

The Cost of Living Crisis

A briefing from the Joint Public Issues Team of the Baptist Union of Great Britain, the Methodist Church and the United Reformed Church



Prepared for Churches Together in England Enabling Group, March 2023

“Our frontline staff have told us that child poverty levels are at the worst they can remember.”¹ Action for Children

Since April 2022, the headline rate of inflation has been running above 9%. Increasing prices have had huge impacts across our society, but the sharpest and most immediate effects are being felt by the least well-off. In communities that have gone through a decade of austerity followed by pandemic, who understand and are sadly acclimatised to deprivation, the sentiment that ‘this is the worst we have seen’ has been repeated time and time again.

Churches have been responding to the needs created by the cost of living crisis with extraordinary energy and generosity. Foodbanks are the busiest they have ever been. Thousands of “warm welcomes” offering heated hospitable spaces to those who want them opened across the country this winter, all alongside the ongoing work of churches in the communities they serve. Churches are making a hugely positive contribution, and their role in supporting vulnerable people is likely to become more and more important over the next year.

This briefing aims to increase understanding of the cost of living crisis, its origins and its effects. It draws on analysis of public data and evidence provided by a long series of interviews, focus groups and conversations that the Joint Public Issues Team (JPIT) and the Methodist ‘Church at the Margins’ programme have held with church and community leaders and those who are battling poverty day to day.

It is intended to prompt thinking about the role of churches both in supporting those who are in need, and in addressing the causes of the huge increase in need.

A year of increasing concern

In January 2022, anecdotal reports began to emerge from churches and charities around the country about increasing levels of need within communities. These were interpreted as being a result of a combination of some price rises, mainly in the cost of basic foods, and the long ‘hangover’ from the pandemic. These reports grew steadily in their frequency and strength of concern, particularly around the rising costs of food.

We arranged conversations with church and community leaders to explore the issues further. It was clear even before the energy price rises in April 2022 that the numbers of people struggling in our communities were increasing markedly. Conversations indicated that for many on low incomes, coping strategies had reached the end of the road. Beyond simply not using fuel, people saw very few options in how to cope with the coming price rises.

In our conversations over the last year we have listened to people who have faced awful choices. The cliché is the choice between heating or eating. It is a cliché because it is so common that it now often goes unremarked upon. One woman who joined a focus group had difficulty talking. It transpired her choice was between food for the family and dental treatment. Prioritising her children meant weeks of toothache. Stories of families moving lightbulbs from room to room – not just to save on buying more bulbs but to ensure that electricity was not wasted are no longer rare. The seeming abstract percentages of inflation rates very quickly translate into stories of real struggles in families where budgets are tight.

¹ [Ask the government to tackle the cost-of-living crisis](#), Action for Children, accessed 18/05/2022

Inflation is higher for the poorest families

The cost of living has been rising for everyone, but has risen fastest for the least well-off. While the headline rate is at 10.1%, the effective inflation rate for the poorest families is conservatively estimated at 12.5% for the year to April.

The major driver of inflation is increasing household energy costs (90.9% in the year to January 2023). This has been accompanied by large food price rises of 13.3% overall, and 19% for the processed and often cheaper foods. Only alcohol and tobacco saw price rises limited to single digits, due to the government's decision to introduce a real-terms cut in duty. The poorest families by necessity spend a much greater proportion of their income on food and fuel than the average family, which means the inflation rate for the poorest is higher.

This is however still an underestimate, because not only do the least well off spend more of their income on food, they also buy cheaper foods. It had been repeatedly reported by people who experience poverty that the cheapest foods that they rely on day to day, such as 'value' ranges of rice and pasta, had rocketed in price much more than other foods. Value products contain very little profit margin, so their price fluctuates in response to commodity price changes more than higher cost foods. Moreover, the availability of deals and discounted 'yellow sticker' items has markedly reduced. This 'poverty premium' is compounded by the fact the difference in prices between large out of town supermarkets and local shops has increased, meaning even higher costs for those without access to cheap transport.

Impact on living standards

Analysis undertaken by Professor Donald Hirsch on behalf of Gordon Brown and published by JPIT last summer² highlighted that an average family of four receiving benefits, even taking into account additional payments and energy price caps, will be around £1,400 worse off this year than last. As around half of adults receiving Universal Credit regularly skip meals because they cannot afford them, a £1,400 reduction is extremely serious.

In 2021, a survey found that 2% of people said they could not afford to buy a small treat, such as a chocolate bar, for themselves. In 2022 that number had increased 14-fold to 28%. While not the most prominent statistic from the Resolution Foundation's survey on the UK's economic wellbeing, it speaks to increased levels of financial worry in society, and how tiring and demoralising it can be to not have enough.

