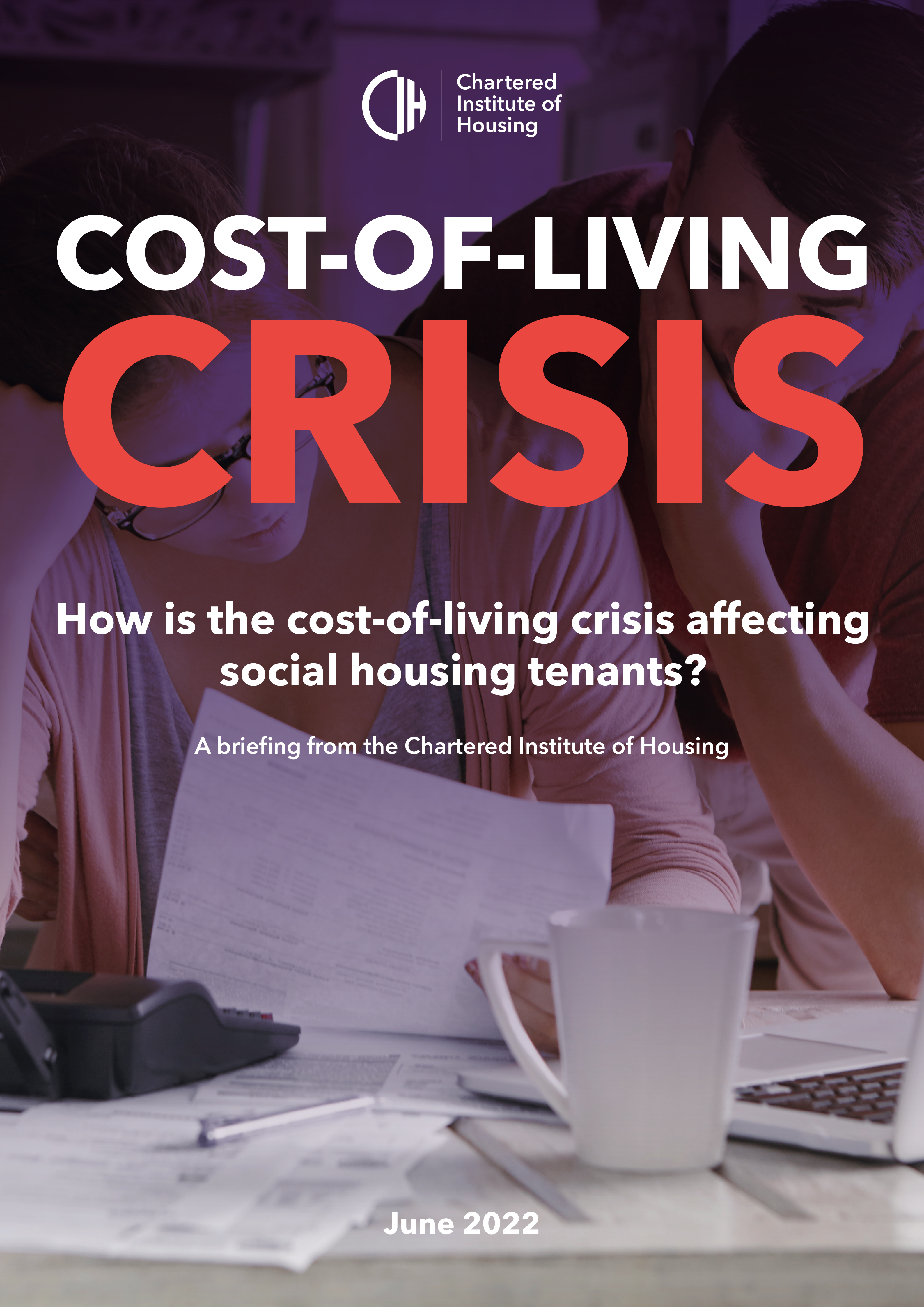


Chartered Institute of Housing

COST-OF-LIVING CRISIS

How is the cost-of-living crisis affecting social housing tenants?

A briefing from the Chartered Institute of Housing

June 2022

How is the Cost-of-living crisis affecting social housing tenants?

