

# The bare necessities

Unpacking the rising cost of essentials  
for low-to-middle income Britain

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## Summary

In recent decades, the smallest disposable incomes have been particularly squeezed: in the 20 years from 2003-04 to 2023-24, non-pensioner incomes at the 10th percentile only grew by a cumulative 0.5 per cent, compared to the (still meagre) 7.7 per cent growth at the 75th percentile. While such sluggish and slanted growth is bad enough, it doesn't tell the whole story, because the singular weight of essentials on poorer families adds yet another twist.

Poorer families have always had to devote relatively more of their resources to life's essentials; social scientists have been grappling with the implications since Ernst Engel's 1857 law relating the level of income to the share of it taken up by food. This much is perennial, but this rich-poor gap becomes pernicious when the cost of essentials soars, leaving those on lower incomes facing higher inflation than everyone else. This difference does not register in headline inflation measures which average across the population, such as the Consumer Prices Index (CPI). That means they are also missed in all the standard figures on absolute poverty and real incomes, which rely on such general indices. Fortunately, we can use the Living Costs and Food Survey to reckon with differences in families' spending and the differential inflation this creates.

As our measure of disposable income already strips housing out, in defining 'essentials' we set this aside, and focus on: food and drink; household bills; clothing and footwear; essential transport; and childcare. Together, these represent 49 per cent of outlays of poorer working-age families, against just 41 per cent those in the top half. While this differential is expected, what's striking is the way it has widened markedly over time: increasing from a 5 percentage point gap back in the early 2000s to 8 percentage points today. The differences are even more marked between the very top and very bottom. For the top fifth, the share of non-housing outlays devoted to essentials has barely budged, from 38 per cent in 2006 to 39 per cent in 2022-23. By contrast, for the bottom fifth, the same share rose from 46 per cent to 51 per cent in 2022-23.

The sheer (and rising) weight of essentials in poorer families' budgets has recently left that group facing higher inflation than others. Over the five years to December 2024, as first the pandemic and then the cost of living crisis unfolded, non-housing inflation (as measured by the ONS's Household Cost Indices) averaged 5.2 per cent for the poorest families, an annual rate more than half a percentage point higher than that for the richest families. This cumulatively dragged down lower living standards relative to those at the top by about 3 per cent – in a manner that is missed by all the standard poverty and real income figures.

## Eating, heating and getting around

Not all the news about life's essentials has been bad over the course of the last generation. Clothing prices have tumbled amid buoyant global trade through 1990s and into the 2000s, and are only 8 per cent more expensive in cash terms in May 2025 than on the eve of the financial crisis – a real-terms price fall of 37 per cent.

The evolution of food costs has, at least until recently, been relatively benign too, broadly tracking headline inflation. Over most of our period, sweeping VAT exemption and strong supermarket competition (including on basic brands and goods) helped consolidate the UK's position as a relatively cheap place to eat. Internationally, it remains so in the latest data: as of 2023, food and non-alcoholic drink costs were 11 per cent lower than the OECD average. But recent rates of food inflation, higher than anything seen since the 1970s and concentrated on cheaper grocery products, have caused hardship. While food price inflation is much lower today than at its peak, the toll taken by the recent burst – and by 'cheapflation' in particular – is all too evident in the latest official poverty statistics. The proportion of working-age adults in 'very low food security' soared from 3.9 to 6.0 per cent between 2021-22 and 2023-24, as the proportion of very food-insecure children shot up from 5.6 to 9.4 per cent. The same numbers show a 25 per cent rise in the number of working-age adults (from 1.3 million to 1.6 million) and 40 per cent rise in the number of children (from 810,000 to 1.1 million children) whose households have turned to food banks over the past 12 months.

The real motor of the cost of living crisis, however, was household bills – particularly energy. Here, there were signs of a chronic underlying problem even before it flared up into a crisis: both gas and electricity prices have been outpacing the CPI for a very long time. The 2000s were generally a low-inflation decade, with CPI crawling up by just over 2 per cent annually and a cumulative 23 per cent between 2000 and 2010. Gas prices, by contrast, climbed nearly 150 per cent. Electricity prices were also rising – initially more slowly, but then more rapidly over the 2010s. By the dawn of the pandemic the cost of both utilities had roughly tripled from the prices of the early 2000s, a rise of around 200 per cent as against just under 50 per cent for the CPI in general. The potentially harsh effects were, for the moment, softened by increased energy efficiency: better boilers, insulation and appliances had contributed towards a 33 per cent fall in average temperature-adjusted energy consumption between 2002 and 2019.

What happened next, however, was far too rapid for technology to offer much protection: in just four years, energy costs doubled again. Electricity peaked with a cumulative rise that was more than four-fold on early-2000s prices by 2023; for gas, the cumulative rise between 2000 and 2023 was just over six-fold. The UK went from being a typical country where fuel costs were concerned, to being an outlier: by 2023, British electricity prices

were the highest among 25 advanced economies that are members of the International Energy Agency. Dramatic and expensive government interventions – including a general Energy Price Guarantee, as well as means-tested schemes – relieved the strain when prices were at their height.

Nonetheless, official poverty data records the proportion of poorer non-pensioners reporting being unable to keep their accommodation warm enough doubled from 11 to 21 per cent between 2019-20 and 2022-23 (although this has dropped back slightly to 18 per cent in 2023-24). And for many, cutting back on heating wasn't enough to prevent a rapid build-up of energy debt. Even after adjusting for inflation, British households' aggregate energy debt has more than doubled in just five years – from £1.6 billion in Q4 2019 to £3.9 billion in Q4 2024 in today's prices.

The third and final category of spending we focus on is Transport. After stripping out more indulgent outlays – namely flights, and buying cars rather than repairing them – spending on travel varies little by income: it accounts for 13 per cent of non-housing spending for non-pensioner households in both halves of the income distribution.

But the availability and affordability of transport is nonetheless a crucial issue for poorer Britain, not least because it directly affects opportunities to boost incomes by work. Even more than with food and energy, an extraordinary range of taxes, subsidies, investments and other public policy levers drag the state deep into transport, making it an interesting case study in how the state's efforts are directed towards raising lower living standards – or not.

### Boosting incomes versus curbing costs

Over the past few years, resurgent inflation has made the cost of living the main frame in which living standards are discussed. But it's not usual to focus so much on prices. Barring wartime and now mostly abandoned experiments in state planning, the stress has overwhelmingly been on the other half of the equation: incomes. Governments have sought to boost earnings and raise revenues for transfer payments by pursuing economic growth, then relied on competition to drive costs down, rather than micro-managing prices.

This is still the best general approach in relation to food. The Competition and Markets Authority should be vigilant in relation to 'food deserts' and any evidence of a 'poverty premium' on prices. But even after recent inflation, the surest response to worrying signs of hunger is getting more money to families with too little, for example, by extending the welcome if modest Government proposal to raise the basic rate of Universal Credit, or by abolishing the impoverishing two-child limit.

Other costs, however, are too big and vary too much between households for feasible social security rates to cover in full. The system has long recognised this in respect of housing, where bespoke allowances take account of individual or local rents (even if now less adequately than they used to). A generation ago, household bills were too modest to warrant similarly bespoke treatment. That remains true with water: even though bills are currently rising, they started from a low base, accounting for only 2 per cent of typical expenditure for poorer families in 2022-23 (the latest year of data). A range of targeted water discounts schemes exist, funded by water bill payers, but the case for using taxpayers' money here seems very weak when compared to the alternative of raising general income support.

But energy has become another matter. It now takes up a much more substantial share of family budgets, and recent years have shown how volatile global gas prices can be. Importantly, and different from some other essential spending like water bills or food, there is far more variation in energy use within income brackets than between them. Given the high and variable costs, the question of targeting support directly on people with high fuel needs, comes to the fore. Since the turn of the century, and particularly over the past few years, there have been a proliferation of interventions, including cash fuel payments to pensioners, the £150 Warm Home Discount on electricity bills offered to some needy households, and – during the recent price spike – the Energy Price Guarantee (EPG).

Still, this isn't a problem that policy has yet cracked. With the public finances tight, it's especially important to target help on those who can't readily afford their own bills. And yet recent political history has demonstrated twice-over the difficulties with making targeted solutions stick. With a huge proportion of middling as well as poorer families threatened by the rapidly-rising energy bills of 2022, the Liz Truss Government ultimately judged it had no practical choice other than to embrace the hugely costly universal EPG. The EPG, along with nationwide £400 bill discounts disbursed through the Energy Bill Support Scheme, cost the exchequer £37 billion in total. The Starmer Government has recently extended the targeted Warm Home Discount to all working-age families on means-tested benefits, but only after exhausting an enormous political capital on trying – and ultimately failing – to apply a strict means-test to pensioners' Winter Fuel Payments (WFPs). Its 'U-turn' has sacrificed around three-quarters of the savings it had initially hoped to secure, even while having to improvise a complex new affluence test. And, despite the name, WFPs will still take no account of actual winter fuel costs.

So how might support be targeted more smartly – taking account of both fuel needs and income? In principle, this could be done either directly via social security, or a 'social tariff' to cut prices for the needy.

The problem with the first approach is the benefits system doesn't currently know much about energy needs, so isn't set up to allow for high individual needs in the way it already does for high rents. Issuing cash energy payments to everyone on existing means-tested benefits is exactly equivalent to raising income support. And seeing as virtually everyone has non-trivial fuel bills to pay, offering a flat-rate discounts on those bills to everyone on means-tested benefits – which the Warm Home Discount will now do – is scarcely different from that either.

By contrast, a social tariff – a unit-price reduction in bills, targeted on poorer families and directly administered by the energy companies – would be a smarter approach. We show this by modelling three different ways to spend £1.6 billion – the estimated cost of WFPs under the Government's new softened means test. The new WFPs are not meaningfully targeted other than on age: averaged across ages, it pays something of the order of £60 to households in each income decile. Redirecting that money through the Warm Home Discount would be worth an extra £280 to 5.7 million households in England and Wales, and concentrate the gains on poorer Britain: the scheme would be worth around £125 to the poorest households on average and falling steadily as incomes rose. Again, however, there would be no recognition of variable energy use.

If instead the £1.6 billion were redirected to a social tariff – making each unit of electricity cheaper, and with an income test that made close to half of the poorest households eligible – the effect across the income distribution would be broadly similar to an expanded Warm Home Discount. But now poor families with high energy needs would get much more relief than their less-energy-needy counterparts: within the bottom income bracket, average gains are only about £65 for the lightest users but increase to £250 for the heaviest.

Even with a social tariff, important dilemmas remain, including what happens to people just over the income threshold, and – most fundamentally – who is going to fund the extra support. Any contribution from the general taxpayer has to be weighed against other pressing calls on the public purse, including directly boosting low incomes. But, in the end, it's hard to see any alternative to some taxpayer funding. Cross-subsidising a social tariff from other bill payers would be least feasible at precisely the moment of high prices when such a tariff would be most needed – because, at that point, higher bills become a pressure for relatively better-off families too. A politically appealing alternative might be asking the energy companies to shoulder the cost. Regulators or ministers could seek to see to ensure that some or all of the funding was instead found from energy profits by simultaneously tightening the price cap, although the adverse effect of squeezed profits on future investment in energy would need to be carefully weighed. Besides, there is no reason to think that the profits of the energy retailers (as opposed to wholesalers) will be more abundant when prices are high.

However it is funded, a social tariff would ensure that next time energy prices spike – and in an unstable world, it would be rash to assume this won't happen – would at least ensure that the resources needed can be concentrated on the most pressing social problem. We recommend that the Government works with the energy companies to establish the necessary infrastructure now, so it is ready to use when needed.

Turning to transport, there are myriad interventions affecting both availability and cost, but these are not as well aligned as they might be with efforts to boost lower-income families' living standards. Too little attention is paid to buses – the one way of getting around poorer Britain relies on – and the interventions made aren't particularly well targeted. Free bus passes remain available to all over-60s in much of the UK, when the pension age is due to rise to 67 next year. Bringing the two things into line could free resources to give free, or at least discounted, passes to means-tested benefit recipients, or protect or extend bus routes in communities that are currently poorly served. In parallel, franchising could be a way for local and regional governments to shape services more proactively.

But across *Unsung Britain* – as across Britain as a whole – cars remain the most widely-used mode of travel. Nobody can accuse recent governments of penny-pinching on general motoring costs: £23 billion foregone by changes to Fuel Duty since 2011 (including cancelling pre-planned above-inflation rises, 15 years of freezes, and a 5p cut to Fuel Duty rates), leading to the price of a litre of petrol being at the lowest in real-terms since 2002. As things stand, the EV transition will – since electricity is not taxed like petrol – cut motoring costs again. The immediate policy problem on the horizon here is less about living standards than disappearing revenues. When the Government gets round to addressing them, smarter taxes – such as per-mile charging – could fill the gap in the public finances and avoid shifting the burden of tax from those who drive to those who do not.

In the end, affordability really is as much about income as prices. The cost of living crisis will not be fixed by tinkering with costs alone. Useful as direct action on energy bills could be, strong social security, effectively adjusted for prices, is still the single most important answer. Instead, the automatic operation of the annual inflation adjustment has been disrupted in 7 of the past 15 years: cash payments were frozen or held down to a 1 per cent capped increase. The cumulative effect has been to reduce the real effect of the basic benefit safety net by 9 per cent, and that figure is calculated on assumption that everybody faces similar inflation. As we have shown, recent inflation has not only been volatile, but also socially slanted. In such circumstances, the mechanics of that inflation adjustment become critical. They need to be improved.

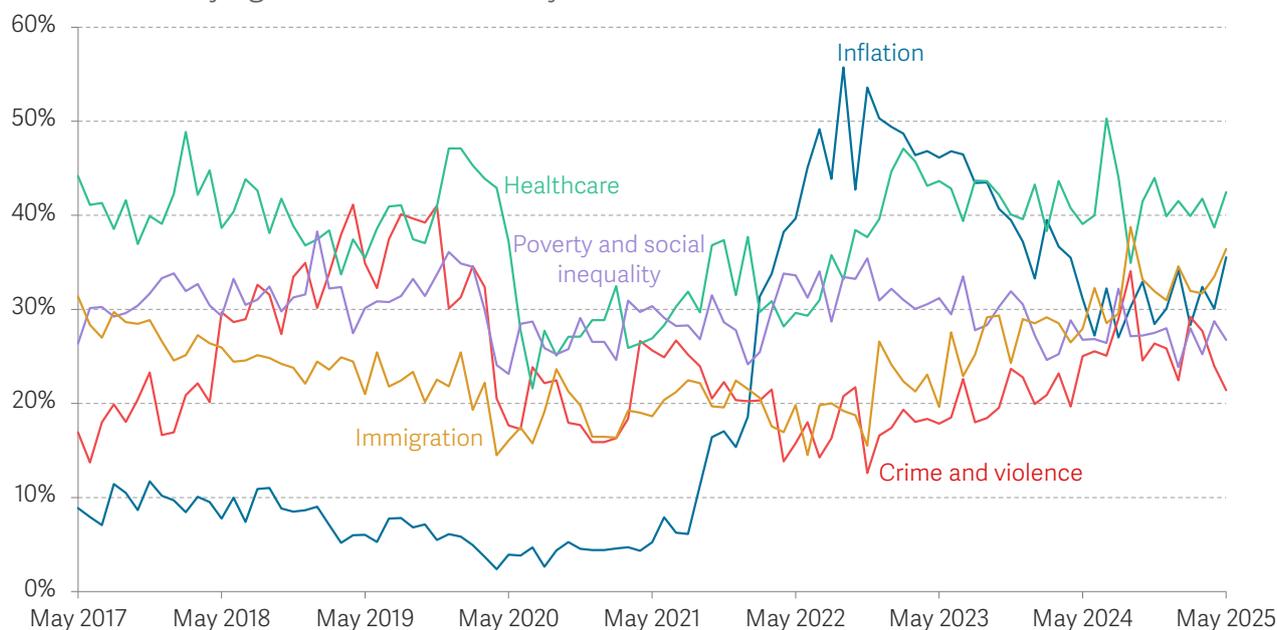
The seven-month gap between September's inflation index and the April benefit adjustment led to hardship when inflation was on the up in 2022-23: that gap should be shortened. Smaller and more-frequent inflation adjustments should take place at least twice a year when inflation is high. It is also worth considering pegging means-tested benefits to an inflation rate that is specially calculated for the lower-income brackets. But there are difficulties, including the imprecision of such disaggregated data is one obstacle, and the politics of holding benefits below the headline CPI when prices were rising faster for rich than poor, which is what the policy would require if it were not to warp into a ratchet for rising taxpayer cost. Taking living standards seriously requires thinking through both the cost and the income side of the equation. Ultimately, having the UK economy growing, and sharing that growth widely, is the only long-term way to ensure families can afford the essentials, and more.

## Low-to-middle income families spend more on essentials than those on higher incomes, and that proportion has risen over time

Over the past few years, concern about ‘the cost of living’ has risen sharply. After years of being a non-issue, inflation was Britons’ number one concern for the 18 months between February 2022 and July 2023. Figure 1 shows the five most worrying issues for the country according to British people surveyed by Ipsos over time. Despite inflation falling back to near the Bank of England’s 2 per cent target, concern has remained higher than in the years preceding the pandemic. In May 2025 – when CPI inflation was at a fairly pedestrian 3.4 per cent – 36 per cent of respondents put inflation in their top three most worrying issues facing the country, tied with immigration (also 36 per cent) and trailing only healthcare (42 per cent) as the most pressing issue of the day. At the core of rising concern over the cost of living is a feeling that the cost of life’s essentials is spiralling.<sup>1</sup> So in this paper we look at these essential costs as part of the Resolution Foundation’s *Unsung Britain* project, a programme of research designed to investigate and understand the changing economic circumstances of low-to-middle income families in the UK.<sup>2</sup>

FIGURE 1: Inflation remains one of the most important issues facing the country

Proportion of people aged 16-74 who selected various topics as one of their top three most worrying issues in their country: Great Britain



SOURCE: Ipsos, What worries the world? May 2025.

<sup>1</sup> In the April 2025 wave of the ONS’s Opinions and Lifestyle Survey, 92 per cent of respondents said that food prices had increased their cost of living, followed by gas and electricity bills (80 per cent) and fuel prices (43 per cent) as the most commonly cited cost of living drivers. ONS, *Public opinions and social trends, Great Britain: household finances, 2 to 27 April 2025*, May 2025.

<sup>2</sup> M Brewer et al., *Unsung Britain: The changing economic circumstances of the poorer half of Britain*, Resolution Foundation, November 2024.

It's long been the case that low-to-middle income families spend more of their budgets on essentials than those on higher incomes. The reality of life on lower incomes is having less money available to spend on discretionary purchases and luxuries. Engel's law – the observation that, as household incomes rise, the share spent on food falls – remains as relevant today as when it was coined in 1857.

This relationship also holds true for a broader definition of spending on essentials. Quantifying this, however, is a difficult task. Our preferred measure comprises spending on food and non-alcoholic drinks, household bills (mainly energy and water), essential transport, clothing and footwear, and childcare.<sup>3</sup> This list, of course, omits one very large essential cost: housing.<sup>4</sup> But, consistent with existing work on living standards, we treat housing costs as a deduction from disposable income rather than a spending item.<sup>5</sup> In this paper, we focus on the essential goods and services that households can buy with their after-housing-costs disposable income.

