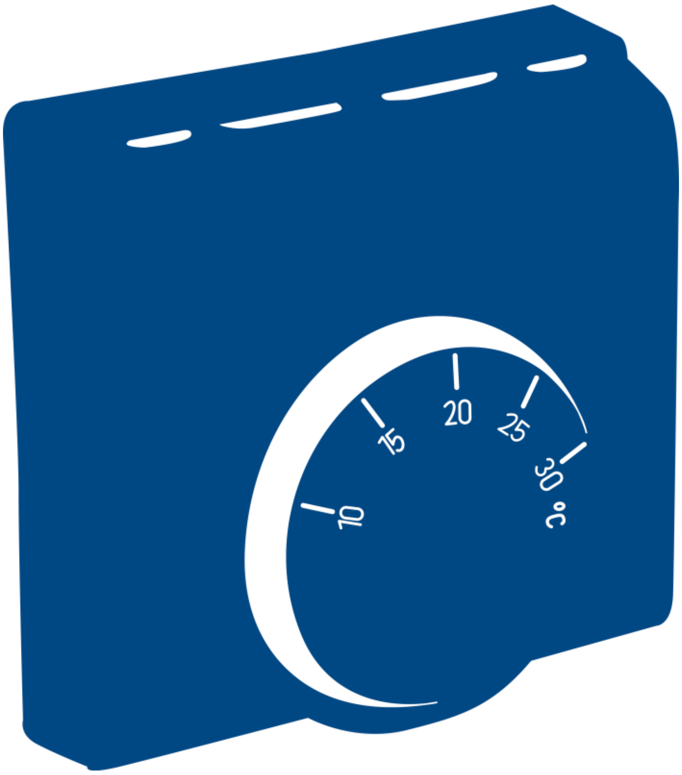
Turning down the heat



How the cost of living crisis is affecting North Staffordshire

citizens advice
Staffordshire North & Stoke-on-Trent

Contents

1. Introduction

"I'm 82, I lived through the war and this is much worse"

These are the words of a client who came to see us for the first time, never having needed us before, in April 2022 because she could not manage her energy bills and was worried sick.

The issue dominating the lives of local people is the rising cost of living. The following report demonstrates how this is affecting Citizens Advice clients in North Staffordshire.

The current data is drawn from those clients who have sought advice on issues affected by the rising cost of living in 2022, with comparisons to previous years in some cases and I am grateful to our national association, Citizens Advice, for pulling the data together and producing many of the charts.

The case studies are of actual clients who have sought our advice, but I have changed their identity to protect their confidentiality.

This report also looks at the background to the current crisis, whose roots can be traced back to the 2008 financial crash and subsequent credit crunch and recession, together with the deep-rooted poverty that affects this area. This combination of factors provides fertile soil for a cost of living crisis and goes some way towards explaining why this crisis is hitting North Staffordshire hard.

We then look at three aspects of the crisis: energy, rent and the cost of food and other essentials, where we have seen significantly more clients needing help. Finally we make some recommendations for actions that can mitigate the worst effects of this crisis.

Unfortunately there are few prospects of imminent improvement and therefore the response needs to be sustained if we are to avoid a local humanitarian catastrophe.

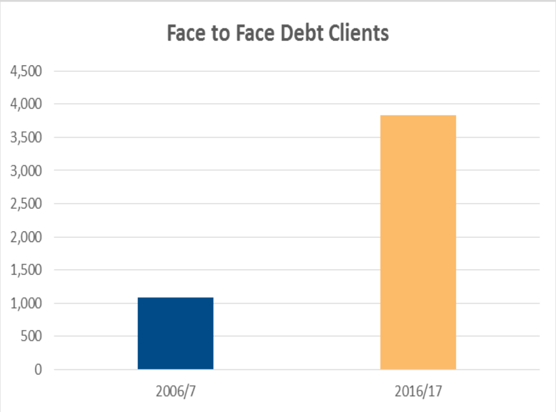
Simon Harris
Chief Executive
Citizens Advice Staffordshire North & Stoke-on-Trent
August 2022.

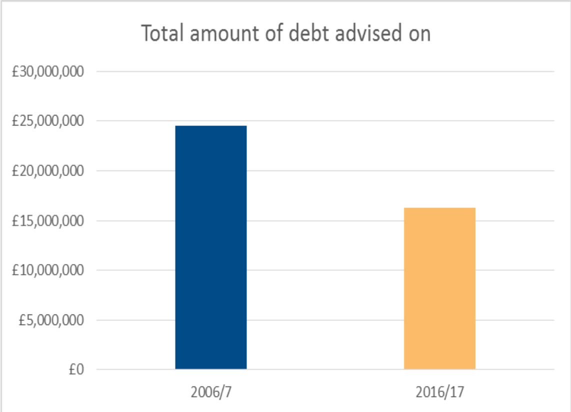
2. Background

It is misleading to believe that the 2021/22 cost of living crisis has come out of nowhere or is simply the result of a recent, unique sequence of events. On the contrary, the warning signs have been clear to see for some time.

In August 2016/17, in preparation for a Town Hall meeting organised by the Bank of England in Stoke-on-Trent to look at the financial impact of the 2008 financial crash, credit crunch and resulting recession, we compared of our debt caseload in 2006/7 with 2016/17. The box below summarises the main changes:

	Cases	Debt	Average
2006/7	1,088	£24,563,710	£22,577
2016/17	3,836	£16,245,353	£4,235





This showed nearly 4 times as many cases were opened in 2016/17, but a much lower level of debt. Part of the explanation for this was a significant shift in the types of debt brought to us and in particular the growth in priority debts (mortgage, rent, utilities, council tax, fines – debts where non-payment can lead to the loss of something significant).

In 2006/7 priority debts accounted for 26% of the total debt issues brought to us by clients. By 2016/17 they accounted for 59% of all the debt issues brought to us. This reflected a wider trend observed across the Citizens Advice network that more and more clients were struggling with their day to day living costs and paying for their essentials, and fewer were experiencing problems with consumer credit, largely due to the reduction in lending following the crash.

