefit upratings are to remain annual, they should be based on the CPI rate of inflation in April, i.e. the beginning of the financial year. This would prevent the uprating of benefits reflecting out of date inflation figures.*

Recommendation: *If HM Treasury and the Department for Work and Pensions were to move to a more frequent review mechanism for benefit levels, the Chancellor and Secretary of State should take into consideration anticipated rises in the Ofgem price cap, in addition to the CPI rate of inflation, when reviewing the level of benefits*

Recommendation: *The DWP should consider consult on hypothecating an "energy" element within UC which can fluctuate dynamically in synchrony either with average household energy bills or with fluctuations in the Ofgem price cap, at least for as long as energy prices remain volatile.*

Recommendation: *Work allowances should be restored to their pre-2016 level. This would represent an effective 'tax cut' for 1.66 million working households worth £733 million.*[53]

51 Policy in Practice analysis, May 22

52 Ibid

53 Policy in Practice analysis, May 2022

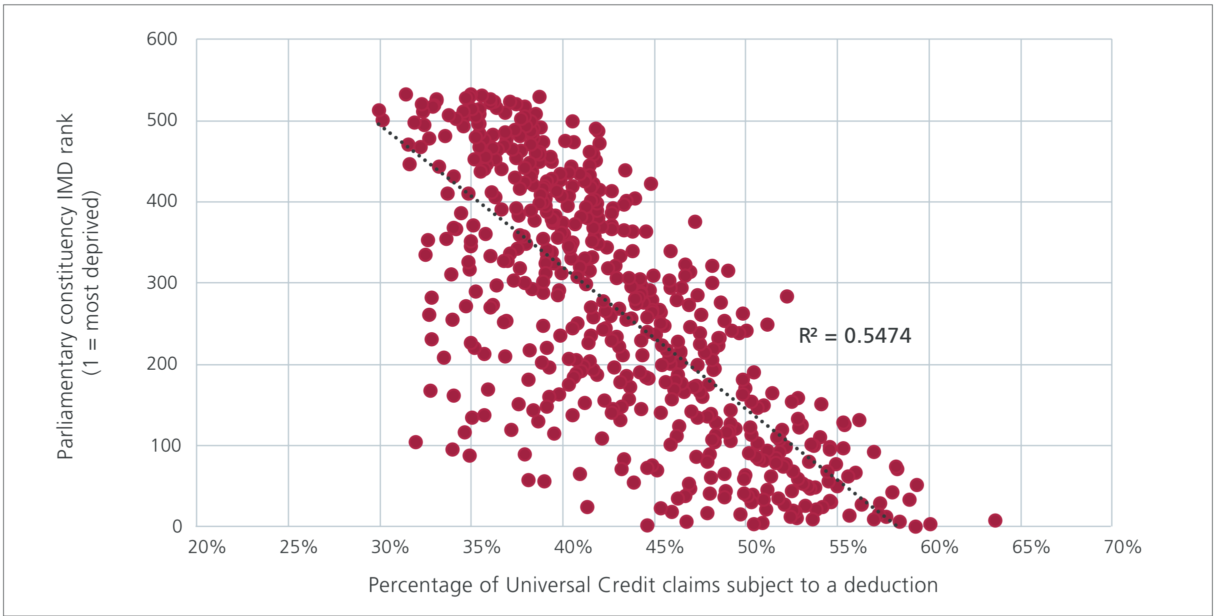
8. An ongoing squeeze: the cost of debt recovery within Universal Credit

The levels of Universal Credit awards are only meaningfully understood taking into account the deductions many claimants face for debts.

Prior to the Covid-19 pandemic or current cost of living increase, many households in receipt of Universal Credit were receiving deductions from their awards of up to 25 per cent as part of the debt recovery process within UC. Recent figures show that 45 per cent of Universal Credit claims – over 2 million claimants – were subject to a deduction from their welfare payment totalling over £176 million across the UK.[54]

As Figure X below shows, these deductions are correlated with deprivation. More deprived places in England are likely to have a greater percentage of their claimants facing deductions, and this means they will face a disproportionately greater challenge in the face of the cost of living crisis. Some of the most deprived places in England, including parts of Liverpool, Blackpool, Knowsley, and Middlesborough all rank in the top ten most deprived places in England as well as the top ten areas that have the greatest percentage of UC deductions.