Even as a measure of non-housing essentials, this list is imperfect. It will include some discretionary spending – such as when a household opts for a more expensive variety of a product rather than a cheaper alternative that might be considered truly essential – and will also miss essential spending in other categories. Ultimately, our definition is based on a judgement that it captures the majority of households' essential spending, without distorting the results by including a large amount of discretionary spending.

To measure essential spending, we rely on the ONS's long-running Living Costs and Food Survey (LCFS) for most of our analysis – the most comprehensive survey of UK household spending pattern. Despite recent issues related to falling response rates, we remain confident in the LCFS as the best way of tracking households' spending (see Box 1).

### BOX 1: Despite its falling response rate, the LCFS remains the best source of data on low-to-middle-income families' spending patterns

<p>Like many of the ONS's household surveys, the LCFS's response rate (i.e. the proportion of households contacted by ONS who actually provide a usable response) has collapsed</p>	<p>since the pandemic: in the most recent wave of the survey (2022-23) responses were received from only 22 per cent of households invited to take part, down from 40 per cent in</p>
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<sup>3</sup> Essential transport excludes air fares and spending on new and used cars. It is comprised of bus and rail fares, plus a range of costs related to running private vehicles – namely, fuel and lubricants, spare parts and accessories, maintenance and repairs, and other services such as driving lessons, tests and MOTs.

<sup>4</sup> It is also the case that housing costs weigh more heavily on poorer families: in 2022-23, British households in the bottom half of the income distribution spent 17 per cent of their gross income on housing, more than three times the proportion of total gross household income spent by households in the top half (5 per cent). See: L Try, [Money, money, money: The shifting mix of income sources for poorer households over the last 30 years](#), Resolution Foundation, February 2025.

<sup>5</sup> For a discussion of the merits of deducting housing costs from household incomes when measuring living standards, see: J Cribb, T Wernham & X Xu, [Housing costs and income inequality in the UK](#), Institute for Fiscal Studies, November 2023.

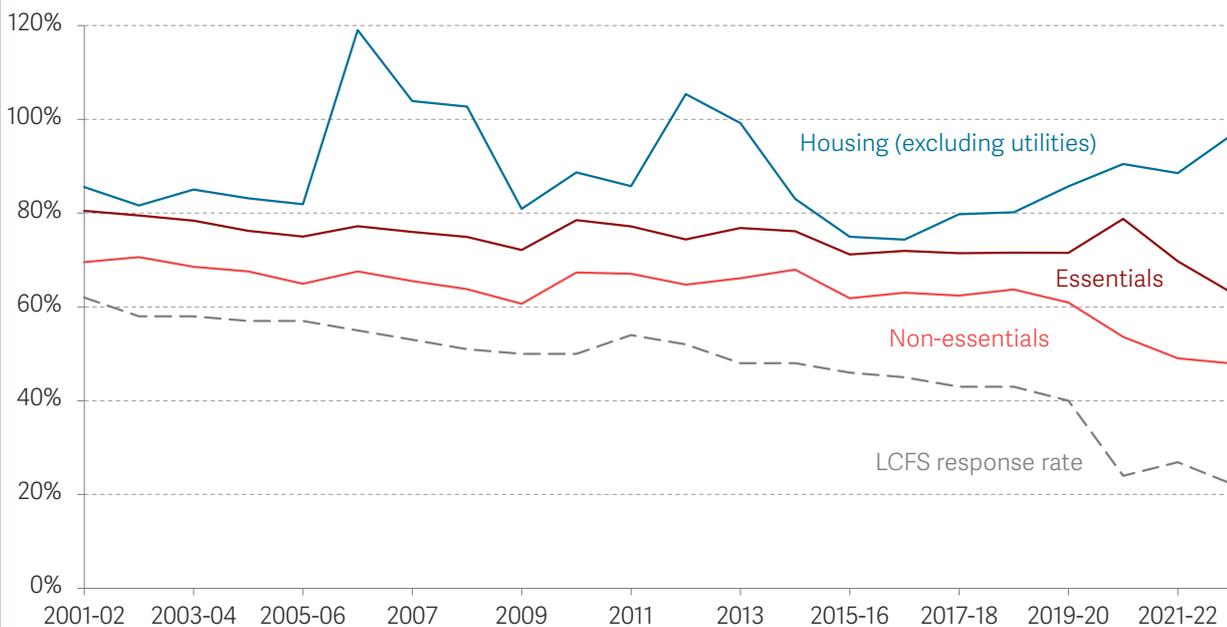
2019-20.<sup>6</sup> This increases the risk that the survey’s findings are distorted by uncorrected non-response bias – the idea that households responding to the survey are not representative of the UK population, in a way that the ONS is unable to control for by re-weighting the sample.

Falling response rates in the LCFS and its predecessors are not a new phenomenon. Even prior to the

pandemic, they had been falling steadily since the mid-1990s.<sup>7</sup> Previous research on this issue has compared aggregate consumption in the LCFS to consumption in the National Accounts, as an indicator of important changes in non-response bias.<sup>8</sup> We do the same calculation in Figure 2, showing how the LCFS’s coverage of various categories of National Accounts consumption has evolved in recent years.

**FIGURE 2: As response rates have fallen, the LCFS has picked up a smaller share of aggregate consumption across a range of categories**

LCFS response rate and coverage of National Accounts consumption, by expenditure category: UK



NOTES: Coverage is defined as average spending in the LCFS divided by per-household consumption in the National Accounts. Essentials are food and non-alcoholic drinks, clothing and footwear, household energy and water bills and transport. Non-essentials are alcoholic drinks, tobacco and narcotics, household furnishings and household equipment, private healthcare, communications, recreation and culture, education, restaurants and hotels, and miscellaneous goods and services excluding financial services indirectly measures (FISIM). Housing excludes imputed rent as well as utilities.

SOURCE: RF analysis of ONS, Living Costs and Food Survey, Consumer trends and Living Costs and Food Survey: technical report data tables.

<sup>6</sup> ONS, *Living Costs and Food Survey: technical report data tables*, August 2024. The LCFS performance is actually better than some others: between 2019 and 2023, the overall response rate for the Labour Force Survey fell from 39 per cent to just 13 per cent of invited households. ONS, *Labour Force Survey performance and quality monitoring report: July to September 2024*, November 2024.

<sup>7</sup> ONS, *Living Costs and Food Survey: technical report data tables*, August 2024.

<sup>8</sup> T F Crossley & C O’Dea, *The wealth and saving of UK families on the eve of the crisis*, Institute for Fiscal Studies, July 2010; M Brewer & C O’Dea, *Measuring living standards with income and consumption: evidence from the UK*, Institute for Fiscal Studies, July 2012.

Consistent with previous research, we find that the LCFS has captured a declining share of National Accounts consumption over time. For that reason, this report focuses on the share of spending going on essentials rather than its level. In addition, we find that the LCFS does a better job at capturing consumption in essential spending categories.<sup>9</sup> This suggests that the LCFS could be slightly overstating the share of essential spending across the UK as a whole. A major contributor here is likely to be the well-known problem of the LCFS struggling to capture the richest (or highest-spending) households, whose spending will be disproportionately skewed towards non-essentials.<sup>10</sup> This gives us some confidence that the LCFS is more accurately measuring the share of essential spending for low-to-middle-income households.

A particular concern in recent LCFS waves is the diverging trends in coverage for essentials and non-essentials. The coverage of essential and non-essential spending categories

broadly tracked one another before the pandemic. But the coverage of essentials fell by 9 percentage points between 2019-20 and 2022-23 (from 72 per cent to 63 per cent) while coverage of non-essentials fell by 13 percentage points (from 61 per cent to 48 per cent). It's possible, therefore, that recent LCFS waves have overstated the post-pandemic shift in spending towards essentials: it may be partly driven by increasing non-response at high incomes.

Nonetheless, we do know that the relative prices of food and energy have risen sharply in recent years (as we show later, in Figure 7). Given that, it is not at all surprising that the low-to-middle-income households in the LCFS have reported a higher share of spending going to essentials. The sharp post-pandemic fall in the LCFS's response rate should give us pause, but the recent trends are eminently plausible, and it remains the best insight into the spending habits of low-to-middle-income Britain.

Figure 3 shows how the share of non-housing consumption devoted to our chosen essential spending categories has evolved over the past two decades. Groceries, household bills, essential transport, clothing and footwear and childcare accounted for 49 per cent of spending for households in the bottom half of the income distribution in 2022-23, compared to 41 per cent for those in the top half. The gap between richer and poorer households is unsurprising, but the recent growth in this gap is notable: today's 8

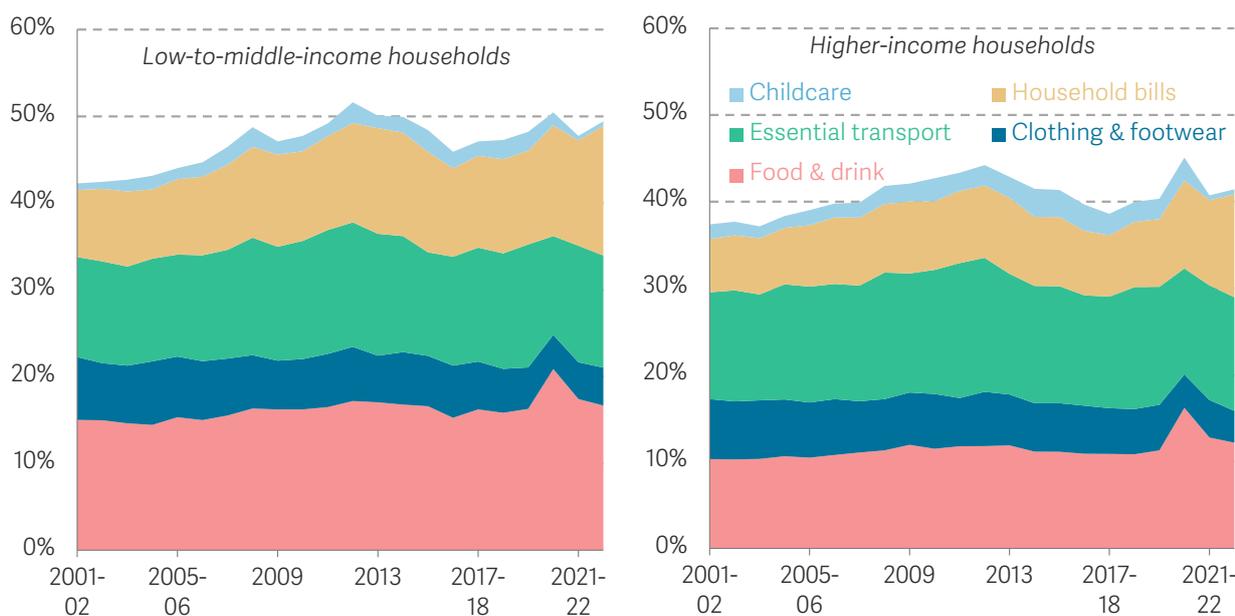
<sup>9</sup> Again, this is highlighted in previous research, particularly in: M Brewer & C O'Dea, *Measuring living standards with income and consumption: evidence from the UK*, Institute for Fiscal Studies, July 2012.

<sup>10</sup> D Webber, R P Tonkin & M Shine, *Using Tax Data to Better Capture Top Incomes in Official UK Income Inequality Statistics*, NBER Working Paper, July 2020.

percentage point gap has grown from 5 percentage points two decades ago (in 2002-03, essentials accounted for 37 per cent of poorer households' non-housing consumption and 42 per cent of richer households' non-housing consumption).

### FIGURE 3: Spending on essentials is up, particularly for the poorer half of Britain

Proportion of household non-housing consumption spent on 'essentials', for low-to-middle-income and higher-income non-pensioner households: UK



NOTES: Drink refers to non-alcoholic beverages. Transport includes transport insurance and excludes spending on used cars, new cars and flights. Data refers to financial years between 2001-02 to 2005-06, calendar years from 2006 to 2014 and financial years from 2015-16.

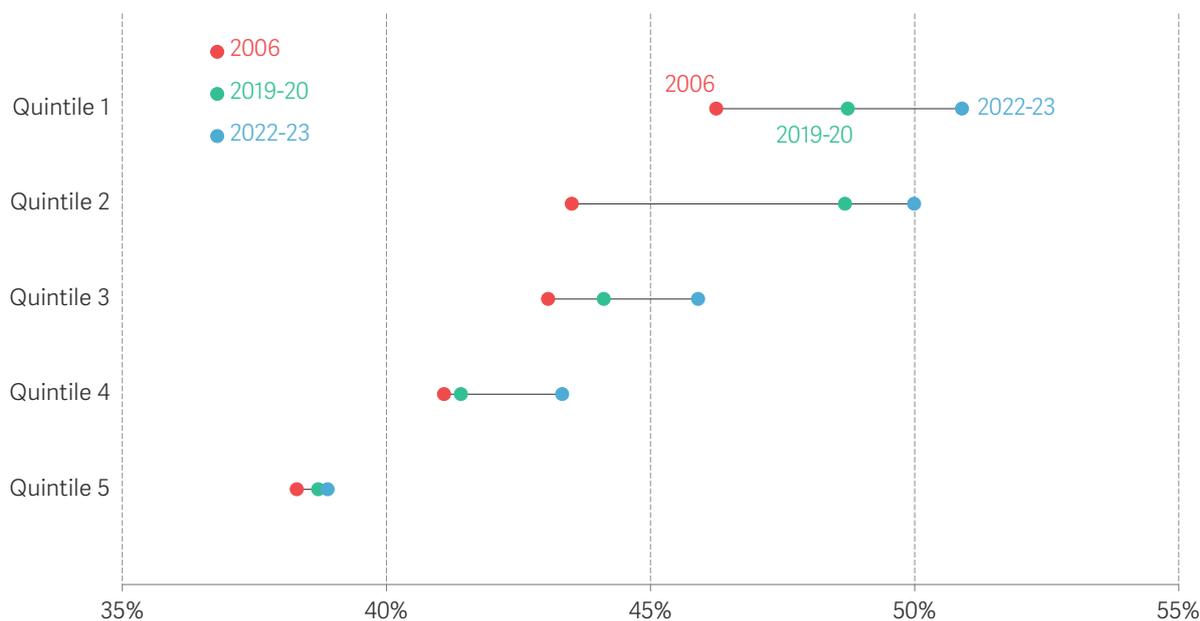
SOURCE: RF analysis of ONS, Living Costs and Food Survey.

This growing disparity is even starker when we focus on the very top and very bottom of the income distribution. As shown in Figure 4, for non-pensioner households in the bottom fifth of the income distribution, the share of non-housing spending devoted to essentials has risen by 5 percentage points since the eve of the financial crisis (from 46 per cent in 2006 to 51 per cent in 2022-23). By contrast, for the top fifth, this share was essentially unchanged (rising from 38 per cent in 2006 to 39 per cent in 2022-23). As the cost of living crisis pushed up essential spending for middle-income households, spending shares at the very top were barely affected. On average, households in the top income quintile were the only group that reduced their expenditure shares across all three of transport, childcare and clothing between 2019-20 and 2022-23 – suggesting a greater capacity to absorb higher food and energy prices elsewhere in their budgets.<sup>11</sup>

<sup>11</sup> The falls in transport and childcare spending for this highest-income group are also consistent with the disproportionate growth of home working in higher-paying jobs; see: ONS, *Characteristics of homeworkers, Great Britain: September 2022 to January 2023*, February 2023.

### FIGURE 4: The bottom two-fifths of the income distribution saw the biggest rise in essentials spending between the financial crisis and the pandemic

Proportion of non-pensioner households' non-housing consumption on 'essentials', by equivalised after-housing-costs household income quintile: UK



NOTES: Essentials includes food and non-alcoholic beverages, clothing, transport (excluding new cars and flights, and including motor insurance), household bills, and childcare.

SOURCE: RF analysis of ONS, Living Costs and Food Survey.

## The higher share of spending on essentials meant low-to-middle income families were hit harder by the cost of living crisis than better-off families

The greater weight of essentials (particularly food and energy) in low-to-middle income families' budgets left them particularly exposed to the inflation trends that defined the cost of living crisis. Annual energy inflation peaked at 90 per cent in October 2022, followed by a surge in food and drink inflation that peaked at 19 per cent the following March – the highest rate in nearly half a century.<sup>12</sup>

The ONS's main measures of inflation estimate an average inflation rate across the economy, but in reality each household in effect faces their own inflation rate, determined by the basket of goods and services that they consume. The greater weight of food and energy in poorer households' spending baskets, combined with particularly high rates of energy and food inflation during the cost of living crisis, meant that the average inflation rate experienced by Unsung Britain would have been higher than the published CPI.

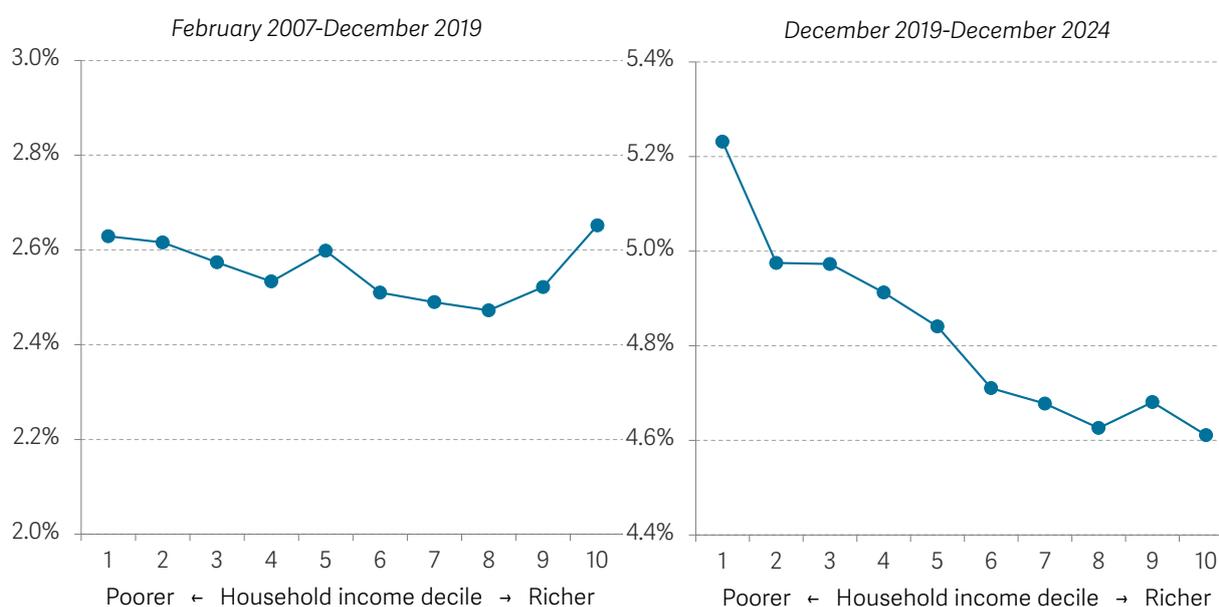
We can use the ONS's Household Cost Indices (HCIs) to quantify this. The HCIs combine data on the spending patterns of different parts of the population with detailed price

<sup>12</sup> ONS, Consumer prices.

indices to calculate a representative inflation rate for different income groups, which we adjust to remove the impact of housing cost inflation.<sup>13</sup> As shown in Figure 5, between December 2019 and December 2024, the average annual inflation rate experienced by the poorest tenth of households was 5.2 per cent, 0.6 percentage points higher than the inflation rate experienced by the richest tenth. Over the full five-year period, this represented an extra 3 percent drag on living standards.