Annual inflation reached 9% in April, jumping two percentage points in one month. It was the latest marker of a cost-of-living crisis that affects everyone, but poorer households were hit the hardest.

This CIH briefing is the first in a series. The briefings will address the question: "what is the impact of the cost-of-living crisis on social housing tenants – and how should the sector respond?" This edition looks at how the crisis is growing and why, the effects on household bills, how much help the government is providing, and evidence of how the crisis affects social tenants in particular.

Future briefings will look at issues including what social landlords are doing in response to the crisis, how changes in benefits have reduced the help available, and how the sector should handle the next round of rent increases.

Feedback on these briefings is very welcome. Please email policyandpractice@cih.org with any suggestions.

Cost-of-living and inflation

How high is inflation and will it grow any further?

Households are facing the highest inflation in four decades, and it has been growing faster than expected. Only in March, the Office for Budget Responsibility (OBR) said that it expected CPI inflation to peak at close to 9% late this year. In May, the Bank of England (BoE) was forecasting 10% inflation later in 2022 (Figure 1). Both forecasts came before the April figure of 9% was published and may now be revised.

Britain is experiencing higher inflation than most other developed countries and also has one of the lowest growth rates. Even so, official bodies expect the crisis to be short-lived. Both the OBR and BoE expect inflation to fall in 2023 and then to stabilise at around 2%, despite uncertainty because of factors such as the Ukraine crisis. The National Institute for Economic and Social Research (NIESR) says that, on a scenario of tougher sanctions related to Ukraine, CPI inflation could rise above 10% in October and reach 10.9% in 2023.

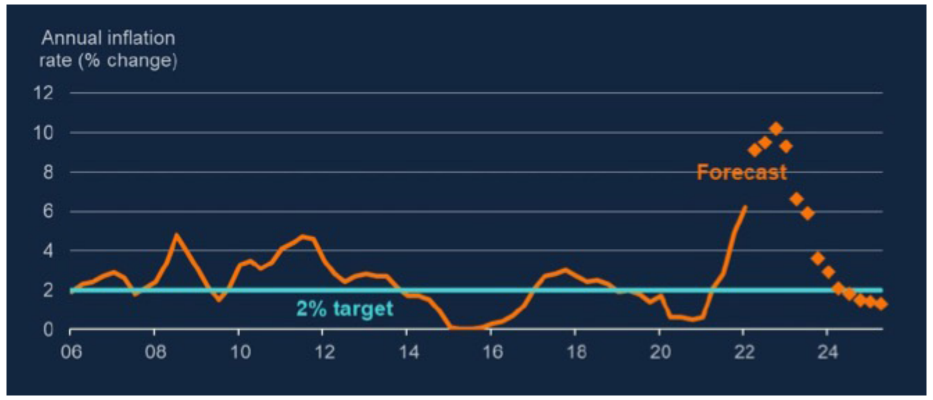


Figure 1: Bank of England inflation forecast, May 2022

How does inflation affect poor households and social housing tenants?

The headline inflation figure is only part of the story. Analysis by the Institute of Fiscal Studies (IFS) suggests that the poorest are facing an inflation rate of nearly 11% (Figure 2). That is because they spend a large fraction of their budget on energy and food.

The difference in the way inflation affects the poorest could get worse in the Autumn if predicted increases in fuel prices take place (see below). The IFS says the effective inflation rate for those in the bottom income decile could reach 14% (compared with 8% for the richest households).

A high proportion of those most affected are social housing tenants. The bottom three income groups (the 30% of all households on the lowest incomes) are experiencing average inflation of about 10%. About one-third of all households in these three groups live in social housing.