Figure 1: Percentage of Universal Credit claimants subject to deductions by parliamentary constituency 2019 IMD rank



Source: CSJ Analysis of Department of Work and Pensions and Index of Multiple Deprivation 2019

While much of this repayment is to return UC advances, a significant number of people continue to repay historic tax credit overpayments. Data from the Department of Work and Pensions shows that some 10 per cent of Universal Credit claimants were repaying £55 on average to repay tax credit overpayments in December 2020. These repayments are the result of design flaws in the legacy benefit system that have been transferred to the DWP and into the UC system and estimated to be worth approximately £5.4 billion in debt.[55]

While there is need to increase the responsiveness of uprating to the contend with current economic turbulence, we must also pay attention to the large amounts being removed from claimants' awards by deductions.

54 Will Quince, Question for Department of Work and Pensions, UIN 16144; Index of Multiple Deprivation 2019.

55 Lloyds Banking Foundation, *Deductions: Drivers of Poverty*.

As we argued in our 2020 report, *Collecting Dust*,[56] it is unfair that historical debts born of design issues in the legacy benefits system should be recovered via Universal Credit. It is particularly unfair when it is recovered through large deductions to the standard allowance, and much of the debt (61 per cent) is over 3 years old.[57]

During the early stages of the pandemic, the Government suspending debt deductions in UC to boost incomes. While a long-term suspension of debt repayments is not the preferable course of action, and it is an important matter of social justice that debt is repaid, the Government could reduce maximum benefit deductions for private debts and overpayments to help people on the lowest incomes cope. The case for this is particularly strong for historical tax credit overpayments.

Recommendation: *Tax credit debt resulting from HMRC overpayments that is older than three years should be remitted.*

Recommendation: *Reduce the maximum level at which private debts and benefit overpayments can be recovered through UC should be reduced to 10 per cent of the standard allowance.*

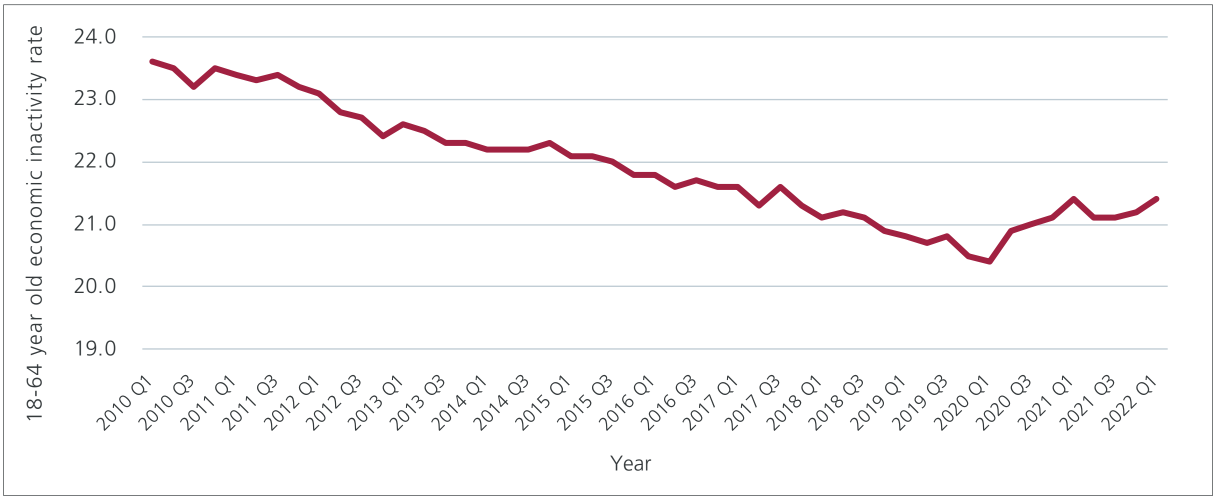
Recommendation: *Debt repayment within UC should be suspended for 6 months, as it was at the beginning of the Covid pandemic, to allow households to adjust to new energy prices.*

9. Rolling out Universal Support

With the overhauled welfare system now set up to help claimants into work, investing more in Universal Credit as we propose is both more transformative for claimants and more fiscally responsible than discretionary support schemes (such as in the form of the Household Support Fund) or emergency hand-outs. Still, many claimants face complex and overlapping needs which have kept them at distance from the labour market.

