The Cost of Living Crisis

A briefing from the Joint Public Issues Team of the Baptist Union of Great Britain, the Methodist Church and the United Reformed Church

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"Our frontline staff have told us that child poverty levels are at the worst they can remember."[1] Action for Children

The headline rate of inflation has reached 9% for the first time in 40 years. Increasing prices will have huge impacts across our society, but the sharpest and most immediate effects are being felt by the least well-off families.

This briefing aims to increase understanding of the cost of living crisis, its origins and its effects. It draws on evidence of current and potential impacts of these rapidly rising prices, as well as from interviews, focus groups and conversations that the Joint Public Issues Team and the Methodist 'Church at the Margins' programme have had with church and community leaders and people who are battling poverty day to day.

In communities that have gone through a decade of austerity followed by pandemic, who understand and are sadly acclimatised to deprivation, the sentiment that 'this is the worst we have seen' has been repeated time and time again.

We know that the coming weeks and months are likely to be very difficult for many families, and that churches will provide a great deal of practical, emotional, and spiritual support to those affected. This briefing looks at how churches might also be able to play a part in bringing about changes, locally and nationally, which begin to tackle the injustice of poverty at its roots.

Inflation for the poorest families has climbed to 11% or above

The cost of living is rising for everyone, but it is rising fastest for the least well-off. While the headline rate is at 9%, the effective inflation rate for the poorest families is conservatively estimated at 11% for the year to April 2022.

The major driver of inflation is increasing household energy costs (53.5% for electricity and 95.5% for gas). This has been accompanied by large rises in transport and food prices (6.7%). The poorest families by necessity spend a much greater proportion of their income on food, fuel and transport than the average family, which means the inflation rate experienced by the poorest is higher. The Institute for Fiscal Studies estimates that the richest tenth of the population are experiencing price rises of 7.9%, compared to 10.9% for the least well off.

This is however still an underestimate, because not only do the least well off spend more of their income on food, they also buy cheaper foods. It had been repeatedly reported by people who experience poverty that the cheapest foods that they rely on day to day, such as value ranges of rice and pasta, had rocketed in price much more that other foods.

Value products contain very little profit margin, so their price fluctuates in response to commodity price changes more than higher cost foods. For example the commodity market price of rice has risen by 60% over the past 6 months. This increase will eventually be transmitted to all customers, but most sharply to those buying the cheapest products. In response to calls from campaigners, the Office for National Statistics, which calculates official inflation figures, has produced experimental statistics showing huge volatility in the prices of the lowest price goods. Our initial estimate using this data, and sample budgets of families on low incomes, is that if you buy only the lowest price foods, your families' inflation rate is around 14.5%.

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[1] Ask the government to tackle the cost-of-living crisis, Action for Children, accessed 18/05/2022

How long will prices continue to rise?

Accountants PWC estimate that over the course of this year the poorest fifth of households will see a fall in their disposable incomes of between £1,300 and £1,600. It is also worth noting that due to different spending patterns and rapidly increasing pay for higher earners, the disposable incomes of the richest fifth of households are expected to be hit by between £0 and £450 this year.[2]

There are a number of price rises that we know are in the pipeline. There will be a rise in the energy price cap of around £800 in October, taking the average bill to around £2,650 from the current £1,971. This is driven by both rising energy prices in the wholesale market and increased "market stabilisation charges" to cover the costs of failed energy suppliers.

Ukraine and Russia are major food exporters, especially of wheat and cooking oils. As the war continues there are expected to be increasing shortages and price rises over the next year. The Bank of England Governor described these forthcoming increases as "apocalyptic"[3] – largely referring to the effects that high global food prices will have on low-income countries. Experts agree that in the UK, food prices will rise at the current rate or higher for the rest of the year, and some suggest increases will speed up.

The consensus of forecasters is that inflation will remain at high levels for the rest of the year, probably peaking when the energy price cap rises in October. The horizon after that is much less clear but forecasters are suggesting that near-target level inflation of 2% will return within 2 years. There are however there are a great many unknowns, and the prediction of long-term trends in inflation is notoriously unreliable.

Effects of the crisis that are already evident

In January 2022, anecdotal reports from churches and charities around the country began to emerge about increasing levels of need within communities. These were interpreted as being a result of a combination of some price rises, mainly in the cost of basic foods, and the long 'hangover' from the pandemic. These reports have steadily grown in frequency and strength of concern.

JPIT and Church at the Margins arranged conversations with church and community leaders to explore the issues further, and it was clear that the number of people struggling in our communities were increasing markedly. Conversations with people who battle poverty day to day indicated that for many, coping strategies had reached the end of the road. Beyond simply not using fuel, people saw very few options in how to cope with the price rises.