Crisis responses

The increasing financial challenges faced by many people translate directly into a greater demand for charitable help. The Trussell Trust is currently delivering more food parcels than it did in the pandemic: 1.3 million in the 6 months to September, with strong evidence of even higher demand since. Thousands of warm spaces were opened in the winter of 2022-23. Post-pandemic there was a surge of debt in low income families, which continues to increase, and debt charities such as Christians Against Poverty and Stepchange are reporting a surge in people needing advice.

Churches and charities picking up the signs of greater financial strain in communities are often responding with greater provision of services. It should be noted however that these groups have been under the pressure of slowly increasing need for a decade, followed by an enormous surge of need during the pandemic. The perseverance and energy that has been shown is extraordinary but cannot be relied upon indefinitely.

Outlook

2022 saw the largest annual drop in average standards of living in the UK since the Second World War, with disposable income falling by 3.3%. 2023 is expected to see an even larger fall of 3.8%. Average living standards are not expected to stop falling until Summer 2023, with a recovery to pre-pandemic standards or pre-2008 banking crisis standards not expected for a number of years.

² Professor Donald Hirsch, 'Enough to get through the winter', analysis published by the Joint Public Issues Team, 21 September 2022. Source: <https://jpit.uk/wp-content/uploads/2022/09/September-2022-DH-Report.pdf>

However, in a highly unequal economy such as the UK, averages often disguise important information. In this case, this includes the fact that those with the lowest incomes are expected to see a longer and deeper impact on their standard of living than the average family, while the wealthiest 10% are expected to see their overall disposable income increase, driven by higher interest rates generating greater investment income.

In a focus group with people who experience poverty it was noted that they had been seen drops in their standards of living for a decade, having to make harder and harder decisions about what to cut out of budgets, but it only became labelled a 'cost of living crisis' when 'average' middle-income families began to experience losses.

The context: Ten years of austerity followed by a pandemic

One of the key themes that community leaders have told us is that the current cost of living crisis is not a crisis in isolation. It is a crisis that is happening to people and places that experienced a decade of austerity, topped with two years of pandemic. Both the people and their support structures are tired³ and under-resourced.

The decade 2010-2020

From 2010 to 2020, average household incomes rose slowly (From £28.1K to £31.3K for the median household)⁴. Average wealth per household rose markedly, largely due to rises in the values of property, stocks and shares (from £250K to over £300K for the median household). While the average and higher income family saw increases in income and wealth, the story for those with lower incomes was very different.

By the spring of 2020, around 14.6 million people were experiencing poverty, up from 13.1 million in 2010. Poverty had become deeper with the number in destitution – the deepest form of poverty which we believed was virtually eliminated in the UK – rising past 1.5 million in 2015, to 2.5 million in 2020. Deeper poverty became harder to escape with 13% of the population experiencing persistent poverty.

It is important to recognise that this was not a story of unemployment. Unemployment had fallen and people were working increasing hours. It was instead a story of families having to work harder yet remaining in poverty.

The decade prior to the pandemic saw large cuts to benefits, largely through changes in who is able to claim, and freezing benefit levels in cash terms thus allowing inflation to erode their value. The remaining money in the benefit system was rebalanced to favour those in work. This alongside a steadily increasing minimum wage meant that poverty for single people in work reduced, while for those unable to work full time, or families with children, poverty increased markedly.

Local authorities faced huge cuts in the decade prior to the pandemic with overall spending falling by 23% per person. Changes to the funding formula increased the importance of an area's demographics, especially old age, and reduced the importance of economic factors. This meant that the cuts were focused on the least well-off parts of the country. In England the most deprived areas averaged 31% in funding cuts, whereas the wealthiest areas saw cuts of 'only' 16%.⁵

We therefore entered the pandemic with many low-income families' budgets under stress, many public services under pressure, and the budgets of the local authorities where poorer families tended to live under particular pressure.

³ [Covid-19 Charity tracker](#) Pro Bono Economics (2020–2022)

⁴ [Average household income, UK: financial year ending 2021](#)

⁵ [The outlook for councils' funding: is austerity over?](#) Institute for Fiscal Studies, 2019

Pandemic

The effects of the pandemic were felt across the population, but it had a particular effect on those in poverty. Outside of residential care settings, people on low incomes experienced the worst health outcomes as a result of Covid-19. They also experienced the most severe financial pressures.

Those on low incomes were most likely to lose their job altogether, most likely to be furloughed, and least likely to have their furlough pay topped-up. Low-income families also faced increasing costs – as strategies that they had previously used to make their budgets work, such as shopping around for the lowest prices and sharing with neighbours, were not easily available during lockdowns.⁶

For the families who entered the pandemic just about managing, increased costs and lower incomes gave people no choice but to borrow, often by delaying paying bills. Between April 2020 and September 2021, the number of people reporting difficulty paying bills doubled to 15 million, with 4 million needing to borrow to cover basic bills.⁷

It was generally a very different story for higher income families, where people were more likely to be able to work from home. Here, income remained the same while opportunities to spend reduced, leading to record repayments of household debt, and at least £250 billion in increased household savings. At times this had the effect of masking the experiences of the many millions whose financial situation was getting worse.