By 2016 consumer lending was growing again, after the credit crunch, and this may have masked the issue of priority debts, except for the growth in clients with so-called deficit budgets, where their reasonable outgoings exceeded their income, which was a growing feature of debt advice during the 2010s and has been even more prominent since 2020.

In “Negative Budgets: A new perspective on poverty and household finances (February 2020)” Citizens Advice identified a growing trend since 2016 of clients with a negative budget, rising from 32% of debt client in 2016/17 to 38% in 2018/19 and the size of the monthly deficit rising from an average of £167 to £203.

Both of these trends suggest that there were a growing number of people struggling to get by well before 2021 and the first signs of a significant increase in fuel prices.

Alongside this other agencies highlighted the precarious financial position of many households. In their “Financial Lives 2020” survey, the Financial Conduct Authority (FCA) identified 10.7 million households with characteristics of low financial resilience, defined as people who “are over-indebted or have little capacity to withstand financial shocks. For example, they could not withstand even a £50 a month reduction in their income, or losing their main source of household income for even a week”.

The FCA estimated this figure represented one UK household in every five. 7.8 million of these households were indebted and 3.8 million were in financial difficulty.

The report also looks at the level of financial buffer households had to withstand sudden financial shocks and concluded that 39% of adults (20.3 million) lacked 3 months living costs in savings. They also found that:

- 5.1 million were usually overdrawn, often using an overdraft facility to pay for essential living expenses;
- 2.8 million had persistent credit card debts;
- 5.6 million had at least one high-cost loan;
- 3.5 million had mortgage arrears at least 4 times their annual household income.

At the time the main concern was COVID-related job loss or income reduction due to furlough, but such persistent levels of financial insecurity create a significant cohort of people at risk of serious financial problems should they experience a sudden financial shock such as an increase in energy bills or the cost of food or petrol.

Taken together these factors demonstrate why the recent increases in the cost of living are having such a damaging effect.

3. Why this hits Stoke-on-Trent hard

While this report covers the whole of North Staffordshire, the underlying problems are especially acute in Stoke-on-Trent. Newcastle-under-Lyme and Staffordshire Moorlands are each affected significantly but the scale of the problem in Stoke-on-Trent is much greater.

The Government's latest figures on fuel poverty, published in April 2021[1] showed that with 21.8% of households classed as fuel poor, Stoke-on-Trent had the second highest rate in the country after Barking and Dagenham.

Newcastle-under-Lyme had 18.0% of households classed as fuel poor and Staffordshire Moorlands 16.2%, significantly lower than Stoke but still above the Staffordshire-wide figure of 15%.

The new LILEE[2] assessment looks at the energy efficiency of the properties in an area and the residual income left once an amount required to adequately heat a home is taken into account. The relative poverty of Stoke-on-Trent along with the poor energy efficiency of many of the city's properties combine to make the city especially vulnerable to spikes in energy prices.

The problem is particularly acute in wards such as Hanley Park and Shelton (35% of households are fuel poor), Etruria and Hanley and then the main social housing estates such as Abbey Hulton and Townsend, Bentilee and Ubberley, Meir South and Trent Vale and Springfields[3].

In July 2022 the claimant count in Stoke-on-Trent was 8,530 people, or 5.3% of the adult population, claiming out of work benefits and required to look for work. While lower than at its peak, it is still 16.5% above the pre-pandemic levels and places Stoke 31st out of 309 Districts and thus in the top 10% of local authorities. In Newcastle the figures were 2,215 and 2.7%, while in the Moorlands it was 1,095 and 1.9%.

29,875 people in Stoke-on-Trent are receiving Universal Credit, the principal means-tested benefit for working age people. This is a rate of 18.7% of people and places Stoke-on-Trent 36th out of 309 Districts.[4] The figure is significantly lower in both Newcastle and the Moorlands.

Despite having the 51st highest rate of Pension Credit claimants, it is still estimated that some £10.3 million of Pension Credit is unclaimed by approximately 2,500 people, each of whom will be receiving up to £80 per week less than Parliament says they need to live on, which would make a crucial difference in the current climate. In addition to this, they will miss out on those payments, including the £650 cost of living payment for which receiving Pension Credit is one of the qualifying criteria.

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1 Sub-regional fuel poverty data 2021, published on behalf of BEIS by the ONS.
2 LILEE = Low Income Low Energy Efficiency
3 Fuel Poverty note 2021 – Steven Johnston, Stoke-on-Trent City Council
4 Figures from ONS via NOMIS, and the DEP's Stat-Xplore, collated by Steven Johnston, Stoke-on-Trent City Council, for the August Universal Credit and Claimant County Summary

Similarly, it is estimated just under 2,000 people may be missing out on Universal Credit, another qualifying benefit for cost of living payments, and at an average of £77 a week. Money that could make a huge difference to household budgets.

A smaller number of people are estimated to be missing out on disability benefits, but some 300 individuals will be significantly worse off as Attendance Allowance, Disability Living Allowance and Personal Independence Payments not only provide valuable extra income (roughly £77 per week per recipient) but also act as qualifying benefits to other help and support including a £150 cost of living payment.[5]

Poor energy efficiency, low wages (in 2021 wages in Stoke-on-Trent were 85% of the GB average)[6] and high levels of benefit reliance make Stoke-on-Trent especially vulnerable to the cost of living crisis.

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[5] Unclaimed & Underclaimed Benefits estimate Stoke-on-Trent July 2022 – Steve Johnston Stoke-on-Trent City Council, for the Stoke-on-Trent Hardship Commission.