### FIGURE 5: Poorer households' spending patterns meant they experienced much more inflation during the cost of living crisis

Average annual change in ONS Household Cost Index excluding housing costs, by equivalised income decile: UK



NOTES: Household income is measured as net equivalised income, before housing costs. Income deciles include pensioner households as well as those of working age. From the overall HCl for each income group, we remove private rentals, social and other rentals, mortgage interest payments, Stamp Duty, and "other" owner occupier housing payments.

SOURCE: RF analysis of ONS, Household Cost Indices.

This headwind to poorer households' living standards is typically ignored in headline measures of real income growth, which often use the aggregate Consumer Prices Index (CPI) to adjust for the rising cost of living over time. As shown by the red bars in Figure 6, a CPI-based deflator implies that after-housing-costs income fell most sharply for richer working-age Britons in recent years.<sup>14</sup> Between 2019-20 and 2023-24, the conventional story is that real incomes fell by an average of 3.4 per cent for those richer half of Britons, double the 1.7 per cent fall across the poorer half.<sup>15</sup> A different aggregate deflator, based

<sup>13</sup> For details on the construction of the HCIs, see: ONS, [Household Costs Indices for UK household groups QMI](#), November 2023. From the overall HCl for each income group, we remove private rentals, social and other rentals, mortgage interest payments, Stamp Duty, and "other" owner occupier housing payments in line with the scope of this paper.

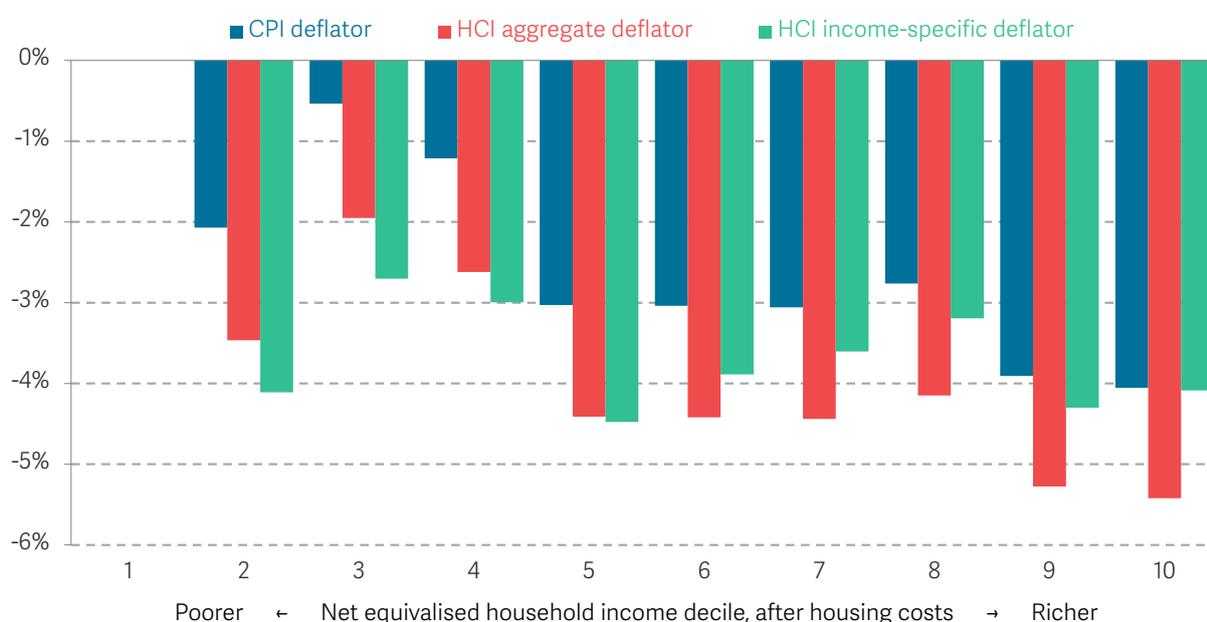
<sup>14</sup> As we are measuring income after housing costs, the CPI-based deflator here strips out housing costs from the headline CPI index, as is normal when analysing after-housing-costs incomes in HBAI.

<sup>15</sup> Due to well-known concerns about the reliability of income data for those on the lowest incomes, this calculation omits the bottom income decile of the household income distribution.

on the ONS's HCI for all households, shows a similar pattern (the blue bars in Figure 6, although note that HCI-deflated incomes fell by more than CPI-deflated incomes due to small differences in the construction of the two average inflation measures).<sup>16</sup> But the income gradient mostly disappears once we account for the higher rate of inflation experienced by poorer households over this period. Using an income-specific deflator (based on the data shown in Figure 5), real incomes fell fairly evenly across the board: the average fall in the top half of the income distribution was 3.8 per cent, compared with 3.6 per cent for the bottom half (the green bars in Figure 6).

### FIGURE 6: Accounting for the higher rates of inflation experienced by poorer households in recent years closes the gap in real income falls

Change in real after-housing-costs equivalised income between 2019-20 and 2023-24 for non-pensioner individuals, by household income decile and choice of income deflator: UK



NOTES: All deflators exclude housing costs. Due to well-known concerns about the reliability of income data for those on the lowest incomes, this chart omits the bottom income decile of the household income distribution. The HCI income-specific deflators are for before-housing-costs income groups and include pensioners, so there are likely to be some small discrepancies when applied to non-pensioner after-housing-cost income deciles.

SOURCE: RF analysis of ONS, Consumer prices and Household Cost Indices; DWP, Households Below Average Income.

For those in the second-lowest income decile, the aggregate deflator understates the 'true' real income hit between 2019-20 and 2023-24 by 0.6 percentage points, or around £100 a year. Rather than falling by 3.5 per cent through the pandemic and cost of living crisis, as suggested by comparing second-decile income growth to aggregate HCI inflation, a more

<sup>16</sup> This difference partly reflects the distribution of inflation across income groups. Spending shares used to calculate the CPI are based on a 'plutocratic' weighting approach, where household spending shares are weighted according to their share of overall expenditure. This mechanically puts more weight on the spending patterns of richer households who tend to spend more than poorer households. The HCIs use a 'democratic' weighting approach, which gives all households equal weight. Relative to CPI, this puts more weight on poorer households who, as shown in the right panel of Figure 3, experienced a higher rate of inflation in recent years. For more on the differences between the HCI and CPI, see: ONS, [Household Costs Indices for UK household groups QMI](#), November 2023.

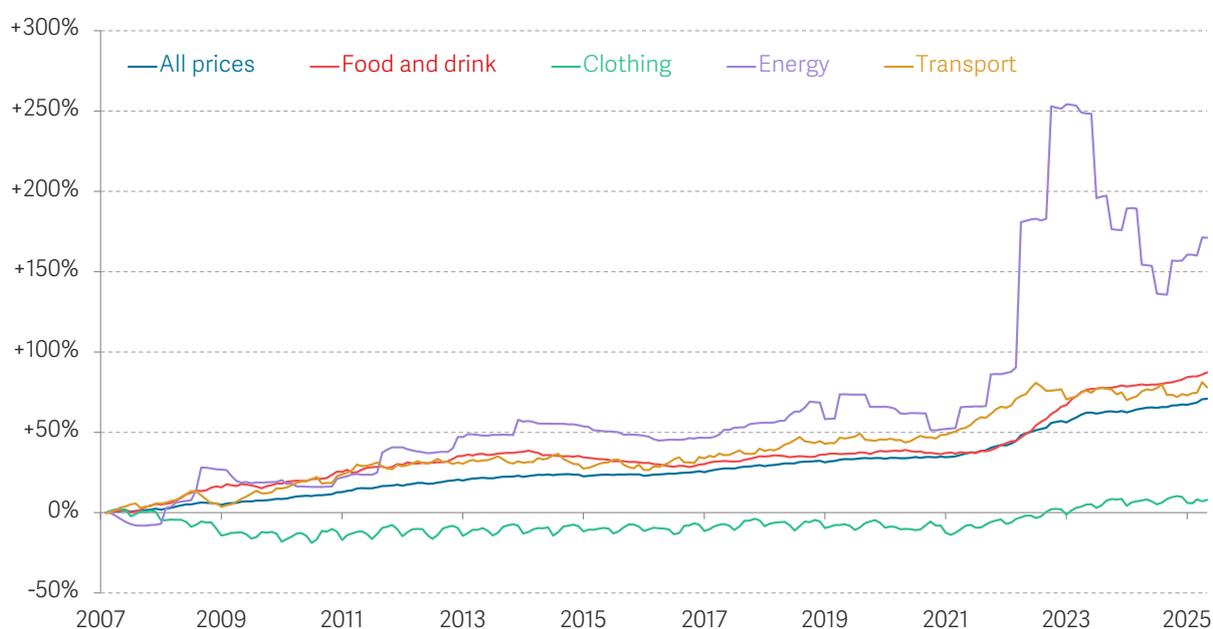
accurate assessment, which compares second-decile income growth to HCI inflation experienced by this group, tells us that incomes of households in the second-lowest income decile fell by 4.1 per cent.

These major differences in the experience of inflation across the income distribution are a relatively new phenomenon, as Figure 5 makes clear.<sup>17</sup> Between the financial crisis and the pandemic, for example, poorer households tended to experience slightly higher inflation than households in the upper-middle part of the income distribution. But it was the richest tenth which experienced the most inflation in this period, in part owing to their high exposure to above-inflation increases in hospitality prices.

This shifting profile of inflation across the income distribution reflects a complex combination of price trends over the past two decades. Some of the key price trends are shown in Figure 7. There is some good news here. Expanding global trade has kept down the cost of clothes, whose price has risen only 8 per cent since the eve of the financial crisis, equivalent to a real-terms fall of over a third (37 per cent). And, after accounting for advances in quality and performance, prices have fallen outright for other consumer goods like TVs and phones (not shown on the chart).<sup>18</sup>

**FIGURE 7: Essential costs have generally outpaced inflation since before the financial crisis, while clothes and other consumer goods have got cheaper**

Cumulative change in prices since February 2007: UK



NOTES: Food and drink refers to food and non-alcoholic beverages; clothing includes footwear; energy refers to electricity, gas and other fuels, and reflects standing charges as well as unit prices.

SOURCE: RF analysis of ONS, Consumer prices.

<sup>17</sup> This finding is consistent with previous research using different measures of inflation, for example: I Crawford & Z Oldfield, *Distributional aspects of inflation*, Institute for Fiscal Studies, June 2002; A Adams & P Levell, *Measuring poverty when inflation varies across households*, Joseph Rowntree Foundation, November 2014.

<sup>18</sup> G Wilkes, *A blob-chart way of dissecting Britain's prosperity failure*, Freethinking Economist, September 2023.

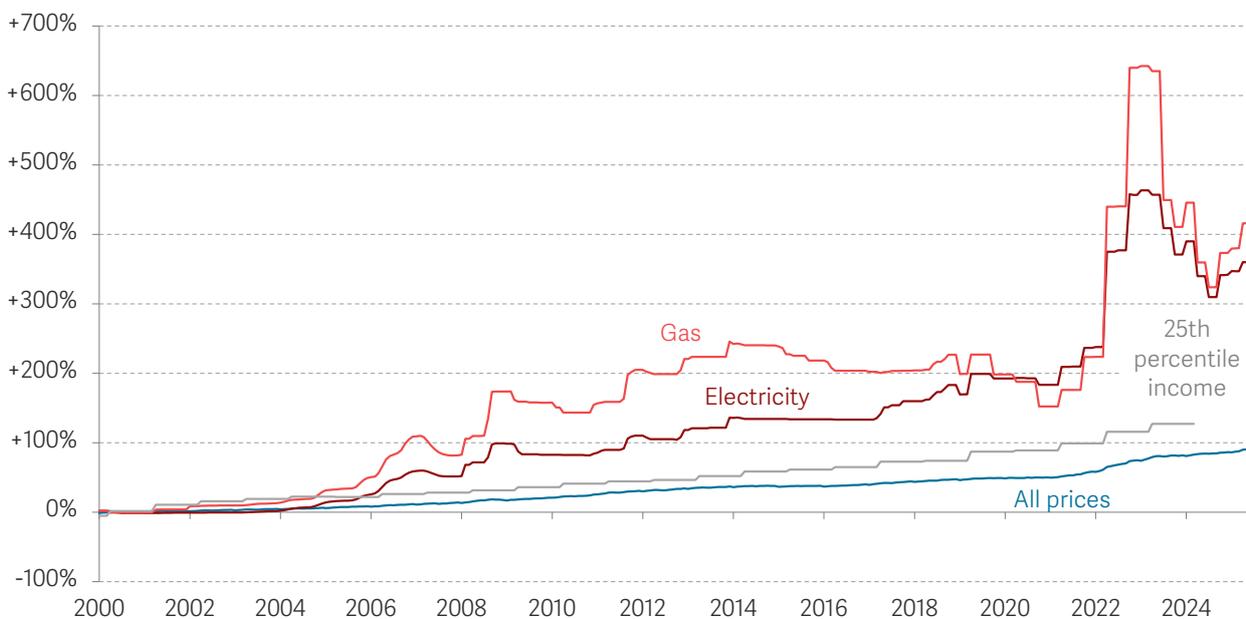
However, the same cannot be said for many of life’s essentials, which matter more to poorer families. In the remainder of this note, we turn to some of the most important price trends for low-to-middle-income Britain. We focus on those essentials that take up the most space in poorer households’ budgets, namely: household bills, food, and transport. We start by describing the key price developments and their drivers, before discussing their policy implications.

## Energy prices were at the forefront of the cost of living crisis, but they had been rising in the decades before that

We start with energy prices, whose stratospheric rise in recent years has been impossible to ignore. But less well-appreciated is that the energy crisis sparked by Russia’s invasion of Ukraine came on the back of a sustained, slow-burn rise in energy prices over the previous two decades. As Figure 8 shows, growth in energy prices paid by households in the first two decades of the 2000s (here reflecting both unit prices and standing charges) was not just running ahead of overall inflation, but also exceeding growth in poorer households’ incomes.

**FIGURE 8: Since 2000, energy prices have consistently outpaced both inflation and poorer households’ income growth**

Cumulative change in prices and 25th percentile of working-age household income since 2000: UK



NOTES: Income is measured as net equivalised household income, after housing costs.  
SOURCE: RF analysis of ONS, Consumer prices; DWP, Households Below Average Income.

In the generally low-inflation decade from 2000 to 2010, overall prices (as measured by the CPI) rose by 23 per cent. Meanwhile, gas prices sky-rocketed, rising by 147 per

cent over the same period. In large part, this reflected higher wholesale gas prices.<sup>19</sup> As North Sea oil dried up, Britain became reliant on liquid natural gas (LNG) and piped gas imported from abroad.<sup>20</sup> Rising oil prices, higher transport costs, plus a weaker pound after the financial crisis, all combined to push up the prices of imported gas.<sup>21</sup> As wholesale costs are the largest component of domestic energy prices, this fed through directly to the price of gas faced by households.

Higher gas prices in the 2000s also fed through to electricity prices. In the UK's system of marginal cost pricing, the wholesale electricity price is frequently set by the cost of producing electricity in gas-fired power stations.<sup>22</sup> Electricity prices rose steadily in the 2000s, and again at either end of the following decade. Towards the end of the 2010s, electricity prices rose while gas prices were broadly flat. This partly reflected an unwise decision to place the bulk of environmental and social levies on electricity bills, which Box 2 covers in more detail. All told, by the end of the 2010s gas and electricity prices were both around 200 per cent higher than in 2000, compared to a 48 per cent rise in prices overall.

## BOX 2: The unequal imposition of environmental and social levies has pushed up household electricity prices relative to gas

Today, energy companies in Great Britain are obliged to contribute towards a range of environmental and social schemes, with the cost of these contributions being recouped via household energy bills.<sup>23</sup> As the scale of these costs (often referred to as 'policy costs') increased during the late 2010s, their unequal imposition pushed up household electricity prices relative to gas.

Figure 9 illustrates this. It shows the main drivers of household energy prices in this period, based on Ofgem's estimates for how its price caps for electricity and gas would have evolved between the summer of 2015 and the summer of 2019.<sup>24</sup> Ofgem's indicative price cap for electricity rose by 30 per cent over this period, with nearly half the rise (13 percentage points) coming from higher policy costs. Meanwhile,

<sup>19</sup> Ofgem, *Electricity and Gas Supply Market Report*, December 2011.

<sup>20</sup> For a historical summary of the sources of natural gas in the UK, see Box 3.1 in: OBR, *Fiscal risks and sustainability*, July 2023.

<sup>21</sup> D Hall, *What drives British wholesale gas prices?*, Ofgem, June 2016;

<sup>22</sup> I Stewart, *Why is cheap renewable electricity so expensive on the wholesale market?*, House of Commons Library, September 2023; B Zakeri et al., *The Role of Natural Gas in Electricity Prices in Europe*, UCL Institute for Sustainable Resources, July 2022.

<sup>23</sup> Ofgem, *Supplier obligations: environmental and social schemes*, January 2023; M Kavan, *Household energy bills include green levies. What are they and why do we need to pay them?*, Nesta, accessed 10 June 2025.

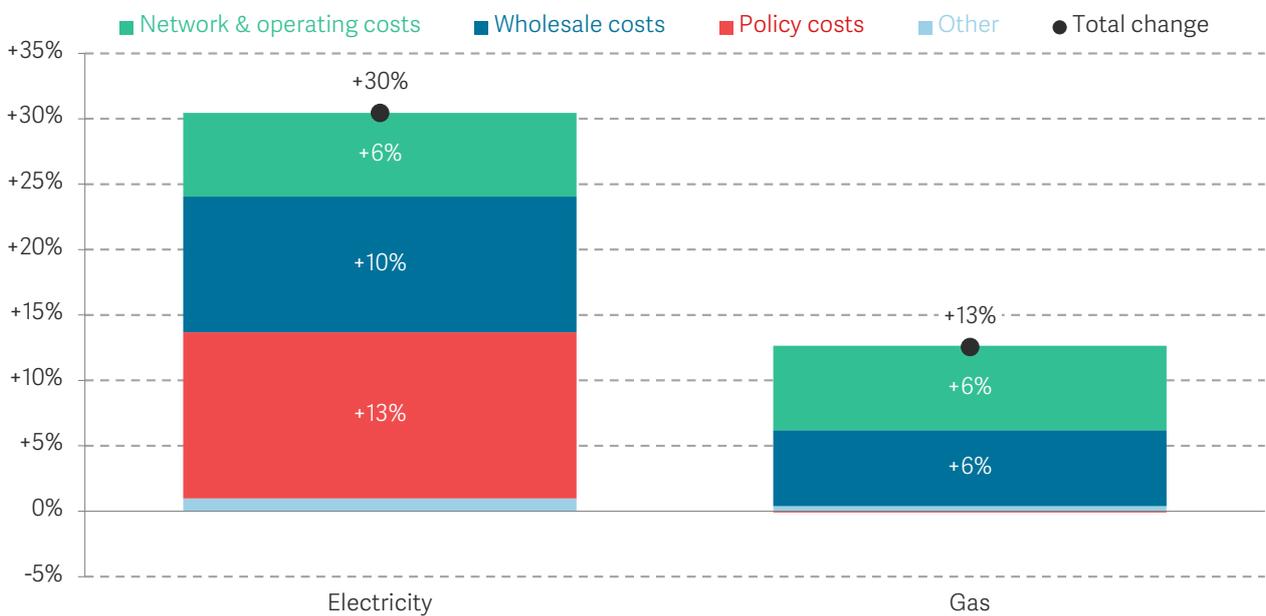
<sup>24</sup> The current Ofgem price cap methodology was first introduced in January-March 2019, but Ofgem has published indicative values for the level of the price cap and its components in previous periods, going back to April-September 2015. Unlike the experience in recent years, energy suppliers in the 2010s often offered prices below the Ofgem cap. Therefore, the changes shown in Figure 9 won't necessarily reflect price changes experienced by households during this period. But the price cap methodology means that they do reflect the key drivers of energy prices during this period.

the price cap for gas only rose by 13 per cent, as policy costs remained flat. This lopsided impact of policy costs accounted for almost three-quarters of the overall divergence in electricity and gas costs during this time. And the

gap in policy costs has persisted: today, policy costs account for 16 per cent (5 pence per kWh) of the current per-unit price of electricity, compared to just 4 per cent (0.3 pence per kWh) for gas.<sup>25</sup>

**FIGURE 9: Policy costs drove a wedge between domestic electricity and gas prices in the late 2010s**

Contributions to the change in the indicative level of the Ofgem price cap between April-September 2015 and April-September 2019, by energy source: GB



NOTES: Based on annual consumption levels of 3,100 kilowatt hours of electricity and 12,000 kilowatt hours of gas. Policy costs include: Renewables Obligation, Contracts for Difference, Feed-in Tariff, Energy Company Obligation, Warm Homes Discount and Assistance for Areas with High Electricity Distribution Costs (AAHEDC). Other contributions are EBIT (a measure of energy company profits) and headroom (to allow for uncertainty in the cap calculation). April-September 2015 data is based on Ofgem’s estimates of what the price cap would have been in the period before its introduction.