In our conversations we talked to people who faced awful choices. The cliché is the choice between heating or eating. It is a cliché because it so common that it now often goes unremarked upon. One woman who joined a focus group had difficulty talking. It transpired her choice was between food for the family and dental treatment. Prioritising her children meant weeks of toothache. Stories of families moving lightbulbs from room to room – not just to save on buying more bulbs but to ensure that electricity was not wasted are no longer rare. The seeming abstract percentages of inflation rates very quickly translate into stories of real struggles in families where budgets are tight.

Increasing food insecurity and the inadequacy of benefits

It will take at least a year for the changes people are currently experiencing to feed through into official poverty and food insecurity figures, but some data is already coming in from other sources. We know that foodbank use is increasing, and the Food Foundation has produced figures showing a 57% rise in food insecurity between January and April this year. 7.3 million adults did not have sufficient food due because they were unable to afford it in the last month.

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[2] UK Economic Outlook PWC, April 2022

[3] Formal meeting (oral evidence session): Bank of England Monetary Policy Reports Economy Select Committee

What is particularly concerning is that the food insecurity rate is 2.5 time higher for people with a disability, for whom reducing energy use is often not an option, or has profound effects on their health.

On 18 May, the Department of Work and Pensions acknowledged that energy bills are leaving a large proportion of claimants “without enough benefit award to meet other essential day to day needs”. The average increase in bills for families on ‘Fuel Direct’, the DWP’s energy payment at source scheme, was £110 per month. Claimants were often unaware that these deductions were to be taken. By preventing automatic deductions the DWP states it is allowing claimants to make “budgeting decisions” – the decision between meeting a family’s essential needs, and mounting debt[4].

The context: Ten years of austerity followed by a pandemic

One of the key themes that community leaders told us was that the current cost of living crisis is not a crisis in isolation. It is crisis that is happening to people and places that experienced a decade of austerity, topped with two years of pandemic. Both the people and their support structures are tired[5] and under resourced.

Pre-2020

From 2010 to 2020, average household incomes rose slowly (From £28.1K to £31.3K for the median household)[6]. Average wealth per household rose markedly, largely due to rises in the values of property, stocks and shares (from £250K to over £300K for the median household). While the average and higher income family saw increases in income and wealth, the story for those with lower incomes was very different.

At the start of the pandemic in the spring of 2020, around 14.6 million people were experiencing poverty, up from 13.1 million in 2010. Poverty had become deeper with the number in destitution – the deepest form of poverty which we believed was virtually eliminated in the UK – rising past 1.5 million in 2015, to 2.5 million in 2020. Deeper poverty became harder to escape with 13% of the population experiencing persistent poverty.

It is important to recognise that this was not a story of unemployment. Unemployment had fallen and people were working increasing hours. It was instead a story of families having to work harder yet remaining in poverty.

The decade prior to the pandemic saw large cuts to benefits, largely through changes in who is able to claim, and freezing benefit levels in cash terms thus allowing inflation to erode their value. The remaining money in the benefit system was rebalanced to favour those in work. This alongside a steadily increasing minimum wage meant that poverty for single people in work reduced, while for those unable to work full time, or families with children, poverty increased markedly.

Local Authorities faced huge cuts in the decade prior to the pandemic with overall spending falling by 23% per person. Changes to the funding formula increased the importance of an area’s demographics, especially old age, and reduced the importance of economic factors. This meant that the cuts were focused on the least well-off parts of the country. In England the most deprived areas averaged 31% in funding cuts, whereas the wealthiest areas saw cuts of “only” 16%.[7]

We entered the pandemic with many low-income families’ budgets under stress, and the budgets of the local authorities where such families tended to live also severely under stress.

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[4] Fuel Direct: supplier contravention of licensing conditions DWP, 18 May 2022
[5] Covid-19 Charity tracker Pro Bono Economics (2020–2022)
[6] Average household income, UK: financial year ending 2021
[7] The outlook for councils’ funding: is austerity over? Institute for Fiscal Studies, 2019

Pandemic

The effects of the pandemic were felt across the population, but it had a particular effect on those in poverty. Outside of residential care settings, people on low incomes experienced the worst health outcomes as a result of Covid-19. They also experienced the most severe financial pressures.