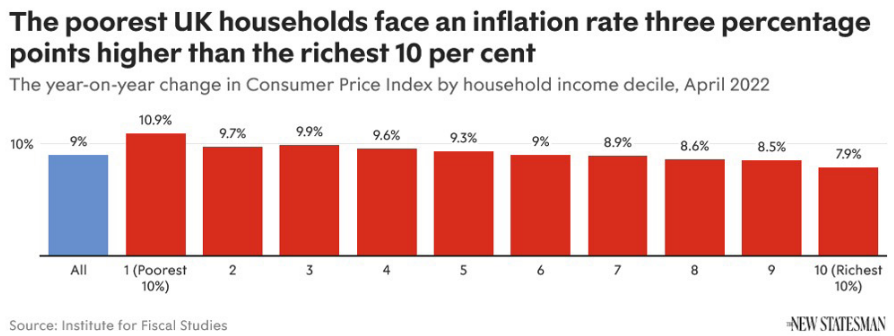


Figure 2: CPI inflation by income decile

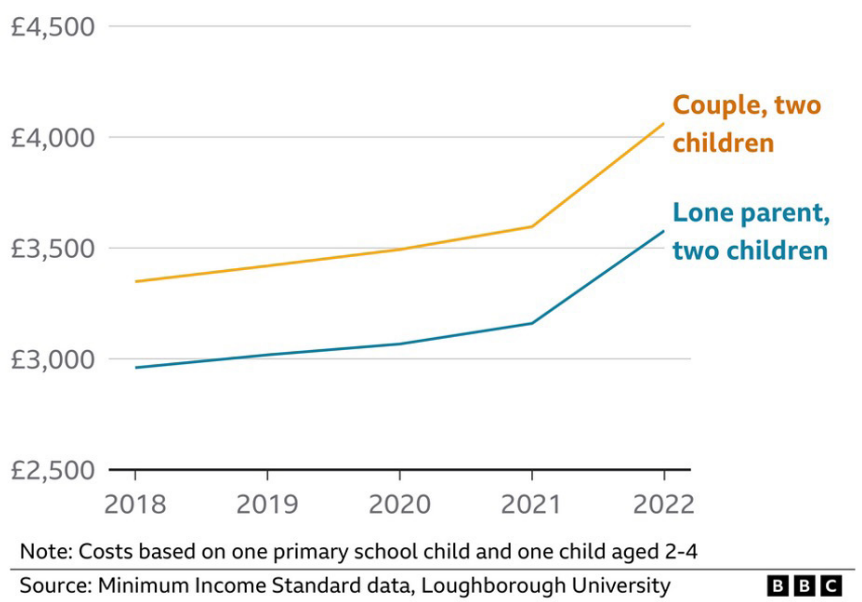


Figure 3: Monthly household budget for a minimum acceptable standard of living

What is the effect on household budgets?

Another way of looking at the effects of inflation is to calculate the budget needed to maintain an acceptable minimum standard of living for typical families of different sizes.

Loughborough University's Centre for Research in Social Policy, which makes this calculation in research supported by the Joseph Rowntree Foundation (JRF), indicates that the cost is now 13% higher year-on-year (Figure 3). For a family with two children, the extra monthly cost compared with a year ago is about £400.

Has pay kept pace with inflation?

No. Household incomes are growing, but not enough.

Average incomes are expected by the OBR to increase by 4% in 2022, up from 3.8% in 2021. But because wage growth is failing to keep up with inflation, real household disposable income is falling sharply. OBR points out that real incomes have been stagnant since early 2019 and are expected to remain so until 2024/25.

The OBR concluded that, in 2022/23, families face the fastest fall in living standards since the 1950s.

It is expected real disposable incomes will fall by

2.2%

a cut of about £1,000-1,200.

Similar estimates were made by the BoE, National Institute of Economic and Social Research and, for non-pensioner households, by the Resolution Foundation (RF).

These estimates took into account the measures announced in the March Budget. Later we look at the effects of the new measures announced on May 26.

What about the low-paid?

Official figures show that 41% of universal credit claimants have jobs, while JRF calculates that

68%

of families living in poverty include at least one working adult.

Since April 2017 larger families in low-paid employment no longer receive means-tested support for each child above the second in their child tax credit/universal credit: a loss of £56.44 per week (2022/23) for each child to add to other, recent real-terms cuts in benefits.

Households on low pay are faring worst in the crisis, with increasing inequality in the labour market, according to the IFS. For example, between February and March 2022 the top one per cent of earners saw a pay increase of 2.3% in cash terms, while the bottom 10% saw a cash increase of only 0.1%.

At the bottom of the labour market, the last increase in the minimum wage was by 6.6% - significantly higher than the 3.1% increase in benefit levels but not sufficient to keep pace with inflation.

Work is no longer a guaranteed way out of poverty.