The importance of place

Much of our understanding of the effects of poverty and the cost of living comes from surveys and data that focus on individuals and families. Church leaders made it clear that community and place is important in how these effects on households are experienced.

Rural church leaders emphasised that poverty in rural areas is often hidden and unnoticed. The experience of poverty can be extremely isolating and the rise in the cost of petrol and diesel alongside fare increases for public transport (if it is even available) is of particular concern.

In urban areas poverty tends to concentrate. The price of rents and housing is the big driver of this. Individuals and families tend to cycle through poverty, rarely going from poverty to wealth, but often moving to more stable circumstances. As people cycle through poverty they often cycle through deprived areas also. This means that while for the individual poverty is transient, for the area poverty becomes more ingrained. The counterbalance to this was often public spending, which has been in retreat for a decade.

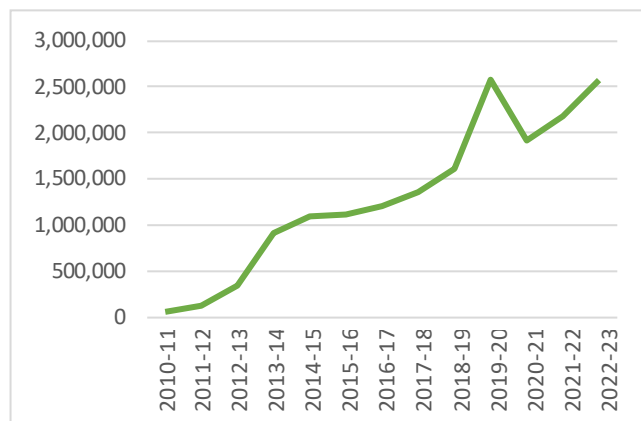
The worst effects of the cost of living crisis are likely to be found concentrated in these least resourced places. Many places will feel worse off, but the information we are getting is that there is a background of general increased needs, with disproportionately large spikes in areas of high deprivation.

⁶ [Reset the Debt](#) Joint Public Issues Team, 2021

⁷ [Credit Safety Net](#) Stepchange, 2022

The crisis in two graphs

Foodbank use, 2010-23

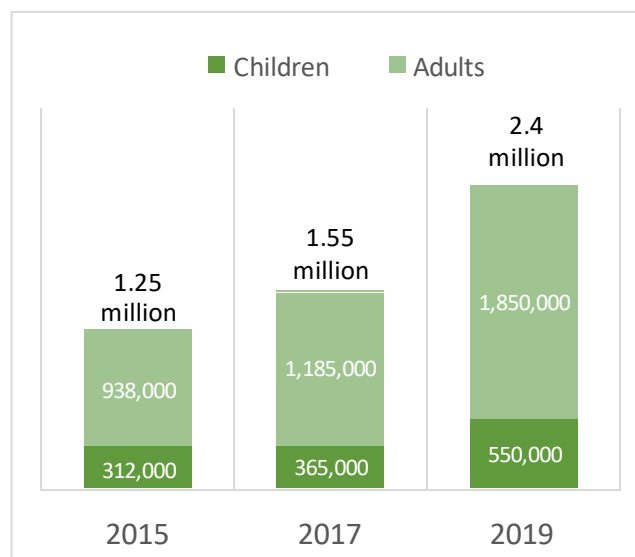


Trussell Trust food parcels delivered each year

Trussell represents around half of foodbanks in the UK, and there are thousands of other emergency food aid providers including soup kitchens and social supermarkets.

Source: <https://www.trusselltrust.org/news-and-blog/latest-stats/>

Levels of destitution



Destitution was not systematically measured before 2015, however rises in deep poverty measures indicated large rises in destitution were likely prior to 2015.

Pandemic and cost of living crisis will increase these numbers further.

Source: <https://www.jrf.org.uk/report/destitution-uk>

Beyond the crisis: from charity to justice?

The mobilisation of churches, community groups and the wider voluntary sector in response to the cost of living crisis has been significant, and provided vital support to many individuals and families over the last 12 months. It has been a lifeline to millions. However, all the evidence suggests that charitable activity alone will be insufficient to turn the tide of poverty that has been rising for over a decade now.

The current rise in poverty is not only a story of individuals facing their own challenges, but a structural problem that needs structural solutions.

Recognising our calling to speak for justice and build God's kingdom, what role does the Church have beyond crisis response? If, as Churches, we do not want to keep on having to help individuals in need year after year, we should be part of addressing this problem at its roots. So let's explore how we, as Churches, can bring our voices and our strengths to the call for long-term solutions to this problem, and work alongside others to begin to turn the tide on poverty in the UK.

This briefing was prepared by the Joint Public Issues Team: www.jpitit.uk