While employment figures have improved since the start of the pandemic, we have also seen rising rates of economic inactivity among working age adults, reversing the pre-pandemic trend. In the early stages of the pandemic, it was driven by 16-24 year olds becoming inactive. But since May 2021, 50-64 year olds have made up an increasing share of the total exiting the labour market. In November 2021 the Resolution Foundation estimated that 600,000 people had stopped working due to worsened mental health.[58]

Figure 2: Percentage of 18-64 year olds who are economically inactive



Source: Labour Force Survey

56 https://www.centreforsocialjustice.org.uk/library/collecting-dust-a-path-forward-for-government-debt-collection

57 Centre for Social Justice, *Collecting Dust: A Path Forward for Government Debt Collection.*

58 https://economy2030.resolutionfoundation.org/reports/begin-again/

It is a long-standing position of the CSJ that individuals with complex and overlapping needs, which provide significant barriers to employment, need interventions that go further than increasing the level of financial support provided through Universal Credit. These complex social obstacles include, but are not limited to:

- Poor physical or mental health
- Substance or gambling addiction
- Problem debt
- Abusive relationships and / or family breakdown
- Poor educational prospects or outcomes, including poor literacy (including digital literacy)
- Long-term worklessness and benefit dependency
- Social isolation
- Caring responsibilities
- Language barriers
- Unstable housing or homelessness

The CSJ therefore recommends that the HM Government should roll out Universal Support, an intervention successfully piloted in 2014 by Lord Freud and 'sister' to Universal Credit designed to help those furthest from the labour market into work.

The purpose of Universal Support (US) is to:

- Identify individuals in need of support with multiple barriers to work.
- Refer them to a Local Authority assigned Key Worker who is independent of the DWP.
- Provide a bespoke "wrap-around" support plan for the vulnerable individual, including triage and sign-posting and triage to the organisations and groups best able to help them overcome complex and overlapping barriers.

Initial points of referral to Universal Support can include the DWP / Job Centre Plus, GP surgery, Citizens' Advice, third sector organisations such as Step Change Debt Charity, mental health and addiction support groups, local housing associations.

The CSJ estimates that implementing Universal Support would cost £460 million, but with an expected return on investment of 1.5-2, matching the funding for the Work & Health Programme & Intensive Personalised Employment Support (IPES) programme for people with disabilities. Helping people reap the financial, social and health benefits of employment should be part of the Government's action plan to shield the most vulnerable from the worst of inflation.

Recommendation: *The Government should initiate the rollout of Universal Support, jointly administered by the Department for Work & Pensions and Department for Levelling Up, Housing & Communities, to help those furthest from the labour market take advantage of rising job vacancies*

10. Work remains the best route out of poverty

Counter-intuitive though it may seem, as recently as February 2022 average real wages were still higher than 12 months previously in February 2020, before the Covid-19 pandemic struck. ONS payroll data shows that wages rose by 10.3 per cent between February 2020 and February 2022,[59] outstripping the inflation that occurred during that period. Real wages finished December 2021 approximately 4 per cent higher than before Covid.[60]

This ceased to be the case during the first quarter of 2022, with inflation outstripping wages. ONS data shows that wages dropped in real terms in the course of the quarter by 2.1 per cent.[61]

Nevertheless, in the context of a tight labour market with high demand for labour, it remains clear that being in work is the best possible defence against inflation. It is not yet clear whether inflation will drop below the pace of wage growth in 2023, but being in work provides the best chance for an individual to shield themselves from the rising prices of goods and household bills.

While some are concerned that rising wages may contribute to inflationary pressure, the Governor of the Bank of England has recently stated that he is not concerned about a wage-price spiral.[62] Economists have explained the rise in real wages from 2020-21 as due to productivity increases and changes in the real value of labour.[63]

Being in work is the best defence against inflation

For some periods wages will outstrip inflation and for other periods (such as the present) they will not. However, what is clear from looking back to the real value of wages in 2020 is that being in work is the best defence against inflationary pressure. Even if real wages fall this year, they will almost certainly do so less than the fall experienced by those reliant on working age benefits for their incomes.

Given this, the Government's priority should be attempting to move UC claimants who are not working into work, and for those who are working to progress within work. A person in employment will stand a much better chance of weathering the impact of inflation than someone who is reliant on the uprating of benefits.