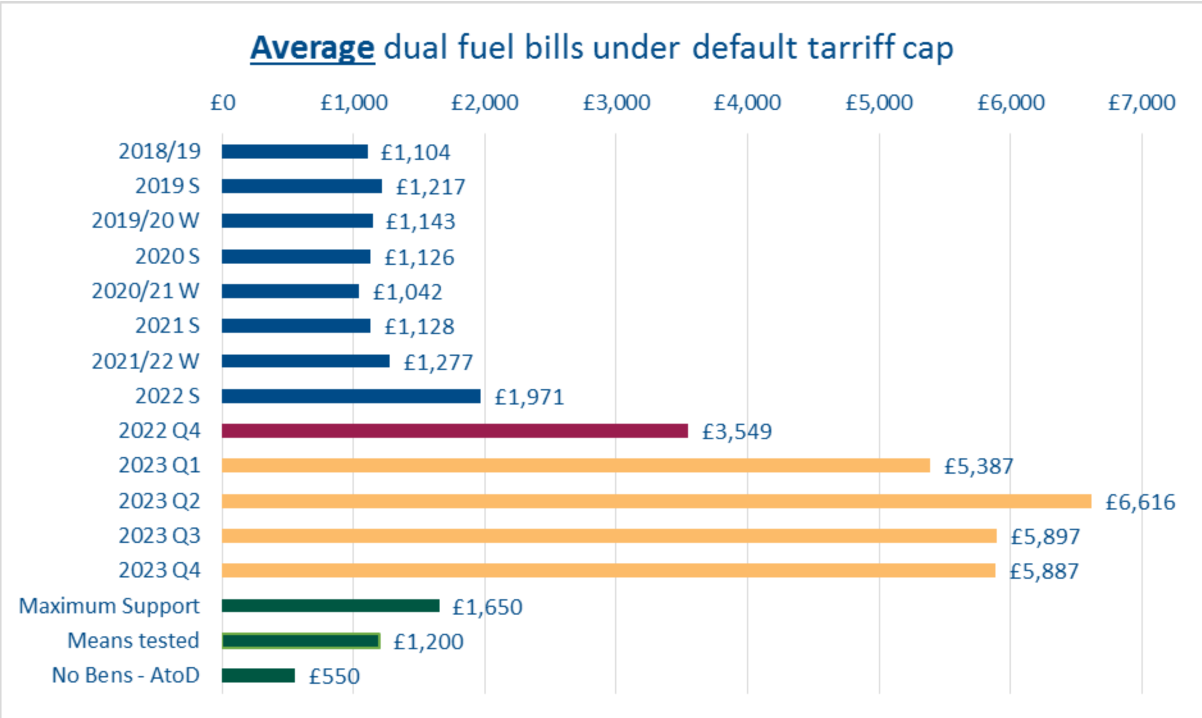
[6] NOMIS.at nomisweb.co.uk

4. Energy costs

Much attention has rightly been focused on the rises in domestic energy bills since 2020/21, as indicated by movements in Ofgem's price cap. The price cap is a mechanism to prevent suppliers charging excessive amounts for domestic energy while ensuring that bills reflect the true cost of supplying gas and electricity to households.

Figure 1 below shows the movements in the price cap. The blue bars represent the figure quoted for the cost of the annual usage by a typical user at the price capped standard variable tariff. The purple bar represents the recently announced October 2022 figure. The orange bars are the latest forecasts by Cornwall Insight for how the price cap *might* rise from January 2023 through the next 4 quarters, assuming Ofgem switch to quarterly adjustments to the price cap.

Figure 1



The green columns represent the value of the support packages announced prior to August 2022 by the Government.

The first shows the amount that a disabled pensioner living on means-tested benefits in a Council Tax band A-D property would receive, the second shows what someone living in a band A-D property on means-tested benefits would receive. The third is the amounts an ordinary household living in a band A-D property will receive.

From April to October 2021 the price cap was set so a typical user would be paying £1,042 p.a. for their gas and electricity under a dual fuel deal. By April 2022 this had increased to £1,971. The recently announced figure for October 2022 has risen from a forecast £2,600 p.a. to £3,549 p.a. A single person receiving UC will receive

£3,183.72 if they are under 25 and £4,018.92 if they are over 25, leaving next to nothing each month to live on once their fuel costs have been met.

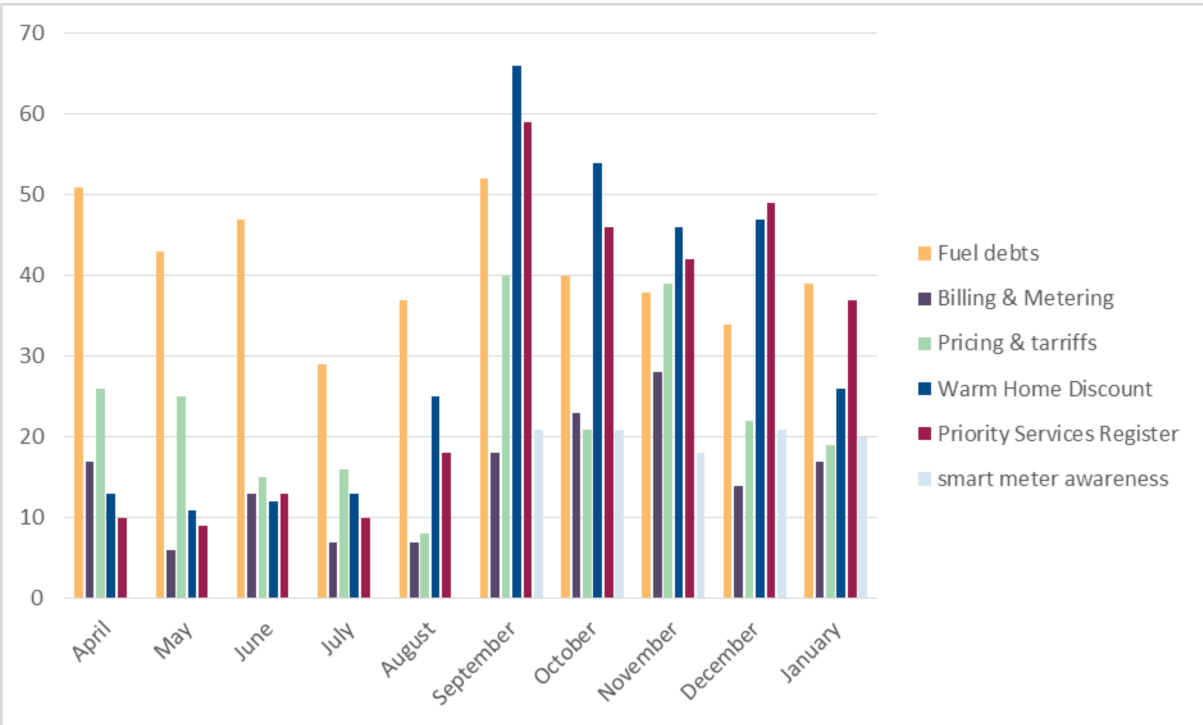
The increase from April 2021 to April 2022 is the equivalent of an extra £17.86 p.w. The basic package of support would provide just £10.58 p.w. towards that.

