Resolution Foundation

Stressed out

April brings an acute squeeze on UK living standards as higher energy bills lead to widespread fuel stress

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April 2022 will see the UK's cost of living crisis intensify as energy prices jump by more than half overnight, pushing 5 million English households into fuel stress, even accounting for support measures recently announced by the Chancellor. This is not the end, though. Against a backdrop of the highest inflation rate in 40 years and continued falls in real incomes, all indicators point to the price cap rising again in October, just as winter bites and households increase their energy use. An increase to £2,500 would see another 2.5 million households fall into fuel stress (where they spend more than 10 per cent of after housing cost incomes on energy bills). Levels of fuel stress will continue to be more acute in poorer households, those in the North and Midlands, and those in wasteful, energy-inefficient homes.

The Chancellor is already under pressure to revisit his energy support package, especially after delivering a Spring Statement in which the majority of support was aimed at the better-off, and where forecasts predict the worst parliament for income growth since comparable records began. The priority now should be to provide short-term support that is both deeper and more targeted than the measures that have already been announced, and a longer-term plan to cut energy waste and bring down costs (via the imminent 'British Energy Supply Strategy').

April 1 signals the start of the most acute part of the UK's cost of living crisis, with a 54 per cent overnight increase in energy bills (pushing a typical annual dual fuel bill up by £693 to £1,971 a year) coming alongside cost pressures in other parts of the economy. This will see more than 5 million English households fall in to fuel stress (defined as spending 10 per cent or more of their household budgets on energy bills).

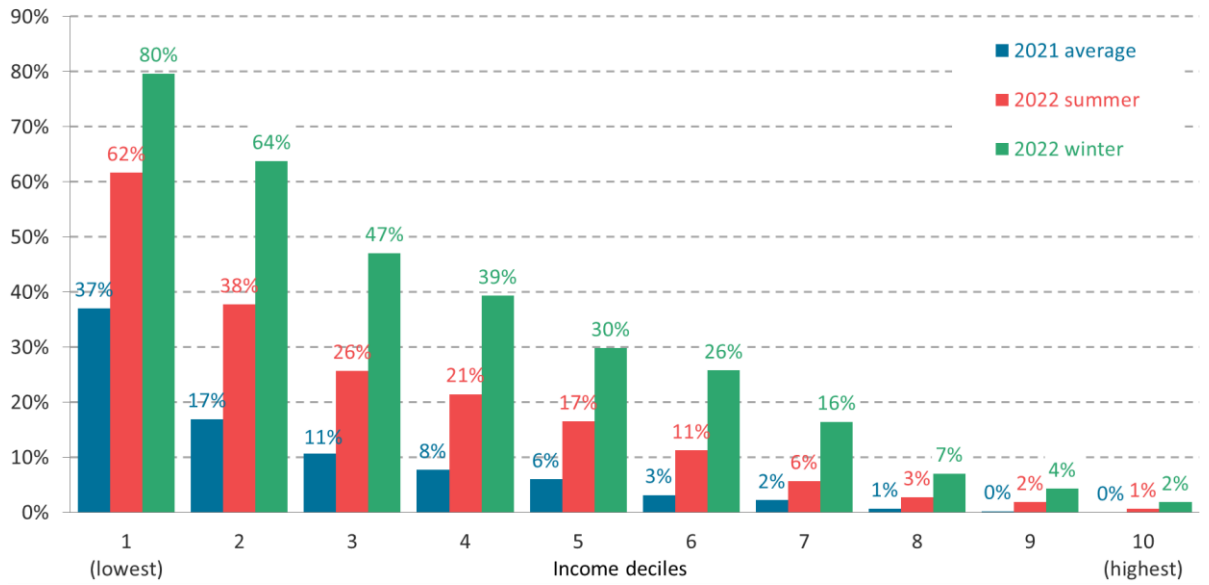
A third of households will be in fuel stress should the October price cap hit £2,500 per year, with 4-in-5 of the poorest households spending a tenth of their budgets on energy bills

Even more worryingly, further pain lies ahead. Another increase in the price cap is expected for October, with current commodity market prices suggesting it could reach around £2,500.

This would mean that 32 per cent of households – 7.5 million families in England – would be in fuel stress, even accounting for the measures announced by the Chancellor in February. As ever, it is lower-income households who are disproportionately impacted by high energy costs, with four-in-five of England's poorest families set to be facing fuel stress come October, compared with just one-in-fifty of the those in the top income decile (see Figure 1).

Figure 1 **The majority of low-income households are set to fall into fuel stress should the energy price cap hit £2,500 this October**

Share of households in fuel stress at different levels of the energy price cap, by equivalised after housing costs income decile: England



Notes: Fuel stress is defined as spending 10 per cent or more of after housing cost expenditure on domestic gas and electricity bills. 2022 winter figures in line with a Default Tariff Cap of £2,500 for a typical household, i.e. one with annual gas consumption of 12,000 kWh and electricity consumption of 2,900 kWh.
Source: RF analysis of English Housing Survey Fuel Poverty dataset, Ofgem, BEIS data.