Those on low incomes were most likely to lose their job altogether, most likely to be furloughed, and least likely to have their furlough pay topped-up. Low-income families also faced increasing costs – as strategies that they had previously used to make their budgets work, such as shopping around for the lowest prices and sharing with neighbours, were no longer available.[8]

Two years on, we again see two stories emerging. For higher income families who were more likely to be able to work from home, income remained the same while opportunities to spend reduced. This led to record repayments of household debt, and at least £250 billion in increased household savings. For the families who entered the pandemic just about managing, increased costs and lower incomes gave people no choice but to borrow, often by delaying paying bills. Between April 2020 and September 2021, the number of people reporting difficulty paying bills doubled to 15 million, with 4 million needing to borrow to cover basic bills.[9]

The importance of place

Much of our understanding of the effects of poverty and the cost of living comes from surveys and data that focus on individuals and families. Church leaders made it clear that community and place is important in how these effects on households are experienced.

Rural church leaders emphasised that poverty in rural areas is often hidden and unnoticed. The experience of poverty can be extremely isolating and the rise in the cost of petrol and diesel alongside fare increases for public transport (if it is even available) is of particular concern.

In urban areas poverty tends to concentrate. The price of rents and housing is the big driver of this. Individuals and families tend to cycle through poverty, rarely going from poverty to wealth, but often moving to more stable circumstances. As people cycle through poverty they often cycle through deprived areas also. This means that while for the individual poverty is transient, for the area poverty becomes more ingrained. The counterbalance to this was often public spending, which has been in retreat for a decade.

The worst effects of the cost of living crisis are likely to be found concentrated in these least resourced places. Many places will feel worse off, but the early information we are getting is that there is a background of general increased needs, with disproportionately large spikes in areas of high deprivation.

Central government policy responses

The government does not have the power to protect the entire population from rising inflation. It does however have the power to influence which parts of society are most exposed to its effects. While there are many reasons for setting levels of taxation higher or lower, in simple cash terms tax cuts on earnings or consumption do not target money on the least well off, for the simple reason that the least well off earn less and spend less. The mechanism to urgently get money to the households that need it most is the benefit system. Universal Credit is flawed, but it is targeted at families with low incomes.

Thus far there have been three major tranches of central government policy announcements in response to the cost of living crisis. The direction of policy has been inconsistent, but a major theme has emerged which should give churches, charities, and campaigners encouragement. Is very clear that a major influence on policy has been civil society making the case that the increasing needs faced by low-income families demanded further support.

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[8] Reset the Debt Joint Public Issues Team, 2021

[9] Credit Safety Net Stepchange, 2022

Autumn 2021

In November 2021, the special policy measures put in place during the pandemic were ended. For the Department of Work and Pensions, that meant reducing the number of work coaches, increasing conditionality and the number of sanctions, and an end to the £20 a week uplift to Universal Credit.

The £20 a week uplift to Universal Credit alongside the other payments to Tax Credit claimants went to each family equally and cost between £5 and £6 billion a year. It was replaced by a £2.5 billion increase in spending delivered by reducing the taper rate at which Universal Credit is removed.

Universal Credit is reduced gradually as a family increases its earnings. By reducing the taper rate, benefit is removed more slowly. This is a welcome change, but only affects the families receiving Universal Credit that are in work. It provides no help for those who can't work, and most help to those receiving Universal Credit and earning most.

Delivering the money this way enabled the change to be portrayed as a tax cut, which is ideologically more comfortable to the current government. But it was in reality it was an increase in benefit spending. Contacts with officials and others indicated the huge civil society campaign calling for the £20 a week uplift to remain was a major factor in the decision to put more money into Universal Credit – even if it was done in a problematic manner.

Early Spring 2022

Announcements by the Chancellor on 3 February and in the Spring Statement on 23 March contained around £18 billion of additional spending in response to the rising cost of living. The largest part of this, £9 billion, provided a one-off £200 rebate on electricity bills in October 2022. This would go to all energy customers irrespective of their incomes. The original intention, subsequently scrapped, was for this to be reclaimed via a £40 a year energy connection levy over the next 5 years.

The remainder went to raising National Insurance thresholds, Fuel Duty cuts, a £150 Council Tax rebate for those in properties in bands A-D, and other tax cuts including those on alcohol. These measures will help low-income families, but it is important to note that by choosing to spend £18 billion in this way, £2 in every £3 went to families in the top half of the income spectrum.[10] The spending package has been described as "targeted"[11] – but the best description of that targeting is "broad with a focus on upper middle earners".

May 2022

The previously announced measures still left the least well off highly exposed to the rapidly climbing cost of living. In the face of increasing alarm about this and demands for action from charities, churches and a wide variety of people across the political spectrum, a better targeted £15 billion 'Cost of Living Support Package' was announced by the Government on 26 May.

