



TOGETHER WE RISE FOR FAIR PAY

**A UNISON REPORT ON THE COST-OF-LIVING
CRISIS AND HOW TO SOLVE IT**

**TOGETHER
WE RISE**

ABOUT UNISON

UNISON is the UK’s largest union, serving more than 1.3 million members, more than 70% of whom are women. Our members are people working in public services, for private contractors providing public services, and in the essential utilities. They include frontline staff and managers working full or part-time in local authorities, the NHS, the police service, colleges and schools, the electricity, gas and water industries, transport and the voluntary sector. Many of them are part time and low paid, working in traditionally low paid sectors like care, catering, security and cleaning.

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ABOUT THIS REPORT

This report was published in August 2022 and written by Anna Birley as part of UNISON’s cost-of-living campaign, Together We Rise. For further information on UNISON and our cost-of-living campaign, please visit costofliving.unison.org.uk or contact policy@unison.co.uk

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INTRODUCTION

The cost-of-living crisis has decimated household incomes over the past twelve months. The scale and immediacy of this crisis means it is being deeply felt. What makes it all the worse is that it takes place against a backdrop of pay stagnation and persistent levels of inequality which have weakened the resilience of working people to cope with rising prices.

This report shares the findings of UNISON's survey of low paid public service workers, earning £20,000 or lower per annum – and sets their experiences against the wider economic backdrop of this crisis. It makes recommendations for addressing the cost-of-living crisis and summarises research on how these measures can be paid for. It includes exclusive polling data showing public support for pay increases paid for by progressive taxation.

The staff who took part in UNISON's survey are people you meet every day – your child's teaching assistant, the parking attendant in your neighbourhood, the finance assistant that resolves your council tax query, the care worker looking after your elderly parents, the healthcare assistant taking care of you in hospital, the receptionist at the local sixth form college, the Police Community Support Officer on patrol in your street, or the cleaner at the hospital. The list goes on.

While at work they provide you or your loved ones with a service you rely on, when they get home, they face mounting bills, bailiff visits and financial worry. They are cutting back on the essentials, from food to dentist visits. Many are skipping meals, turning off their lights and heating, avoiding cooking hot food to save on energy, and relying on credit cards and loans to cover everyday spending. Many told UNISON that that they have had to find second and sometimes even third jobs, while others have left the public sector altogether in search of better pay in sectors like retail.

Because, for public service workers, this downturn in living standards is especially difficult. Over a decade of public sector pay restraint, many of the workers who kept the country going through the pandemic are left vulnerable to the economic situation in which they now find themselves.

This report then explores the policy options required to tackle this crisis, and how to pay for them. This

report explicitly rejects the notion that the country cannot afford to pay its workers a decent wage. It rejects too the mantra that an increase in wages would trigger a wage-price spiral. It is corporate profits and energy prices, not ordinary wages, that are driving the current inflation to record highs.

The report recommends:

1. A pay rise at least in line with inflation (RPI) for public service workers, including those who are employed by private companies and community and voluntary sector organisations where services have been outsourced;
2. An increase in funding for government departments to enable them to meet the costs of pay rises without needing to make cuts to services or safe staffing levels. This should be found from taxes on wealth and high earners;
3. An increase in the minimum wage to £15 per hour, with the increase brought forward to October 2022 from April 2023;
4. An overhaul of the unfair costs-of-working including a review of HMRC mileage rates and scrapping workplace parking charges so that workers aren't out of pocket when they go to work;
5. Reform of Universal Credit, including an immediate reintroduction of the £20 per week uplift, removed by the UK government in October 2021;
6. Reform of broken markets like energy and housing where private profits are pushing up prices, and childcare where big private equity investment is distorting the markets to the detriment of both workers and parents;
7. Urgent investment in addressing the immediate impact of this crisis on mental health, tackling a looming personal debt crisis, and avoiding a financial cliff for low- and middle-income households.

UNISON does recognise that wages need to increase across the board and that stagnating pay and inequality reflect a deeper crisis in the UK that needs to be addressed through root and branch economic reform. As a first step the Government should lead by example. If it is serious about helping people through the cost-of-living crisis, creating an economy where work pays, and levelling up all regions of the country, it needs to ensure that it's putting in the resources to give public service workers proper pay increases and ensure that the public services we all rely on are properly funded and fit for the future.

METHODOLOGY

This report brings together a number of strands of research:

- a. A survey on the cost-of-living crisis of 3,688 low-paid public service workers – defined as workers earning £20,000 or less who work in public services, both those who are directly employed in the public sector as well as those employed by private companies and community and voluntary sector organisations delivering outsourced contracts for public services. Sectors represented include healthcare and NHS; adults' and children's social care; education in local authority-maintained schools, academies, free schools, early years settings, further and higher education; local government; police and justice; energy; water, environment, and transport; libraries; and registered social landlords. The survey was conducted online through June 2022.
- b. Exclusive polling, conducted by YouGov on behalf of UNISON. This asked 3,407 adults in Great Britain their views on the cost-of-living crisis, whether Government intervention has helped them personally, public sector pay, policy interventions and options for progressive taxation measures. Full results of the polling are available on the YouGov website.
- c. Economic modelling commissioned by UNISON to identify policy options to raise funds for public service wages and services through progressive forms of taxation. The research was conducted by Landman Economics.
- d. Qualitative research into public service workers' personal experiences of the cost-of-living crisis. Over 5,000 UNISON members shared stark testimony in June 2022 on how the crisis is impacting them and their families. These personal statements have been included so that the crisis can be told through the unedited words of the people who are struggling to make ends meet on a public service salary.



MANY PUBLIC SECTOR WORKERS HAVE NOTHING LEFT TO CUT FROM THEIR HOUSEHOLD BUDGETS

UNISON's survey of low paid public service workers demonstrates the way in which the cost-of-living crisis is being deeply felt across the UK and how people are trying to cope. It is clear that, for the vast majority of households, the current economic situation is made worse because it follows over a decade of stagnating wages.

Prior to the financial crisis in 2008, regular pay growth was on average around 4% per year – or 2% above inflation. Since October 2008, wage growth has averaged just 2% and, once inflation is factored in, is flat.¹ Research from the London School of Economics shows that for the typical worker (median), real wages have fallen by almost 5% since 2008² – a trend which has accelerated since Brexit thanks to the depreciation of the pound.

For public service workers, this has been especially acute. Over a decade of austerity and pay restraint has seen significant reductions in real income for public service workers. UNISON research shows that key workers have endured a lost decade during which their pay failed to keep up with price rises. Public sector workers fared the worst of any sector in terms of pay growth in 2021 – and measured since 2009 this means frontline public service staff are thousands of pounds out of pocket. Nurses are £6,819 worse off a year than in 2010 and paramedics are suffering a real-terms pay cut of £8,753.³ In local government, the picture is no rosier: a qualified residential care workers employed by local authorities are £6,177 a year worse off, refuse and recycling collectors £3,506 worse off and teaching assistants £4813 worse off.

In practical terms, this means every household with a public service worker in it has been tightening its belt for the past twelve years – long before this crisis hit. Inequality was already hitting record highs by 2020, before the pandemic shook our economy⁴ – thanks to stagnating pay and inflation.

These households have already taken every step they can to reduce their costs and make ends meet.

