Public Health Division
Children & Adults Department

Cost of living profile: Autumn update

Last updated 06 October 2022

1. Introduction

This briefing summarises:

- Updates to the national measures in place to support the cost of living crisis.
- Forecasts of how the situation could look over winter.
- Additional evidence of the impact the cost of living crisis will have on health and wellbeing.

2. Changes in weekly household income by income group

- The first Cost of Living Profile produced in July outlined the income distribution among residents in Southwark and the anticipated rise in costs from December 2020.
- Analysis by the Centre for Economics and Business Research (CEBR) has shown how much discretionary income different income groups have remaining after average weekly spending[1]. Overall, there has been a 13% decline in household weekly discretionary income. All income groups apart from the most affluent saw a fall of spending power, with less money compared to a year ago.
- In August 2022, CEBR predicted those on lowest incomes would be £60 short in meeting their essential spend each week. Despite changing spending patterns, those on the lowest incomes have insufficient funds for essential items. An estimated 14% of Southwark residents are in the lowest income bracket, equating to almost 20,000 people.
- The second lowest income bracket were predicted to have £7 left each week after essential spend.
- Both income groups have seen the amount of money available after essential spend almost halve compared to a year ago.

3. Impact of Energy Price Guarantee on household energy costs

- In the 12 months to August 2022, the cost of electricity has increased by 54%, with the cost of gas increasing by 96%[2].
- The Energy Price Guarantee (EPG) has placed a two year limit on how much energy companies can charge for daily standing charge and daily usage of energy.
- Despite this, energy costs will rise by 96% compared to last winter. The average household will see a 64% increase after £400 energy rebate is applied.
- When newspapers refer to 'average household paying no more than' or energy price cap, there is no upper limit to how much households could pay on electricity and gas – the more energy used, the more households will pay. This will be affected by size of property, number of occupants, energy requirements.

4. Impact of Energy Bill Relief Scheme on business energy costs

- Similar to the Energy Price Guarantee, the government have introduced a discount on wholesale gas and electricity prices for all non-domestic customers (businesses, voluntary sector, public sector)[3].
- This will run from 1 October 2022 to 31 March 2023, and the price reduction will vary depending on the type of energy contract the business has, and it is likely that some businesses will still struggle to meet their energy costs.

[1] Centre for Economics and Business Research (2022). Asda Income Tracker
[2] ONS. (2022) Consumer price inflation tables
[3] Gov.uk (2022) Government outlines plans to help cut energy bills for businesses

5. Changes in inflation

- In the 12 months to August 2022, the Consumer Price Index increased by 9.9%, down slightly from the 10.1% increase seen in July. This was mainly driven by a drop in petrol and diesel prices but other areas saw inflation rates continue to rise, including food at 13.4%, compared to 12.8% in July.
- The new energy package has caused a reduction in the forecast of inflation over the autumn, with it now expected to peak at 11% in October and then remain around 10% for several months[4].

6. Impact of increasing interest

- Interest rates currently stand at 2.25% with further increase in November likely[5].

Link between higher interest rates to mortgage interest rates

- One way interest is used to reduce inflation is to reduce how much households can spend, by increasing the cost of borrowing e.g. loans and mortgages.
- Those on a variable rate mortgage have already seen an increase in repayments during 2022 before interest rates increased (10% of the national population have a variable mortgage (30% of total mortgage population)).
- In the year 2021/22, 11% of *all households* nationally spent more than 20% of their disposable (post-tax) income on mortgage repayments[6].
- If all mortgage interest rates are increased to 3%, 17% of *all households* nationally would spend more than 20% on repayments.

Who is most affected by rising interest on mortgage payments?