SOURCE: RF analysis of Ofgem, Model – default tariff cap level v1.2.

This discrepancy is increasingly attracting attention – and could well be harming the transition to net zero.<sup>26</sup> In particular, the high price of

electricity relative to gas means that most households will find it cheaper to heat their home with a gas boiler than a heat pump.<sup>27</sup> This is a significant

<sup>25</sup> Z Leather & J Marshall, *Turning up the heat: Making the home heating transition work for low-income households*, Resolution Foundation, April 2025.

<sup>26</sup> L Gadenne & B Upton, *The tax system is making net zero more costly than it has to be*, Institute for Fiscal Studies, June 2025.

<sup>27</sup> Z Leather & J Marshall, *Turning up the heat: Making the home heating transition work for low-income households*, Resolution Foundation, April 2025.

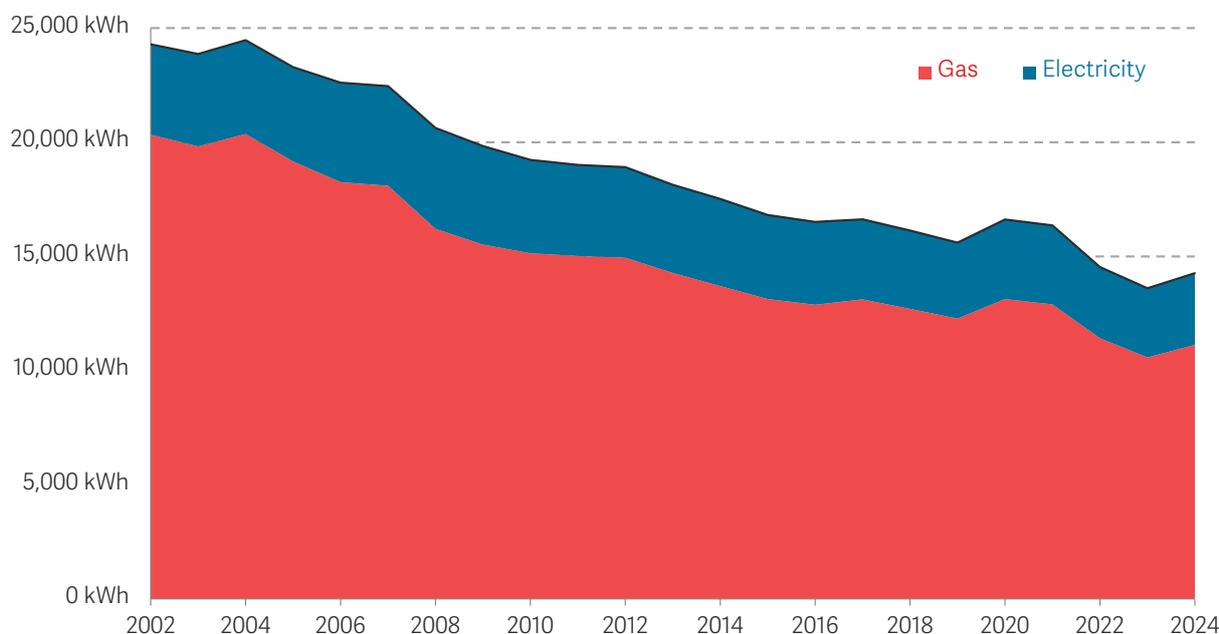
barrier to the home-heating transition.<sup>28</sup> We have previously recommended that recouping some of all of these costs via the tax system or, perhaps more feasibly,

gas unit prices would help to level the playing field between gas and electricity and sharpen the incentive for families to electrify.<sup>29</sup>

But improved energy efficiency meant that rising unit prices in the 2000s and 2010s weren't fully reflected in higher energy bills. After adjusting for temperature fluctuations, average household energy consumption fell by a third (33 per cent) between 2002 and 2019, as shown in Figure 10.<sup>30</sup> This saved the average household £377 on their energy bills in 2019, compared to a world in which average consumption hadn't fallen.<sup>31</sup>

**FIGURE 10: Energy usage has fallen on the back of efficiency improvements, masking some of the impact of higher prices in the 2010s**

Average annual temperature-adjusted domestic gas and electricity consumption: GB/UK



NOTES: Average electricity consumption is per household in the UK; average gas consumption is per household in Great Britain.  
 SOURCE: Department for Energy Security and Net Zero, Average annual domestic electricity bills by various consumption levels & Average annual domestic gas bills by various consumption levels.

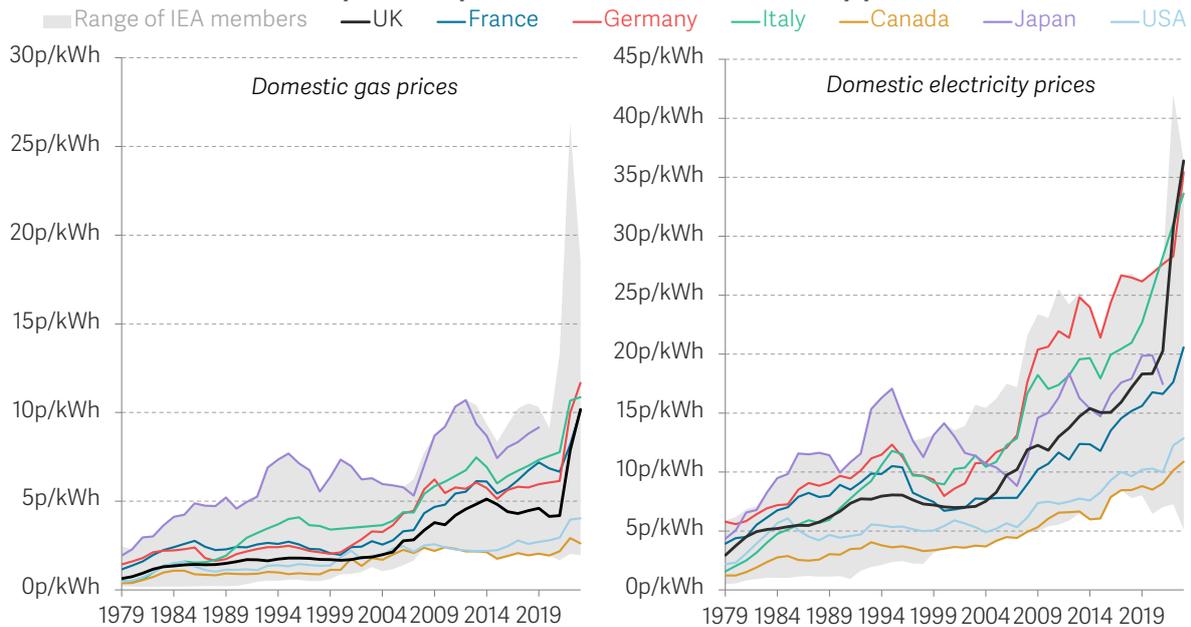
Although energy use fell again in the cost of living crisis, this was far from enough to prevent a sharp rise in households' energy bills. On a temperature-adjusted basis, average electricity consumption fell by 9 per cent between 2019 and 2023, while gas consumption

<sup>28</sup> The balanced pathway in the Climate Change Committee's latest Carbon Budget "requires the annual rate of heat pump installations in existing residential properties to rise from 60,000 in 2023 to nearly 450,000 by 2030 and around 1.5 million by 2035". Climate Change Committee, *The Seventh Carbon Budget*, February 2025.  
<sup>29</sup> Z Leather & J Marshall, *Turning up the heat: Making the home heating transition work for low-income households*, Resolution Foundation, April 2025.  
<sup>30</sup> Energy use increases significantly during cold weather, so temperature-adjusted statistics give a better signal of underlying energy usage. For more, see: S Rahman, *Temperature correction of energy statistics*, Office for National Statistics, January 2011.  
<sup>31</sup> This is a static calculation that compares the average household energy bill in 2019 (£1,200) to a counterfactual bill based on 2019 gas and electricity prices and 2002 average consumption (£1,577). Source: Department for Energy Security and Net Zero, *Average annual domestic electricity bills by various consumption levels & Average annual domestic gas bills by various consumption levels*.

fell by 14 per cent. Nonetheless, average energy bills rose by 71 per cent between 2019 and their peak in 2023, from £1,200 to £2,051.<sup>32</sup> This £851 rise was roughly evenly split between higher spending on gas (a rise of £414 between 2019 and 2023) and electricity (a rise of £437).

Rising gas bills were not unique to Britain. As shown in the left panel of Figure 11, higher gas prices for UK households were mirrored by a surge in prices across Europe, as European gas markets were cut off from Russian pipelines. Britain’s rise in domestic electricity prices, however, was more exceptional, owing to our system of marginal cost pricing and energy generation mix.<sup>33</sup> This meant that, as gas prices sky-rocketed, the UK went from the middle-of-the-pack to top-of-the-pile for electricity prices internationally, as shown in the right panel of Figure 11. Among all 25 advanced economies in the International Electricity Agency who have reported data for 2023, Britain had the highest domestic electricity prices.

**FIGURE 11: The energy crisis saw domestic gas prices rise across Europe, but Britain shot to the top of the pile for domestic electricity prices**



Domestic average unit prices for electricity (left panel) and gas (right panel): G7 countries and range of International Energy Agency members

NOTES: Prices include taxes and are converted to p/kWh at average annual exchange rates. In addition to the G7 countries shown, IEA members include: Austria, Belgium, Denmark, Finland, Greece, Ireland, Luxembourg, Netherlands, Portugal, Spain, Sweden, Australia, Czechia, Hungary, Korea, New Zealand, Norway, Poland, Slovakia, Switzerland and Turkey.

SOURCE: Department for Energy Security and Net Zero, International domestic energy prices.

This sharp rise imposed a steep cost on families during the peak of the cost of living

<sup>32</sup> Department for Energy Security and Net Zero, [Average annual domestic electricity bills by various consumption levels & Average annual domestic gas bills by various consumption levels](#).

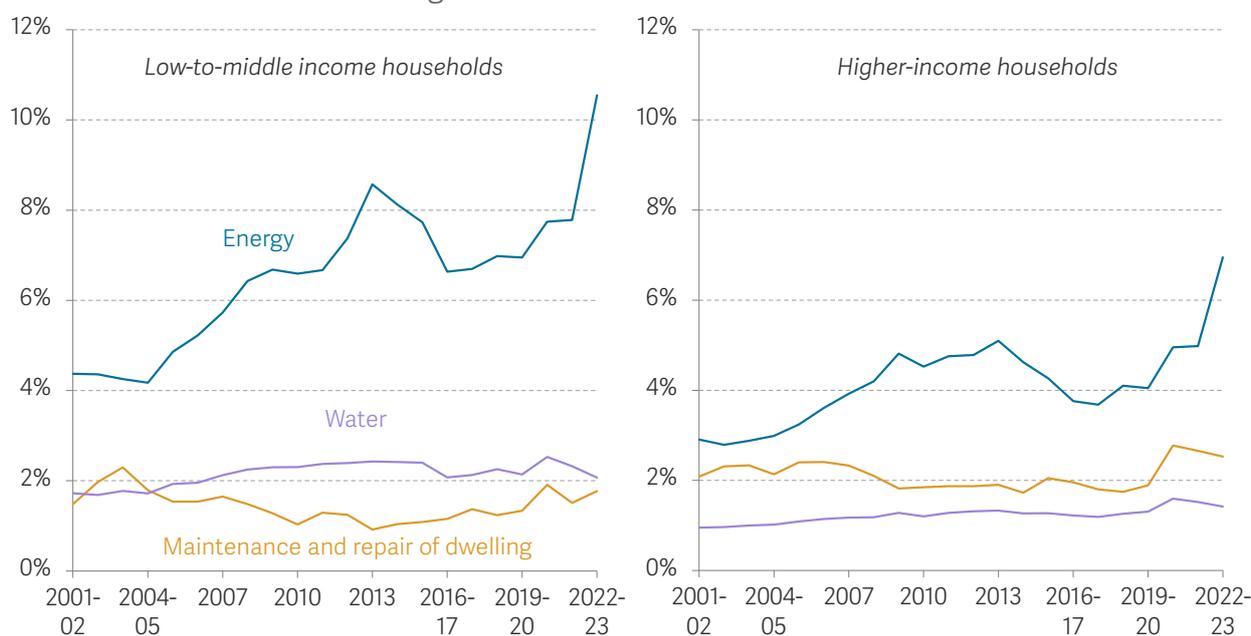
<sup>33</sup> B Zakeri et al., [The Role of Natural Gas in Electricity Prices in Europe](#), UCL Institute for Sustainable Resources, July 2022.

crisis; had Britain's domestic electricity price merely tracked France's between 2019 and 2023, the average UK household would have paid £391 less on their electricity bill in 2023.<sup>34</sup>

Sky-rocketing energy prices led to energy taking up a record share of poorer households' budgets. Energy bills accounted for 10.5 per cent low-to-middle income households' non-housing consumption in 2022-23, more than double the equivalent share two decades prior (4.4 per cent in 2002-03). The rapid rise in energy bills was in sharp contrast to the trends for other household bills, whose share of total non-housing spending was flat over this period.

### FIGURE 12: Energy costs are now a significant component of household consumption

Proportion of household non-housing consumption spent on household bills, for low-to-middle-income families & higher-income families: UK



NOTES: Low-to-middle-income (higher-income) households are those where nobody is at or above State Pension age and in the bottom (top) half of the after-housing-costs equivalised household income distribution. SOURCE: RF analysis of ONS, Living Costs and Food Survey.

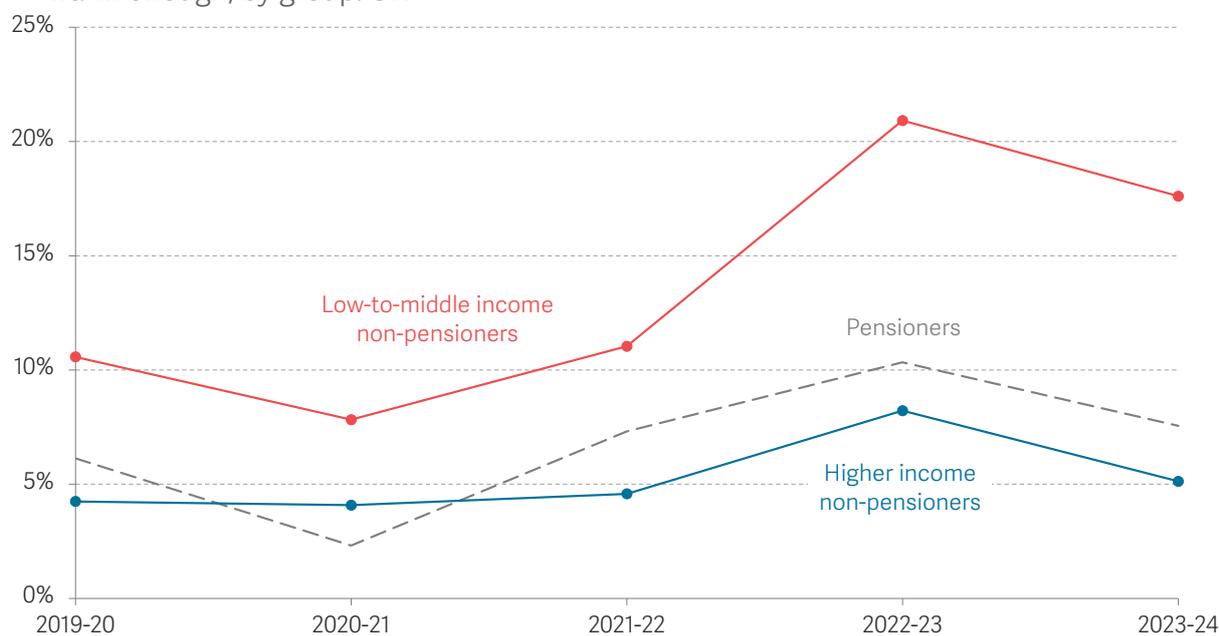
The drag on incomes from higher energy bills has stretched household budgets in many directions. But there has been a stark uptick in measures of hardship specifically related to energy use: one-in-five people (21 per cent) in low-to-middle income non-pensioner households were unable to keep their accommodation warm enough in 2022-23 (see Figure 13). At the same time, the energy crisis also saw a sharp increase in households falling behind on their energy bills. In the four years between Q4 2020 and Q4 2024, the total stock of Great Britain's household energy debt and arrears doubled in real terms, rising from £1.6 billion to £3.9 billion in today's prices.<sup>35</sup>

<sup>34</sup> Based on average actual electricity consumption in 2023, taken from: Department for Energy Security and Net Zero, [Average annual domestic electricity bills by various consumption levels](#).

<sup>35</sup> RF analysis of Ofgem, [Total financial value of domestic customer debt and arrears \(existing for more than 91 days\)](#) and ONS, [CPI index](#).

### FIGURE 13: Rising energy costs have left more people living in underheated homes

Proportion of individuals living in households unable to keep their accommodation warm enough, by group: UK



NOTES: 'Low-to-middle-income non-pensioners' are those living in families where nobody is at or above state pension age and in the bottom (top) half of the after-housing-costs equivalised household income distribution.

SOURCE: RF analysis of DWP, Households Below Average Income.