But aren't more people now in work?

Unemployment is low but it is no longer the simple indicator of the state of the labour market that it used to be. **A** [report](#) **from Sheffield Hallam University's Centre for Regional Economic and Social Research argues that the real level of unemployment is about one million higher than official figures, because of the numbers on incapacity benefits who would be working if there really were "full" employment.** The gap is worst in many northern parts of the country, such as Blackpool (the worst case, with 14.7% "real unemployment").

The "gig economy", zero-hours contracts and freelancing mean that job insecurity and variable incomes affect many households.

> *A 20-year-old housing association tenant writing in Metro explains that she has two jobs, one for a local authority and the other in a bar. Sometimes she only has an hour's sleep between them. She manages to pay her rent and has paid off earlier rent arrears, but now struggles to be able to afford to eat.*

The fuel crisis

What is happening to fuel bills?

April's increase in inflation is driven primarily by higher gas and electricity prices. The price of electricity rose 40.5% on the month, and the price of gas rose 66.8%. A typical annual dual fuel bill rose by £693 to £1,971 a year. Figure 4 shows how the cap has risen dramatically.

Ofgem [expects](#) prices to rise again in October, possibly by £2,800 (the price cap for an average customer paying by direct debit). RF says this would mean:

- numbers in fuel stress rising to 9.6 million households
- in other words, 40 per cent of households would be spending more than 10% of their incomes on energy bills (after housing costs)
- the poorest would be worst hit: three-quarters of England's poorest families could face fuel stress by October, compared with just one-in-fifty of the those in the top income decile (Figure 5).

Those whose spending is more than 10% of their budgets are said to be in "fuel stress," which now [affects](#) five million English households.

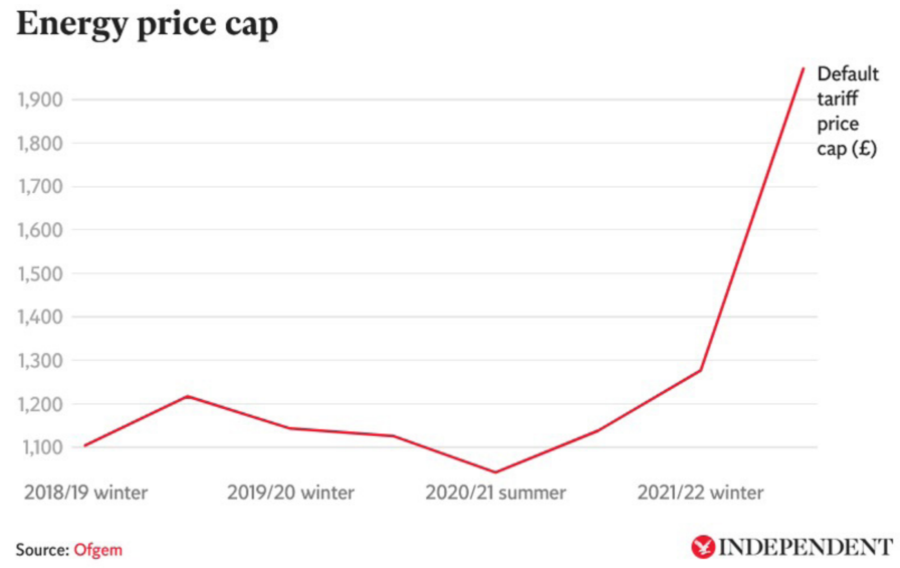


Figure 4: Energy price cap since 2018/19

Energy price rises hit poorer households harder because they spend 11% of household budgets on gas and electricity, compared to 4% for the richest households.