- In 2020, 22% of households in Southwark were owned with a mortgage or loan[7].
- The proportion of households with a mortgage varies across income groups nationally - 19% of the lowest income bracket have a mortgage, compared to 54% in the highest income bracket. (14% of Southwark is in the lowest income quintile).
- Those on low incomes and limited wealth are most likely to be on variable mortality rates, and be most affected by rising interest rates. An increase to 3% interest will see a rise from 54% to 68% of *those with a mortgage* paying more than 20% of disposable income.
- 30% of those with a mortgage are on variable rate mortgages which are most affected by increasing interest. These are more common for:
    - Lower income quintiles - 36% of those with a mortgage in lowest income quintile group are on variable rate, and 32% on second lowest income quintile
    - Older age groups - 44% of 55-59 year olds with a mortgage are on variable rate and 40% of 50-54 year olds

7. Additional evidence of impacts on health and wellbeing

- A national survey in August among those who receive Universal Credit[8] showed:
    - More than a third (38%) have gone a whole day without food or just one meal in the past month because they couldn't afford to buy enough food
    - One in five (21%) were unable to cook hot food as they couldn't afford to use appliances
    - One in four (23%) were unable to travel to work or essential appointments because they couldn't afford public transport or fuel
    - More than a third (34%) of people have fallen into debt in the last three months because they couldn't keep up with essential bills
    - Almost two thirds (64%) spent the first Cost of Living payment on food
    - Over two thirds (70%) have spent all of the payment within weeks of receiving it (first payment was July 2022, second is Autumn)
- A GLA survey in September[9] showed:

[4] Financial Times (2022) Bank of England lifts interest rates by 0.5 percentage points
[5] Financial Times (2022) Bank of England lifts interest rates by 0.5 percentage points
[6] Institute of Fiscal Studies (2022) Who is most affected by rising mortgage interest rates?
[7] ONS (2022) Subnational estimates of households by tenure, England
[8] Trussell Trust (2022) Forty percent of people claiming Universal Credit skipping meals to survive, new research fom The Trussell Trust reveals
[9] GLA (2022) Public opinion: cost of living tracker September 2022

- The most popular responses to manage living costs are buying cheaper products (50%), spending less on non-essentials (52%), using less water, energy or fuel (44%), and buying less food and essentials (35%).
- Almost half (49%) of Londoners have struggled with rent/ mortgage payments in September, compared to 37% in January, with a similar trend seen with bills. Those from Asian or Black ethnic groups were more likely to report struggling with rent/ mortgage payments, along with those not in employment.
- Half (50%) of Londoners are worried about increasing rent/ mortgage payments, and four-fifths are worried about increasing energy costs (81%), and increasing living costs overall (83%).

- The Institute for Health Equity have reported that 10% of excess winter deaths are directly related to fuel poverty in England, and 22% are related to cold homes[10].
- Crisis estimated in February 2022 that the number of homeless people in England could increase by a third to 66,000 as a result of the increasing cost of living and the end of COVID-19 eviction bans.[11].
- In London, average private rents for new tenancies have risen by 14% in the period to July 2022[12].

8. Local insight into increased need – Citizens Advice Southwark

- Data provided by Citizens Advice Southwark (CAS) provides a picture of the increasing number and level of need amongst residents in Southwark.
  - Utilities issues have seen a large increase, from 4% (2021/22) to 16% (Apr-Sept 22) of all CAS enquiries, and fuel debts have increased from 17% (2020/21) to 22% (2021/22) of all debt related issues.
  - In June 2022, 42% of debt clients had a negative budget (up from 38% in February 2020, and 32% in 2016). (Negative budget – where a debt adviser assesses that a client cannot meet their living costs).
  - In June 2022, 30% of people with a negative budget were within £20 a week of leaving a negative budget (down from 35% in June 2021, and 38% in February 2020), showing it's harder for people to get closer to meeting their living costs.
  - 46% of people who don't have a negative budget are within £20 a week of falling into one, highlighting the need to focus on those at risk as well as those who already have fallen into a negative budget.
  - Housing related problems make up one in five (19%) contacts to CAS which has shown a steady increase. Problems with council housing (23%) and private rented sector (22%) make up similar proportion of all housing related problems.
  - CAS's recent experience working with residents has shown that even people who are financially fairly stable and in full time work are struggling with energy bills and are at risk of/ are in fuel poverty.
  - Research from Citizens Advice across London showed that over a quarter of those with a negative budget are in full time work.

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[10] Institute of Health Equity. (2022). Fuel poverty, cold homes and health inequalities in the UK
[11] Institute of Health Equity. (2022). Fuel poverty, cold homes and health inequalities in the UK
[12] Institute of Health Equity. (2022). Evidence Review on Housing, Health Inequalities in London