The largest slice of this money goes into an untargeted energy discount of £400 to every household in Great Britain.[12] Targeting was achieved using the benefits system, not by increasing benefit rates but instead by paying lump sums to households receiving qualifying benefits. Two £325 payments will be given to families on qualifying means tested benefits. £300 will be given to almost all Pensioner households, and £150 to families receiving disability related benefits (for details and timetable see appendix).

By focussing two-thirds of the spending on the lower-income half of families, this package was the inverse of the measures of earlier in the spring. Many had been lobbying for this welcome change, publicly and privately.

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[10] Chancellor prioritises his tax cutting credentials over low-and-middle income households with £2 in every £3 of new support going to the top half Resolution Foundation, 2022

[11] Spring statement: The key points in Chancellor Rishi Sunak's statement to MPs Sky News, accessed 20/05/2022

[12] The scheme does not apply to Northern Ireland, but the devolved Government has been allocated an equivalent amount of money to spend on mitigating the rising cost of living.

Lump sums store up problems for the future

While the choice to give lump sums has the advantage of simplicity it comes with several major drawbacks. It is extraordinary that a government has spent almost nine years introducing Universal Credit, with a completely new highly complex architecture to assesses how much families should receive – and then bypasses it when large numbers of families need support.

Benefits should flex to give more to families with greater need. The government has chosen a lump sum method which offers the same payment to a single person household as to a large family with children.

The biggest problem however is that by not uprating the underlying benefits, huge increases in inflation will never be factored into benefit rates. That means that families relying on Universal Credit, half of whom are already classified as food insecure, will experience a further long-term cut in their buying power.

The Chancellor has committed, "subject to review", to uprating benefits in line with inflation next year. Again, this is welcome but it cannot not make up all the lost ground this year. Moreover, the current uprating process takes the September inflation figure and applies it to payments from the following April – meaning that the average £800 energy price hike in October 2022 will not be included in the calculation for April 2023's uprating. The present plans mean that the lowest income families in the UK will be expected to wait until April 2024 before the huge energy price rises of October 2022 are factored into their benefits.

Overall effect of central government policy

For families with low benefit claims – such as single childless households or households with significant wages that are topped up by Universal Credit – their overall income will be higher than if Universal Credit was simply uprated in line with inflation. For families which need higher levels of financial support from the benefit system, especially those with children, disability or both, the lump sums will not compensate for rising costs.

The choice to give lump sums rather than uprate benefits is likely to exacerbate the problem of poverty becoming more concentrated and embedded. The amounts, while considerable, will for most families enable them to cope with the first energy price rise and general inflation for the next part of the year. The second larger energy price rise in October however is not compensated for, which means families will either have to earn more or cut back on spending – and if neither option is available, financial crisis is likely.

These recent measures have bought some time to put a long-term solution in place. Without unexpected reductions in inflation, or further intervention, problems will become more evident from October, and a serious crisis point reached possibly by Christmas.

Responding to the cost of living crisis

More and more food parcels?

Foodbank use is already increasing, debt advice is on an upward trend, and many other services that churches and charities offer to people whose budgets no longer work are beginning to see increased demand. Churches are always drawn to respond to the needs they see in the communities they serve.

Conversations and survey data indicate that charities are tired, and their resources stretched after a long pandemic – but that there is a determination to continue to serve. Over the coming months it is no surprise that such projects will again need more prayer, donations, and volunteers.

Despite the UK gradually becoming wealthier over the past decade, churches and charities have been called upon to meet more and more need in their communities. It is simply not right.

One of the church's partners in providing foodbanks, the Trussell Trust, has made the decision that its ultimate aim as a charity should not be to feed people, but to work with others in order to end the need for foodbanks. Mass emergency food provision should not be needed in a wealthy nation. Many other charities are reorientating in the same way, and churches have important contributions to make in this change.

Ideas for action now and in the months to come

Central government policy changes

The third package of policy announcements was considerably better than what had preceded it. It is important to acknowledge that, while also reiterating that the crisis has not been solved, and families are still facing awful choices that no-one in an increasingly wealthy country like the UK should ever have to. In the coming months charities will be beginning campaigns to make this clear, and churches with their links to communities have a vital role in speaking about what they see.

There is media commentary beginning to grow saying the support being offered by the benefits system is so generous that it is a cause of poverty, or "dependency" as it is pejoratively termed[13]. It is hard to see people suffering for no good reason. Therefore, counterintuitively, it is common that as poverty rises due to impersonal economic forces, for the comforting idea that poverty is due to the faults of the poor to become more prevalent. The best remedy to this is not statistics, which many including JPIT will provide, but honest stories coming from communities. This is something that churches are well placed to provide.

