

Cost of Living Crisis

Rising energy bills, soaring inflation and reduced benefit payments are causing a perfect storm for low-income families.

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Introduction

Over the course of the pandemic the wealth gap has widened. Those families with the lowest incomes have been much more likely to have used up savings or increased debt, compared to those with the highest incomes.¹ It is unsurprising then that low-income families are hit hardest by the rapidly increasing cost of living, due to starting in a more precarious position and with inadequate support. Subsequently many of these families are facing impossible decisions, such as whether to heat their homes or feed their families.

A combination of low rates of benefit uprating, inflation causing the cost of goods and services to rise, and energy prices set to rise by nearly £700 a year in April 2022 mean the situation for many families will become increasingly worse.²

Benefits and Inflation

Benefit Changes and Uprating

Despite the many calls for the Universal Credit £20 a week uplift to be maintained, it came to an end in October 2021, leaving the affected families £86.67 a month worse-off. There was a welcome announcement in the Autumn 2021 Budget in which the Chancellor announced a reduction in the taper rate from 63% to 55% and an increase in the work allowance. However, taking these changes into account alongside the end of the uplift, three-quarters of families on Universal Credit are worse off than they would have been had these new rules not been introduced but the £20 uplift maintained.³

While the £20 uplift provided much needed additional income to those on Universal Credit, the uplift was not extended to people on legacy benefits such as ESA. Therefore they have not benefited from this lifeline of additional income, but they still face the challenges that this winter and beyond will bring.

The uprating of benefits in April 2022 will increase by the inflation rate in September 2021 which was 3.1%.⁴ However, inflation has continued to rise since then and is predicted to be 6% or more in April,⁵ leaving benefits claimants with an income that does not account for the rising cost of goods and services.

¹ Leslie & Shah, [\(Wealth\) gap year](#), (Resolution Foundation, 2021), p.32.

² Ofgem, [Price cap to increase by £693 from April](#) (Ofgem Press Release, 2022).

³ Brewer et al., [Taper Cut](#) (Resolution Foundation, 2021), p.2.

⁴ Department for Work and Pensions, [State Pension and benefit rates for 2022 to 2023 confirmed](#) (Government Press Release, 2021).

⁵ William Schomberg, [Explainer: UK inflation nears 30-year high, but how fast will it fall back?](#), (Reuters, 2022).

Looking ahead to 2022-23, the level of unemployment benefits is forecast to be the lowest it has been since 1990-91. As a proportion of average earnings, the level of unemployment benefits is predicted to fall below 14% by 2024-25, leaving those out of work with considerably less income on average than those in work.⁶

Universal Credit Claimants and Work

In Wiltshire, 46% of Universal Credit claimants are in work and so will benefit from the changes to the taper rate and work allowance, but it is likely that many of them will still be worse off than if the £20 uplift had been maintained instead.^{3,7} However, the benefit of these changes to working families will be diminished by the increase in National Insurance by 1.25 percentage points in April 2022.⁸ For the other 54% of Universal Credit claimants who are unemployed or unable to work, they are left with no extra financial support from the Budget.

For those who are able to look for and find employment, or increase their hours of employment, they have a chance to improve their income. However, there are many families for whom this is not possible. In Wiltshire, 16% of households on Universal Credit had one or more claimants with Limited Capability for Work-Related Activity in August 2021, meaning they had been assessed as currently having no prospect of being able to look for or undertake work. Additionally, 46% of households on Universal Credit in Wiltshire in August 2021 were entitled to the child element. While it may be possible for some parents/carers to look for work or additional work while caring for their children, for others it is simply not an option. For some this is due to the cost of childcare and being unable to afford to pay in advance and receive the costs from Universal Credit in arrears. For others, they may be single parents and the sole carer for their children. In Wiltshire, 16% of households on UC were single with children in August 2021.⁹

Cost of Energy

Energy Price Cap

The increase to the energy price cap in October 2021 brought an additional financial strain to those families on a low income and already struggling with the

⁶ Brewer et al., *Social Insecurity*, (Resolution Foundation, 2022), p.20.

⁷ Stat-Xplore, *Universal Credit: People on Universal Credit*, (Department for Work and Pensions, September to November (inclusive) 2021 data, Wiltshire Output Area).