The Government has announced measures to help; these will offset about half of the bill increase implied by April's new price cap for most households. However, the downside of the universalist approach taken by the Chancellor is that they still leave lower-income households facing a substantial pressure on their budgets.

Turning the Council Tax (CT) system – designed as a method for financing local government – into a mechanism for handing out lump-sum grants to households, while avoiding giving any to the richest, is an innovative policy response. But it does have some shortcomings. Although broadly progressive, the rebates through the CT system will see 640,000 of the poorest families (i.e. in the lowest three income deciles) miss out on support as they live in properties in Bands E to H. By contrast, around half of those in the top income decile will receive the rebate. On top of this, the support will not help households who are exempt from CT (principally student households), and tenants whose landlord pays the CT. Those who do not pay by direct debit will have to make a claim for the rebate, and in reality, not all will claim (the OBR has assumed that 20 per cent of these households will not make a claim, saving the

Government £0.2 billion). Using CT to target money also skews support away from areas with higher property prices: one-in-five of the poorest households in London live in illegible band E-H properties and will therefore not receive any automatic support.

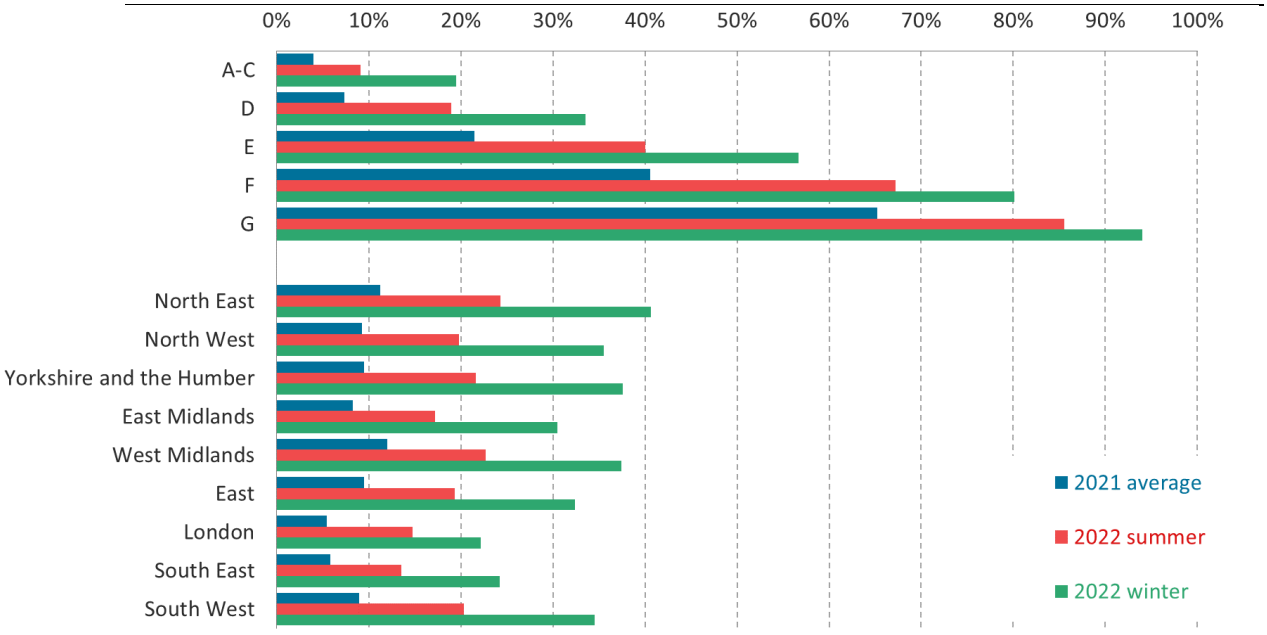
Occupants of the least energy efficient homes, and households in the North and Midlands will see the highest levels of fuel stress

Families in poorly insulated homes feel the effects of rising prices more than others. The 'efficiency gap' between a typical EPC E and EPC C-rated home is now £320 a year, but is set to jump to £380 a year in October, affecting 4.2 million families in England alone. Higher energy costs in October will see more than half of households in EPC E rated homes, and four-in-five of those in EPC F rated homes, fall into fuel stress, compared to one-in-five for those in better-insulated properties (see Figure 2). With the Government's 'British Energy Security Strategy' expected within weeks or days, these findings highlight the need for demand-side measures to cut domestic energy use, on top of well-trailed interventions on the supply side to bring down energy prices.

There will also be disparities in fuel stress by region, with households in the North of England and the Midlands more at risk than those in London and the South.

