

## Cutting back to keep warm

Why low-income households will have to cut back on spending by three times as much as high-income households this winter

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This winter, low-income households will have to reduce their spending by three times as much as high-income households in order to afford their energy bills – a situation that is particularly concerning now that we know energy bills in January-March 2023 are set to be an annualised £4,266, rather than the £2,800 expected earlier this year. In this Spotlight, we explore this disparity, and also look at how the energy efficiency ratings of the types of home that people live in will play a big part in just how much their costs soar this winter, with families in energy-inefficient homes facing monthly gas bills £231 higher than those who live in equivalent homes that already meet the Government's efficiency target (EPC C).

### Poorer households set to pay more

Back in May 2022, the Government announced a [£15 billion package of energy bill support](#). At that time, gas and electricity bills for a typical household were expected to rise to about £2,800 a year from October. However, new forecasts (from [Cornwall Insights](#)) have since suggested that the energy price cap could reach £3,582 a year for a typical household from October, and £4,266 a year from January 2023.

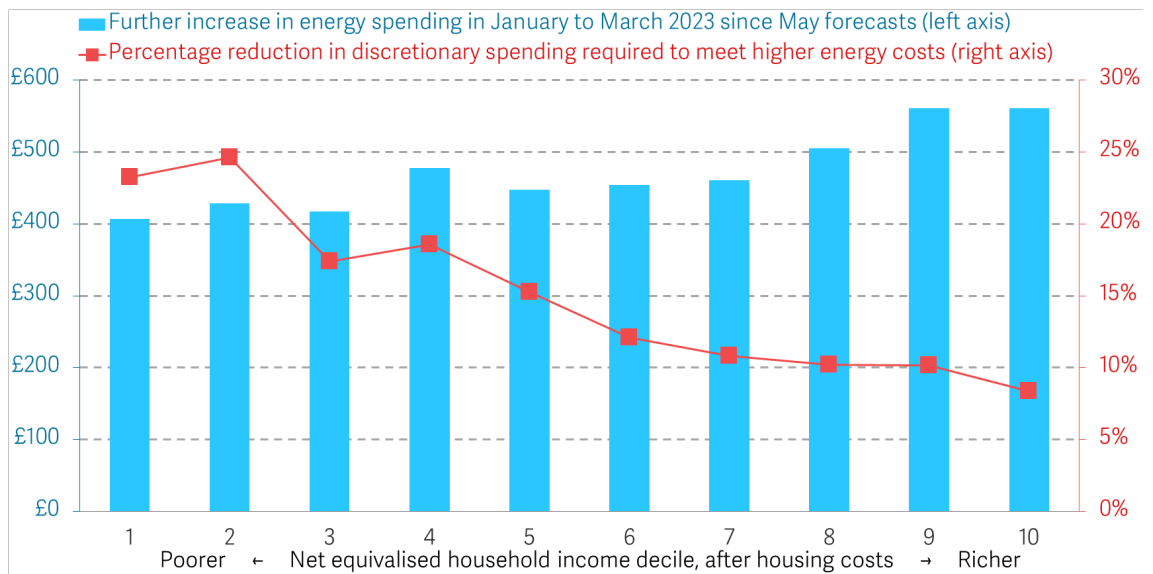
A typical low-income household paying their energy costs by Direct Debit is now expected to need an extra £418 to pay their energy bills over the first three months of next year, compared to what was expected back in May 2022. To afford this, households in the lowest quintile of the income distribution will have to cut back almost 1 in £4 (24 per cent) of "non-essential" spending in order to be able to put on the heating, pay the rent, and afford food, transport and communication in January-March 2023.

In contrast, the richest tenth of households will only have to cut back 1 in £12 (8 per cent) of their non-essential spending in order to accommodate the higher heating bills, reflecting the fact that gas and electricity expenditure make up a much smaller proportion of their total outgoings.