⁸ <https://www.gov.uk/national-insurance/how-much-you-pay>

⁹ Stat-Xplore, *Universal Credit: Households on Universal Credit*, (Department for Work and Pensions, August 2021 data, Wiltshire Output Area).

end of the Universal Credit uplift. For the average family on a standard tariff this amounted to an additional £2.67 per week, and for those with prepayment meters the extra cost was £2.94 per week.¹⁰

There are an estimated 11 million households on a standard tariff which amounts to 50% of all UK households. In the southern central area, which includes Wiltshire, this number is estimated to be 1.1 million households.¹¹ While many of the people in these households have been able to shoulder the additional financial burden of increasing energy prices, others have found themselves facing the difficult decision to heat their homes or feed themselves and their families. In Wiltshire and Swindon alone 30,000 households live in fuel poverty and 1 in 10 cannot afford to heat their homes.¹²

Soaring gas prices mean, come April 2022, the energy price cap will increase by a further 54%. This will cause the average annual household bill to rise by nearly £693 per year for those who pay by direct debit. For households with prepayment meters or those who pay by standard credit the increase is greater, at £708 and £731 respectively.¹³

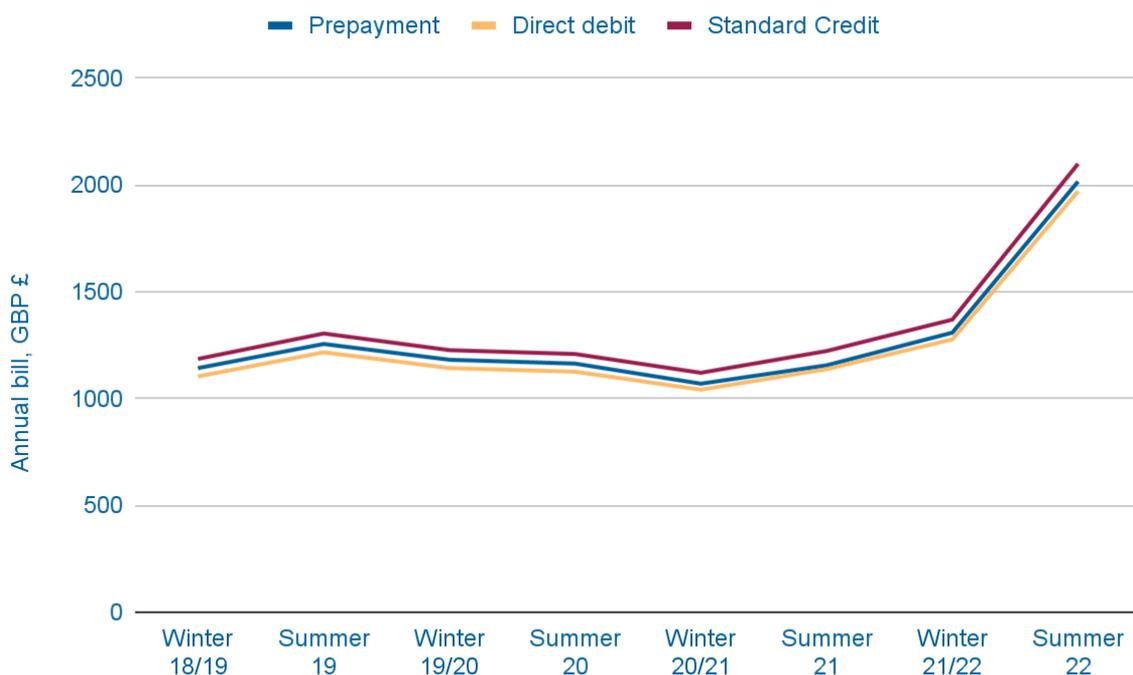


Figure 1. Default tariff price cap average bill changes over time to Summer 22.
Source: Ofgem

¹⁰ Jillian Ambrose, [UK households face second record energy bill rise](#), (The Guardian, 2021).

¹¹ [The energy price cap explained](#), (Moneysupermarket.com, 2021).

¹² <https://www.wiltshirecf.org.uk/about/surviving-winter/>

¹³ Ofgem, [Default tariff cap level: 1 April 2022 to 30 September 2022](#) (Ofgem publication, 2022).

