Responding to the cost-of-living crisis: a plan for action

Changing the world of work for good

Families are facing a crisis this winter

Millions of families face a crisis this winter, as energy and other bills soar. TUC analysis shows that if the energy price cap rises to its forecast level of £4266 a year[1] that will take up two months' worth of average wages.[2]

Workers are already facing the longest and deepest wage squeeze for two-hundred years.

At the end of this year, workers are expected to face a hit to real pay of minus 7.75 per cent – TUC analysis of quarterly figures shows this will be the steepest decline for exactly a century.[3]

Successive cuts to social security and universal credit have put further pressure on family budgets. Even before this crisis, the majority of people in poverty (57 per cent) were in working families. The Bank of England is forecasting that real household incomes will decline by 1½ per cent this year and 2¼ per cent next year.[4]

We need a plan to get families through the winter. But we have to recognise that this crisis is a result of successive failures of government. That's why it's vital we take action now to deliver sustained wage rises, real support for families, and a fair, secure and zero carbon energy system for the future.

We need to help families with the immediate crisis

- Government must cancel the imminent increase in the energy price cap from going ahead. The average family is being threatened with a hike in energy bills of over £1,500 in October. Government can step in and cancel the price cap increase to help families cope through the winter. TUC analysis shows that it could finance this by increasing the North Sea oil & gas windfall tax, reducing loopholes and going ahead with the planned increase in corporation tax.
- Without the proposed intervention, more energy supply companies would go bankrupt this winter. Privately-run energy suppliers have demonstrated they are not able to provide affordable energy to households, and are relying on government action. Increasing the price cap to £3,500+ will mean that hundreds of thousands or millions of households will default on payments over the winter – causing turmoil in the energy supply market at more companies fail.

---

[1] See Cornwall Insight (9th August 2022) 'Price cap forecasts for January rise to over £4,200 as wholesale prices surge again and Ofgem revises cap methodology' at https://www.cornwall-insight.com/price-cap-forecasts-for-january-rise-to-over-4200-as-wholesale-prices-surge-again-and-ofgem-revises-cap-methodology/

[2] TUC analysis finds that median take-home regular pay after Income Tax and National Insurance deductions will be £2054 a month in 2023 Q1. This is based on ONS Average Weekly Earnings and BoE wage growth forecasts.

[3] TUC, *Jobs and pay monitor*, Aug. 2022: https://www.tuc.org.uk/sites/default/files/2022-08/JobsandpaymonitorPayrise.pdf

[4] Bank of England (August 2022) Monetary Policy Report https://www.bankofengland.co.uk/monetary-policy-report/2022/august-2022

- In providing security and rescuing the broken energy system, this package should be part of a programme of taking the Big 5 retail companies into public ownership and introducing a free basic energy component for all households and a social tariff for vulnerable households.
- The government has already said that universal credit, other social security benefits and pensions will rise in line with CPI inflation this year,5 with these rises normally based on the September CPI inflation figure, currently predicted to be 10 per cent.6 The Low Pay Commission will make a recommendation on the level of the National Living Wage in October. As an absolute minimum, the government should announce that it will bring forward planned increases in social security, universal credit and pensions, and in the National Living Wage till October. These increases must be at least in line with inflation.
- Government must fund pay rises for all public service workers to at least match the cost of living and begin to restore earnings lost over the last decade.
- And government should immediately stop the policies that are needlessly taking money out of families' pockets, including harsh benefit deductions, the two-child limit in social security and the arbitrary benefit cap.

We need to ensure that this crisis never happens again

This crisis hasn't come out of the blue. Our ability to cope with energy price shocks has been eroded by the longest and deepest squeeze on wages in modern history, persistent attacks on social security, and the failure to plan the secure, safe and green energy future we need. It's vital that government seizes this moment to ensure that we are never faced with a crisis of this size again: 'building back better' must be a reality this time.