Figure 1

**Low-income households will have to cut back on three-times as much spending to be able to afford higher energy bills**

Additional energy bill costs during January to March 2023 compared to May 2022 energy bill forecasts, and as a share of discretionary spending, by income decile



Notes: Discretionary spending defined as all spending except food, housing costs, energy bills, transport costs, and communication costs. For lower-income households it is likely we have over-estimated discretionary spending as we have not included spending on clothes and personal hygiene for example. Therefore, the reduction in discretionary spending for those households is likely to be greater than suggested by the chart. All figures are calculated using inflation indices forecast using Bank of England forecasts, except for energy bills where Cornwall Insight projections are used.

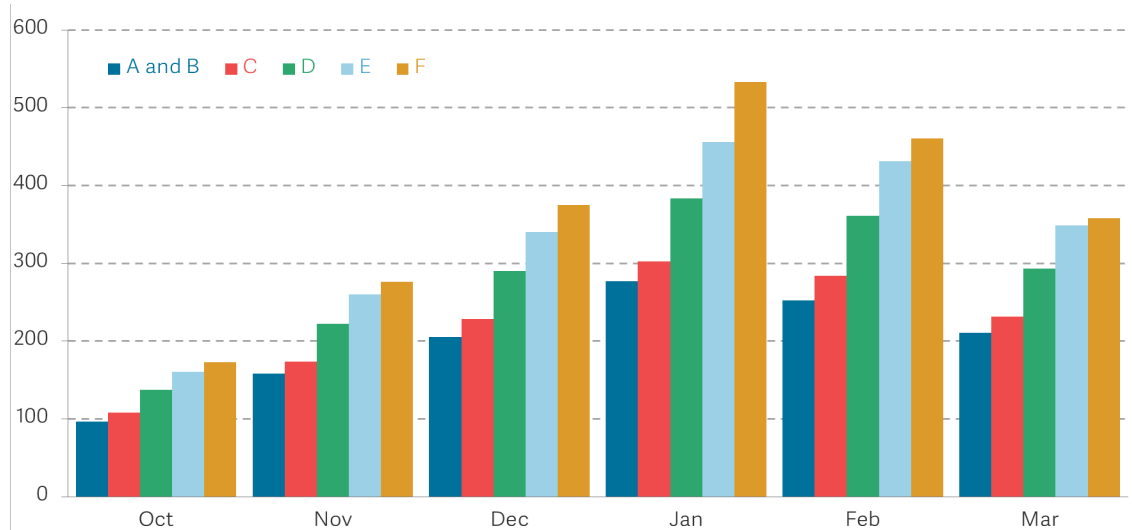
Source: RF analysis of ONS, Bank of England, GfK, 'Measuring Economic Policy Uncertainty' by Scott Baker, Nicholas Bloom and Steven J. Davis at [www.PolicyUncertainty.com](http://www.PolicyUncertainty.com)

**Families in energy-inefficient homes will be hit the hardest**

This imminent jump in energy costs is also set to coincide with colder temperatures, when household demand increases substantially: almost half of annual household gas costs come from usage between January-March. But the type of housing people live in is also set to play a big part in just how much their costs soar. This is particularly relevant for those on pre-payment meters, for whom energy costs are not smoothed out over the year.

Come January, families in energy-inefficient homes will be facing monthly gas bills £231 higher than those who live in equivalent homes that already meet the Government's efficiency target (EPC C). Over the 2022-23 winter period, this penalty adds up to £849, an average of £141 per month.