A Trussell Trust report in 2014 says that “people on low incomes have traded down and down again to the cheapest food products; after which they simply have to buy less food.”⁵

Eight years later, there is little left to cut for the lowest income households and middle-income families are now struggling to make ends meet too. Research from the New Economics Foundation last year showed that

21.4 million people will now be living in households below the threshold needed for a decent standard of living – or nearly one in three households in the UK.⁶

“Myself and my husband both work full time, with me recently being promoted to a higher paid job and even with that promotion we are really struggling. Our food shop has dwindled in size but nearly doubled in price and that's with us shopping at supermarkets such as Aldi and Lidl. The usual cost to fill up my car doesn't even fill half my tank.

When my son outgrew his school uniform just before the end of term, we couldn't afford to buy him more and we don't qualify for the uniform grant. I have been scouring self-help websites to get ideas to cut down bills only to realise that these were the things I have already and always done.”

- Early childhood educator in Stirling



DIFFICULT CHOICES

The choices that households are making are heart-breaking. UNISON's survey found that of low paid public service workers, whether teaching assistants, cleaners, social care workers, library staff, school caretakers and cooks, or hospital porters, more than one in ten has had to use a foodbank to make ends meet. 31% are skipping meals and 13% don't cook hot food anymore because they can't afford to use their oven.

These choices are only set to get harder. The energy price cap increase planned for October is reported to increase by 65%, meaning an average energy bill of £3,304.12⁷ with further rises expected in January 2023. Households face a very expensive winter which many will simply be unable to afford.

For frontline public sector workers, there is a huge amount of anxiety about energy bills. UNISON's survey shows that 80% have already switched off their heating altogether – when the summer is over, the impact of this will be keenly felt as households resign themselves to dangerously cold homes. 60% of those surveyed are also keeping their lights off. This winter will see many public service workers returning from difficult frontline jobs to cold, dark homes where a meal or a shower have become a luxury item they cannot afford.

Their experience of the cost-of-living crisis so far has been far starker than that of the general population as a whole. UNISON's survey of low paid public service workers shows that 98% have taken steps to cut costs – comparing this with Unison's polling of the general public, where 57% of the general public has made cuts to their usual spending, it is clear that for many in the public sector are less able to weather this economic storm. Their wages were already too low, and no amount of economising will enable many of them to make ends meet.⁸

It is also important to highlight the disproportionate impact that this crisis is having on specific groups because of the way in which they are already put at a disadvantage by an unfair economy. Women, Black, disabled, retired, young and older workers are more likely to be lower paid and/or in insecure forms of employment. These groups are least prepared to cope with surging energy, food, and fuel costs. They face the biggest drop in their standards of living. There still exist significant gender, disability and ethnicity pay gaps, as well as discrimination pay rates for the young, and gaps in pensions for retired people.

“The cost of living is affecting me very badly because I am a single person and the money I earn goes towards paying my bills and even before the cost of living increased I was really struggling and living hand to mouth and now it is getting worst because I am also incurring a lot of debt because I am using a credit card to buy my essentials like food and paying some bills. I am also in so much stress and it is affecting my mental health. I am on the verge of a mental break down because I don't put on my water heater on – instead I am using the kettle to boil my water to shower with. I am unable to buy healthy food because they are expensive, this has highly affected my health a lot because I just did my blood test this month and it has come back with very high cholesterol and my thyroid is also out of range. This is all because I cannot afford to eat healthy.

I am constantly worried that I will have no warm water, no warm house, during the winter because I cannot afford the increasing cost of electricity and gas. The cost of water, food, everything in our basic life has increased and this is driving us into despair. I am constantly worried ... I don't put on the electricity in my house, I live in total darkness and constant fear of not being able to afford paying my bills and losing my home not being able to pay my rent.”

- Farhiya, special educational needs teaching assistant in Birmingham

“Our incomings used to cover our outgoings and leave us a little bit to save, for Christmas and treats and days out. Now our incomings barely cover our outgoings and within a month or so we will not be covering our outgoings on a monthly basis. Our “belts” have been “tightened” to the max, we both work hard and find ourselves wondering where it will all end!”

- Care Assistant in Pembrokeshire

WORK PAYS – BUT HARD WORK DOESN'T PAY ENOUGH

Despite the 'make work pay' rhetoric from the government, the reality for many workers is that despite working all the hours they can, they still don't earn enough to live on. In-work poverty is at a record high.

Almost 1 in 5 children in households where all adults are working are now in poverty – a figure which rises to 1 in 2 when only some of the adults are working.⁹ In total three quarters of children in poverty are in working households.

The situation is getting worse. The average person in a working household is 32% more likely to be in poverty now than 1996.¹⁰ While, not unexpectedly, this is more acute for households with only one working adult, it is getting increasingly hard for households with two incomes too. Two-earner families where one partner works full-time and one works part-time are increasingly being pulled into poverty, a significant shift. For people in this group, the chances of being pulled into poverty have doubled over the past two decades, from one in 20 to one in 10.¹¹

Comparing this cohort of working households with households where no-one is working is the real measure of whether work pays – and our economy falls short on this yardstick too. Research from IPPR shows that couple households with one full-time earner now have a poverty rate of 31% – almost as high as households where nobody works full time.¹²



"I am simply working to pay my bills. We are a working household with 3 small children. The cost of food and petrol now means we now simply work to pay our bills. Our energy tariff runs out in October and am honestly anxious about another bill increase. We now have to buy secondhand clothes to ensure my children have clothes that fit. We can't afford "luxuries" like a family day trip to the beach on our days off as we do not have a budget for extra petrol. I cannot work extra as I can't afford to pay the additional childcare costs so that I can work extra. I feel trapped! We are a working family! How has it come to this?"

– Staff nurse in Newcastle-upon-Tyne

"My salary covers my bills, and I don't have much left to even shop for enough food for the month, talk less of things I need as a woman. It gets so bad that I get so angry thinking why am I working but can't even get myself something as small as a pair of new knickers. It made me so sad I cried myself to sleep. I have had to look for a second job at evenings and weekends, which also means less time for me and my two children. I sometimes feel like I may be better off not working."

– An environmental health officer in London

"As a carer living on the minimum wage even though I have NVQ level 3 in social care and 20 years' experience I'm not paid as a professional, maybe the government don't consider care workers as professionals. Now also with the rising cost of petrol, food, energy prices and utility bills I'm worse off financially than some who does not work. Sadly, I'm currently looking at having to give up my job as a carer because I can't afford the petrol to get to work and pay my bills. I used to be better off working but now I'm better off not working."

– Care worker in Redditch, Worcestershire

THE WELFARE SYSTEM IS UNFIT FOR PURPOSE

For many working households struggling to make ends meet, their incomes are topped up through the UK's benefits system. Since 2020, the composition of claimants has changed, with a higher proportion of people on Universal Credit being recorded as in employment. Around 2.3 million, or 42% of Universal Credit claimants, are working.¹³

Cuts to Universal Credit mean entitlements are less generous than the benefits they replace; in fact, Britain has the least generous welfare system in Europe. Even with the temporary £20 uplift during the pandemic, it was inadequate – and the removal of this lifeline has thrown many households into a dire financial situation.¹⁴

Analysis suggests that between October 2021 and April 2022, a single parent working full-time on the National Living Wage became worse off by £1,035/year thanks to the removal of the Universal Credit uplift, introduction of the Health and Social Care Levy and rising living costs.¹⁵ Other flaws in its design also push households, including those in work, into destitution, in particular the five-week minimum wait for the first payment.

And fundamentally, by its nature as a means tested benefit, Universal Credit can only help relieve poverty after it has actually happened and not prevent poverty striking people in the first place.¹⁶ Nor does it address the other functions that a comprehensive social security system needs to fulfil including contributing to additional costs such as those faced by disabled people, families with children, and carers regardless of their income levels.