Reducing the number of claimants of Universal Credit, which stood at over 5.6 million in March 2022 (an increase of over 3 million from February 2020), and increasing the supply of workers at a time when demand for labour is high, would serve the twin goals of loosening the labour market and increasing the economic resilience of those who have moved into work.

Rolling out Universal Support would help to move those on UC with work expectations into work, meaning fewer households depending on UC to shield them from inflation. It would also help to decrease the caseload of UC claimants, generating more fiscal headroom for HM Treasury.

59 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/earningsandemploymentfrompayasyouearnreal-timeinformationuk/latest

60 https://www.thetimes.co.uk/article/3714d4f0-8e3b-11ec-ab9b-59af3878ddff

61 https://inews.co.uk/inews-lifestyle/money/cost-of-living-uk-workers-pay-drop-growth-match-inflation-1569956

62 https://www.thetimes.co.uk/article/workers-better-off-than-before-the-pandemic-wx9fkp68z

63 Samuel Tombs, chief economist of Pantheon Economics, in The Times (16th February 2022), https://www.thetimes.co.uk/article/workers-better-off-than-before-the-pandemic-wx9fkp68z

11. Impact of 'Green Levies' on household energy bills

Prior to the Covid-19 pandemic, the wholesale prices of oil, gas and coal had fallen for a number of years. Professor Dieter Helm's Cost of Energy Review (2017) noted:

> *"Productivity increases should have been putting further downward pressure on the cost of transmission, distribution and supply. New technologies should mean lower, not higher, costs and a much greater scope for energy efficiency. Margins should be falling as competition is increasing. Yet in this period, households and industry have seen limited benefits from these cost reductions. Prices have gone up, not down, for many customers."*[64]

He notes that typical electricity bills have been estimated by the Climate Chance Committee (CCC) to be 20 per cent higher due to the passing on of the costs of decarbonisation.[65]

By 2022, costs associated with renewables subsidies had risen to 25 per cent of typical household energy bills, or approximately £200 per household.[66] These estimates reflect Climate Change Committee figures.[67] Helm notes that prior to the current period of severe energy price inflation, the cost of renewables was going through a period of sustained decrease, yet at the same time the price of renewables subsidies to consumers was actually rising.[68]

It should be noted that estimates regarding the amount the levies cost the average household vary considerably. Economist Gerard Lyons has suggested they may add as much as £340 per year to bills.[69] Other analysts have placed the figure at £153.[70]

Some of these levies are environmental and social obligations with a legal grounding which have been written into contracts that have already been signed, but others are straightforward taxes which could be alleviated if the Government was minded to do so.[71]

The levies include:

- The Climate Change Levy
- The Green Gas Levy
- The Carbon Price Floor
- The Renewables Obligation
- The Carbon Reduction Commitment
- The Domestic Renewable Heat Incentive
- The Warm Homes Discount
- The emissions trading scheme[72]

It should be noted that the total cost of the environmental levies is now £11.5 billion (2021-22), £10.3 billion higher than in 2001. The majority of this increase has occurred under Conservative governments.

Functionally, levies are charged on businesses, including electricity and gas suppliers, on a per kWh basis, and then passed on to consumers via their bills.

64 Helm, D. (2017), Cost of Energy Review, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/654902/Cost_of_Energy_Review.pdf, p. 18

65 Ibid.

66 Helm, D. (2022), *The First Net Zero Crisis,* http://www.dieterhelm.co.uk/energy/energy/luck-is-not-an-energy-policy-the-cost-of-energy-the-price-cap-and-what-to-do-about-it-2/; it should be noted that Ofgem claims that 15.3 per cent of average duel household bills (gas and electricity) is made up of "environmental and social obligation", (https://www.ofgem.gov.uk/publications/infographic-bills-prices-and-profits), though the Government has not contested the higher 25 per cent figure estimated by Helm.

67 http://www.dieterhelm.co.uk/energy/energy/the-first-net-zero-energy-crisis-someone-has-to-pay-2/

68 http://www.dieterhelm.co.uk/energy/energy/how-to-pay-for-energy/

69 https://www.conservativehome.com/thecolumnists/2022/05/gerard-lyons-ministers-have-an-opportunity-to-cut-taxes-reform-the-supply-side-and-help-reduce-the-cost-of-living.html

70 https://www.cityam.com/green-levies-should-be-taken-off-energy-bills-to-ease-costs-says-think-tank/

71 https://www.dailymail.co.uk/debate/article-10366275/ROSS-CLARK-DOES-green-tax-energy-bill-actually-pay-for.html

72 https://obr.uk/public-finances-databank-2021-22/

The funding of renewables projects and "environmental and social obligations" through household energy bills rather than through taxation has been a policy choice of successive governments, and a way of keeping the costs of subsidising carbon reduction away from the Treasury.