When the average bill rises to £3,549 in October 2022 then the increase from April 2021 will be £47.19 a week and even the support package for people on means-tested benefits will only amount to £23.08 p.w. leaving a shortfall of £24.11 a week or £104.48 p.c.m. or £1,253.84 p.a. or nearly 30% *more* than the *total* annual bill for a typical user in the summer of 2020.

Cornwall Insights suggest that the price cap may rise further in the new year, raising this typical cost to over six times what it was in winter 2020/21. The consequences of this will be catastrophic for households already struggling to cope with the current costs as well as increasing costs of food, travel and other items at a time when incomes and benefits are rising at levels well below inflation.

Concern amongst our clients with the cost of energy has been evident for over a year. Figure 2 below shows the monthly totals for various energy related issues brought to us by clients, between April 2021 and January 2022.

Figure 2: Energy Related enquiries April 2021 to January 2022



The evident spike in September followed the announcement of the increase in the price cap to take effect in October 2021 and the turmoil in the domestic energy market caused by the failure of around 30 suppliers, as clients desperately sought advice on how to mitigate the effects of both.

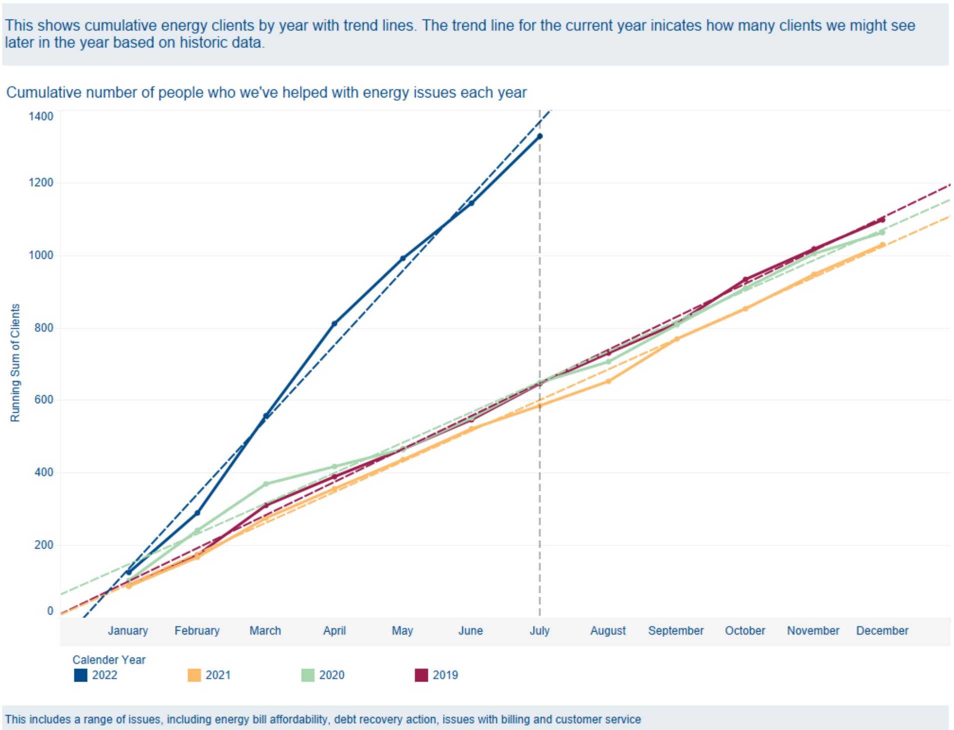
At this time we also issued more fuel vouchers to clients unable to meet their fuel costs between January and March 2022 than in the previous nine months.

Figure 3 shows the cumulative number of clients who had sought advice on energy issues in each of the past 3 years.

The blue line, representing 2022, had already outstripped each of the three previous year's 12 month totals by the end of July and we are forecasting to advise at least double the number of clients on energy issues by the end of the year.

Given the increases in the price cap due in October and January and the effect of the autumn and winter even that may still be a significant underestimate.

Figure 3



"Wendy" is a 56 and lives alone in a private rented property. She is a victim of domestic abuse. She has a number of chronic health issues, is in serious debt and is extremely worried about how she will cope with rising fuel bills.

"Wendy's" situation was complicated and we had to break it down into its component parts to make them manageable individually. First of all we helped her claim for UC with limited capability for work and Personal Independence Payments. Eventually, after a mandatory reconsideration for the UC, she was successful in that claim and her PIP was paid at the higher rate, significantly increasing her income.

We advised "Wendy" on energy efficiency measures to reduce her energy usage and advised on the Warm Homes discount. We also advised on getting a water meter fitted as well as making applications to charitable funds to cover other outstanding bills and costs. We also arranged affordable payments for her priorities.

