

FEELING THE PINCH

Report summary, January 2017

Nearly 4 million children in the UK are living in poverty ⁱ and two thirds of those children are in a household where at least one parent is in work. ⁱⁱ

Forecasts suggest that child poverty rates will rise significantly in coming years.

Low income families really are 'feeling the pinch' - trapped between support being eroded by the cost of living rising much faster than benefit rates, and facing some of the highest prices on basic essentials as a result of a 'poverty premium' on key goods and services.

- Prices are expected to have **risen by 35%** between 2010 and 2020, but support for children in poverty has increased much more slowly - Child Benefit will have **increased by just 2%** over the period - around a seventeenth of what would be needed to keep up with increases in the cost of living.
- A typical low income family could face paying around **£1700 per year more** for the same essential goods and services as a similar higher income family - the equivalent of a month's rent in London or two month's rent outside of London.

Families are feeling the pinch and we need action from Government and businesses to protect family incomes



BENEFITS ARE FROZEN, BUT PRICES ARE GOING UP - LEAVING FAMILIES WORSE OFF

Many benefits for children have hardly risen while prices have jumped in recent years.

In April 2010, benefit income for a single parent with 2 children and no other income or savings (excluding housing costs) was around £198 per week.

This would have to rise to around £267 per week by 2020, in order to keep up with rises in costs of living. But their actual income is expected to be around £214 per week by 2020.

The real loss of £53 per week will leave this family worse off by nearly £2800 per year.

35%
expected increase
in prices between
2010 and 2020



2%
increase in Child
Benefit between
2010 and 2020

Furthermore, Local Housing Assistance (LHA) rates (which provide support with rental costs for families living in privately rented homes) **no longer rise in line with local rental prices**, and now bear little relationship to typical local rents. This is only set to get worse. If rents continue to rise at a similar rate to the last few years, by 2020, families in a typical two-bedroom property could have a **shortfall of around £155 per month.**ⁱⁱⁱ

Below inflationary increases in benefit rates will affect both low income working families and those who are out of work - in so far as they are receiving one or more of the benefits affected.

THE POVERTY PREMIUM ADDS TO THE FINANCIAL PRESSURE ON FAMILIES

The 'poverty premium' is the extra cost that people on lower incomes can pay for goods and services, compared with the cost paid by people on a higher income. When every penny counts, being charged more for the same goods and services can cause further consequences down the line.

In 2016, this poverty premium amounts to around £1700 per year.

Other everyday costs not included in this figure may also be subject to a premium, such as food costs (because of lack of access to a car or ability to buy in bulk); travel to work costs (often more affordable with a long-term season ticket for example); and lack of access to free cash machines in deprived areas.

POVERTY PREMIUM IN 2016 ^{iv}	TYPICAL COST	COST TO LOW INCOME FAMILY	POVERTY PREMIUM
Loan for £500	£500	£945	£445
Basic household item: Cooker	£237	£780	£543
Cost to cash 3 x £200 cheques	£0	£50	£50
Annual electricity and gas bill combined	£1250	£1321	£71
Home contents insurance	£46	£53	£7
Car insurance	£470	£1011	£541
TOTAL	£2503	£4160	£1657

POVERTY HAS A MASSIVE IMPACT ON CHILDREN'S LIVES. IT LEADS TO A POORER CHILDHOOD AND WORSE OUTCOMES THROUGHOUT LIFE



Poverty also has a cost to society as a whole - **estimated as £78 billion a year.** ^v

Freezing benefits may not reduce the amount of cash in people's pockets, but cash isn't what matters - what matters is what people can afford to buy with it.

Freezes in children's benefits, combined with rising prices, and the additional burden of the poverty premium, mean that incomes are stretched and families are forced to make **impossible choices for their children** - between healthy meals, warm clothes and heating the home.

ECP is deeply concerned about the impact of poverty on children in families who are feeling the pinch. We call on the government to:

- End the freeze on Child Benefit and Child Tax Credit and reinstate the link between annual increases in benefit levels and inflation.
- Ensure that support with housing costs for families renting privately rises in line with increases in local rents.
- Establish a commission to consider how businesses can ensure that their customers on a low income do not face paying the highest prices for goods and services.

i) HBAI 2016 – figures for 2014/5 <https://www.gov.uk/government/collections/households-below-average-income-hbai--2>

ii) HBAI 2016 – figures for 2014/5 <https://www.gov.uk/government/collections/households-below-average-income-hbai--2>

iii) Between 2010 and 2015, rents rose by 11.7%. This calculation considers the shortfall if rents increase by another 11.7% between 2016 and 2020.

iv) All figures sourced in October 2016

v) Bramley, Hirsch, Littlewood, Watkin (August 2016) Counting the cost of UK poverty, JRF <https://www.jrf.org.uk/report/counting-cost-uk-poverty>

For more detail on both the **benefit freeze** and **poverty premium**, please see our full report at:

www.endchildpoverty.org.uk/feelingthepinch

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