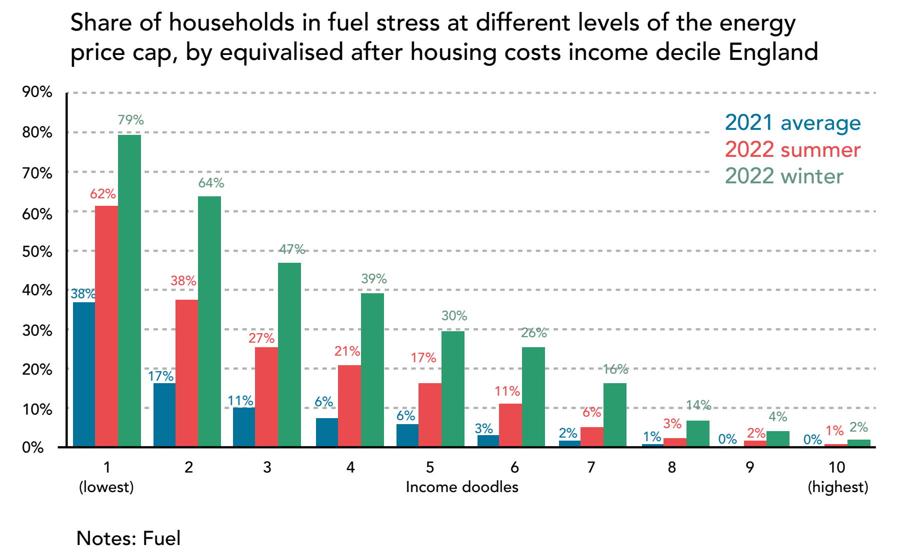


Figure 5: Households in fuel stress with different energy price-cap levels, by income group

Source: Resolution Foundation, 2022, Stressed Out.

E.ON expects almost one in five customers to struggle to pay their bills in the Autumn, when price rises are "baked in". One million of E.ON's eight million accounts are already in arrears and they forecast a 50% rise in numbers in October.

The OBR expects prices to fall in 2023 and 2024, with an initial fall of 30 per cent in April 2023 (with much uncertainty caused by the crisis in Ukraine and other factors). The regulator is now consulting on a move to quarterly, rather than half-yearly, revisions of the price cap, which would mean smaller steps up in prices, and potentially quicker steps down if costs of primary fuel fall.

How do fuel cost increases affect social tenants?

A high proportion of social tenants are in lower income groups, but many get some protection from fuel bill increases because they live in more energy-efficient homes. Overall, just 38 per cent of all poor households live in homes with good energy efficiency (EPC bands A-C). But this increases to 56% of poor households in the social rented sector.

What difference does this make to fuel bills?

The typical difference (the "efficiency gap") between a band C and a band E dwelling is £320 per year, potentially rising to £380 per year in October. Fewer than 20% of households in band A-C dwellings are likely to be in fuel stress at winter 2022 fuel prices, but this rises sharply to 56% in band E dwellings and to 94% in ones in band G (the worst band).

Only 3% of social tenants live in homes in the lowest bands (E or below).

Cuts in funding for domestic energy efficiency work therefore had a significant effect on underlying spending before the current crisis. It is estimated that energy bills in the UK are nearly £2.5bn higher than they would have been if climate policies had not been scrapped over the past decade. According to Ofgem, an average direct debit energy customer under the default price cap pays £1,971 per year, and of this just £153 (7.8%) is for environmental and social obligation costs.

Which households are most at risk?

The North of England and the Midlands have high proportions of dwellings with energy efficiency levels at band D or lower, so these regions may be harder hit. RF also expects older people and larger families to face the biggest winter fuel bills.

Householders who use **prepayment meters** face particular difficulties.

About 4.5 million people in the UK have prepay meters, and more than half earn less than £18,000 a year.

They tend to pay more for the energy they use (this is called the poverty premium). The Fuel Bank Foundation says that many are "self-disconnecting" by sitting cold in the dark. It has helped more than 500,000 people, seeing a 74% increase in inquiries in the first three months of 2022 compared with the same time last year.

Feeding Britain says people using prepayment energy meters are increasingly being pushed into destitution by rising costs, punitive debt collection rules and disproportionately high standing charges. Cases include a single mum who disconnected her heating and electric because she could not meet a combined debt of only £15, and a man who self-disconnected after running up an £8.75 debt.

Citizens Advice told the Guardian it had seen more than 3,600 cases of people unable to top up their prepayment meter so far this year, more than all of 2021.

Self-disconnections began to rise rapidly last October when the £20-a-week boost to universal credit was withdrawn.

Another group facing higher costs are homes served by **heat networks** (or district heating). Heat Trust warns about possible price increases of 400%, taking heating bills next winter from £50 a month to £250 a month. Some could experience price rises as high as 700%, they claim, calling on the government to regulate the costs charged by suppliers.