Overall "Wendy" was £950 a month better off after she had been to see us from a range of measures. She also received £9,000 in backdated benefit and £1,450 towards her fuel debt and £380 worth of energy efficiency measures. All of which will provide some help with the rising cost of living

Figure 4 below represents similar data: the number of clients with queries about domestic energy, from January 2019 through to July 2022. This chart clearly shows the upward trend over time. Although demand may have tailed off in the summer, and normally we would expect this fall to be greater, it is clear that this is still a major concern for many people and will only increase later in the year.

Figure 4

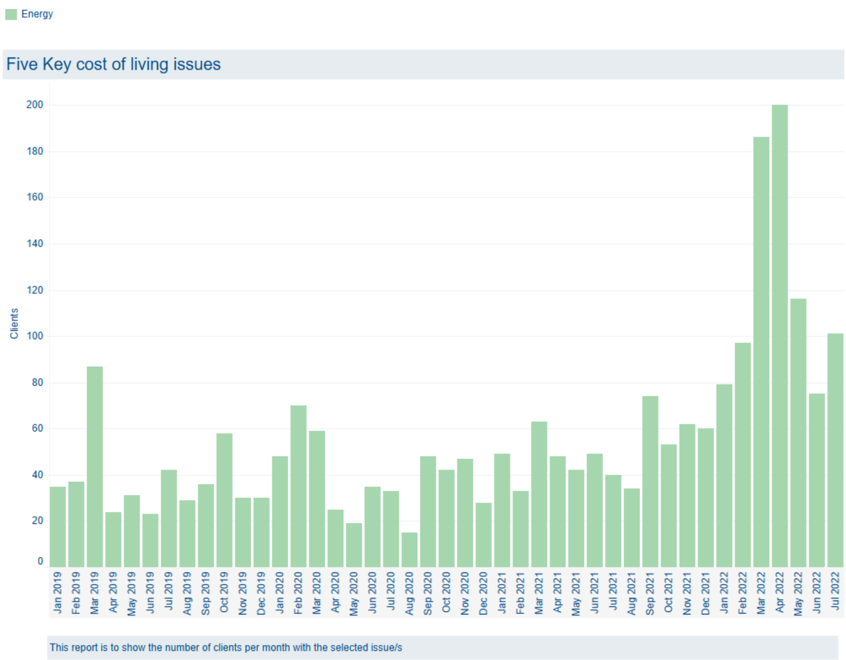
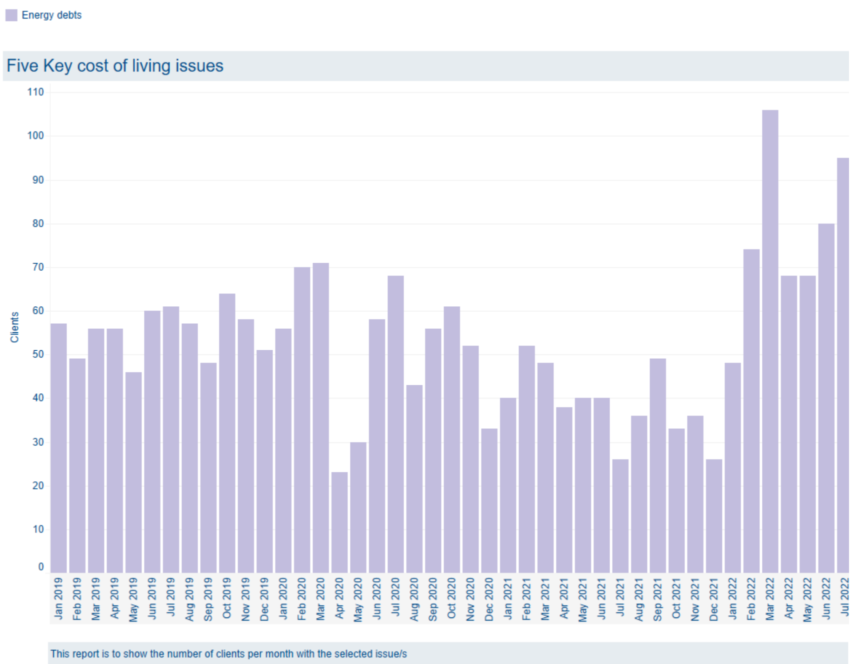


Figure 5



Given the increase in the energy cap due to come into force in October we expect these figures to rise again and probably exceed the levels we witnessed in March and April 2022. Increases in the price cap appear now to be accompanied by spikes in the number of queries about energy supplies.

Figure 5, above, repeats the exercise but for energy debt. This is where the client is in arrears already with their energy and often facing recovery action by their supplier. If this has not started when they visit us then there is a strong possibility it will be about to.

Again the underlying trend is upwards, with no appreciable tailing off in the summer. In fact the longer this crisis persists the greater this problem will become. It is likely that as prices rise then the number of clients unable to meet these costs by cutting back elsewhere or cutting back on usage and then getting into debt will increase significantly.

"Graham" is 67 years old and lives alone. He has a number of chronic health issues and disabilities. He has been struggling with his bills for some time and desperate not to get into debt he has switched off his gas boiler.

Now he has no heating and no hot water, so he is no longer able to bathe. He is also sleeping downstairs on his settee to save energy.

5. Rent

A growing issue, since the pandemic has been clients struggling to pay the rent. This is partly due to the general squeeze on household budgets and partly due to an emerging trend we have witnessed recently, where private landlords are now increasing rents to add further pressure on hard pressed households.

These increases are quite legal but in many of the most challenging cases they are increasing the rent significantly above the Local Housing Allowance (LHA)[7] level so that the gap between the rent and the available support is growing.

Such is the state of the local housing market that private sector rents have been above the LHA ceiling for many years. However, in most cases the gap was affordable. This is becoming less and less the case.

"Joe" lives in a 3 bed property with his daughter. He pays £450 p.c.m rent, works part-time and claims Universal Credit. His landlord has recently given notice that he will be increasing the rent to £600 p.c.m. "Joe" has objected and applied to a rent tribunal for a determination. Unfortunately it is likely that £600 will be deemed to be a fair market rent.