Universal credit was sold as the universal salve to making work pay. The Government that introduced Universal Credit via the Welfare Reform Act 2012 stated that its introduction would encourage people on benefits to start paid work or increase their hours by making sure work pays, and would reduce the number of people who are in work but still living in poverty.

But little empirical evidence exists that Universal Credit, or its associated sanctions and in-work conditionality, has translated into improved labour market outcomes.¹⁷ Many claimants would like to progress in their workplace, increase their hours or find better paid work – the reality is that the barriers preventing them from doing this are too great, not that they lack the incentives or motivation to do so.

"I'm really struggling. I work and get some help from universal credits, but I still find I'm financially struggling. It seems to pay better to not work which is very frustrating for us who are trying to better ourselves. How can the government really expect people to be able to afford these high rises? My council tax alone is a huge chunk of my wages let alone rent and electric etc. I am so worried about the future, yet no one seems to care or help us low earners which is always the case. I worry every single day and night about being able to afford to eat pay my bills and being able to survive."

– Rachel, a teaching assistant in London

"I work as a school business manager, full time all year round, and have recently qualified for universal credit. This is the first time in 5 years that I have been entitled to any benefits which reflects the real time pay cuts we have had as school support staff over the years. If the highest paid member of support staff in an organisation has to rely on benefits, single or not then the system is broken. Years of studying hard work long hours and stress, I line manage about 40 members of staff yet have to rely on benefits to be able to afford essentials like food and petrol to get to work."

– School business manager in Rochdale



HOW MUCH LONGER CAN PEOPLE AFFORD TO WORK IN PUBLIC SERVICES?

The impact of low wages, rocketing inflation and an inadequate social security system is that over 70 per cent of public service workers are looking at ways of boosting their income through changing their job, overtime or finding a second or third job.

Because, while the public sector has been forced to exercise ‘pay restraint’ under the Government’s austerity agenda, private sector wages have been increasing. Public sector wages now significantly lag behind those in the private sector – data shows that the median public sector pay award was just 1.5% well behind the private sector median of 7.2% for March to May 2022.¹⁸ This gap is widening, with annual growth in total average earnings reaching a 15-year high of 6.2% in the private sector in the first three months of 2022, while public sector earnings fell to a five-year low of just 1.9%.¹⁹

Analysis from UNISON comparing wages in different sectors shows the NHS risks losing thousands of low-paid staff, including 999 call handlers, healthcare assistants, medical secretaries, and cleaners, to the private sector unless wages rise significantly. For example, Morrisons offers a minimum of £10 an hour compared with £9.49 for a hospital porter or catering assistant, and Amazon’s basic rate is £11.10 for some permanent staff. For drivers, UPS is paying £16.49 an hour for large goods vehicle (LGV) drivers when the NHS pays just £10.19.²⁰

On top of low wages, the costs of going to work in the first place are going up. Not only do wages not cover the essentials, but they don’t cover the cost of doing the jobs that people are being paid to do.

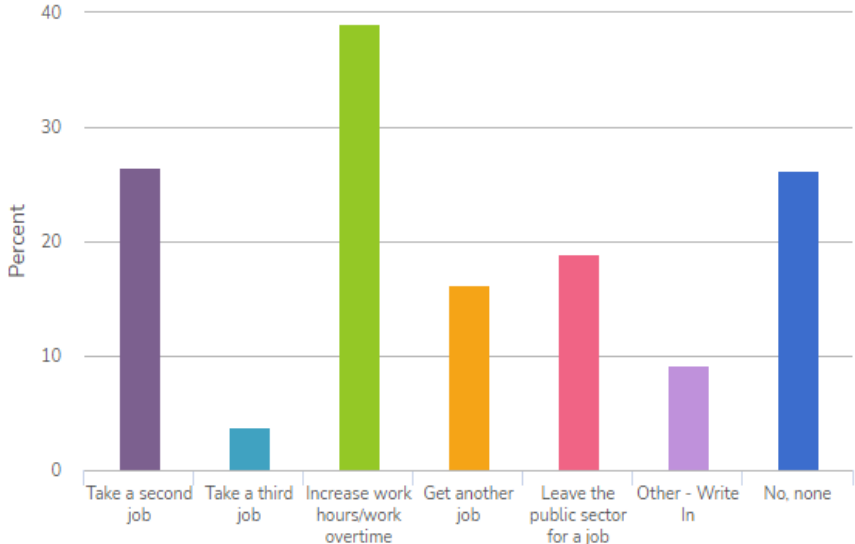


Chart 1: Have you done, or do you plan to do, any of the following to boost your income during the cost-of-living crisis?

Among these costs, mileage is one of the most challenging. Many jobs are impossible to undertake without using a vehicle – this could be community healthcare staff or midwives visiting patients in their homes, social workers visiting vulnerable children and adults, environmental health inspectors called out to deal with an infestation, or care workers helping people

live independently by providing domiciliary care, for example.

Fuel prices are skyrocketing but the rates used to reimburse employees have not been updated, meaning workers with nothing left in their budget are nonetheless being left out of pocket every day they do to work. According to the RAC, the cost of filling an average-sized 55-litre family car increased the equivalent of 30p every day, costing over £100 for the first time ever. Not a day went by in June without prices rising with new record highs continuously being made and broken.²¹

HMRC are responsible for setting approved mileage rates for many public service workers. These have

“Where do I start? I work 40 hrs pw (plus at least 8 more unpaid, to support colleagues and get the job done, for the sake of the children) as a CLEANER AND DINNER LADY in a school. I have now added on 6 MORE hours of “private” cleaning and ironing in people’s homes to bring in the extra £40-£50 pw (after paying tax) I need just to “stand still” financially. The extra money means I can switch the fridge back on, have a bath or shower instead of just a stand-up wash and buy food for my cat who I was going to have to rehome. I eat ONE meal per day to save money. I don’t have internet, TV, or transport. My best friend cooks me dinner on Saturdays to help me out. My family lives 300 miles away; goodness knows if/when I’ll ever see them.”

– Cleaner/ midday supervisor in a school in Prestwich

not been updated since 2011/12. NJC rates for local government workers haven’t changed since 2010 and NHS rates haven’t been updated since 2014. On average, workers are about £150 out of pocket annually as a result.

Fuel prices, and mileage rates, risk being the straw that breaks the back of many low paid workers’ household budgets. Half of local government workers earn less than £25,000 a year. It is now costing care workers over £100 to fill up their car and they just cannot afford it.²² As a result, staff are having to make difficult choices. Care workers would rather call in sick because they do not have the money for petrol.²³ Others are taking early retirement²⁴ and even sleeping overnight in their cars to preserve petrol for the next day at work.²⁵

Other workplace charges start to add up too. Car parking charges are an unavoidable cost for many staff – for example NHS staff working in hospitals with limited public transport available have no alternative means of getting to work, and shift workers working antisocial hours who feel unsafe commuting at night. In a UNISON survey of staff at one hospital in Yorkshire, for example, 30% of respondents say they use their car because there are no reasonable public transport options available. 11% do so for personal safety reasons and 20% commute by car as they also need their car to travel between worksites and visit clients.²⁶

Before the pandemic, sites in England, Northern Ireland and three sites in Scotland were still charging staff to park at work. Hospital carparking charges were suspended during Covid-19 when there were greater health risks associated with taking public transport. However, these were reinstated in April 2022 in England, and in Northern Ireland parking fees were brought back in September 2021.