While it may seem that this will affect households equally across the financial spectrum of income, this is in fact not the case. Lower income households spend almost triple the proportion of their budget on gas and electricity compared to the top 10% of households (11% compared to 4% of budget).¹⁴ Therefore they will already have felt the impact of the increase in energy prices recently and it leaves them facing a greater financial impact come April 2022.

In February 2022, the Chancellor announced an Energy Bills Rebate - a package of support to help households with rising energy bills. This includes providing all domestic electricity customers with £200 off their energy bills this October, which will be paid back automatically over the next 5 years. Additionally, households in England who are liable for council tax in bands A-D will receive £150 non-repayable Council Tax rebate. While this provides some financial relief for all households come April, for people on low incomes who need it most, it does not go far enough.¹⁵

Supplier Failures

In addition to the increased energy price cap, the soaring wholesale gas prices saw many suppliers fail and, as a result, 1 in 6 consumers were affected directly. For many of these consumers this meant an increase in energy bills of £30/month on average. The failure of these suppliers since August 2021 will cost consumers £2.6 billion - £94 per customer from 2022 - before the cost of Bulb's failure is even taken into account. The government has set aside £1.7 billion of tax money for the latter.¹⁶ These costs will be passed on to consumers through an extra charge on bills, increasing the cost of energy and pushing many low income households further into financial insecurity.

Oil Heating

In Wiltshire, 14% of households use oil for central heating. This varies across the county, with areas just to the east of Malmesbury having as many as 70% of households with oil heating.¹⁷ For households who rely on oil to heat their homes, they have not seen the dramatic increase in costs of those subject to the energy price cap. However, they do not have the same price cap protection and so are exposed to the fluctuating costs of heating oil. While there are support schemes to subsidise the cost of electricity or gas for those most in need, such as Warm Home Discount and supplier support funds, there is a significant lack of schemes for those relying on oil.

¹⁴ Levell & Karjalainen, *The cost of living crisis - who is hit by recent price increases*, (Institute for Fiscal Studies, 2021).

¹⁵ HM Treasury, *Millions to receive £350 boost to help with rising energy costs*, (Government News Story, 2022).

¹⁶ Jitendra, Belsham-Harris, Thorn & Gibson, *Market Meltdown*, (Citizens Advice, 2021), p.3.

¹⁷ Wiltshire Local Authority area (<https://www.nongasmap.org.uk/>).

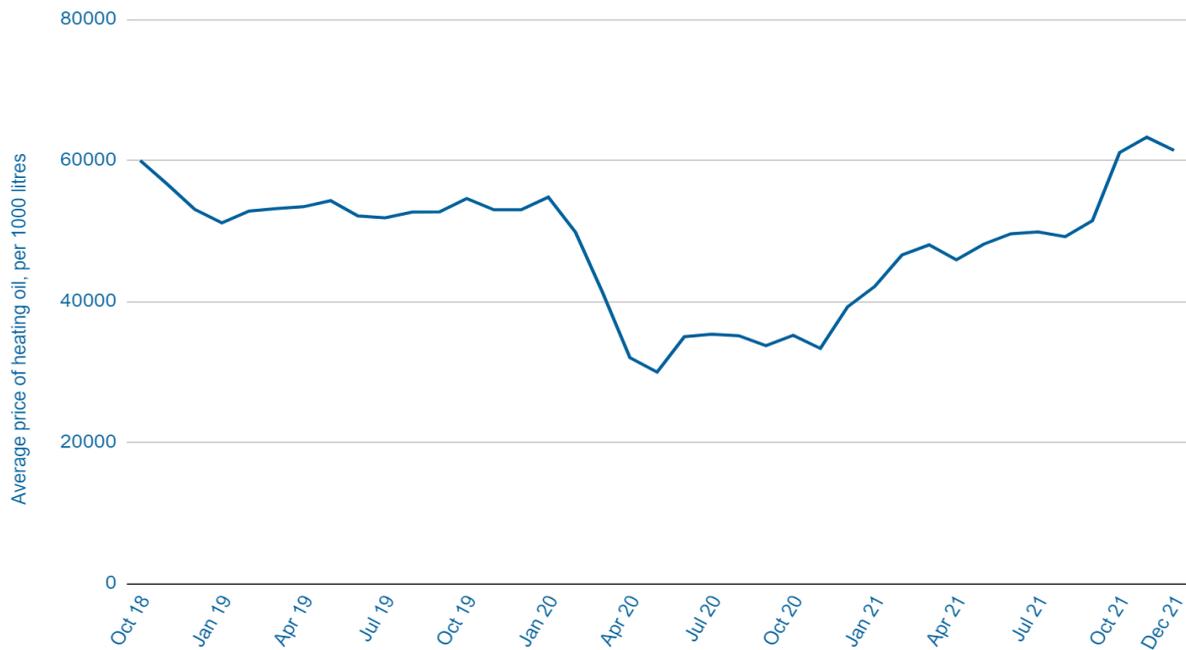


Figure 2. Change in oil prices per 1000 litre over time.
Source: Office for National Statistics