## Water bills are now rising fast, although they remain much smaller than those for energy

Today's energy bills are, thankfully, well below their recent peaks. Ofgem's price cap for July-September 2025 was set at £1,720 for a dual-fuel customer paying by Direct Debit, some £650 a year below the level set by the Energy Price Guarantee (EPG) between October 2022 and June 2023 (£2,380 based on today's typical consumption levels).<sup>36</sup> But water bills have emerged as a new source of pressure on household finances, with bills in England and Wales rising by an average of 26 per cent, or £123 a year, in April 2025.<sup>37</sup> These rises are also noteworthy for their variation: Southern Water customers, which covers parts of Kent, Hampshire, the Isle of Wight, and East & West Sussex, saw the highest rise of 47 per cent, while customers of SES Water (which covers parts of Surrey, Kent and South London) saw a 2 per cent fall in their water bills (although this excludes wastewater services).<sup>38</sup>

<sup>36</sup> The EPG was set at £2,500 for households in Great Britain, based on higher typical consumption levels at the time. For more, see: DESNZ, *Energy Price Guarantee up to 30 June 2023*, January 2024.

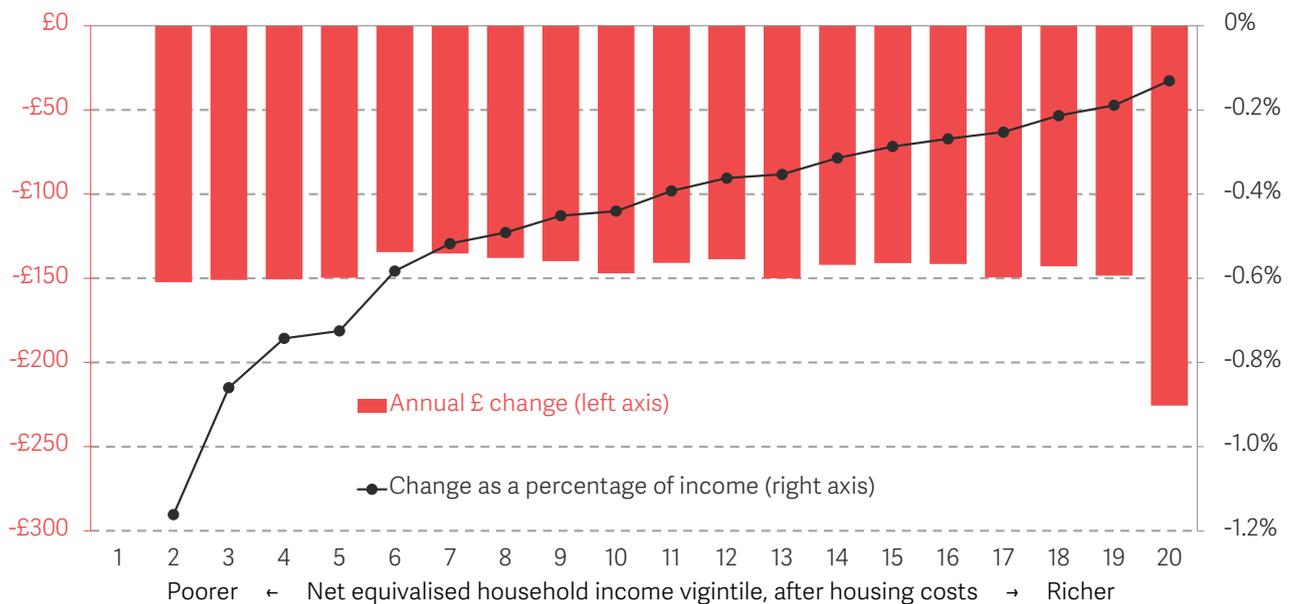
<sup>37</sup> A Corlett & L Try, *Happy new tax year 2025: Tax, utility bill and social security changes in April 2025*, Resolution Foundation, April 2025. Water bills in Scotland will rise on average by 9.9 per cent. There are no domestic water charges in Northern Ireland.

<sup>38</sup> A Corlett & L Try, *Happy new tax year 2025: Tax, utility bill and social security changes in April 2025*, Resolution Foundation, April 2025.

Higher water bills will hit low-to-middle income households hardest. Water bills vary little with income, so the cash increase in bills is similar across the household income distribution. As a result, the increase in bills is strongly regressive as a share of income, as shown in Figure 14. As a share of income in 2025-26, the rise in water bills is set to be four-times higher for households in the second decile of the income distribution than for those in the ninth decile (0.8 per cent versus 0.2 per cent).

**FIGURE 14: Rising water bills will hit poorer households the hardest**

Impact of rise in water and sewerage bills, by equivalised income vigintile: England and Wales, 2025-26



NOTES: We apply the average 26 per cent increase in water bills to all households in England and Wales, as we are unable to reflect the variation by water company. This chart was originally published in A Corlett & L Try, Happy new tax year 2025: Tax, utility bill and social security changes in April 2025, Resolution Foundation, April 2025.

SOURCE: RF analysis of DWP, Family Resources Survey using the IPPR Tax-Benefit Model.

But these recent trends in water bills should be seen in the context of households’ overall spending on utilities. As shown in Figure 12 above, such spending has become increasingly dominated by energy bills over the past two decades, particularly for households on low-to-middle incomes. The sheer size of energy bills means that, even after this year’s wallet-busting rise in water bills, energy will still account for the majority of low-to-middle income households’ utility bills. In the latest year of spending data, 2022-23, low-to-middle-income households spent at least five-times more on energy than on water.

However, price changes since then are likely to have narrowed that gap: our estimate is that, in 2025-26, they will be spending three-times as much on energy as water (see Figure 15).<sup>39</sup>

**FIGURE 15: Despite rising water rates, energy is still set to account for more than two-thirds of families’ overall spending on utilities**

Estimated average annual spending on energy and water, by after-housing-costs equivalised household income quintile: England and Wales, 2025-26



NOTES: Estimates are constructed by uprating data in the 2022-23 wave of the Living Costs and Food Survey to match the projected levels of the Ofgem price cap and average water bills in 2025-26. The Ofgem price cap for 2025-26 is the average of the price cap levels set in Q2 and Q3 2025, Cornwall Insight’s forecast for the price cap in Q4 2025, and a forecast for the price cap in Q1 2026 based on Cornwall Insight’s Q4 2025 forecast uprated by the average growth in the price cap forecasted by EDF, British Gas and E.on next.

SOURCE: RF analysis of ONS, Living Costs and Food Survey; Ofgem, Costs included in price cap level: payment by Direct Debit, January 2019 to September 2025; Discover Water, Average annual water and sewerage charges across England and Wales households; various, price cap data, as collated by MoneySavingExpert.com, accessed on 16th June 2025.

## Food prices shot up during the cost of living crisis – but are still cheap by international standards

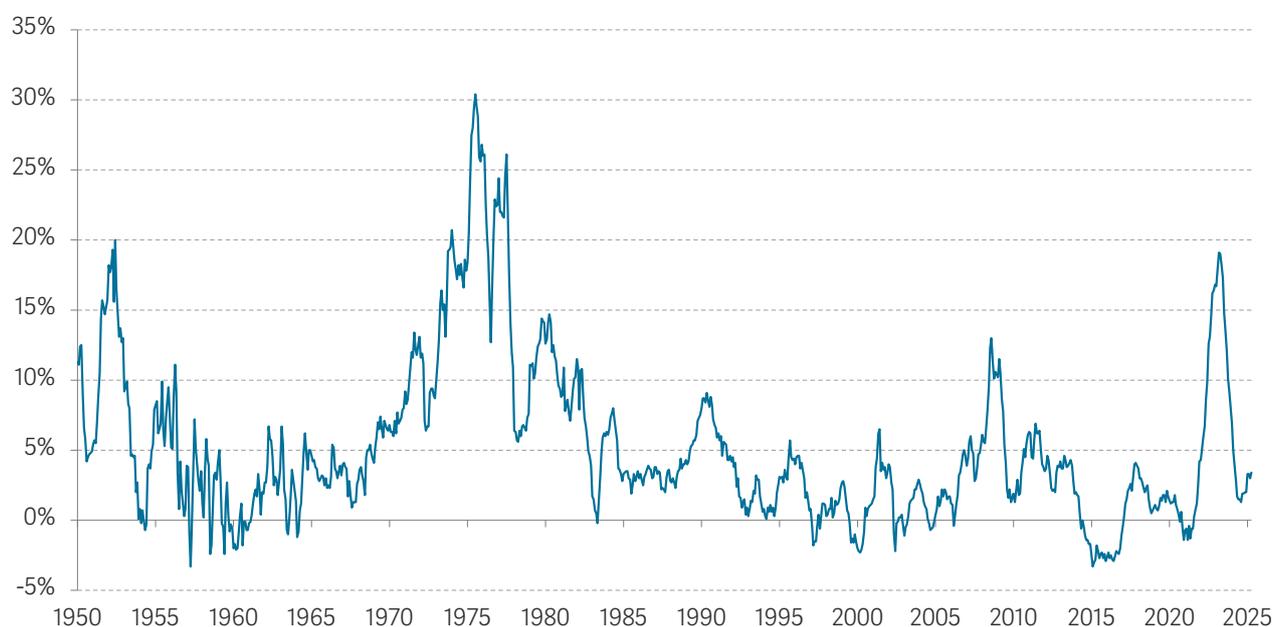
As energy costs eased, food became the second epicentre of Britain’s cost of living crisis, as disrupted global harvests and the pass-through of higher energy costs sent prices spiralling.<sup>40</sup> By March 2023, food and non-alcoholic drink inflation had peaked at 19 per cent, the highest rate since August 1977 (as shown in Figure 16).

<sup>39</sup> In 2022-23, it appears that the LCFS did a better job at capturing spending on water than energy bills. To account for this, we re-scale LCFS spending totals in 2022-23 so that median energy spending in Great Britain matches the Ofgem price cap for direct debit customers, and that mean water bills in England and Wales match the average water bill for 2022-23 published by Discover Water. The blue bars in Figure 15 denote mean (average) energy spending, which exceed the projected level of the Ofgem price cap in 2025-26 (£1,758). This is because the distribution of energy use has a positive skew, so mean energy consumption is higher than the typical consumption figures on which the Ofgem price cap is based.

<sup>40</sup> S Dey-Chowdhury & S Ubovic, *Food and energy price inflation, UK: 2023*, Office for National Statistics, May 2023.

**FIGURE 16: In early 2023, food inflation reached a level not seen in almost half a century**

Annual CPI inflation rate for food and non-alcoholic beverages: UK



NOTES: Before January 1989, inflation is based on the ONS's historical modelled estimates for CPI.

SOURCE: RF analysis of ONS, Consumer prices.

And, for low-to-middle-income households, this sharp rise in overall food and drink prices was compounded by the distribution of inflation within the sector. During the cost of living crisis, it was cheaper, basic products that saw the biggest price rises – a global phenomenon that came to be known as ‘cheapflation’.<sup>41</sup> Research using UK supermarket data has found that, during the cost of living crisis, cheapflation was a major driver of the experience of food inflation across the income distribution.<sup>42</sup> Poorer households were more likely to purchase the cheaper goods whose prices were rising quickest, and they had less scope to offset price rises by switching to lower-value alternatives. This was an entirely new source of pressure for low-income households, as food inflation throughout the 2010s was evenly spread across the price distribution.

In light of this sharp and slanted rise in food inflation, it’s unsurprising that measures of food-related hardship have soared in recent years. As shown in Figure 17, the proportion of working-age adults living in households with ‘very low’ food security (i.e. where there is a lack of sufficient, varied food) shot up from 3.9 to 6.0 per cent between 2020-21 and 2023-24 (after remaining broadly flat through the pandemic), while the proportion of very food-insecure children rose from 5.6 to 9.4 per cent. At the same time, there was a 25 per cent rise in the number of working-age adults (from 1.3 million to 1.6 million) and

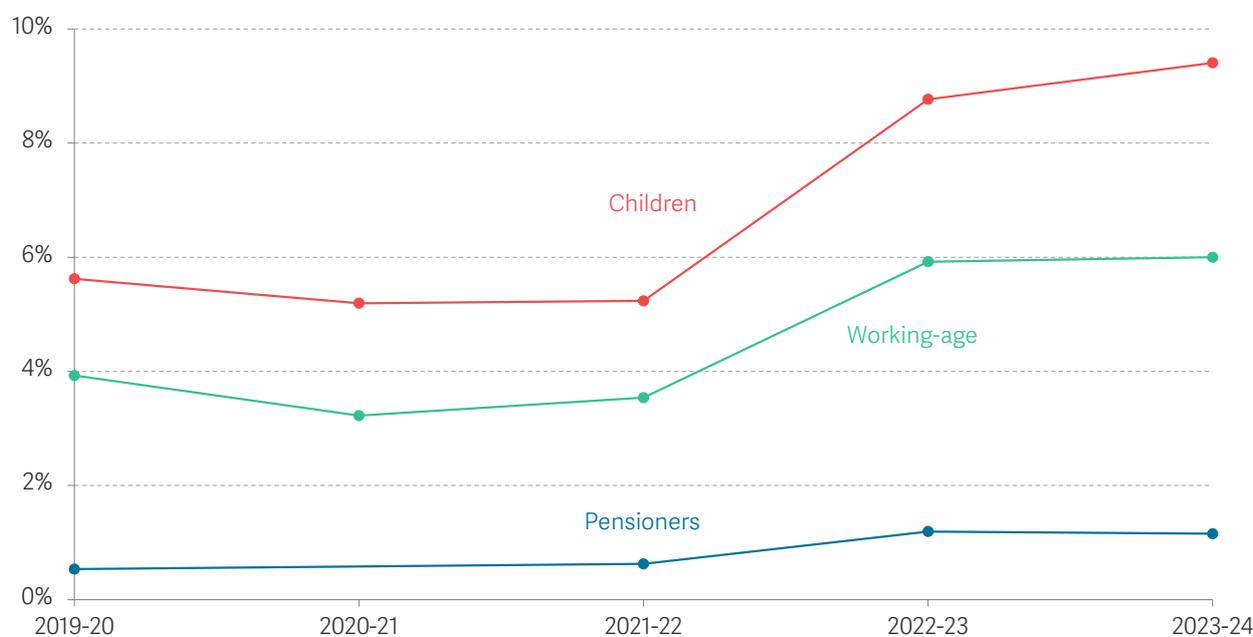
<sup>41</sup> For a discussion of cheapflation across advanced economies, see: A Cavallo & O Kryvtsov, [Price discounts and cheapflation during the post-pandemic inflation surge](#), *Journal of Monetary Economics*, November 2024.

<sup>42</sup> T Chen, P Levell & M O’Connell, [Measuring cost of living inequality during an inflation surge](#), Institute for Fiscal Studies, May 2025.

a 40 per cent rise in the number of children (from 810,000 to 1.1 million children) whose households have turned to food banks over the last 12 months.<sup>43</sup>

FIGURE 17: **Food insecurity has spiked in recent years**

Proportion of people in households with very low food security, by age group: UK



NOTES: 'Very low' food security is defined as a lack of access to sufficient, varied food. In 2020-21, the share of pensioners living in households with very low food security was not published as it was below 0.5 per cent.

SOURCE: RF analysis of DWP, Family Resources Survey.

Although the trends in the number of families struggling with food and energy costs in Britain are similar, the international context for the cost of food is very different to that for energy. As we showed above, Britain has especially expensive energy (particularly electricity, as shown in Figure 11), but this is not the case for food. In fact, OECD purchasing power parity (PPP) data suggests that, as of 2023, groceries in Britain were cheaper than any other G7 economy and 11 per cent cheaper than the OECD average (see Figure 18). This is because Britain came into the cost of living crisis with relatively low grocery prices, due to healthy levels of supermarket competition and generous VAT reliefs on food and drink.<sup>44</sup> This advantage was preserved in recent years as the rapid rise in prices seen in Britain was largely mirrored across advanced economies.<sup>45</sup> Of course, the relative rank of Britain's food prices among its international peers provides little comfort to the growing number of families struggling with food costs today. But it does suggest that food prices in Britain are not unusually high, and that there is little in the way of quick wins to bring them down.

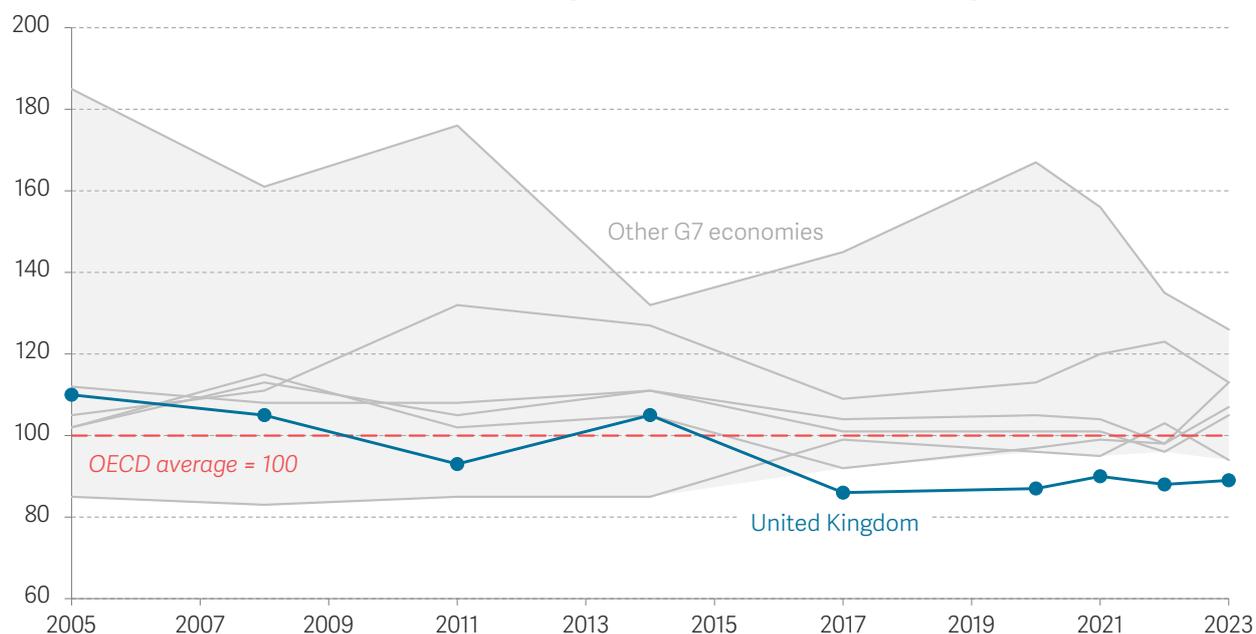
<sup>43</sup> DWP, *Households Below Average Income, 2023/24, Household Food Security (Time Series)*.

<sup>44</sup> Z Janan & S Pittaway, *Whose price is it anyway?: Comparing the spending power of low-to-middle income families in Britain and abroad*, Resolution Foundation, January 2025.

<sup>45</sup> World Bank, *Food Security Update*, September 2023.

FIGURE 18: Groceries in Britain remain cheap by international standards

Cost of food and non-alcoholic beverages relative to the OECD average: G7 economies



NOTES: Price levels are calculated based on observed prices for the same goods in different countries and are expressed in a common-currency basis using average annual exchange rates.

SOURCE: RF analysis of OECD PPP detailed results, 2020 onwards, and PPP benchmark results, 2005-2017.

## Public transport costs have risen over time, but the cost of driving is becoming cheaper

Having looked at the two main drivers of the cost of living crisis – namely, household bills and food – we now turn to the other major essential cost for low-to-middle-income families: transport. Of course, not all transport spending is essential, and our analysis throughout this paper removes air fares and car purchases (but not running costs or maintenance) from the broader category of transport spending to create a measure closer to ‘essential’ transport spending.<sup>46</sup> On this measure, transport’s share of household spending varies little across the income distribution: it accounts for 13 per cent of non-housing spending for working-age households in both halves of the whole-population income distribution (see Figure 3).