While the Government in England has introduced free parking for staff working night shifts, many NHS staff are still forced to pay to park at work. These parking charges are adding hundreds of pounds to the massive cost pressures already facing health staff and having a serious negative impact on staff morale. For those staff surveyed in Yorkshire, 59% say that the reintroduction of carparking charges will have a high or extremely high financial impact on them.²⁷

For workers who are parents, many cannot go to work without paying for childcare – whether it’s nursery for young children or afterschool care for older ones. This is another cost of working that is increasing, and which is forcing many workers, disproportionately women, to leave the workplace, cut back on essentials or take on extra shifts.

According to research from Pregnant then Screwed and Mumsnet, one in four parents said they have had to cut down on necessities such as food, heating or clothing to afford childcare, a figure that increases to 48% of young parents and 53% of single parents.²⁸

For the first time in decades, the number of women not returning to work after having a baby is rising²⁹ as the cost of nursery places spirals, outstripping salaries. These women are missing from the Government’s so-called record employment numbers – as they are unable to afford to work rather than actively job seeking, they are classed as “economically inactive” rather than unemployed. Among the “economically inactive” women in the UK, 28.5% are not working because they are looking after family.³⁰

In part this is a problem of wages. We know wages overall are too low for many households to live on – and this is compounded for women who on average still face lower wages than men. In 2021, median pay for all employees was 15.4% less for women than men.³¹

But it is also a problem of a broken childcare market. According to the OECD, more middle-income households say they are not using childcare because they cannot afford it in Britain than in any other of the countries it surveyed.³²

“My job is seen as important and carries risk, yet a retail assistant gets more wages than I do. I am unable to provide my children the clothes they need without forfeiting money from the food budget.”
– Police community support officer in Portland, Dorset

“I am a community staff nurse delivering nursing care in patients own homes. I use my own car to undertake these visits. The NHS petrol allowance no longer covers the cost of petrol needed to cover the milage expected to do the visits. I am spending approx. £200 every month over the allowance. So is every community nurse.”
– a community staff nurse in Milton Keynes

“I work for the NHS in a community job so need to use a car. I feel sick and tearful when I refuel.”
– NHS worker in Shrewsbury

“Stress, anxiety and worry frequently. Am struggling to pay for basic needs such as haircut, clothes and car repairs. I need my car to complete my community job but the expenses barely cover the fuel let alone tax, insurance and repairs for all the mileage I do.”
– Rehab support worker in Canterbury

“Can’t even afford to park, £6 a day, at work anymore let alone put the fuel in my car to get to work. I have to choose between eating or paying the car parking fee to actually get to work in the first place. It’s depressing”
– Nurse in Leicestershire

PUBLIC SECTOR WORKERS ARE IN A DEEPENING PERSONAL DEBT CRISIS

Many middle- and higher- income households in general accumulated savings through the pandemic, as staying at home and limits on what they could spend disposable income on saw expenditure drop more than their income.

However, lower-income households with a higher share of essential spending, and who likely entered the pandemic with existing debt already, were far less likely to have built up any savings.³³ This has resulted in a growing reliance on credit to meet household bills.

For public service workers, this reliance on personal debt is a further crisis in the making. 33% of low paid public service workers have had to ask friends or family for financial support to make ends meet. More than one in three rely on their credit cards to cover everyday spending – a shocking figure compared to the one in ten figure for Britons as a whole. A further 13% have taken out bank or building society loans to cover rising costs of living, and 8% have had to rely on high interest pay day loans to make it to their next pay check.³⁴

On top of traditional forms of borrowing, including loans, credit cards and payday lending, the pandemic saw an explosion in the “buy now pay later” sector. The amount spent via “buy now pay later” services more than doubled from £2.7 billion in 2020 to £5.7 billion in 2021.

Promoted on purchases for items such as clothes, footwear, homewares and electronics, this form of finance allows consumers to purchase items but delay paying for them. Some providers like Zilch allow

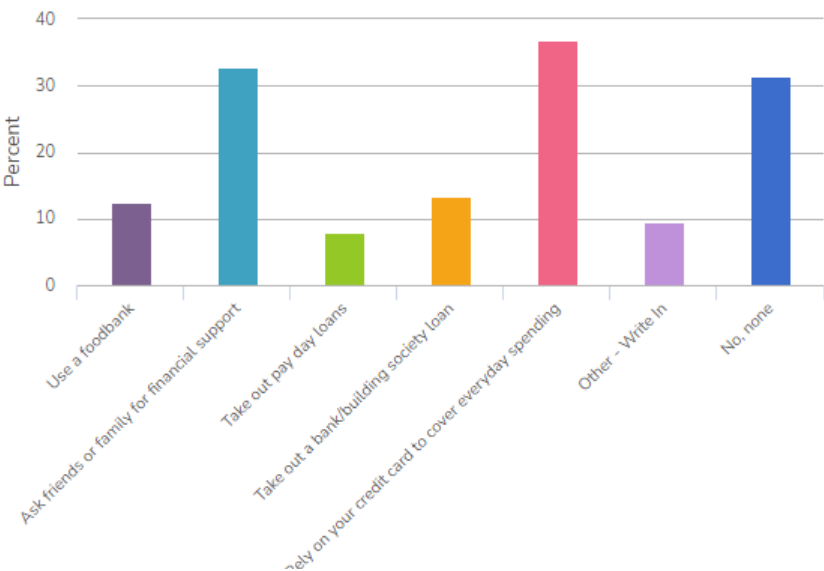


Chart 2: Have you done, or do you plan to do any of the following to make ends meet over the coming period?

consumers not just to use “buy now pay later” loans on one-off purchases, but on everyday spending like groceries and electricity bills.³⁵

Customers are often promised no interest or charges – provided they pay what they owe on time – and possibly as a result, Which? says many users do not realise that they are taking on debt at all.³⁶ The easy access to this form of finance along with the lack of credit checks and what the UK’s Advertising Agency described as “irresponsible” encouragement means households struggling with rising living costs are easy prey.

There is a very real danger that this will store up further problems for the future. Wider analysis shows that to pay off their debt, households are then borrowing even more. Half of those with “buy now pay

“My gas direct debit has risen to nearly £200 a month as I have an outstanding debt on it, we haven’t had our heating on for the past 3 months and I am dreading the colder weather coming in as I won’t be able to afford heating. The cost of diesel has risen so much, I travel 24 miles per day to work, taking on extra shifts means extra diesel being used. I am using my credit card to put extra fuel in my car, but this then means having to pay that back when the statement comes in, I am continually in my overdraft and often it is nearly all used before the next pay comes in. 5-week months are the worst.”
– Staff nurse in East Ayrshire

“I tend to eat one meal a day maybe two at weekends, but everyone I speak to is in the same position or similar. It’s a depressing picture tbh, with being employed and single I’m not entitled to any help, my debts have increased because I’ve been supplementing my wage with a credit card, but I don’t believe a pay rise is on the horizon, so at the minute I’m sinking slowly into debt”
– Highways inspector in Stoke-on-Trent

later” loans in the UK report finding it hard to keep up with household bills and credit repayments,³⁷ leading to two in five “buy now pay later” borrowers who are using services like Klarna are paying back these purchases with extra borrowing – predominantly on credit cards.³⁸ This vicious cycle can leave people saddled with unmanageable debt, punitive fees and unsustainable finances long after the storm has passed for other households.

As well as borrowing from financial institutions, households are falling into debt to public bodies and essential service providers. This could be council tax debt, unpaid energy, or water bills, or even debt for everyday expenditure. For example, parents in Perth and Kinross owe £20,000 for unpaid school meals with over £1m owed by families across Scotland.³⁹

These ‘hidden debts’ are often not included in figures on household debt as there is no single organisation

responsible for measuring levels of household bill debt. In 2018, Citizens Advice estimated that the total level of household bill debt owed to essential service providers and government was already nearly £19 billion⁴⁰ - and the current crisis is fuelling further rises.