In the current economic climate of rising inflation, the cost of other goods and services is increasing, leaving less budget available for purchasing oil. Citizens Advice Wiltshire has heard from clients who are directly affected by being unable to afford heating oil. For example, one client had to cut down on oil usage to save money, despite the cold negatively affecting their partner's health condition. Another client was unable to get financial assistance from the local council welfare provision, so they had to use electric heaters instead of buying oil, causing them to be pushed further into electricity arrears.

Housing

Private Rent

With house prices continuing to rise, many families remain in rental properties. In the UK private rental prices rose by 1.5% in the 12 months to October 2021, and the South West saw the highest annual growth of 3%.¹⁸ Across the country, nearly one million low-income private renting households are paying rents they are unable to afford. This amounts to over half (55%) of all low-income private renting households. Of these households, nearly 80% have one or more adults in work, and two-thirds of them work full-time. For those low-income private

¹⁸ [Index of Private Housing Rental Prices. UK: October 2021](#), (Office for National Statistics, 2021).

renting households where nobody is in formal employment, a quarter find their housing costs unaffordable.¹⁹

Rents continuing to be unaffordable going forward is to be expected because it is assumed that the Local Housing Allowance will be frozen for the second year running in 2022-23, meaning that housing cost benefits will not increase in line with any rise in private renting costs.²⁰

Arrears

With a significant number of households finding their rents unaffordable, it is unsurprising that many are also in arrears with rent and household bills. The effect of the pandemic has not gone unnoticed by low-income households, with 33% now in arrears compared to 11% pre-pandemic. For low-income Universal Credit claimants this number is dramatically higher, with around 70% in arrears even before the end of the £20 uplift. Of low-income households now in arrears, 7 in 10 are in more than one type of arrears and over a third (35%) are in three or more types of arrears.²¹

Looking at specific arrears as a proportion of all low-income renting households, nearly one in five are in rent arrears, 12% are in council tax arrears, and a further 12% are in arrears with their electricity and gas bills.²¹ Given the significant increases in energy bills come April 2022, those in the latter category of arrears are likely to be in a particularly vulnerable position. However, an increase in bills for those in any type of arrears will be an additional unwelcome financial burden.

Conclusions

The dramatic increase in the cost of living has put a financial burden on many families across the income spectrum, however those at the lowest end are, and will continue to be, hit the hardest. Inadequate benefit levels, increases in energy bills and soaring inflation rates combine to form a cost of living crisis for low-income families.

¹⁹ Elliott & Earwaker, [*Renters on low incomes face a policy black hole: homes for social rent are the answer*](#), (Joseph Rowntree Foundation, 2021), pp.5-7.

²⁰ Lucie Heath, [*Government forecasts for continued Local Housing Allowance freeze*](#), (Inside Housing, 2021).

²¹ Earwaker & Bestwick, [*Dragged down by debt: Millions of low-income households pulled under by arrears while living costs rise*](#), (Joseph Rowntree Foundation, 2021), pp.2-3, 9.

Looking ahead to April 2022, the energy price cap will increase by 54% and benefit uprating will be at a rate nearly half of the predicted inflation rate.^{22, 23} As a result of these changes and inflation causing an increase in the cost of living, many more low-income families will be pushed into hardship and poverty without further intervention and policy change from the government.

²² Ofgem, [Price cap to increase by £693 from April](#), (Ofgem Press Release, 2022).

²³ Department for Work and Pensions, [State Pension and benefit rates for 2022 to 2023 confirmed](#), (Government Press Release, 2021).

Wiltshire Citizens Advice helps people find a way forward.

We give people the knowledge and confidence they need to find their way forward - whoever they are, and whatever their problem.

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