People **already in debt or using doorstep lenders** are also vulnerable. Citizens Advice says the average energy debt now stands at £1,450, up from £1,330 in 2020. Research from British Gas and YouGov shows 40% of adults struggling to make fuel payments.

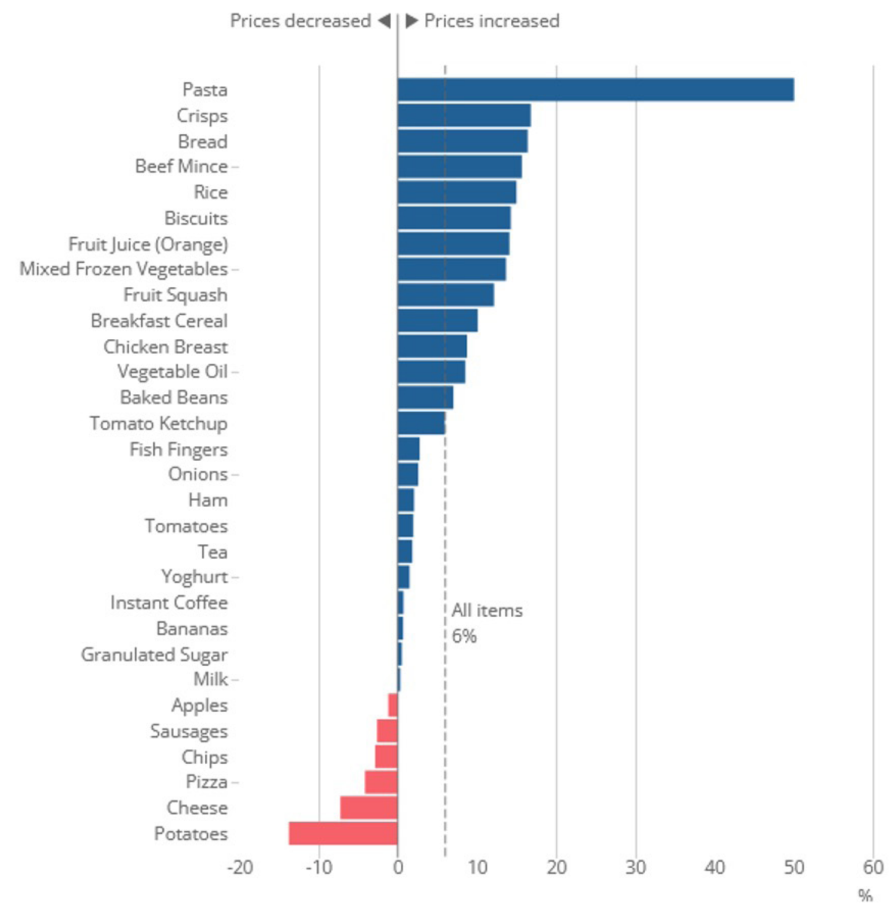
40% of UK adults will struggle to make their next fuel payment

How are food prices affected?

Food price inflation at 6.7% year-on-year is at its highest since May 2009 but we can expect double-digit inflation in coming months. ONS data suggest pasta prices have increased by as much as 50% and bread by 16% (Figure 6). *Which?* found that some 265 grocery lines had price rises of more than 20% over the last two years (before the most recent increases). This is a real challenge for those on low incomes who cannot afford to trade up if value items are not available.

Polls indicate that one in four people are skipping meals.

Lowest price of selected 30 everyday groceries, item-level price changes, April 2022 compared with April 2021



Source: Office for National Statistics – Tracking the lowest cost grocery items

Figure 6: Year-on-year inflations in prices of certain foods

Tim, 36, from london works in a high street shop and gets universal credit. He says:

"I'm really worried about what the next few months could be like as the Cost-of-living gets higher and higher. I'm trying to make the best out of the situation but have already had to use a food bank. I've also made the decision not to turn my heating on to save money and to go without certain types of food."

The governor of the Bank of England warns of an "apocalyptic" increase in global food-price rises because of the Ukraine crisis, which is battering a global food system weakened by COVID-19, climate change and an energy shock.