For example, a report presented to Northumberland County Council shows that arrears for March 2022 were the highest level ever.⁴¹

These debts are usually priority debts meaning the consequences of a failure to repay on time can be severe, including rapidly escalating fees, aggressive collections by bailiffs, the risk of losing their homes or even a prison sentence. The reliance of many councils on bailiffs to recover council tax debt can see significant additional costs – an average of £84 for a court order and £310 in bailiff fees – as well as huge anxiety to the individuals struggling to repay.⁴²



“I work within a care home and since doing full time I’ve been living as well as can be. However, since everything price wise has gone up, I’ve seen myself having to work more hours in order to pay for things. My gas and electric has went up about 40%. My travel fares to get to and from work have went up at least 10/15%. My food shopping bills have started to crawl up... I’ve seen myself use the likes of Klarna and Clearpay more and more because buying things outright is just simply out of the question.”
– Jamie, care and support assistant in Glasgow

“I eat the leftover food from my children if there is any or I just drink tap water and go bed. I am worried about the energy crisis, how are we going to eat without cooking and survive during winter without heating. I am always overdrawn and use Klarna to spread the cost which I never use before the crisis.”
– Local government finance officer in East London

“It’s very worrying, we are already living from hand to mouth, and if the prices go up even further as predicted, then I really don’t know where the money will come from. I am already in debt as I’ve had to pay for a car MOT, and my youngest son has a school trip that I don’t want him to miss out on. All these costs and others have gone on credit cards, but I’m struggling to pay them back.”
– Youth worker in Haverfordwest, Pembrokeshire

THE PUBLIC SECTOR IS ON THE BRINK OF A MENTAL HEALTH CRISIS

The link between personal finances and mental health is long established: worrying about money is extremely stressful. In a 2017 survey, The Physiological Society suggested that unexpected money problems were the eighth-most stressful life event identified by people in the UK⁴³ and people with problem debts are twice as likely to develop major depression as those not in financial difficulty.⁴⁴

With energy costs set to rise further in October, and again in January, it can feel like there is no end in sight, and as household budgets reach breaking point, many workers report feeling hopeless and exhausted.

When surveyed, 84% of UNISON's lowest paid workers say that rising bills and pressures on their household budget is having a negative effect on their health. Three quarters of low paid public service workers are feeling down, 80% are experiencing higher anxiety and over a third report lower self-esteem.

Low pay and rising prices are forcing many households to stop doing the things that can help to tackle anxiety and depression. 57% of low paid public service workers surveyed by UNISON have cut back on socialising- citing barriers such as being unable to afford the travel to see family members, not being able to pay for a cup of tea out, family days out costing too much, or taking on extra shifts and second jobs in the evenings and weekends to earn enough to pay their bills. Some workers, who are able to, have chosen to work solely from home to save on commuting costs, leaving them further isolated from

"I feel everything is pretty futile now. I do overtime just to live rather than to save for luxuries"
- Paramedic in Bedfordshire

"I am already cutting back on the use of electric and gas, by time limiting showers & banning baths. I am ensuring there is no food waste, either, so that I can stretch our food out as much as possible. I have stopped all my leisure activities (cinema, pub, drinks out, driving) so as to be able to ensure the children get what they need"
- Kerry, a housing assistant in York

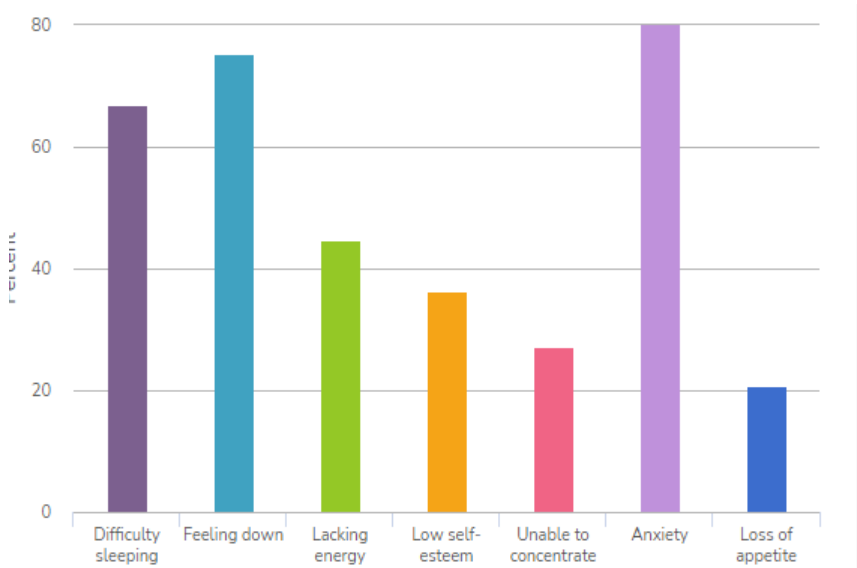


Chart 3: How is the cost-of-living crisis affecting you?

colleagues and friends. Social isolation and loneliness can be distressing and demoralising, and can have a further negative impact on mental health – especially if they last a long time.

This anxiety, low mood, and isolation as a result of cost-of-living concerns is having physical impact on workers' health too. 67% of workers surveyed are having difficulty sleeping which can lead to long term health impacts.

In addition, despite high profile Conservative politicians suggesting that poorer people simply need to learn how to cook, many low paid staff report that they can no longer afford healthy food – either they cannot afford to eat enough, or the healthier choices are out of range of their budget.

It's little wonder then that 45% of low paid public service workers report that they lack energy, and 27% say they are unable to concentrate at work. The numbers paint a worrying picture for public services in the UK. At a human level, the sheer number of workers experiencing poorer mental or physical health as a result of the cost-of-living crisis is indefensible. Many of these staff worked on the frontline throughout the pandemic to keep essential services running and having emerged from that crisis are plunged into another.

At an economic level, this huge rise in mental and physical health problems is a timebomb for public services. There is already a huge backlog of mental health support needed following the pandemic with

mental health referrals hitting a record 4.3 million last year, with a backlog of a further 1.4 million people waiting to start treatment.⁴⁵ The Royal College of Psychiatrists say that there is a £300m black hole in mental health funding – a gap that is only getting bigger as inflation increases.

And for public service employers this timebomb will impact on their ability to deliver basic services. A sharp increase in staff experiencing mental and physical health problems is likely to present as a drop in productivity in the workplace, an increase in staff off sick and on long-term sick leave, resulting in ever higher agency costs to cover their roles, and a crisis of retention as experienced colleagues leave public services for better paid and less stressful roles in sectors like retail.