This marks transport out from the two other essentials discussed above, for which there is a clear gap in spending shares between poorer and richer households.<sup>47</sup> In part, this reflects richer households spending more on transport for leisure. A different

<sup>46</sup> Some second-hand car purchases are essential, especially when an individual’s current car reaches the end of its life and further maintenance is no longer enough to keep it on the road. But, given the prevalence of second-hand purchases in today’s car market, this is far from universally true. We therefore exclude second-hand as well as new car purchases, in line with the ONS’s definition of non-discretionary spending: K Keane, *Inflation rates for discretionary and non-discretionary spending: December 2021*, Office for National Statistics, December 2021.

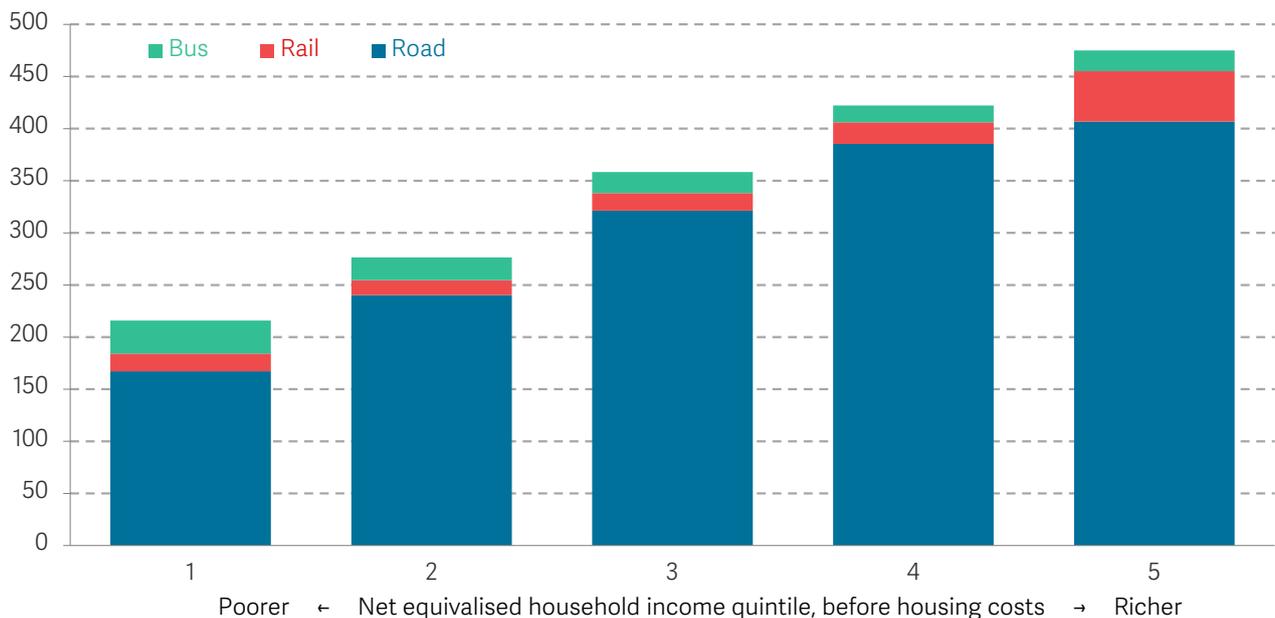
<sup>47</sup> As shown in Figure 2, relative to those in the top half, working-age households in the bottom half of the income distribution dedicate 3 percentage points more of their non-housing spending to household bills and 4.5 percentage points more to food.

data source tells us that ‘essential’ trips (i.e. getting to work, school, shops and medical appointments) account for 67 per cent of trips taken by working-age households in the bottom fifth of incomes, compared to 56 per cent of trips taken by those in the top fifth.<sup>48</sup> But even if the gap between rich and poor isn’t as pronounced as for food and household bills, the cost of getting around is still a major expense for low-to-middle income families in Britain.

In practice, for many poorer families, ‘getting around’ means ‘driving’. Figure 19 shows the average number of trips taken by working-age individuals in 2023, split by income quintile and mode of transport. Even in the bottom fifth of the income distribution – the income segment most reliant on public transport – driving accounts for more than three-quarters (77 per cent) of trips taken.

**FIGURE 19: Driving is the main way low-to-middle income families get around**

Average number of trips taken by working-age individuals in each household income quintile, by mode of transport: England, 2023



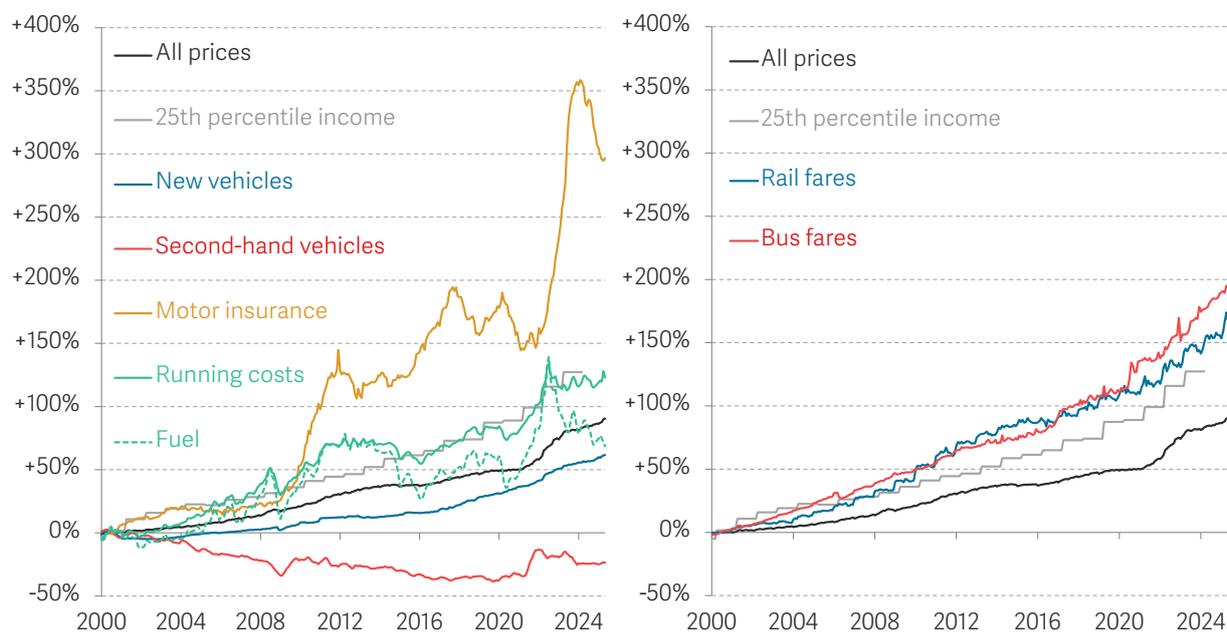
NOTES: Data excludes non-commuting business travel – i.e. trips taken while at work.  
 SOURCE: RF analysis of DfT, National Travel Survey.

The good news for many low-to-middle income households is that driving has become more affordable over the past quarter of a century. As shown in the left panel of Figure 20, the costs of buying and running a car have grown less quickly than typical incomes for the poorer half of working-age households.

<sup>48</sup> DfT, National Travel Survey. Total excludes non-commuting business travel – i.e. trips taken while at work.

## FIGURE 20: Private transport costs have fallen relative to lower incomes in Britain while public transport has become less affordable

Cumulative change in 25th percentile working-age household income, private transport prices (left panel) and public transport prices (right panel) since 2000: UK



NOTES: Income is measured as net equivalised household income, after housing costs. Running costs include fuel, as well as lubricants, spare parts and accessories, maintenance and repairs, and other services such as driving lessons, tests and MOTs.

SOURCE: RF analysis of ONS, Consumer prices; DWP, Households Below Average Income.

In part, this is due to government policy to lighten the taxation of fuel. The level of Fuel Duty today is 10 per cent lower in nominal terms than it was at the start of 2011, at 52.95 pence per litre versus 58.95 pence per litre in January 2011. This is in part due to years of successive governments not uprating Fuel Duty in line with inflation, but also because the then-Chancellor Rishi Sunak's temporary 5 pence a litre cut shortly after Russia invaded Ukraine in February 2022 looking like it's on its way to becoming permanent. As a result, Fuel Duty is 39 per cent lower in real terms today than in 2011,<sup>49</sup> and fuel prices in May 2025 stood at their lowest real-terms level since March 2002.<sup>50</sup> Compared to a world where Fuel Duty was linked to inflation, these decisions mean the government is raising £23 billion a year less in tax from road fuels.<sup>51</sup>

Motor insurance is a notable exception to the trend of falling private transport costs. Insurance costs have risen significantly over the past 25 years, and especially so since the pandemic. But this has had little impact on the overall cost of driving for low-to-middle-income Britain: even with recent increases, insurance still accounts for less than £1 in every £25 spent on private transport in Britain today (2.2 per cent).<sup>52</sup>

<sup>49</sup> To account for seasonal factors that affect the CPI, this compares Fuel Duty rates in January 2011 and January 2025.

<sup>50</sup> ONS, [Consumer price inflation tables](#).

<sup>51</sup> OBR, [Policy measures database](#).

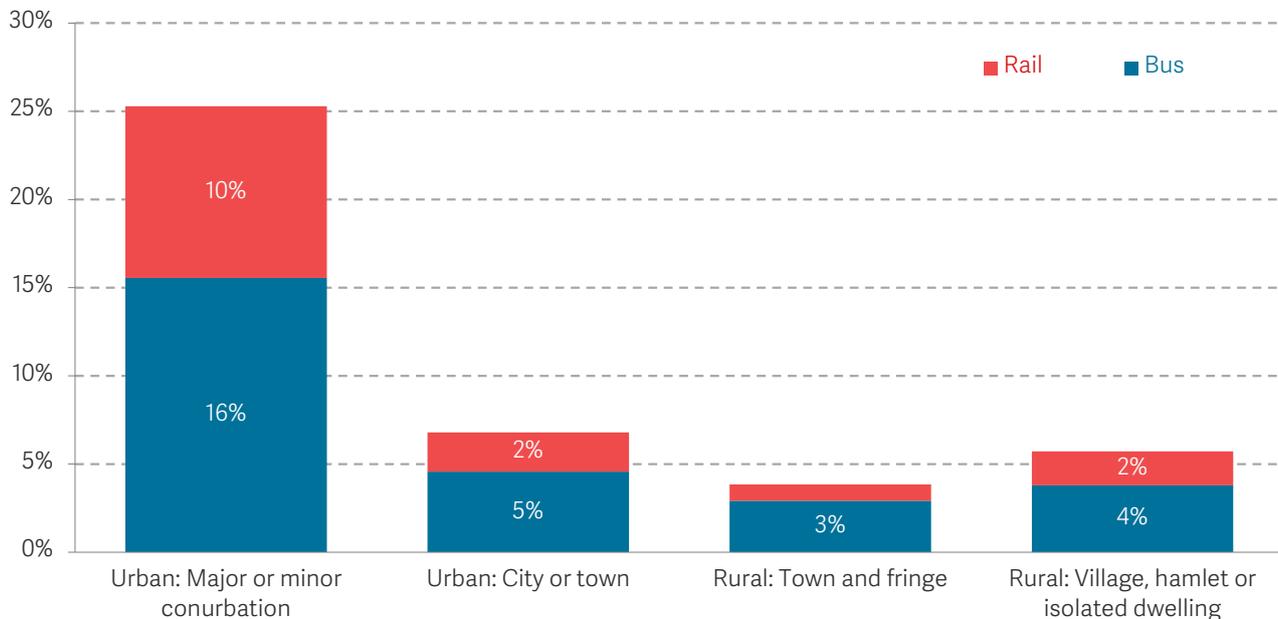
<sup>52</sup> Based on CPI weights for February to December 2025. Total spending on private transport is the sum of spending on vehicle purchases, spare parts and accessories, fuels and lubricants, maintenance and repairs, other services (including driving lessons, tests and MOTs), and motor insurance.

Unlike private transport, however, public transport costs have risen relative to bottom-half incomes. Between 2000-01 and 2023-34 (the latest data), working-age after-housing-costs household incomes at the 25th percentile rose by 123 per cent in cash terms – equivalent to a 24 per cent real-terms increase.<sup>53</sup> Meanwhile, the real-terms rise in bus fares was almost double that, at 47 per cent, while real-terms rail fares rose by 34 per cent.

These price rises have fallen disproportionately on poorer households in towns and cities. Figure 21 shows the proportion of trips that are taken by public transport for working-age individuals in the bottom two-fifths of the income distribution in different parts of England. Public transport accounts for almost one-in-four trips taken (25 per cent) by these individuals in the densest urban areas, compared to one-in-twenty (5 per cent) in rural areas. This stark disparity in public transport use reflects an important reality that can't be overlooked: the availability and reliability of public transport is often as important as cost.<sup>54</sup> Sparse and unreliable public transport imposes a hidden cost – in trips foregone and second-best plans made – that cannot be picked up by looking at spending patterns.

**FIGURE 21: Among low-to-middle-income families, public transport use is heavily skewed towards those living in the densest urban areas**

Proportion of trips taken by public transport among working-age individuals in the bottom two income quintiles, by area classification: England, 2023



NOTES: Data excludes non-commuting business travel – i.e. trips taken while at work. Quintiles are based on net equivalised household income, before housing costs. Area classifications are based on where individuals live, not where the trips were taken.

SOURCE: RF analysis of DfT, National Travel Survey.

<sup>53</sup> Based on a CPI deflator.

<sup>54</sup> Department for Transport, [Our changing travel 2023](#), September 2024.

Together, the costs discussed so far – of eating, heating and getting around – take up almost half of low-to-middle-income families' non-housing expenditures (45 per cent in 2022-23, as shown in Figure 3). As many of these costs have risen at above-inflation rates in the recent past, this has put extra pressure on poorer households' finances. With the cost of living still at the very top of the political agenda, now seems like an opportune moment for policy makers to act and relieve some of these pressures. In the remaining sections of this report, we turn to the issue of policy priorities over the coming years.

## Governments traditionally aim to improve households' incomes, but specific interventions are sometimes needed to help with prices

Barring the cost of living crisis, and other exceptional times in British history, the standard approach to improving living standards has been to have a strong economy so as to boost household incomes, and let the market – regulated where needs be – push prices down through healthy competition. Indeed, as we discussed earlier, competition and a relatively free market has worked well in keeping food prices in the UK low. Of course that doesn't mean no action is needed: the Competition and Markets Authority (CMA) should be vigilant in relation to 'food deserts'<sup>55</sup> and any evidence of a 'poverty premium'<sup>56</sup> on prices, and investigating specific areas where the market may not be working effectively to provide fair prices to consumers, as it did in the case of infant formula.<sup>57</sup>

But, since 2022, government action has reduced prices for consumers through the Energy Price Guarantee and rebates through energy bills, as well as provided targeted income support for particular groups via Cost of Living Payments and Council Tax rebates. So it is worth thinking about when it is appropriate to help families with the costs they face, and when the Government should instead focus on ensuring that households are seeing strong growth in incomes.

In general, there are two cases where it might be more appropriate for governments to intervene directly to help with particular costs:

- One case is if the state thinks that it is particularly important that additional support should be spent on a particular good rather than households being given the equivalent amount in additional income to spend on whatever they like. This argument (referred to as 'paternalism') is usually used to explain why the Government provides certain benefits in kind directly (such as free school meals, or free prescriptions), rather than give households the money, but it also applies to a price subsidy.

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<sup>55</sup> S Corfe, *What are the barriers to eating healthily in the UK?* Social Market Foundation, October 2018.

<sup>56</sup> Turn2US, *What is the poverty premium?* accessed 16 June 2025.

<sup>57</sup> Competition and Markets Authority, *Infant formula and follow-on formula market study final report*, 14 February 2025.

- The other case where the state might want to tackle costs directly is where essential costs vary too much between otherwise-similar households for the state to be able to target support precisely through the regular social security system. A prime example of this is housing costs, where the social security system provides specific support through the housing element of UC or Housing Benefit. Local Housing Allowance rates take into account that housing needs vary not just with household size and composition but also enormously across the country.<sup>58</sup>

So, in the rest of this note, we consider the case for intervening to help low-to-middle income families with certain essential costs (specifically: energy and transport). We look at the advantages and disadvantages of intervening on the prices or the income side, and what those interventions should look like.

One area we don't consider further is water bills, because we don't think there is a strong case for using government money to reduce water bills for low-income households. Although water bills have risen significantly this year (by 26 per cent on average) and are set to rise for the next few years,<sup>59</sup> this rise comes from quite a low base: they were still a relatively low proportion of household non-housing consumption in 2022-23 of 2.1 per cent for low-to-middle income families, as Figure 12 shows. Therefore, if the Government did think that water bills were becoming too much of a burden for low-income households, a boost to all entitlements to means-tested benefits might be a well-targeted and easy-to-implement solution.

The Government should introduce a social tariff now for energy costs so support can be delivered quickly in the event of another energy crisis

We showed earlier that, in the latest consumption data from 2022-23, energy took up a much higher proportion of total non-housing consumption than it has before, at 11 per cent for low-to-middle income households. And, although they have dropped back from their peak, energy prices have been very volatile over the past few years, and current global events suggest this is likely to continue.<sup>60</sup> At its peak, the (not-implemented) Ofgem Price Cap reached £4,059 in Q1 2023, 136 per cent higher than it is now, and 273 per cent higher than it was in winter 2019.<sup>61</sup> And per-unit energy costs are still around 150 per cent higher in real terms today than in 2000.<sup>62</sup> So, given its rising importance and apparent volatility, we should think about how we can directly support people with energy costs.

<sup>58</sup> The LHA rate applicable to a given household is determined both by the number of people in a household and where they live. For example, a single person below 35 would only ever be able to claim the shared accommodation rate, while a couple with two children under 10 could receive the LHA rate for a two-bedroom property. See [https://england.shelter.org.uk/housing\\_advice/benefits/how\\_many\\_bedrooms\\_you\\_can\\_claim\\_benefits\\_for](https://england.shelter.org.uk/housing_advice/benefits/how_many_bedrooms_you_can_claim_benefits_for), accessed 24 June 2025.

<sup>59</sup> A Corlett & L Try, [Happy new tax year 2025: Tax, utility and social security changes in April 2025](#), Resolution Foundation, April 2025.

<sup>60</sup> D Connett & G Gausden, [Energy bills could triple to £4,500 due to shock of Iran conflict](#), The I, 23 June 2025.

<sup>61</sup> Ofgem, [Final levelised cap rates model \(Annex 9\): 1 July to 30 September 2025](#).

<sup>62</sup> ONS, [Consumer price inflation tables](#).