However, this has an inherently regressive effect, making lower income households pay disproportionately towards the costs of decarbonisation and renewables development. Given the burgeoning cost of living crisis, which will hit the poorest most severely, this is a poor way of funding environmental projects, and a needless addition to household costs.

If Helm's estimate that the per household net cost of environmental and renewables levies is £200, then remitting these levies would achieve the equivalent of the Chancellor's £200 loan scheme, though without need of repayment. Changes to household bills since 1 April may affect the precise burden of green levies on consumers, but this is nevertheless an obvious area in which a meaningful reduction in the cost of energy could be achieved by Government intervention.

Even if remitting the full effect of the levies cannot be achieved due to legal and statutory complications, achieving a meaningful reduction in the proportion of household bills which the levies account for would deliver a much more sizeable reduction in costs for poorer households than would removing VAT on energy bills, which would save consumers only 5 per cent.

As a point of principle, while the government cannot control global wholesale energy prices, and the Ofgem price cap must to an extent reflect the wholesale market, the government should seek to remit that portion of household monthly energy bills for which it is itself responsible. Helm argues that renewables "are public goods and should not be parcelled out onto customers' bills in relation to the volume of their demands."[73] If indeed the government has determined that investment in renewables is a public good, it should distribute the costs thereof in a fair and progressive way, avoiding placing a disproportionate burden on the poorest households.

It should also be noted that the UK's statutory commitment to attaining Net Zero by 2050 was written into law[74] prior to the global Covid-19 pandemic and subsequent worldwide inflationary surge, and prior to the outbreak of the Russia-Ukraine conflict. Failing to reassess the timetable for Net Zero represents a conscious choice to prioritise environmental objectives over the current economic crisis. As such, if the Net Zero timetable is to remain unchanged, then the costs associated with the renewables transition should be socialised progressively.

The Warm Homes Discount scheme stands out among the various levies, since its purpose is to provide an energy bill rebate to older bill payers. The costs are passed on to all bill payers. It is not suggested that the Warm Homes Discount scheme should be suspended, though the government should review whether energy bills are the best mechanism for subsidising older people's energy costs. However, there is a strong case that, in the present circumstances, the other so-called 'Green Levies' should be placed under urgent review.

Since lower income households pay a higher percentage of their income towards the cost of energy than higher-income households, removing the indirect burden of 'Green Levies' would provide effective and well-targeted relief at those households most affected by increases to energy bills – that is to say, the poorest households.

Recommendation: *environmental and renewables levies should, where legally possible, be paused for the duration of the current energy crisis and placed under review, with the aim of bringing levies out of household bills and absorbing them into general taxation.*

Recommendation: *The Warm Homes Discount should be retained, and the government should shift the funding of the scheme away from household bills, instead funding it directly.*

73 http://www.dieterhelm.co.uk/regulation/regulation/luck-is-not-an-energy-policy-the-cost-of-energy-the-price-cap-and-what-to-do-about-it/