"I literally have to choose between bills or food. I used to eat healthy and nice food but now beans on toast. Egg on toast is a treat."
- Care worker for a privatised care company in Sheffield

"I cannot put on my heating, I am eating mainly bread and cheese spread, noodles and pasta, cheap food. I am living off my credit cards as my mortgage and council tax make up over 2/3rds of my income. I am left with £230 to pay my gas electric, water, phone, car etc so I borrow off credit cards every month and pay the minimum payment, but my debt never decreases. I am single and 59 and have a few health conditions so only work part time. I am entitled to no benefits. I am depressed and stressed. I am a care worker and am almost on minimum wage working for the council."
- Donna, a care worker for a local authority in the East Midlands

"I can only afford 1 meal per day. I've lost nearly 4 stone since August 2021 - I wasn't fat to start with and am now getting thin and tired... I'm nearly 58; have a serious blood disease needing ongoing hospital treatment and honestly don't know how long I can go on working 50+ hrs pw of heavy physical work on 1 meal per day, especially if I keep on losing weight."
- Cleaner/ midday supervisor in a school in Prestwich

"I have MS and get a whole variety of symptoms that get worse with stress and fatigue and now I'm having more issues than I have before due to money worries and working as many additional shifts as I can, just to make sure we can pay all of our bills. It is literally making my health worse, and we are cutting back everything we can to try and stay within our means, which is getting harder the more prices rise."
- Sammy, a patient access clerk for the NHS in Bristol

GOVERNMENT IS FAILING TO TACKLE THE PROBLEM

It is clear that something needs to change. Inflation shows no sign of abating, and the package of support announced by the Government so far has failed to make a dent in the scale of the crisis for the majority of households.

YouGov polling shows that 76% of Britons feel that the recent government measures to address the rising costs of living will not help them at all or help them only slightly.⁴⁶ In Unison's survey of public service workers, the dissatisfaction with measures announced to date is even stronger: 95% say that the package either comes nowhere near to addressing their financial worries (42%) or helps but because of other increasing costs, including petrol and food, does not address their concerns around rising bills.⁴⁷

If the Government is serious about tackling the cost of living crisis, then they need a far more comprehensive package of support – which includes action on low wages, immediate financial support for those households already struggling as well as steps to prevent further households falling into poverty, reform of the social security system, and long-term structural reform of broken markets like energy and childcare where price rises are out of control and a change in direction on economic policy to boost productivity, create decent well paid jobs, and address the decades long problem of inequality.



POLICY OPTIONS

This section addresses solutions to the crisis in four sections:

First, that this cost-of-living crisis cannot be overcome without income growth. This means increasing the minimum wage to make sure workers on the lowest pay can afford their bills and living costs, but also increasing wages more widely at least in line with inflation. It also has to mean significant reform to the UK's social security system to tackle its inadequacy and poor design.

Secondly, it explores options to fund a public sector pay rise without cutting other services. Proposals for a wealth tax and tax rises for the highest earners and large corporations would raise significant funds in a progressive way.

Thirdly, it sets out options for reform of broken markets where private profits are pushing up prices. This section focuses on housing, energy, and childcare – but future work will also need to look at other parts of the economy that are not functioning for ordinary people, such as food price inflation and transport costs.

Finally, it explores some policy options to address some of the immediate impacts of this crisis that were raised by public service workers we surveyed. So many public service workers highlighted the impact this crisis is having on their mental health, the worrying levels of debt that they are accumulating to pay for everyday household spending, and the financial cliff-edge they face this winter.



GIVE BRITAIN A PAY RISE

The cost-of-living crisis is a low pay crisis – wages are insufficient to live on. Pay restraint and pay freezes in the public sector mean this is more acute for public service workers than those in the private sector who've seen their wages more or less keep up with inflation over the last 12 years. All wages are failing to keep pace with inflation, but this is especially the case in the public sector – and public sector wages are something that the government has direct control over.

Public service workers should be given a pay rise at least in line with inflation, using RPI as a mechanism to ensure this reflects the actual costs of living households face. This would ensure public service workers can make ends meet, tackle the recruitment and retention crisis facing public services, and provide a substantial boost to regional economies.

Contrary to the assertions of many commentators and politicians, a public sector pay rise would also not exacerbate inflation.

This is for a number of reasons. First, inflation can be broken down into three components: labour costs, non-labour costs and profits. Even the Bank of England has confirmed that current inflation is being driven primarily by the prices of energy and core goods, which account for 80% of the overshoot of inflation targets⁴⁸ - showing that it is profits not wages driving rising prices. While wages have stagnated, profits have boomed: the profits of the largest non-financial companies were up 34% at the end of 2021 compared with pre-pandemic levels and research suggests that it is this excess market power of some firms making excess profits driving inflation.⁴⁹

Rather than asking workers to bear the pain of tackling inflation through wage restraint, it should be these large companies profiteering and pushing up prices at the expense of consumers, workers and the wider economy who exercise restraint.

Secondly, when we talk about public sector pay, it is important to remember that the majority of public service workers do not work for profit making enterprises. The majority of services they provide are free at the point of use, so unlike in the private sector, the argument that higher wages further push up the price of a good or service doesn't stand up to scrutiny. And in fact, finally, higher pay in public services is crucial to avoiding, or at least minimising the likelihood and impact, of the recession that is widely predicted to come next. The economy is expected to

contract by 0.25% in 2023 and remain weak for at least two years.⁵⁰ To minimise the length and depth of the pending recession, the economy must grow – and research shows that public sector pay rises are a sure-fire way to do this in a way which benefits every region, not just London and the Southeast. Had there been a public sector pay rise in line with RPI inflation last September, the economy would have experienced a £10.5 billion boost, the benefits of which would have been distributed across every single one of England's regional economies.⁵¹ The same principle applies across the nations of the UK.

Action also needs to be taken to tackle the costs of working. Workers cannot be expected to subsidise their employers while going about their jobs. Mileage rates need to reflect the real costs of petrol and motoring if workers are to be expected to drive between appointments or use their own car to make home visits. Workers should not be hit with car parking charges simply to access their workplaces.

There are other costs of working that need to be addressed too. National insurance is a tax on working people rather than unearned wealth, and recent increases is shifting the tax burden further and further onto ordinary working people. There are better ways to fund social care and the NHS. Childcare is a necessary cost of coming to work and shouldn't be shouldered solely by parents – the childcare sector is discussed in further detail below. And the commute to work is becoming too much for many workers too – public transport fares need to be affordable and easily accessible.

INCREASE THE NATIONAL LIVING WAGE

There also needs to be action taken to tackle low pay. The Government's minimum and living wages need to increase. It's wrong that young people and apprentices are paid less for a hard day's work, so these should be brought in line with the national living wage. The national living wage needs to be just that – a wage you can live on rather than rebranded poverty pay. The rate for the national living and minimum wage should increase to £15 per hour, with further work

done on the methodology for calculating it to ensure from that base it rises to reflect the costs-of-living each year.

The rise that's due in April 2023 needs to be brought forward to October to enable people to get through the winter.



PROGRESSIVE TAXES TO FUND A PUBLIC SECTOR PAY RISE

While an end to pay freezes was promised at the Budget in October 2021, by the time of the Spring Statement in 2022 inflation had already wiped out all necessary funding needed to deliver a real-terms increase. The IFS calculated the gap to be £10 billion⁵² - and with inflation still rising to record levels, the gap by the Autumn Budget in 2022 will be even greater.

The government's choices are to do one or a combination of the following: a) find funds to top up departmental budgets to meet the additional costs b) find the funding from elsewhere in departmental budgets c) follow up the pay freeze with a real-terms cut.⁵³

The Government's announcement on public sector pay in July very much suggests that they are going with a combination of b) and c) real terms pay cuts paid for from within existing budgets.

Without finding extra funding, public service workers will yet again be hit with real-terms pay cuts, and public services themselves will be subject to a further bout of austerity.