António Guterres, the UN secretary general, warned that the coming months threaten "the spectre of a global food shortage" that could last for years. By April the UN's Food and Agriculture Organisation was measuring an overall 34% increase in global food prices compared to the year before.

Government advisers are warning that the UK is unprepared for shortages of key foods, likely to occur soon, and that supplies of donated food by charities and community groups could run out.

The Trussell Trust charity says it is witnessing an "accelerating crisis" across the UK: in the past six months more than 830,000 parcels were provided for children, a 15% increase from 2019/20. January to February 2022 saw a 22% increase in comparison to the same period in 2020.

The number of children eligible for free school meals has sharply risen to 1.9 million in England, 22% of pupils.

Are some groups more vulnerable to inflation than others?

Even public sector workers such as police officers or NHS workers are using food banks, but some groups are much more severely affected. Disabled people often need more heating to stay comfortable, extra electricity to charge assistive technology devices and petrol to get about due to limited transport options. The disability charity Scope estimates the extra costs at almost £600 each month.

Survivors of domestic abuse may also find that an abusive partner has stronger justification for managing household finances, making it more difficult for an abuse survivor to become independent.

OpenDemocracy reveals that almost 90,000 care users in England have fallen behind with their payments, facing action from aggressive debt recovery agencies. One in four 'chargeable' care users have been sent reminders or warnings, and hundreds referred to debt collectors.

Until the May 26 measures take effect, benefit recipients have seen the value of their benefits fall dramatically in real terms while prices rise, especially since the removal of the £20 a week uplift provided during the pandemic.

This was on top of a four-year freeze on benefits rates which followed three years where the uprating was capped at 1%.

Basic benefits are worth 11% less than they were a decade ago.

After considering other cuts to family benefits over the same period the real losses are:

- **£400 per year for a single person**
- **£620 for a couple**
- **£1,200 for the first child**
- **£620 for the second child**
- **£3,200 for each additional child above two**

And even this ignores the effect of other changes such as the benefit cap and the "bedroom tax."

How are Cost-of-living increases affecting social housing tenants?

In April, most English housing associations made the 4.1% rent increase allowed by government policy and so did a large proportion of local authorities (although some adopted lower increases and two councils, Wandsworth and Dartford, froze their rents). Scotland and Wales saw lower social sector increases than England, and in Northern Ireland the Housing Executive's rents were frozen.

It is too soon to assess the overall effect on rent arrears of the cost-of-living crisis together with these increases. At the end of March, the Regulator of Social Housing reported that arrears in England were only at the same level (3.4%) as they were a year earlier.

However, many social landlords are making their own assessments of the hardship experienced by tenants. This evidence and landlords' response to it will be covered later in this series of bulletins.

A survey by L&Q of its residents, in which 800 people took part, gives an indication of the issues social renters are facing:

- four-fifths of those responding have an income of under £25,000
- 25% regularly find paying their rent unaffordable
- two-thirds find their rents less affordable now than they were a few years ago
- 35% either have nothing left each month after essential costs are met, or have to borrow
- 72% are unable to save money each month; 70% would be unable to make a one-off payment of £500
- however, most (83%) had not used a foodbank in the past six months.

What new government help is available?

After the widely criticised measures in the March Budget, the Chancellor announced a new raft of cost-of-living measures on May 26. They are set out in detail for CIH members in a What you need to know. Briefly, they are:

- one-off payments of different amounts for the most vulnerable - the elderly, those with disabilities, and those with the lowest incomes
- £400 discount on energy bills for all households (with the previous loan scheme scrapped)
- £650 for those on the lowest incomes (supported through benefits) via two lump sums (July and Autumn)
- £150 for those on disability living allowance
- £300 for pensioners who receive winter fuel payments
- local authority household support fund increased by £500 million.

The Chancellor also confirmed that next year's benefits uprating will rise with this September's inflation.

How much will the new measures help?

CIH gave a general welcome to the measures as going much further than those in March; they are also aimed more directly at the most vulnerable. Most other commentators agreed with this assessment.