74 See Climate Change Act 2008, as amended (2019) https://www.legislation.gov.uk/ukpga/2008/27/contents

12. Renewing the fight against illegal money lending

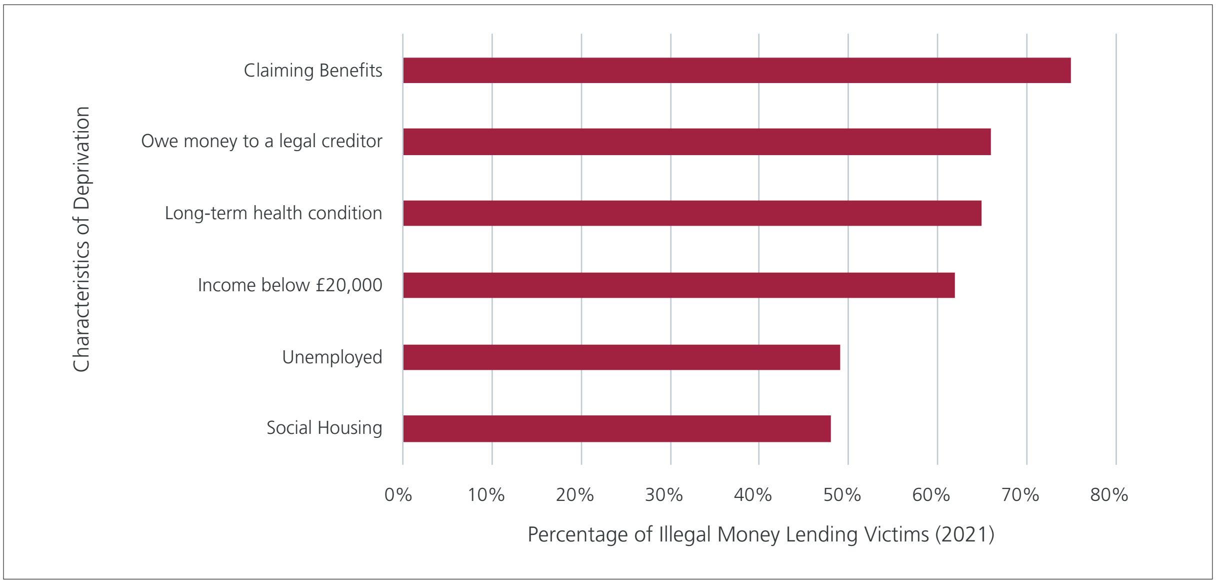
In response to the inflationary pressures explored above, families are adopting new strategies to manage their finances. Indeed, over half of Brits (51 per cent) say they have already taken steps to change their spending in response to the increases in the cost of living.[75]

In addition to this, more people will begin to rely on credit to smooth their income, while others will fall into arrears. Polling for the Centre for Social Justice found that one in ten people earning under £20,000 said that they would increase their borrowing levels due to the cost-of-living crisis.[76]

Figures from the ONS's Lifestyle and Opinions survey place this even higher, with 23 per cent of those in the most deprived areas of England saying that they had borrowed more money or used more credit than usual.[77]

The heightened demand for credit is being exploited by unregulated lenders who encourage vulnerable borrowers to take on 'hidden debt'. In *Swimming with Sharks*, the Centre for Social Justice estimated that up to a million people in England could be borrowing from an illegal money lender in England.

Figure 3: Percentage of illegal money lending victims (2021) by deprivation characteristic



Source: CSJ analysis of illegal money lending team England data

Illegal money lenders exist for multiple complex social and economic reasons. Both their proximity and close social ties many often to a local community facilitate their role as an illegal creditor, but so too does the unfulfilled need for credit.

We found that almost two in five (38 per cent of) illegal money lending victims attempt to borrow from legitimate sources of credit, but 80 per cent of those who try are rejected.[78] This speaks a number of issues, including both the tightness of the credit market, but also the lack of knowledge what an illegal lender is and the other options available to borrowers.

While increasing household borrowing is not a remotely sustainable answer to the cost of living crisis, we cannot not ignore the real pressures families are facing and the raised incentives to borrow; it must be that there are safe and regulated providers are available, and that illegal lenders are not given the space to exploit those in need.