Although the LHA limit for a 3 bed property is £550 p.c.m. because "Joe" is deemed to be under-occupying the property his LHA is limited to £425 p.c.m. While he can make up the £25 p.c.m. shortfall he can't afford £175 p.c.m. extra and is now at risk of homelessness.

As well as adding significant financial burden to hard pressed families, such rent increases can threaten their security of tenure. The example above is one where if the shortfall is not made up the tenant and his daughter could become homeless or they will have to cut back on other, probably essential expenditure.

"Yousef" has lived in 3 bedroom private rented property with his wife and 3 children since 2015. Throughout the period the rent has always been £500 a month. The landlord gave notice to increase rent to £600 a month. "Yousef" refused to accept the rent increase as he said it was unaffordable and so the landlord has issued a section 21 notice seeking possession and the family is now at risk of homelessness.

With an assured shorthold tenancy the landlord is entitled to charge a market rent and it is likely that £600 a month would be an acceptable market rent but the local housing allowance for a 3 bedroom property is only £550 a month. "Yousef" is currently not in receipt of benefits as he runs his own business. He has been advised to apply for Universal Credit to see if he qualifies.

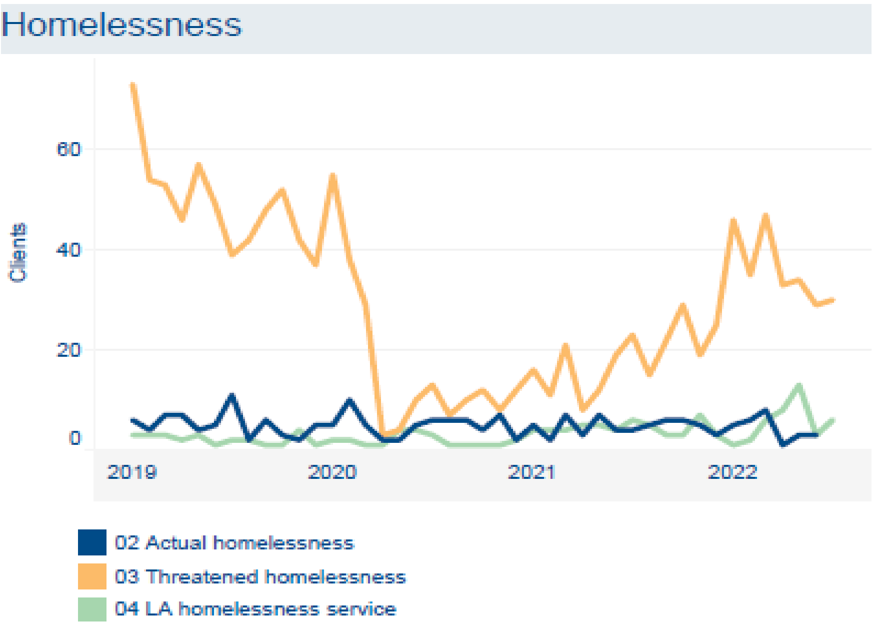
[7] Local Housing Allowance is the main form of financial support for private tenants. It is calculated with reference to a ceiling, based on rents in the local 'broad market rent area', above which support will not be paid, but above which the landlord can charge rent.

The risk to security of tenure is clearly shown in "Yousef's" case study above. Because the tenant has refused to accept the rent increase and the tenancy is beyond the end of the shorthold period, the landlord can issue a section 21 notice to terminate the tenancy without needing to give a reason.

The Government has committed to amend the law to remove so-called 'no-fault' evictions but has yet to confirm when this will happen. In the meantime, as the private rental market recovers following the pandemic, there is a risk that landlords will seize the opportunity to raise rents and evict tenants who do not accept a new rent, before re-letting to a new tenant at the higher rent.

All of this is entirely legal, even if it puts further pressure on hard-pressed family budgets.

Figure 6



The chart above shows that queries about homelessness, especially threatened homelessness (the orange line), have been climbing steadily since the pandemic as landlords resume recovery action and the courts reopen. We anticipate this trend continuing and worsening as the cost of living crisis deepens.

"Janice" is a council tenant, single parent with one dependent child. She receives Universal Credit and has rent arrears of £1,670. She has a spare bedroom in her house and the Universal Credit rent element has been reduced by 14%. This has contributed to the arrears situation.

When we advised on an affordable weekly budget she had £32.50 available to offer towards those arrears. However, her landlord has applied to the DWP for an amount to be paid directly to them from "Janice's" UC. The standard 20% deduction will amount to £183 p.c.m or £42 p.w. This is more than she can afford and will leave her unable to contribute towards her Council Tax arrears or cover her essential expenses.

The situation for social housing tenants is different but also concerning. Fewer clients living in social housing are seeking advice about rent arrears than we would expect. One reason for this is that social landlords whose tenants are in receipt of Universal Credit are collecting the arrears and ongoing rent direct from UC. While this ensures that the arrears do not increase and the rent is paid it does leave significantly less money per week available for other expenses.

One emerging and worrying trend we have had reported to us, at a recent Wider Welfare Reform Group meeting, is social housing tenants who had been paying their rent by direct debit, either cancelling those direct debits because they are no longer affordable, or seeing those direct debits fail due to insufficient funds in their bank account.

By and large these are tenants who in normal circumstances are able to pay their rent regularly, have no major financial problems and frequently are not on Universal Credit. If this trend continues then we could see greater demand for advice on rent arrears and security of tenure.

6. Food and other essential expenses

The cost of living crisis has been characterised often as a choice between heating and eating. For some of our clients it has already gone beyond that as they can no longer afford either.