Longer-term national policy changes

There is a growing consensus that over the long term we must work towards a benefit system that offers sufficient support to meet every family's needs and enable people to live in dignity. This will involve changes to benefits, but lives can also be made easier by policy changes to make rents cheaper, ensure living wages for those able to work, and investment in local support services.

This long-term change will involve building an understanding in our communities and with our elected representatives that benefits are not currently enough to live on. We can do this through listening and sharing stories of those struggling, alongside stories of projects that help.

The role of local authorities

Churches are often embedded in the local community. Many ministers and church communities have relationships with their local authorities and other local decision makers. Local authorities have levers which can improve both the budgets and experiences of families on low incomes living in their area. Each area and set of relationships will be different, but recently a group of local church leaders has started meeting to help and encourage each other as they do such civic engagement. Contact JPIT for further details.

The cost of living crisis brings into focus two major levers that local authorities hold: Council Tax reduction schemes and Local Welfare Support schemes.

Council Tax arrears have steadily increased and are one of the largest reasons for families seeking debt advice[14]. For the least well off, the decisions on Council Tax rates are much less important than decisions around the Council Tax reduction scheme.

Prior to 2013, families in England[15] receiving means-tested benefits could receive Council Tax benefit to cover their tax bill. This was abolished and councils were given a reduced amount of money to run a Council Tax reduction scheme. Councils are required to protect low-income pensioners, but for working-age families and their children, councils must decide which families receive support and how much.

Around 1 in 10 councils in England fully protect as before, but most have introduced a minimum payment scheme that every non-pensioner household must pay regardless of their means. The schemes are not well understood, and approximately £2.8 billion goes unclaimed each year.

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[13] 'Benefits Britain is back – and it's condemning millions to dependency' Daily Telegraph, 2 June 2022

[14] 1.3 million households have fallen behind on council tax due to coronavirus Citizens' Advice, 2021

[15] In Scotland and Wales the schemes are administered locally but the terms are set by the National Parliament

£4.4 billion of Council Tax is currently in arrears. Debt Justice (formerly the Jubilee Debt Campaign) are campaigning to end councils' use of bailiffs as increasing evidence shows that their use is damaging, costly and ineffective[16]. Already some councils have stopped using bailiffs altogether[17].

Local authorities may also run schemes to provide emergency help to families. The central government funding for Local Welfare Assistance is not ring-fenced, so councils in England currently divert around two-thirds of the money to other uses.

Valuing people who are experiencing poverty

The Methodist 'Church at the Margins' programme has at its centre the belief that God is already at work in communities at the economic margins, that people battling poverty are wonderfully created in God's image, and that without hearing that voice our vison of God would be diminished and incomplete.

People at the economic margins are experts at understanding their poverty and should be listened to, not out of charitable instincts, but because that expertise is vital in understanding how we can best end the injustice of poverty.

Perhaps the most important and profoundly counter-cultural thing that churches can do in response to the cost of living crisis is to demonstrate day by day that people experiencing poverty have value. If people experiencing poverty were genuinely valued, then it would lead to some very different priorities and policy choices. It is hard to leave someone you value out when making decisions that affect their life. You wouldn't leave someone you value without enough money to keep warm, or eat, or live in dignity.

Convincing our churches, communities and decision makers that people battling poverty are valuable and made in God's image has the power to create change that will last well beyond the cost of living crisis.

"Whoever oppresses the poor shows contempt for their Maker, but whoever is kind to the needy honours God." Proverbs 14:31

Appendix: **Timetable of cost of living support payments**

July 2022: Claimants of Universal Credit, Pension Credit, and means tested legacy benefits such as JSA, ESA and Income Support will receive their first payment of £325. The announcement says this will happen "from July" and it is likely to depend on the families' normal payment date.

Late Summer or early Autumn 2022: Families claiming Tax Credits will receive their £325 after those on other income related benefits. In general, to receive this first payment the family must have begun an active benefit claim on or before May 25 2022, however as with any benefit issue, expert advice from agencies such as CAB is advised if there are queries.

"By September" 2022: Claimants of disability related benefits including PIP, DLA and Constant Attendance Allowance will receive £150.

Autumn to Christmas 2022: The second payment of £325 will go to families receiving means-tested benefits. There is no information yet as to when someone needs to be claiming benefits from in order to receive this.

October 2022 to March 2023: All households will receive a £66.67 monthly discount directly applied to their energy bills. Families on newer "smart" prepayment meters will have the discount credited directly to their meter. For those with older meters a code will be sent to allow the money to added to their payment key.

This briefing was prepared by the Joint Public Issues Team: **www.jointpublicissues.org.uk**

[16] The Costs of Collection Citizens Advice, 2019
[17] Ethical debt collection Hammersmith and Fulham Council, 2017