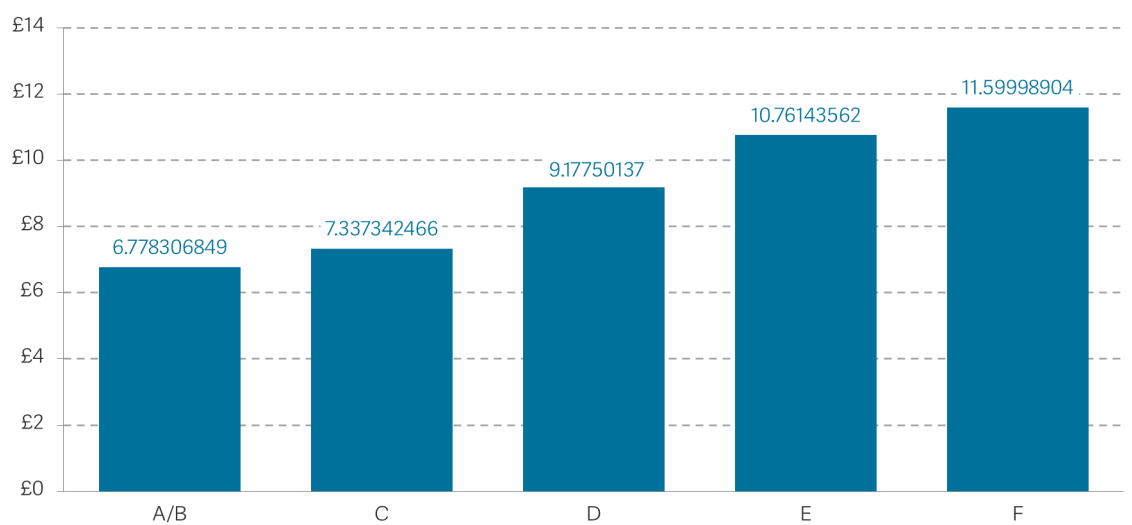
**Figure 2 Families in energy-inefficient homes will have significantly higher bills than those in better-insulated housing**  
Average monthly gas costs, by energy performance (EPC) rating: Winter 2022-23, Great Britain



Notes: Figures account for costs of space heating, water heating, and cooking.  
Source: RF analysis of Ofgem, Cornwall Insight, UCL Smart Energy Research Lab, BEIS National Energy Efficiency Framework data.

High gas costs will inevitably lead people to cut back, with a real risk of families sitting in the cold this winter. Breaking gas bills down into individual activities, we can calculate that the daily cost of turning the (gas) heating on will be £7.34 this winter, even for families in energy efficient (EPC C) homes.

**Figure 3 Keeping warm will cost more for families in badly insulated homes**  
Daily space heating costs by energy efficiency (EPC) rating: Winter 2022-23, GB



Notes: For gas-heated homes only. Share of gas bills for space heating calculated for English homes and assumed to be constant across GB.  
Source: RF analysis of Ofgem, Cornwall Insight, UCL Smart Energy Research Lab, BEIS National Energy Efficiency Framework, English Housing Survey data.

For those in badly insulated homes, this figure rises by more than half (58 per cent) to £11.60 per day. In the last pre-Covid winter, there were [28,300 excess winter deaths](#) in England and Wales, with [WHO estimates](#) implying that around 8,500 of these can be attributed to cold homes. By January 2023, the unit price of gas is set to be four times what it was in winter 2019.

This issue of insulation is especially important because of the fact that almost half (49 per cent) of the poorest fifth of households live in homes with uninsulated walls. Although this level is largely consistent across the income spectrum, the financial consequences of living in energy-inefficient homes will hit lower-income families hardest (and, as previously shown, force them to cut back on a higher proportion of their overall spending). Had Government support to insulate homes not been cut a decade ago, millions of families would be paying hundreds of pounds less for energy this winter.

With households already facing difficult budgeting decisions, the Government will need to act quickly if it is to put in place the support that will be needed this winter, as well as accelerating changes in how we produce and consume energy so households are less exposed to price shocks.

Helping the lowest-income households, who will be hit hardest by soaring energy bills, should remain the core priority, although preventing families on middle incomes from falling behind should also be a key part of any new strategy.

Longer-term, the fact that families in energy-inefficient housing will be facing some of the most severe rises also highlights the need to source cheaper energy, by rolling out low cost renewables, and for a drive to properly insulate the UK's homes.