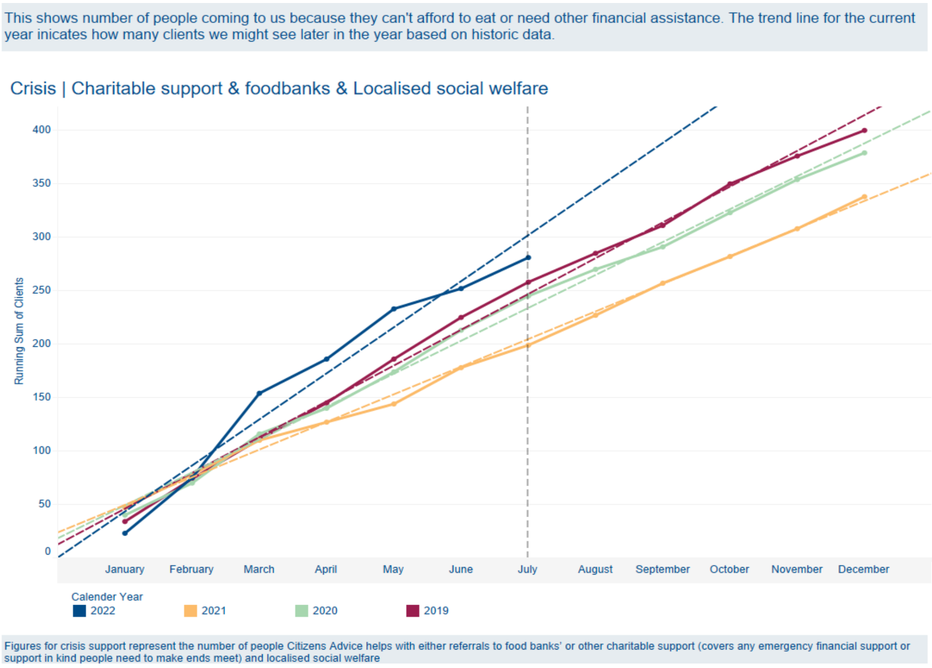
This has been reflected in the queries about foodbank vouchers and emergency payments, both of which have increased significantly.

In December 2021 we were allocated £63,000 from the Household Support Fund by Stoke-on-Trent City Council to distribute to families struggling to meet their fuel costs. This was then given out as either fuel vouchers redeemable to top up pre-payment meters or as cash grants to energy suppliers. By the end of June we had distributed £55,000 of this money and in July we were allocated another £50,000.

While an invaluable stopgap to avert crises, such emergency payments are not a long-term or sustainable solution to the underlying problem of unaffordable energy or food costs.

Figure 7 shows the number of people who approached us for food or fuel bank vouchers or other emergency payments between January and July and compares it with the previous three years

Figure 7



Demand for foodbank vouchers and other local support has been strong for some time, but it has increased since January and we are on track at current rates to provide this help to an additional 20% of clients this year compared to previous years.

However, if as we expect, demand increases during the autumn and early winter then we will clearly exceed those predictions.

Figure 8

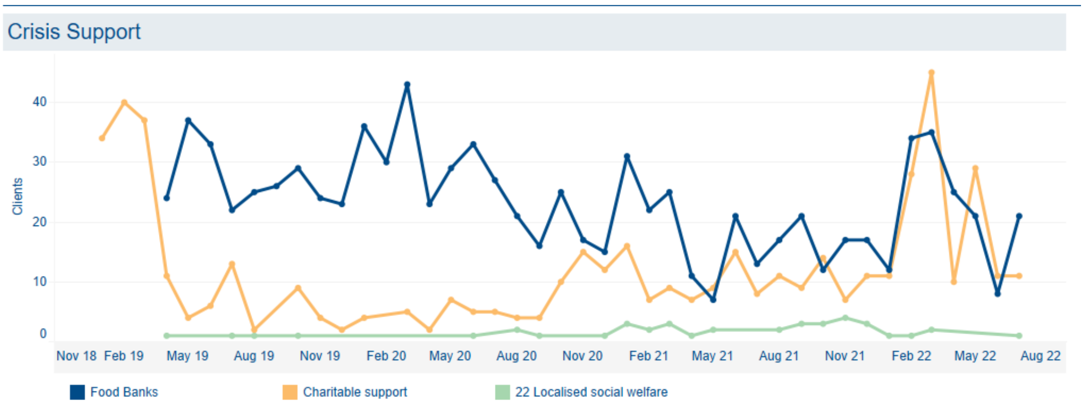
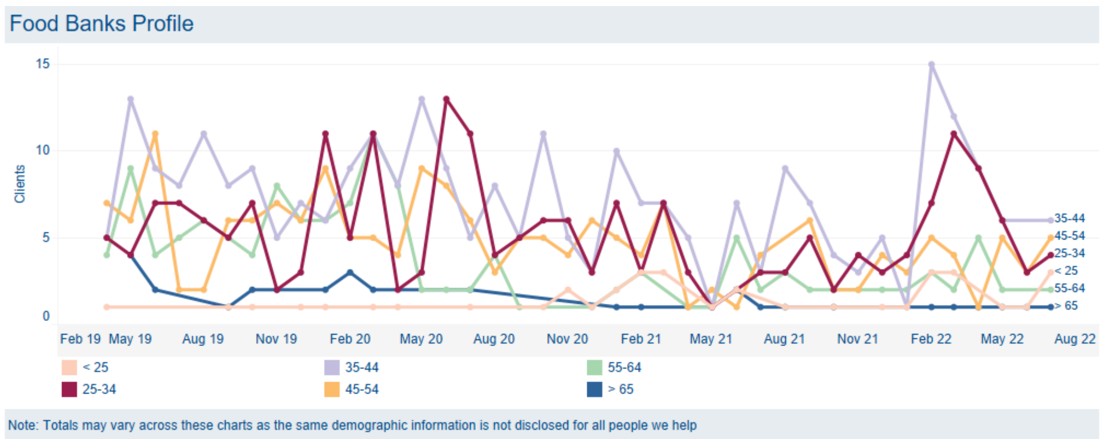


Figure 8 shows a longer term trend for queries about this support and how they often respond to seasonal factors. However, it is clear that there was a marked increase in the demand for foodbank vouchers following the announcement of the energy price cap increase in August 2021 and again following the announcement of the April 2022 increase. We expect it to continue to grow in the coming months.