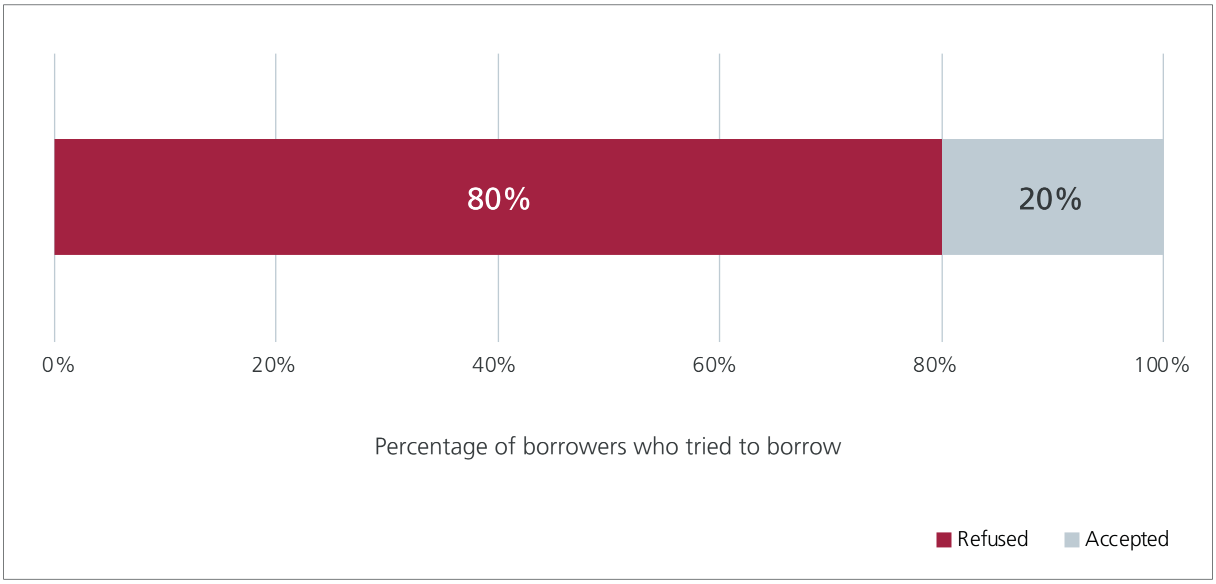
75 YouGov, 2022.

76 Polling by Opinium for the Centre for Social Justice, field dates: 25th February – 1st March 2022.

77 Office for National Statistics, Opinions and Lifestyle Survey.

78 Centre for Social Justice, *Swimming with Sharks: Tackling Illegal Money Lending in England.*

Figure 4: Percentage outcome for illegal victims who attempt to borrow from a legitimate source of credit first.



Source: CSJ analysis of illegal money lending team England data (n = 289)

Providing the alternative to illegal lenders

We found that when borrowers do attempt to use a legitimate source, they often cite trying a bank (45 per cent) who are not likely to lend in the small sums they require or a high-cost short-term credit provider (29 per cent), who hold an increasingly diminished market position. Just 8 per cent attempt to use a credit union, a low-cost, community provider.[79]

Credit unions are co-operative societies who provide financial services – primarily savings and loan facilities – to their member-owners. They are registered as Co-operative Societies under the Co-operatives and Community Benefit Societies Act 2014 and the Credit Unions Act 1979. Credit unions are non-profit making, and each union is separate and autonomous.[80]

Each credit union has a common bond which determines who can join it. The common bond may be for people living or working in the same area, people working for the same employer or people who belong to the same association, such as a church or trade union. A common bond cannot exceed a maximum potential membership of 3 million.

Despite their ability to offer low-cost, alternative credit to those who need it, credit union growth has been stifled by out-dated, overly prescriptive legislation dating back to 1979. These take the form of six key challenges. The CSJ explores these in our report, *Swimming with Sharks*.[81] The restrictive common bond limits the geographical spread and reduces the competitiveness of credit unions. The lack of clarity over which services credit unions can offer also stifles growth. But this can be easily tweaked in the upcoming Financial Services and Markets Bill.

79 Centre for Social Justice, *Swimming with Sharks: Tackling Illegal Money Lending in England.*

80 https://researchbriefings.files.parliament.uk/documents/SN01034/SN01034.pdf

81 https://www.centreforsocialjustice.org.uk/library/swimming-with-sharks

Clamping down on illegal lending

Illegal money lending is a crime, and the tactics illegal lenders use to lure, capture, and extort their vulnerable victims for further repayment range from coercive and manipulation behaviour to intimidation, threats of violence, and physical assault. The damage caused by an illegal lender and their activities is therefore not just financial, but psychological and sometimes physical.

We believe that more must be done to protect the most vulnerable from illegal money lenders. As the cost-of-living crisis deepens, we can expect more people to borrow from illegal lenders. Vigilance is therefore necessary. We recommend:

Recommendation: *The Illegal Money Lending Team should be allocated additional funding to scale up its operation in light of the cost-of-living crisis.*

Recommendation: *The Government should re-write the Credit Union Act 1979 to address the key challenges preventing credit union growth.*

The Cost of Living:
Alleviating the crisis

May 2022

The Centre for Social Justice
Kings Buildings
16 Smith Square
Westminster, SW1P 3HQ

t: +44 (0) 20 3150 2326

Twitter: @csjthinktank

www.centreforsocialjustice.org.uk

CSJ The Centre for Social Justice