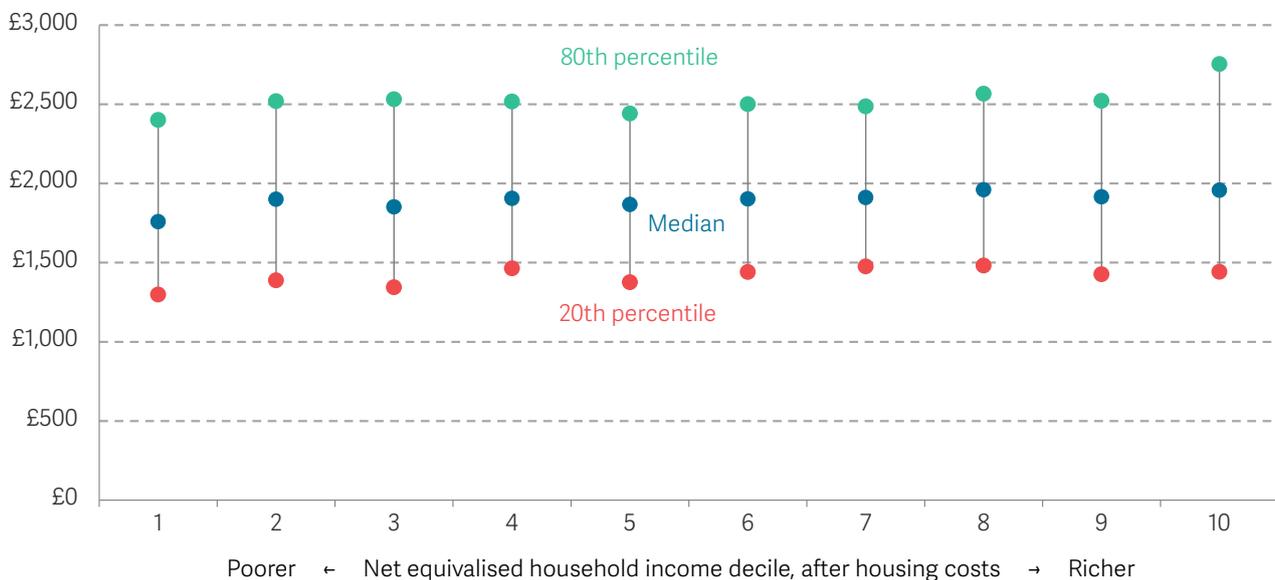
There are three issues to consider:

- what form of support to provide (i.e. through cash, bill discounts, or a lower price);
- how to target it on those with low incomes; and,
- how to fund it.

Our current approaches to helping with energy bills rely on providing cash, or flat-rate bill discounts (which are almost equivalent to cash support), through the Winter Fuel Payment and the Warm Homes Discount.<sup>63</sup> But a problem common to both is that the support provided is not related to households’ energy needs. This is because there is a large variation in energy need even within similar household types in similar income deciles.<sup>64</sup> This variation is shown in Figure 22: the typical energy use in the richest decile group is only 11 per cent higher than in the bottom decile group, but within each income decile group, the 80th centile of energy use is always at least 68 per cent higher than the 20th centile.

**FIGURE 22: Energy use varies more within income decile than across the income distribution**

Estimated annualised required spending on gas and electricity bills at selected percentiles, by equivalised after housing costs income decile: England, Q2 2025



NOTES: Estimates are constructed based on energy use in 2021-22, uprated in line with changes in the Ofgem energy price cap up to April-June 2025.

SOURCE: RF analysis of English Housing Survey; Ofgem, Price cap, various.

<sup>63</sup> The Warm Homes Discount operates in Great Britain. Winter Fuel Payments are payable in England and Wales, and there is an equivalent in Scotland, the Pension Age Winter Heating Payments. See Scottish Government, [Pension Age Winter Heating Payments](#), June 2025.

<sup>64</sup> This discussion draws on: M Brewer et al., [A chilling crisis: Policy options to deal with soaring energy prices](#), Resolution Foundation, August 2022.

As an example of why this variation exists, consider the case of two low-income couples with two children; if one of the families lived in a well-insulated new build home and the other lived in a draughty rented house with a poor EPC rating and electric heating, the latter family would spend much more money trying to keep their home to the same temperature as the former family – and there would also be little that the second family could do about the energy efficiency of their property. This high degree of variation in energy needs between households of a similar income makes it tricky to use the social security system on its own to help with energy bills.

### BOX 3: Recent changes to eligibility for Winter Fuel Payments (WFP) and the Warm Home Discount (WHD)

In the past few weeks, the Government has made changes to the eligibility criteria for two forms of energy support: they have restricted eligibility for WFP and announced an extension of eligibility for the WHD.

Before winter 2024, all pensioners received WFPs, regardless of their income. However, in July 2024, the Government announced that WFPs would only be paid to pensioner families that received Pension Credit or an equivalent means-tested benefit. This meant up to 7 million families losing the payment.<sup>65</sup> In June 2025, under political pressure, the Government announced a part-reversal to their previous policy change on WFP. In winter 2025, the Government will means-test WFP using an individual income threshold of £35,000, which means over three quarters of pensioners (around 9 million pensioners) will receive the WFP, up

from 1.3 million in Winter 2024, and not far off the 11.6 million pensioners who received WFP when they were universal.<sup>66</sup> From this Winter, WFPs will be paid to all pensioners, but clawed back through the tax system for people with an income above £35,000. This partial U-turn makes the policy less progressive, with almost half of people receiving the WFP being in the top half of the income distribution. This U-turn was caused in part by the fact that restricting WFPs to those receiving Pension Credit meant that many low-income pensioners would miss out, due to the low take-up rate of Pension Credit: over a third (35 per cent) of those entitled do not claim it, equivalent to 700,000 pensioner families going without.<sup>67</sup> The Scottish Government will also means-test the Pension Age Winter Heating Payment (their WFP equivalent) using an

<sup>65</sup> A Clegg & J Marshall, *Cold comfort: Mitigating the Winter Fuel Payment cut*, Resolution Foundation. October 2024.

<sup>66</sup> Resolution Foundation, *New means-test for Winter Fuel Payment risks creating fresh complexity for little fiscal reward*, 9 June 2025.

<sup>67</sup> Department for Work and Pensions, *Income-related benefits: estimates of take-up: financial year ending 2023*, 10 October 2024.

individual income threshold of £35,000, mirroring England and Wales.<sup>68</sup>

In June 2025, the Government announced that eligibility for the WHD in England and Wales would be expanded to everyone on means-tested benefits, which would increase the number of homes eligible by 2.7

million.<sup>69</sup> Previously, only pensioners on the Guaranteed Element of Pension Credit and working-age people on means-tested benefits whose properties received a high energy score (based on a property's type, age and size) were eligible in England and Wales.<sup>70</sup>

The second issue is how energy support should be targeted to those on a low income. At present (and ignoring for a moment the innovative new way of clawing back Winter Fuel Payment from richer pensioners that will take effect from this winter, explained in Box 3), the Government in effect has the choice between limiting support to those receiving social security benefits, or making it universal. Limiting support to those on means-tested benefits has just proven itself to be very unpopular, at least for pensioners, with the main criticism being that there are large numbers of low-income households who do not receive a means-tested benefit (and see Box 3). Analysis shows that 4 in 10 households in the poorest fifth of the population do not receive a means-tested benefit.<sup>71</sup> And it seems likely that the reason that the Liz Truss government made the Energy Price Guarantee (EPG) universal was the idea that limiting it to households receiving means-tested benefits would have been an inadequate response: when energy costs are very high, the need for support may go further up the income distribution than the reach of means-tested benefits. But the EPG experience also shows the drawbacks of a universal approach: it may have been popular but it was hugely costly: energy bill discounts in 2022-23 and 2023-24 cost the exchequer £37 billion.<sup>72</sup> So it would be ideal if a mechanism existed for targeting support that was more inclusive than limiting it to those on means-tested benefits.

These first two issues together suggest that there is a case for intervention to help people with their energy bills on the prices side. A social tariff – by which we mean a scheme that offers lower unit prices to certain households on a low income, rather than just a lump-sum discount off bills, like the WHD – would target support both on energy need (because the benefits from a discounted tariff automatically scale with energy use) and the ability to pay. Interest in a social tariff among policy makers was triggered

<sup>68</sup> Scottish Government, [Pension Age Winter Heating Payments](#), June 2025; BBC News, [Scotland to recover winter fuel payment from better-off pensioners](#), 18 June 2025; HM Treasury, [Nine million pensioners to receive Winter Fuel Payments this winter](#), 9 June 2025.

<sup>69</sup> C Smith, [Millions more to get £150 off energy bills](#), BBC News, 18 June 2025.

<sup>70</sup> Details of the winter 2024 rules are still available here: GOV.UK, [Warm Home Discount Scheme](#).

<sup>71</sup> M Brewer et al., [A chilling crisis: Policy options to deal with soaring energy prices](#), Resolution Foundation, August 2022.

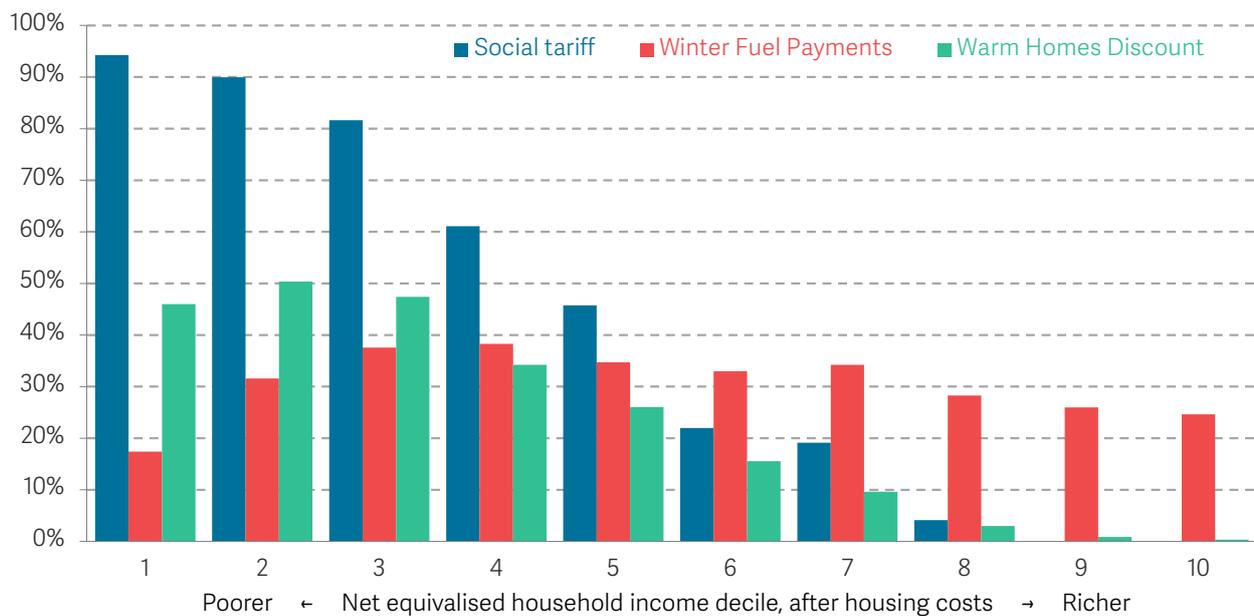
<sup>72</sup> This is the sum of outturns for the cost of the EPG in 2022-23 (£20.3 billion) and the £400 discounts issued through the Energy Bill Support Scheme (£12.7 billion), plus the OBR's March 2023 estimate for the cost of the EPG in 2023-24 (£4.0 billion). Source: OBR, [Economic and fiscal outlook](#), March 2023; OBR, [Forecast Evaluation Report](#), October 2023.

by the energy bill rises in 2022, and they still remain a popular policy option for tackling high energy bills.<sup>73</sup>

As an example of the potential benefits of a social tariff, Figure 23 shows the proportion of households eligible for the WHD and WFPs under the latest eligibility criteria (see Box 3 for details).<sup>74</sup> This shows that, when it comes to eligibility, the WHD is more progressive than are WFPs: more people are eligible for WHD at the bottom of the income distribution than WFP, and high-income households cannot receive the WHD. But a social tariff that targets low-income households via an income threshold (the one used in Figure 23 uses equivalised net household income before housing costs, and is designed to capture the bottom 42 per cent of the income distribution), instead of using means-tested benefit receipt as eligibility, can reach more households in the lowest income deciles than the WHD.

**FIGURE 23: After the Government’s reversal on eligibility, Winter Fuel Payments are no longer progressive**

Proportion of households eligible for energy bill support schemes, by household income decile: England



NOTES: Social tariff eligibility is determined by equivalised net household income before housing costs, with the threshold set to capture the bottom 42 per cent of the before-housing-costs income distribution. WFPs are payable to any household with at least one member at or above State Pension Age in 2025-26. The WHD is paid to any household with at least one member receiving means-tested benefits in 2025-26. SOURCE: RF analysis of MHCLG, English Housing Survey; DWP, Households Below Average Income.

<sup>73</sup> The Autumn Statement 2022 stated that “The government will work with consumer groups and industry to consider the best approach to consumer protection from April 2024, including options such as social tariffs, as part of wider retail market reforms.” See HM Treasury, *Autumn Statement 2022*, November 2022. For more recent discussion, see H Parkes & D Hawkey, *Essential potential: Exploring the benefits and challenges of social tariffs across essential markets*, Institute for Public Policy Research, March 2025; and A Norman et al, *Fairer, warmer, cheaper: New energy bill support policies to support British households in an age of high prices*, Social Market Foundation and Public First, March 2023.

<sup>74</sup> Due to data limitations, this analysis covers England only. Winter Fuel Payments – or their Scottish equivalent, Pension Age Winter Heating Payments – are available in all nations of the UK. The Warm Homes Discount is available in England, Scotland and Wales.

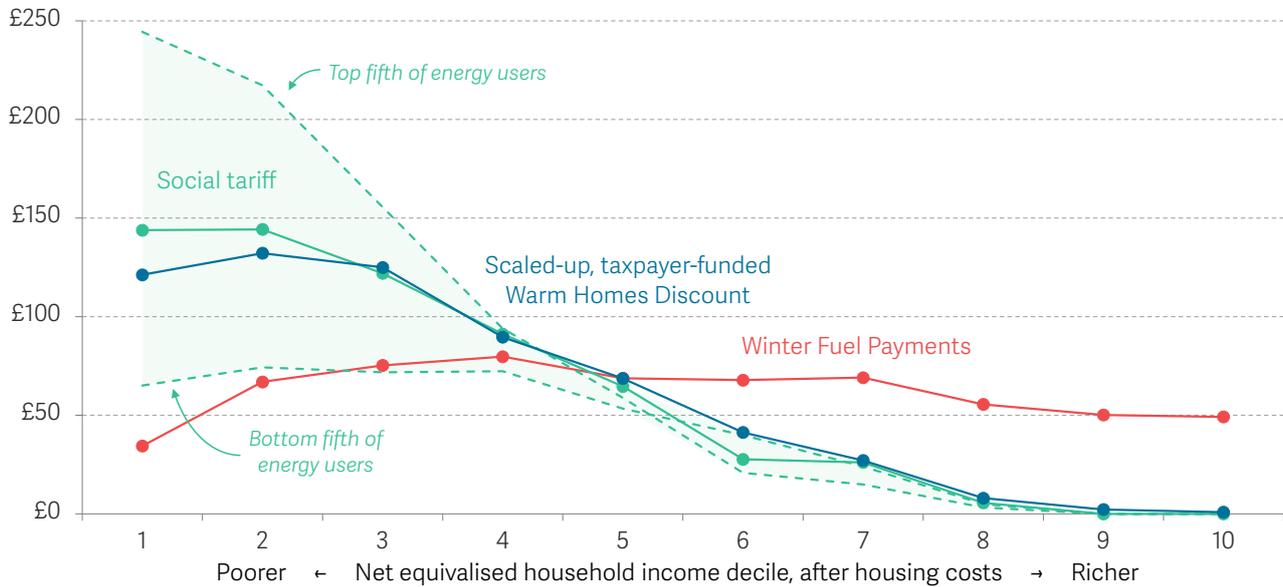
But the additional advantage of a social tariff is how it can provide the most help to those with the greatest energy need. Figure 24 shows the average amount that households would receive from WFPs, WHD and a social tariff, if the same amount were spent on each policy (£1.6 billion, the approximate cost of the Government's current WFP policy).<sup>75</sup> Across the income distribution, the average amount received by households is (by construction) similar, in the region of £60. Spending £1.6 billion on the WHD would allow the payment to be increased by approximately £280 per eligible household. The average amount received by each income decile under this scaled-up WHD is very similar to that under our modelled social tariff scenario, which reduces per-unit energy costs by 10 per cent for approximately the poorest 42 per cent of households. However, while WHDs give each eligible household the same amount off their electricity bill, this illustrative social tariff would better target households based on energy need: as the dashed lines in Figure 24 show, the top fifth of energy users would end up receiving a higher amount of support than the average from a social tariff, whereas households that use less energy would receive less support.

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<sup>75</sup> The OBR's costing of giving WFPs to pensioners receiving Pension Credit, plus the Government's costing of their move to (re) expand WFPs to pensioners with an income of £35,000 or below, comes to £1.57 billion for England and Wales; the OBR will provide its updated view of the cost of the changes alongside the autumn 2025 Budget. See DWP, [Benefit expenditure and caseload tables: Spring Statement 2025](#), 23 April 2025; HM Treasury, [Nine million pensioners to receive Winter Fuel Payments this winter](#), 9 June 2025. Because this costing is only available for England and Wales as a whole, in Figure 24 we expand our analysis from England (as in Figure 23) to cover both nations. When modelling WFPs and the WHD, this means extending our dataset to include Welsh households; data limitations means that, when modelling a social tariff, we scale up English data to match the number of households in England and Wales.

**FIGURE 24: An energy social tariff would be progressive and target support to those with the highest energy needs**

Average amount received by households from Winter Fuel Payments and illustrative alternative energy support schemes, by household income decile: England and Wales



NOTES: Social tariff eligibility is determined by equivalised net household income before housing costs, with the threshold set to capture the bottom 42 per cent of the income distribution, providing a 10 per cent discount on gas and electricity unit prices. Discounts are based on the distribution of total energy spend in 2021. WFPs are payable to any household with at least one member at or above State Pension Age in 2025-26. The WHD is paid to any household with at least one member receiving means-tested benefits in 2025-26. For both WFPs and the WHD, average amounts received vary slightly by energy use, due to the interaction between eligibility and energy use – but these have been omitted for clarity. WFP and WHD figures are based on data for England and Wales; due to data limitations, social tariff figures are based on English data scaled up to match the number of households in England and Wales. To provide a fair comparison between schemes, payments for each scheme are scaled such that its total cost is £1.6 billion. SOURCE: RF analysis of MHCLG, English Housing Survey; DWP, Households Below Average Income.

The third issue is how to fund any support. Currently, the WFPs are funded by general taxation, as was the EPG, but the WHD is funded by all electricity bill-payers through a supplement to the standing charge. Providing energy support to vulnerable households without having to increase public spending is, of course, attractive to most governments. But the fact that any increase in the generosity of the WHD – including that which will occur this winter – is in effect being paid for by a fixed charge on all households in Great Britain means there are real limits to how much more generous the WHD can be.<sup>76</sup>

The Government should therefore look to fund any new social tariff with public spending. This is in part because that would allow the distributional burden of funding it to be progressive, in line with our tax system. But it also means that such schemes can be

<sup>76</sup> The Government said that “the expansion of the Warm Home Discount will be offset by new efficiency savings across the energy system. For example, Ofgem have confirmed a decrease in the operating cost allowance of the price cap for the average billpayer which will take money off bills.” but it is still the case that energy bills are higher because of the existence of the WHD than a world where the scheme did not exist.

rapidly scaled if energy prices soar again, either by making payments more generous or by raising the income threshold at which households can benefit from payments. Although there may be scope for the industry to fund more energy support schemes themselves (by tweaking the formula for the price cap), any system needed in time of crisis would need to be taxpayer-funded.