It is critical therefore that those funds are found. In UNISON's exclusive polling, conducted by YouGov, as well as broad public support for a public sector pay rise, there is support for tax rises to pay for it. 60% of the public believe that public sector pay should be increased in line with or above inflation.⁵⁴

There are a number of options to pay for this without cutting other services or reducing spending elsewhere. These include:

- A 1p increase in income tax for all incomes above £100,000 per year would yield £500 million annually, or a 1p increase in the higher rate and additional rate of income tax would yield **£1.65 billion** per year.
- Despite the increase announced in the Autumn Budget 2021, the UK corporation tax rate, is still one of the lowest within the G20. A 1 percentage point increase in corporation tax would yield **£2.8 billion**.
- Capital gains tax is charged when someone makes a profit selling an asset (shares, property etc but not your main home). For basic rate income taxpayers, the main rate is 10% (18% for buy to let properties) and for higher and top rate taxpayers, it is normally 20% (28% on buy to let). There rates are lower than the equivalent Income Tax rates: the Income Tax basic rate is 20% and the higher rate is 40%. In addition, the first £12,300 of profit is not taxed (this is separate from the Income Tax Personal Allowance). Equalising the rates of Capital Gains Tax and Income Tax is projected to raise about **£8 billion** in 2022/23.
- A recurring annual wealth tax of 1% on all household wealth above a certain threshold level, including the following, could raise significant funds:
 - Housing wealth (including primary residence, second homes and buy-to-let)
 - Pension wealth
 - Other net financial assets

Modelling this, as shown in Table 1, suggests that a 1% annual levy on all household wealth above £5 million would raise **£10.1 billion** per year.

Table 1: Yields from annual wealth tax

	Amount raised by 1% per year tax on all wealth above threshold (£bn) if tax base includes:		
Household wealth threshold	Net housing wealth, pension wealth and net financial assets	Net housing wealth and financial assets only	Net housing wealth excluding principal residence and financial assets
£1m	80.0	24.6	8.9
£2m	39.1	11.4	5.6
£5m	10.1	5.1	3.6
£10m	3.8	2.5	1.6
£20m	2.4	1.4	1.4
£50m	0.4	0.0	0.0

- 'Entrepreneur's relief' - a large capital gains tax break for company owner-managers and known to be poorly targeted - has cost £22bn over the last decade and its abolition would save £2.7 billion a year.
- A phased reduction in financial support to homeowners and private landlords. The Chartered Institute of Housing has estimated that subsidies and grants to private owners cost around £8 billion a year, with its main impact being to push up house prices and much of the gain accruing to property developers rather than ordinary homeowners.

UNISON's poll shows that targeted tax increases focused on wealth and the highest earners enjoys broad public support. A quarter of Britons think that reducing the threshold for the top income tax bracket from £150,000 to £100,000, for example, would be the fairest way to fund a public sector pay increase. 54% support introducing a 1% wealth tax on people's income above £5 million to pay for a public sector pay rise.⁵⁵



REFORM UNIVERSAL CREDIT

There are severe problems with the adequacy, design and implementation of Universal Credit that have undermined the security and wellbeing of the poorest in our society. Detailed proposals on how to do this can be found in the TUC's report 'A replacement for Universal Credit', developed with input from UNISON and other trade unions.⁵⁶

A replacement for Universal Credit to deliver a fair and dignified system for everyone, as one part of a more comprehensive social security system. As set out in the TUC paper, any reform of the benefits system should be trying to achieve:

- A system that helps to prevent poverty and works together with efforts to create decent work for all.
- A system that helps with additional costs, including childcare, housing, and the added living costs linked to disability.
- A system that helps people work the number of hours that fits their family circumstances.
- A system that is simple to understand and deliver and in which claimants and staff are treated with dignity.
- A system that enables financial independence within families.
- A system that promotes equality for everyone in society.

As set out in the next section, as an interim measure the Government should reinstate the £20 per week uplift, removed in 2021, while reforms are developed and implemented.



FIX BROKEN MARKETS

There are some markets which, whether through design, regulation (or lack of) or simple profiteering, are failing to deliver for consumers and which have an adverse effect on the wider economy. A fair wage still won't feel very fair if big chunks of it continue to be funnelled through energy bills and nursery fees into the profit margins of big businesses.

Failure to tackle these broken markets will result in widening inequality, because for people on a lower income, a greater proportion of what they earn is spent on the essentials like food, energy, housing costs and childcare.

It is out of scope for this paper to set out in detail the appropriate interventions in these markets, but it will be important for trade unions, civic society, and campaigners to be active in this space. This paper looks at three markets in particular, energy, housing, and childcare, but there are also areas of the economy that require focus and policy solutions like tackling food price inflation and high transport costs.

ENERGY

With the energy price cap set to increase yet again in October to £3,244, and further rise in January to £3,363, immediate action on energy costs is vital. Without this, households which were just about managing will be pushed into poverty and debt, while those already struggling will suffer through the winter in cold, dark homes. There will be a severe and irreversible impact on health, especially for older and disabled people.

Meanwhile, the UK's energy system still delivers excess profits to its shareholders. British Gas owner Centrica is expected to confirm a rebound post-pandemic with "mega profits" ahead of October's energy price cap increase.⁵⁷ National Grid, responsible for keeping our lights on, is being bought and sold by international investors like Macquarie, a global asset manager⁵⁸ and in 2021 their shareholders received £1.4 billion in dividends.⁵⁹ This year, their profits rocketed to £3.4 billion.⁶⁰

In the short term, there clearly needs to be significant direct support for consumers facing a cliff edge this Autumn, using public funds to lower bills whether through increases to the Warm Homes Discount, VAT cuts, or rebates. Now that it is not only the lowest paid struggling to pay their bills, more direct intervention into the market in the short term may also be neces-

sary, with government intervention to limit the rise to the price cap altogether.

Britain has some of the least energy efficient housing stock in Europe, so retrofitting and insulating homes must also be a policy priority – helping to tackle climate change and create green jobs while also significantly reducing household heating bills. Done correctly, this can be an inherently progressive programme, given many of the draughtiest homes are in the lower end of the housing market and in the private rented sector.

In developing the detail on these policies, the measure of success for any government intervention should be that no household is fuel poor (defined as households left below the poverty line after paying their fuel bills, although previously a higher bar of fuel poverty existed which stated a household was fuel poor if it spent more than 10% of its income on fuel⁶¹) and every home is able to turn on their heating when it gets cold. In the longer term, it isn't enough to make demand-side changes – this simply props up a broken system and subsidises the profits of private energy companies. It has long been the policy of UNISON that reform of the energy market should mean public ownership, so that private profit has no place in the provision of essential public utilities.

HOUSING

Average rent in the UK has hit a record high – especially in London and the South. Many renters are paying over a third of their income in rent and have little hope of ever being able to save enough to buy a place of their own. But despite the high price, renters are not receiving high quality returns: in many parts of the country, rented housing quality is poor, especially at the cheaper end of the market.

House prices have hit a new high too, and with the Bank of England using interest rates to try and curb inflation, many borrowers have seen their mortgage repayments increase. Just over a third of Brits are concerned about being able to pay their mortgage or rent now, and more people than not are worried as to whether they'll be able to afford their rent or mortgage 12 months from now.⁶²

Housing markets are incredibly varied across the UK, each nation and region with its own characteristics and challenges. Despite this, there is an increasingly centralised approach to housing policy which limits

the ability of councils to build new social housing, and which promotes a market driven by private development and profit.

Any housing policies designed to fix the problems in the UK's housing markets need to strengthen renters' rights, tackle the excessive costs and poor quality of many parts of the private rented sector, usher in a new era of council housing in order to increase the number of homes at social and affordable rent, and ensure there are sufficient homes available and affordable for key workers in every region.