Figure 2 **Energy efficiency is one of the key drivers in whether a household is in fuel stress**

Share of households in fuel stress at different levels of the energy price cap, by EPC rating and region: England



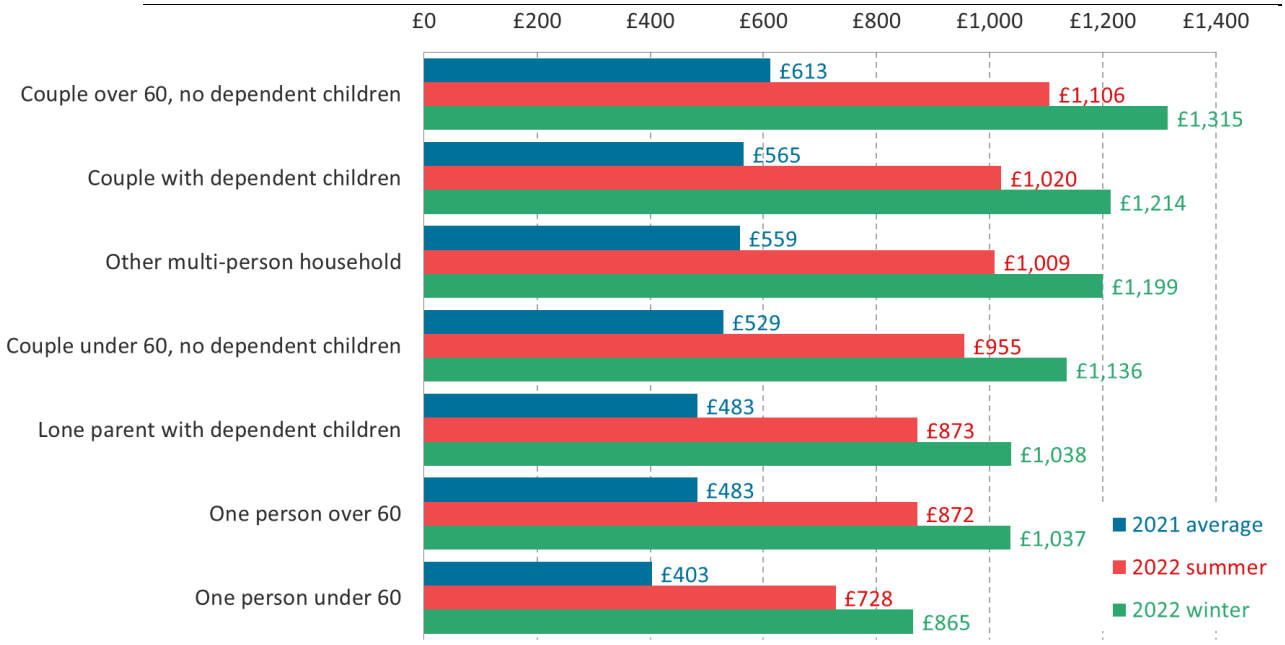
Notes: Fuel stress is defined as spending 10 per cent or more of after housing cost expenditure on domestic gas and electricity bills. 2022 winter figures in line with a Default Tariff Cap of £2,500 for a typical household, i.e. one with annual gas consumption of 12,000 kWh and electricity consumption of 2,900 kWh.
Source: RF analysis of English Housing Survey Fuel Poverty dataset, Ofgem, BEIS data.

Another price rise in October will see older and larger households face the highest bills to keep warm this winter

Another increase in the price cap in October would come just as winter bites and households reach for the thermostat. More expensive heating in winter months will impact all households, but will be of particular concern to larger families and older households. For example, the heating bill of a typical over 60s couple could reach £1,315 this winter, more than double bills they faced during 2021, and £180 higher than an equivalent working-age household.

Figure 3 **Older and larger households are set to be landed with the biggest heating bills this winter**

Annual median space heating costs at different domestic gas prices, by household composition: England



Notes: Figures are for mains-connected, gas-heated properties only. Gas prices used in line with historical price cap levels and forecast unit price in line with a £2,500 default tariff cap
Source: RF analysis of English Housing Fuel Poverty dataset, Ofgem Default Tariff Cap data, RF price cap forecast model.

Overall though, continued pressure on households through energy bills means it is only a matter of time until more support is announced. An ideal solution would be to uprate benefits in 2022-23 so that they keep up with rising prices, so that those on the lowest incomes are helped; alternatively, the Government may be considering returning to its more universalist strategy. Longer-term, however, (and even if we may hope for the price cap to fall in April 2023) the clear solution is both to reduce demand, such as through insulating homes or switching from gas boilers to less energy-hungry electric heat pumps, and to make energy cheaper, by accelerating the rollout of renewable energy, particularly onshore wind and solar which offer electricity at the lowest price.