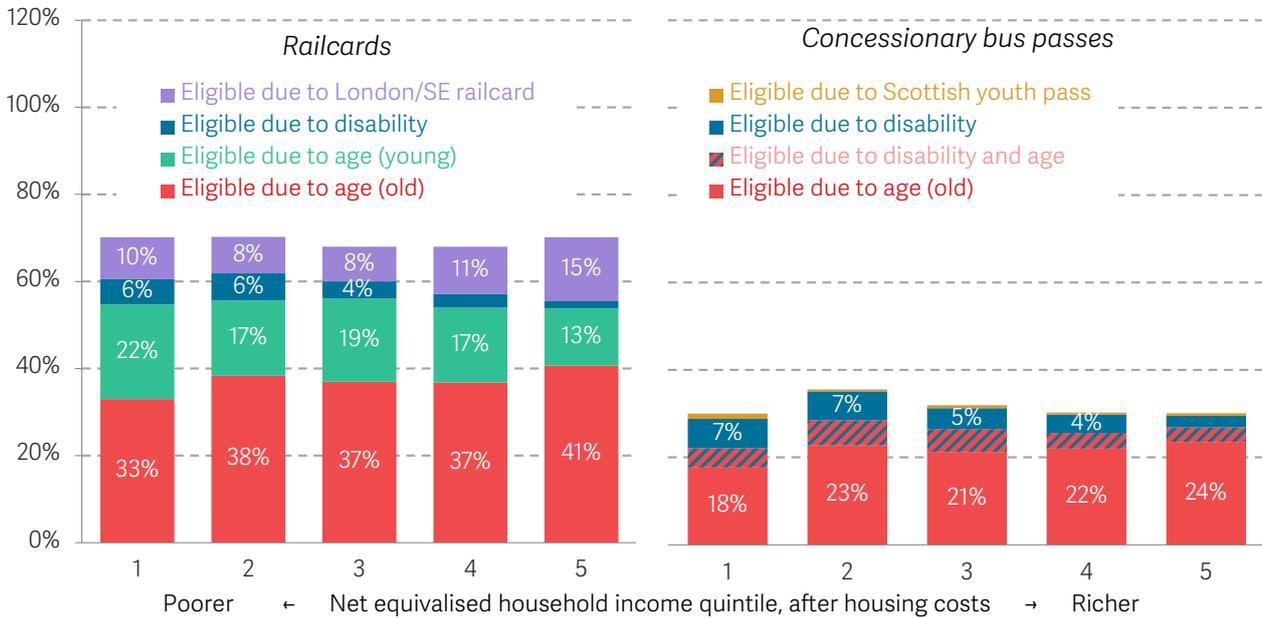
We have argued in this section that, although the case for a social tariff may be weaker than at the height of the energy crisis, energy bills are still a substantial burden for Unsung Britain, and recent global events have highlighted that prices are still very volatile. Therefore, the Government should proceed now in establishing the infrastructure for a social tariff. There will, of course, be tricky design and operational issues for the Government, in collaboration with energy companies, to overcome – such as how the Government can let energy companies know who should receive the tariff, and how to minimise the sort of cliff-edge problems that affect the WHD and the new WFPs – but that is exactly why progress should start now, so the system is ready to help those particularly exposed to high energy prices in times of need.

### Existing support with transport costs should be better targeted

Earlier, we showed that successive cuts to the real value of Fuel Duty were helping keep the cost of private transport low. And interventions also exist to reduce the cost of public transport. But these interventions are not well targeted on low-to-middle income families. Figure 25 shows previous RF analysis on the proportion of people in each income quintile who are eligible for a railcard or a concessionary bus pass. Eligibility for public transport subsidies is relatively even across the income distribution, meaning higher-income people, who need them less, are just as likely to benefit from subsidies as lower-income people.

**FIGURE 25: Existing cost-reduction schemes in public transport are badly targeted**

Proportion of people in each income quintile eligible for a railcard (left panel) and a concessionary bus pass (right panel) UK, 2022-23



NOTES: Where people are eligible for multiple railcards, they are classified first as being eligible due to age, then disability, then due to living in London or the South East. Older people are eligible for a bus concessionary pass from State Pension Age and a Railcard from 60. Young people are eligible for a Railcard from age 16-30 and in Scotland age 5-21. Eligibility criteria for disabled people differs between railcards and concessionary bus passes. The Network Railcard is eligible for off-peak travel within London and the South East regardless of residence, it is assumed only people who live in London and the South East use it. All railcards provide a third off train travel, and only the Network Railcard excludes on-peak travel. Income quintiles are net equivalised income after housing costs. SOURCE: RF analysis of ISER, Understanding Society.

Some of the scheme to provide discounted off-peak rail fares are in effect funded by the train operating companies, and may represent an efficient way to make use of otherwise under-used off-peak capacity. But it is noteworthy that free bus passes – which do cost the state money (£885m in England in 2023-24)<sup>77</sup> – cover so little of the low-income population, as buses are a more common way for low-income people to get around than trains.<sup>78</sup> As Figure 25 shows, concessionary bus passes for older bus users don't target poorer households any more than they do rich ones. Money spent on bus passes for older people could be better targeted: at present, people in Scotland, Wales, Northern Ireland, and London are entitled to free bus passes at the age of 60, well below the State Pension Age, meaning that some people receiving concessionary bus passes will be in work. There may be reasons to encourage older people to be mobile, but it's hard to see such concerns beginning when people turn 60. A more targeted use of this money would give free or discounted bus passes to people of all ages in receipt of means-tested

<sup>77</sup> Department for Transport, [Concessionary travel statistics: year ending March 2024](#), March 2025.

<sup>78</sup> R Tyers, [Concessionary Bus Travel](#), House of Commons Library, August 2024.

benefits, and if there was a concern about older people's mobility, to target free bus passes towards older ages. The Government should also consider whether capping bus fares at £3 (extended in the recent Spending Review until March 2027) is the best way to support bus travel: in effect it is a subsidy for people making long bus journeys.<sup>79</sup>

Of course, many people live in areas where free bus travel is of little use. Bus franchising serves as a useful way to allow local governments more control over bus services and should be expanded. London has long had control over its buses, and newer regional mayors are already starting to use their powers to expand bus routes and reduce costs for users. In Greater Manchester, bus franchising has given the Combined Authority greater control over the network, allowing them to keep fares lower than they may have done otherwise and expand services.<sup>80</sup> And in the West of England combined authority and North Somerset, buses have been made free for under 16s during the summer holidays in 2025.<sup>81</sup>

But support towards transport cannot afford to ignore drivers, as the majority of miles travelled across the income distribution are by road (see Figure 19). It is good news for drivers then, that driving costs have fallen relative to lower incomes, as Figure 20 shows. The move to EVs means that this is set to continue, with the Climate Change Committee estimating that the overall cost of driving is also set to fall by 60 per cent by 2050.<sup>82</sup>

On present policies, the transition from petrol cars to electric vehicles (EVs) is set continue to reduce the cost of driving, not just due to the efficiency of EVs but due to there being no Fuel Duty equivalent on the electricity used to charge cars. In previous work, we have argued that, to ensure it's not just high-income drivers who benefit from the transition to EVs, on-street charging facilities should be expanded, and more chargers should be placed in neighbourhoods where people don't have driveways. On-street charging must also be made cheaper: by preventing certain companies from having monopolies in particular areas, and by bringing the level of VAT charged on electricity from public chargers (currently 20 per cent) in line with the level of VAT charged on electricity from at-home chargers (5 per cent).<sup>83</sup>

While switching petrol and diesel cars for EVs is undoubtedly a good thing for both environmental and cost-related reasons, the decline of petrol and diesel sales will be bad news for the Government's finances: Fuel Duty revenue is set to bring in £24 billion this year, which is a lot of tax revenue to lose.<sup>84</sup> Evidently, Fuel Duty needs replacing, because

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<sup>79</sup> HM Treasury, *Spending review 2025*, 11 June 2025.

<sup>80</sup> <https://tfgm.com/the-bee-network>, accessed 10 June 2025.

<sup>81</sup> J Grierson, *Children to have free bus travel in west of England during summer holidays*, The Guardian, 10 June 2025.

<sup>82</sup> A Corlett, Z Leather & J Marshall, *Getting the green light: The path to a fair transition for the transport sector*, Resolution Foundation, October 2024.

<sup>83</sup> A Corlett, Z Leather & J Marshall, *Getting the green light: The path to a fair transition for the transport sector*, Resolution Foundation, October 2024.

<sup>84</sup> Office for Budget Responsibility, *Fuel duties: recent trends and latest forecast*, 22 May 2025.

without a replacement to Fuel Duty, the net zero transition could lead to significantly more congested roads, if households, as we would expect, drive more miles as the price of driving falls. This can be done by taxing drivers per mile they drive, or according to the weight of their vehicle, reflecting that some of the external costs of driving are directly related to their weight.<sup>85</sup>

The exception to the falls in the cost of motoring is motor insurance, which has shot up in recent years, as Figure 20 shows. But the rise in motor insurance costs came after a low baseline during the pandemic, and these costs have also fallen in recent months. And as motor insurance costs are a small part of the cost of driving a car (they make up just 2.2 per cent of spending on private transport in the UK), public money shouldn't be spent on lowering car insurance bills for specific people.<sup>86</sup> The Government has created a taskforce to deal with high motor insurance costs, which will use FCA analysis to work out how best to tackle the issue.<sup>87</sup> This is a step in the right direction,<sup>87</sup> and the taskforce should ensure that the motor insurance market is working fairly.

## We need better-designed benefit uprating, and a renewed commitment for benefits to at least track cost of living changes

The cost of living crisis had a weighty impact on household incomes, even after billions of pounds were spent on protecting incomes during this time. Median non-pensioner household incomes fell by 3.8 per cent between 2021-22 and 2023-24, and non-pensioner incomes at the 10th percentile fell by 9.8 per cent over the same time period. Why was the income fall so stark? In part because social security benefit uprating didn't keep up.

The majority of social security benefits are uprated each April, with most non-pensioner benefits using the previous September's annual CPI rate. There are two reasons why this strategy did not protect incomes well during the cost of living crisis, a time when inflation was both high and volatile. First, using September's rate of inflation to uprate benefits the following April means that benefits are going up at a rate which may not reflect inflation at the time. This is particularly a problem during times when inflation is volatile. For example, in April 2022, benefits were uprated using September's CPI rate of 3.1 per cent, even though inflation over 2022-23 was 10 per cent.<sup>88</sup>

Second, restricting benefit uprating to once a year means that, when inflation is high, the real value of benefit income can fall significantly within the 12 months from April to the

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<sup>85</sup> A Corlett & J Marshall, *Where the rubber hits the road: Reforming vehicle taxes*, Resolution Foundation, June 2023.

<sup>86</sup> Based on CPI weights for February to December 2025. Total spending on private transport is the sum of spending on vehicle purchases, spare parts and accessories, fuels and lubricants, maintenance and repairs, other services (including driving lessons, tests and MOTs), and motor insurance.

<sup>87</sup> Department for Transport, *Ministers bring together industry experts and consumer champions to tackle spiralling costs for drivers*, 16 October 2025.

<sup>88</sup> ONS, *Consumer Prices*.

following March. For example, in March 2023, the real value of the standard allowance of UC was 7 per cent lower than it was in April 2022, just after it had been uprated and before inflation reached its peak.<sup>89</sup>

So a better benefit uprating policy would see social security benefits uprated more frequently when inflation is high (say, more than 4 per cent), and using a more timely measure of inflation at all times. One reason why the past governments might have been reluctant or unable to consider these sorts of changes is the inflexibility of some of the IT systems used for some of the legacy benefits, and the fact that the tax credits system is an annual one.<sup>90</sup> But experience since 2020 has shown that rates of UC can be changed with about one month's notice, and, given that the migration from legacy benefits and tax credits to UC should be complete very soon, we can be less concerned about legacy benefits than we used to. More frequent and more numerous benefit uprating are much more achievable than they were in the past.

But the measure used to uprate benefits also matters as well as the speed and timeliness. If inflation is to be used to uprate benefits, then it would in principle be better to use a measure close to the actual rate of inflation experienced by means-tested benefit recipients. The ONS' Household Cost Indices data shows that the ONS can calculate inflation rates for specific groups, and the same method could be used to estimate the inflation rate for recipients of benefits.<sup>91</sup> If benefits were uprated using the HCI rate for the second income decile every year since April 2011, for example, they would have been 14 per cent higher in 2025-26 than they are now, and 4 per cent higher than if they had been uprated using CPI each year.<sup>92</sup> However, at present this data is released only every three months and with a lag, and the estimates do not qualify as accredited official statistics, so it would be unwise to use them for such important policy decisions. It might also be difficult to make the case to the public that uprating benefits with a different rate to that used to uprate tax thresholds is a good idea, or to make the case to benefit recipients that they might in some years face uprating that is lower than the headline rate of CPI. So it may be that there are political reasons, as well as practical ones, why this change shouldn't happen.

As the previous section illustrates, interventions to reduce the cost of certain essentials can be helpful ways to reduce pressure on low-income families. But the cost of living crisis cannot be solved by reducing costs alone. The cost of living crisis itself had such a large impact in households in part due to the weak income growth faced by low-income households in the years before. Between the financial crisis in 2009-10 and 2023-24, median non-pensioner household income grew by 4.3 per cent. But income growth was

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<sup>89</sup> RF analysis of DWP, Abstract of Benefit Statistics; ONS, Consumer Prices.

<sup>90</sup> In 2022, the DWP Permanent Secretary revealed that uprating legacy benefits can take four months, due to the DWP only being able to use the computers that can do the uprating at weekends, because they are used for other things during the week. Work and Pensions Committee, *The cost of living: Second report of session 2022-23*, House of Commons, July 2022.

<sup>91</sup> ONS, *Household Costs Indices for UK household groups: January to March 2025*, 29 May 2025.

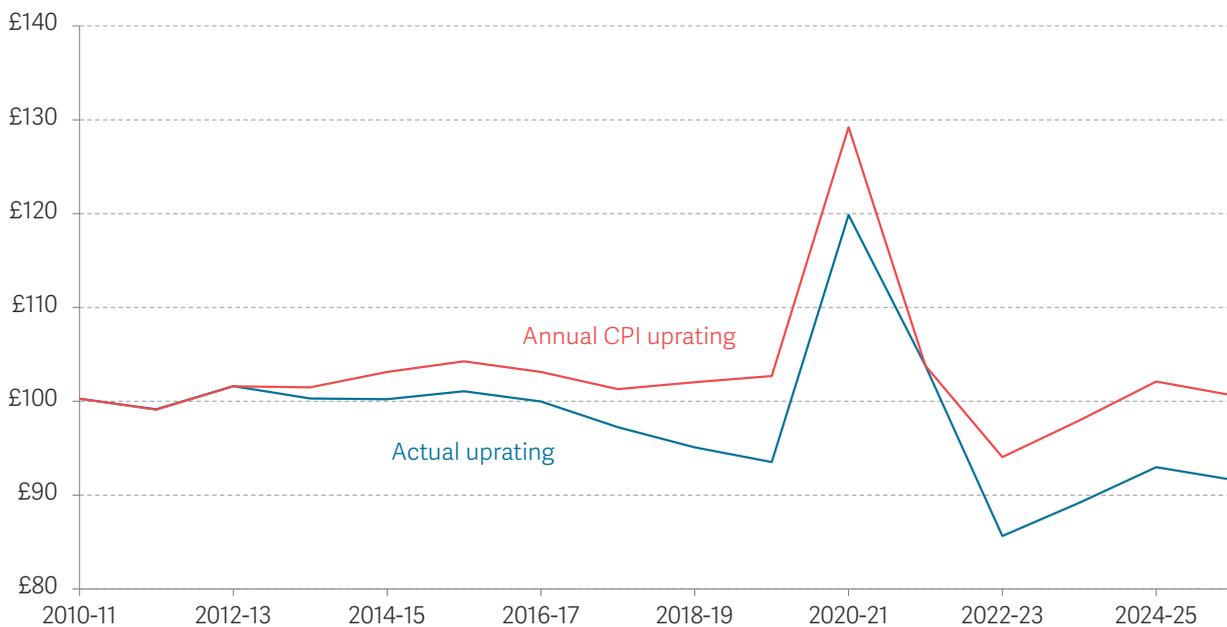
<sup>92</sup> RF analysis using ONS, Household Cost Indices; ONS, Consumer Prices.

so much worse for the lowest-income non-pensioner households (at the 10th percentile), whose incomes grew by just 2.9 per cent.<sup>93</sup>

Why has income growth been so poor since the Financial Crisis? Undoubtedly a lack of wage growth plays a role: from January to March 2025, wages were only 2 per cent, or £13 a week higher in real-terms than they were in January to March 2008.<sup>94</sup> But benefit policy in particular has dragged down on income growth for those on the lowest incomes: benefit policy changes made after the 2010 election and before the 2024 election led to incomes for the poorest fifth of working-age households being 14 per cent lower than they would have been if no policy had been changed.<sup>95</sup> In part this was because the “automatic” operation of the annual inflation adjustment has been disrupted in 7 of the last 15 years: cash payments were variously frozen, held down to 1 per cent or subject to an arbitrary pre-announced cap. As Figure 26 shows, unemployment benefits in 2025-26 are set to be 9 per cent, or £9 lower per week in real-terms than they were in 2010-11; the main driver of this disparity being due to benefits having been uprated be less than inflation for 7 consecutive years in the 2010s.<sup>96</sup>

**FIGURE 26: Inflation uprating should happen every year using a measure of inflation low-income households experience**

Weekly level of basic unemployment benefit in real terms, by type of uprating: UK



NOTES: All data deflated using CPI. Data is in May 2025 prices.  
SOURCE: RF analysis of DWP, Abstract of Benefit Statistics; ONS, Consumer Prices.

<sup>93</sup> L Try, *Money, money, money: The shifting mix of income sources for poorer households over the last 30 years*, Resolution Foundation, February 2025.  
<sup>94</sup> RF analysis of ONS, Labour Market Statistics; ONS, Consumer Prices.  
<sup>95</sup> M Brewer & A Clegg, *Ratchets, retrenchment and reform: The social security system since 2010*, Resolution Foundation, June 2024.  
<sup>96</sup> L Judge & L Murphy, *Rates of change: The impact of a below-inflation uprating on working-age benefits*, Resolution Foundation, October 2023.

In good news, the Government have committed to increasing Universal Credit, so that by 2029-30 it will have increased by 5 per cent more than inflation. This will help strengthen incomes for people receiving benefits, but will still leave benefit income far from adequate. As a result, previous Resolution Foundation research has argued that all social security benefits, and not just the state pension, should be uprated in line with earnings growth, so that everyone can benefit from shared growth.<sup>97</sup> Ultimately, having the UK economy growing, and sharing that growth widely, is the only long-term way to ensure families can afford the essentials, and more.

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<sup>97</sup> M Brewer et al, [Sharing the benefits: Can Britain secure broadly shared prosperity?](#) Resolution Foundation, July 2023.

## Annex 1 – Data citations

- English Housing Survey Fuel Poverty Dataset:
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