While this cost-of-living crisis has made many lower- and middle-income owner occupiers concerned about being able to pay their mortgages, overall, the past few decades have seen huge subsidies given to incentivise and reward homeownership. Those owner-occupiers struggling with mortgage repayments during this crisis do need immediate financial support or mortgage holidays in order to ensure they are able to weather the storm and avoid homelessness, but in the longer term there does need to be reform of policies designed to support buyers and stimulate the market.

Home ownership is a valid aspiration, but many of the policies like Help To Buy designed to help first time buyers onto the ladder are ineffective. Other subsidies are poorly targeted and help landlords and investors more than they help ordinary households. Many interventions have the effect of pushing up house prices rather than helping more people into secure, affordable homes. Instead, the focus must be on ensuring everyone has access to a secure, affordable, energy efficient home rather than stimulating a market to the disproportionate benefit of those who see houses as an investment not a home.

CHILDCARE

Any sector where the costs of the service are increasing but the wages of those who deliver it remain low is broken. This is very much the case in childcare, where staff work hard in a difficult job for very low wages and limited opportunities to progress. The sector, in England at least, faces the risk of further deregulation on areas such as ratios⁶³ which would drive down quality and safety for both the children and the staff.

Meanwhile, large private companies continue to profit from the sector. In 2021, 70% of all group-based day nursery places were in the for-profit sector, with smaller nursery chains and individual nurseries struggling to survive as they find themselves increasingly priced out and bought up by large private equity-backed companies seeking to make profits.⁶⁴ England's deliberate promotion of for-profit companies in childcare is the exception within Europe – only 3% in Germany and 4% in France is delivered by for-profit companies.⁶⁵

This is problematic for many reasons. The first and most obvious is that profit is being extracted from the sector at the expense of wages and thanks to rising fees for parents and carers. A for-profit childcare market is pricing families out and the funding invested by the government is directly subsidising profits, not reducing costs for parents. A second issue, more hidden, is the sustainability of the sector. By relying on private equity to expand, highly indebted childcare companies are putting the entire system's sustainability at risk.⁶⁶

Childcare is an essential public service and must be seen as one. Policies should ensure a decent wage and good working conditions for the staff who work in the sector – vital both to ensure staff can make ends meet and to ensure the sector can recruit and retain the very best. Childcare is a highly skilled job and should be respected and rewarded as such.

Access to affordable, good quality childcare for everyone has wider economic benefits. More parents can go back to work, earn more, progress more and contribute more. Fewer children will grow up in poverty resulting in better childhoods and improving long term outcomes too. This is critical for the prevention of future health and social challenges in adulthood, therefore helping to reduce the cost of future public services.

And it is key to tackling inequality – both because women are disproportionately impacted by the current unfair system, but also because high quality early education and childcare has a positive impact on children's wellbeing and life chances, helping tackle other socioeconomic inequalities. Free entitlement to childcare was shown to narrow the attainment gap between children from disadvantaged backgrounds and their more affluent peers – but as the number of children accessing early years entitlements has plummeted, that gap has begun to widen again.⁶⁷

Given the payoff that childcare has for the whole of our economy and society, it is only right – and makes sound economic sense – to use general taxation to provide this public good. This has to mean proper funding for the sector, and the expansion of free hours. The UK spends less than 0.1% of GDP on childcare, the second lowest in the OECD,⁶⁸ and this has to change.

There are a number of issues with how the social security system supports parents too, and there needs to be increased coverage of childcare costs under Universal Credit with upfront payments for childcare.

However, simply pouring more public money into a system dominated by private equity backed big business is just a sticking plaster: there needs to be serious and urgent reform of the sector focused on ownership and transparency. A right to an early education could be introduced too, as a mechanism to overcome shortages of childcare in different parts of the country.

RESPONDING TO THE IMMEDIATE IMPACTS OF THIS CRISIS

RESTORE THE UPLIFT

The £20 uplift to Universal Credit made a huge difference to people earning the lowest incomes. Its removal last October left many households struggling to pay bills or buy enough food.

Wider reform of Universal Credit is essential – but there need to be urgent measures put in place while that is undertaken to stop families falling into destitution and debt. Households who rely on Universal Credit to make ends meet have very little protection from rising prices and as inflation spirals further out of control, a reinstatement of the uplift will be the most effective way to safeguard those on the lowest incomes before winter hits.

In addition, the taper rate needs to be adjusted, as the reduction announced in the Budget in October 2021 does not always fully offset the loss of the uplift. And to help ensure work pays, work allowances can be increased too. These play a crucial role in helping increase the hours and income for those in work.

There are further short-term measures that low-income households need to see implemented too. These include ending the five-week wait for the first Universal Credit payment, with non-repayable grants estimated in the same way the current repayable advances are. This change could prevent millions of people falling into destitution while they wait for their first payments are processed.

Issues with upfront childcare costs is another challenge that parents claiming Universal Credit face – where they are required to cover massive upfront childcare costs before being able to claim them back. A short-term fix to this issue, while wider reform of both the benefits system and childcare markets are undertaken, could be that childcare payments are able to be made upfront and directly to the provider.

MENTAL HEALTH SUPPORT

There is a systemic relationship between changes in individual or household income and mental health and wellbeing. Allowing a worsening cost-of-living crisis to drive more people into poverty will have serious and long-term consequences for Britons' health.⁶⁹

It is important to tackle money issues and mental health together⁷⁰ so improving pay, tackling inflation,

and dealing with spiralling energy, childcare and housing costs is clearly critical. Reform of Universal Credit is essential here too. Many people with mental health problems and other long-term health issues rely on the welfare system to survive because their condition(s) mean they are unable to work or unable to work full time. The callous sanction regime in particular adds significant stress and anxiety to people living with mental illness⁷¹ and needs to be replaced.

But fixing the cost-of-living crisis alone will not fix the nation's mental health. Mental health referrals are already at record levels, at 4.3 million last year, and health services are still working through a backlog of 1.4 million people still waiting to start treatment as a result of the pandemic. Even before these record numbers, the mental health budget was stretched thinly, and more funding is urgently needed. The Royal College of Psychiatrists has called for an immediate cash boost of £300 million with further funding necessary next year.⁷²

Support targeted at public service workers may also be necessary in addition to this additional funding for the NHS – given the pressures they faced working through the pandemic delivering essential services and providing frontline care as well as the financial squeeze they are currently facing.

TACKLING THE LOOMING PERSONAL DEBT CRISIS

Unchecked, the growing mountain of debt is a future crisis in the making. As households borrow to pay back other borrowing, this mountain risks an avalanche of defaults, bailiff action and evictions. It is clearly unsustainable for households to simply keep taking out more credit cards until the crisis passes.

There are a number of policy options to help prevent this. In the immediate term, to prevent homelessness and further financial difficulty this winter with fuel bills rising, all evictions and bailiff action to enforce household bills could be frozen – for the duration of this cost-of-living crisis to enable families to find their feet.

In the longer term, government could provide direct grants to heavily indebted households to help clear rent and council tax arrears. Access to insolvency procedures could be widened to help more people with

low incomes and no real assets to have a fresh start. Support for more responsible forms of borrowing like credit unions in workplaces could help ensure universal access to affordable finance. And there is also a need to accelerate proper regulation of the “buy now pay later” market.

There are also issues with the secondary debt market, where debt purchasing firms buy ‘non-performing’ loans from lenders’ balance sheets to allow lenders

to create new loans. These debts can see people trapped in poverty while they repay in full despite the debt purchasing firms having bought their debt from the lender a lower price. It allows hidden parts of financial markets to profit from those households struggling to pay their bills and there are a number of policy options available to tackle this such as a ‘fair debt write-down’ for debts sold on the secondary market.

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