- We need a plan to get pay rising for everyone, with a higher minimum wage, new rights for unions to set minimum pay and conditions across the economy[7], and decently funded public sector pay rises.
- We need to fix our social security system so it delivers a real safety net for all who need it. That means a basic rate of universal credit and legacy benefits set at 80 per cent of the real living wage, a significant increase in support for children, and a plan to fix our

---

[5] In May the then Chancellor Rishi Sunak said: "And I can reassure the House that next year, subject to the Secretary of State's review, benefits will be uprated by this September's CPI…
…which, on current forecasts, is likely to be significantly higher than the forecast inflation rate for next year. Similarly, the triple lock will apply for the state pension." – see Rishi Sunak (26th May 2022) Cost of Living Support**:** Statement by the Chancellor of the Exchequer on Cost of Living Support at https://www.gov.uk/government/speeches/cost-of-living-support

[6] Bank of England (August 2022) Monetary Policy Report https://www.bankofengland.co.uk/monetary-policy-report/2022/august-2022

[7] See TUC (2019) 'A stronger voice for workers' for the TUC's plan for how to deliver fair pay agreements across the economy at https://www.tuc.org.uk/research-analysis/reports/stronger-voice-workers#:~:text=Research%20shows%20that%20workplaces%20with,and%20better%20health%20and%20safety.

replace the broken universal credit system with one that delivers real security for families.[8]

- Energy is expensive in the UK because of our broken energy system and dependence on volatile imported fossil fuels. The TUC has set out a plan to take our retail energy companies into public ownership, and we need to rapidly scale up investment into a secure net zero carbon energy mix.[9]
- The UK's homes are the worst insulated in Europe. That's why we need a rapid programme of public-sector led home insulation to reduce the cost of heating our homes. Making our homes warm in the winter will slash the UK's imports of fossil gas, helping both the national economy and millions of families.[10]

We can't afford not to act

Families are facing a crisis this winter if government doesn't act now. During the coronavirus crisis we showed that government action can work to protect jobs and incomes, putting in place the furlough scheme, and the £20 uplift to universal credit, and avoiding the large scale unemployment that had been predicted. The crisis now requires equally urgent action.

The Bank of England is forecasting five quarters of recession from the end of this year, and a rise in unemployment of over one million people. An increase in demand is needed to avert a further economic crisis; government needs to learn the lessons following the 2008 crisis where a decade of cut backs in government spending, including cuts in corporation tax, led to weak growth, and productivity and wages flatlining.

Cancelling the increase in the energy price cap can be funded through expanded windfall taxes on oil & gas profiteering, removing the tax break subsidies given to North Sea operators by the Chancellor in May, and by ensuring that the planned Corporation Tax increase goes ahead.

Rishi Sunak's tax break for North Sea oil & gas extraction announced in May 2022 was estimated to cost the tax-payer £1.9 billion.11 Cancelling it would save £1.9 billion.

Given soaring wholesale prices, if applied correctly and prices stay as high as forecast, the existing windfall tax could generate £16.5 billion in tax revenues in the coming year - £11.5 billion more than the predicted £5 billion.

Increasing the windfall tax by 20% would additionally transfer an additional £13.2 billion in excessive profits to the public purse.

---

[8] See Anjum Klair (2020) 'Our social security net is failing during the Covid-19 crisis' at https://www.tuc.org.uk/blogs/our-social-security-net-failing-during-covid-19-crisis
[9] See TUC (2022) *'A fairer energy system for families and the climate'* https://www.tuc.org.uk/research-analysis/reports/fairer-energy-system-families-and-climate
[10] See TUC (2022) *'A fairer energy system for families and the climate'* https://www.tuc.org.uk/research-analysis/reports/fairer-energy-system-families-and-climate
[11]Reported in the Independent, 28th May 2022 at https://www.independent.co.uk/climate-change/news/rishi-sunak-climate-change-oil-gas-tax-b2089089.html

The Corporation Tax increase that Liz Truss has pledged to scrap is expected to bring in between £12 and £17bn.

Together, the TUC estimates these measures as bringing in £38.6 billion, and could cover the estimated £38.5 billion cost of cancelling the imminent price cap increase for the 23.9 million households on the default tariff.