The IFS said that, on average, the poorest households will now be approximately compensated for the rise in the Cost-of-living (see Figure 7). Many low earners will be better off this year than last, while high earners still tend to be worse off. As an example of the combined effect of the March/May measures, low-income pensioners with a disability will get £400 off their energy bill, a £650 payment for means-tested benefit recipients, a £150 payment for disability benefit recipients, a £300 top-up to their winter fuel payment, and a £150 council tax rebate. That's £1,650 in total.

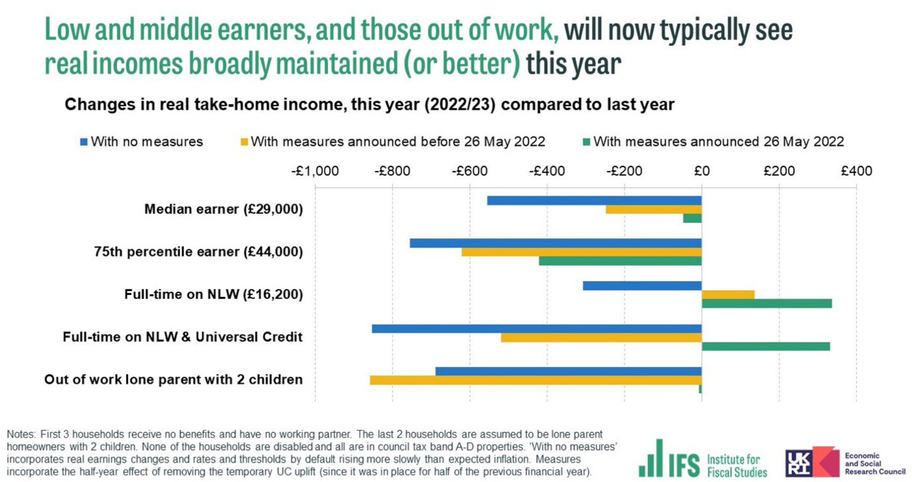


Figure 7: IFS assessment of impact of May 26 government measures

The Fuel Bank Foundation said that more help should have been given to households on the lowest incomes who are most affected by high fuel bills and most likely to have to use prepayment meters. They added

"Analysts predict that we are in a period of high energy prices, rather than at a peak that will subside quickly. It's therefore essential that government addresses the amount of energy households use, since this is also a way to reduce bills. Following on from today's statement, we welcome the opportunity to assess how additional longer-term funding is made available to better insulate homes, at pace, of some of the poorest in society so we can move beyond having to provide crisis financial support to keep homes warm."

The RF pointed out that the combined effect of various measures is that households in the bottom two income deciles (the lowest 20%) will gain on average £1,195, compared to £799 for households in the middle two deciles, while the top deciles on average lose £456. The government has offset 82 per cent of the energy price rise, rising to 93 per cent for poorer households. The one-off payments are likely to be more beneficial than the other option of "bringing forward" next April's benefit increases to Autumn 2022.

However, using flat payments creates some "rough justice" for benefit recipients. They are a diverse group and the percentage increases they receive vary widely: 17% will get support equivalent to an increase of more than 50% in their means-tested benefits. But for 4% of them, it is less than 5%. Among working-age households receiving benefits, households with three or more children will see energy bills pushed up by £500-plus a year more than those without children, but will get the same one-off payment. Uprating all benefits would have helped large families more.

The Child Poverty Action Group said the measures were a "good start" but criticised the fact that they are only a temporary solution. "If the chancellor is serious about supporting those who are struggling then he will need to make long-term changes to the structure of the social security system and restore the value of benefits to something that families can really live on."

What is CIH calling for?

CIH is still pressing for the long-term reforms presented in our spring budget submission. The government should:

1. Provide enough help with housing costs so people can access an affordable, decent place to call home and permanently restore the £20 uplift for people on universal credit to ease the pressures of fuel poverty
2. Bring forward investment with clear, long-term plans to tackle homes with poor energy efficiency
3. Invest in a long-term strategy to end homelessness in all its forms and provide good quality temporary accommodation
4. Invest in existing and new supported housing to meet a range of support needs.
5. Increase grant levels to provide the number of homes at social rents we need each year.

We will be assessing the effects of the new cost-of-living measures and setting out what more help will be required. We will also (through this series of briefing papers) be raising a debate on how the sector itself should respond to the crisis.

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