The following charts show who is approaching us for help from foodbanks.

Age – most clients are in the 25 – 54 age brackets. Relatively few older people approach us for help from foodbanks.

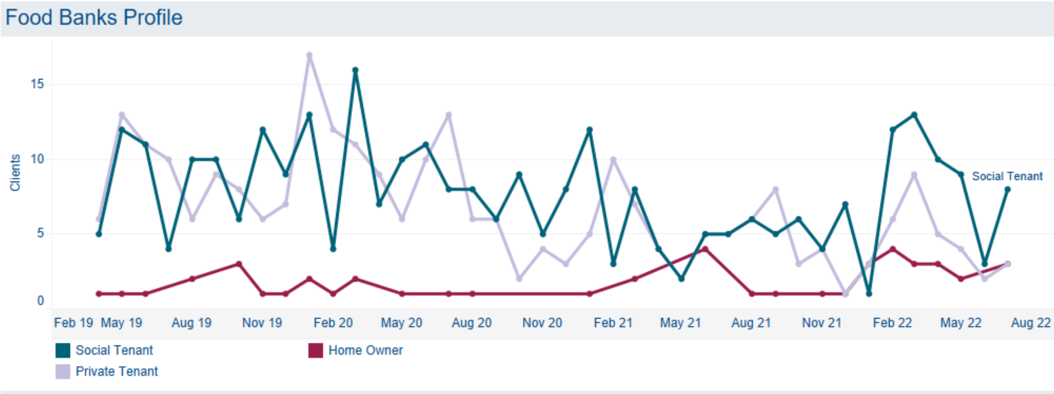
Figure 9



Housing Tenure – not surprisingly tenants feature prominently among the clients we have referred to the city's foodbanks. Since February there has been a notable increase in the number of social housing tenants, although there was a spike in private tenants in March 2022. Owner occupiers are relatively rare in this group but occasionally we do see them.

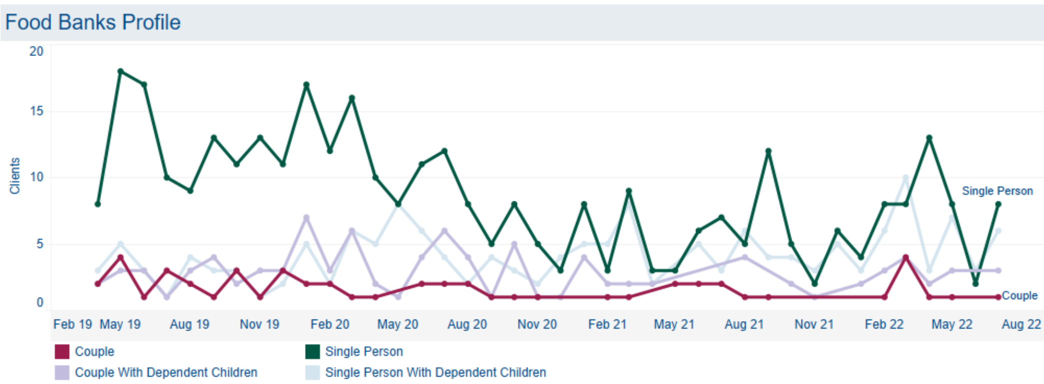
As interest rates rise and with them mortgage costs it is likely that we will see an increase in owner occupiers needing this type of support.

Figure 10



Household type – single people remain the most frequent group requesting foodbank referrals, usually because they receive the lowest levels of benefits. Single parents and couples with children also frequently need to use foodbanks.

Figure 11



Health and Disability – an adequate diet is essential to maintain good health. It is concerning that clients who report a disability or long term health condition

Figure 12

(usually one in three of our clients) are so prominent among the clients we refer to foodbanks.

7. So what can CASNS do to help?

Our approach has been three-pronged. We aim to:

- Maximise people's income;
- Minimise their unnecessary spending; and
- Optimise their energy use.

Maximising income – we have recognised that ensuring local people claim all the social security benefits and tax credits that they are entitled to is vital ad this has been a priority of ours for over 30 years.

In the current situation it is even more important both to ensure people can cope with rising costs and access the government support that is available. People receiving means-tested benefits are entitled to a £650 cost of living payment, paid in July and the autumn. We know that locally Pension Credit is hugely under-claimed and we will do what we can to encourage those entitled to claim it.

Personal Independence Payments and Attendance Allowance are less under-claimed but there are still disabled people missing out on these benefits and thus will miss out on the £150 Disability Cost of Living payment due in September.

Alongside this we work hard to ensure those who need it can access the emergency and crisis support available such as foodbank referrals, fuel vouchers and the household support fund, as well as other charitable support.

Minimising unnecessary spending – this is a staple part of debt advice and increasingly the money management support we provide. It involves agreeing a sensible monthly or weekly budget with clients, to ensure they can cover their essential expenses. This may involve looking at subscriptions and other spending that may not be essential and can be stopped.

It also involves looking at better deals on essential items, such as eligibility for social tariffs for broadband services and money saving around water and other similar costs.

Optimising energy use – before October 2021 a large part of this was helping clients find a better deal on their gas and electricity accounts. However, since then there has been no effective price competition in the domestic energy market and this area of work has evaporated.

Instead we have focused on energy saving measures, including referring clients to other services who can supply and fit physical improvements to properties, advising on simple changes clients can make to reduce their energy use, advising on the support clients can access through their energy supplier and on the schemes available such as the Warm Homes Discount and Priority Service Register.

8. Conclusions and Recommendations

As this report demonstrates the Cost of Living Crisis is a multi-faceted issue. While there has been much attention focused on energy bills, rising inflation increasing the cost of food and other essential items and rising rents add further pressure to household budgets already stretched to breaking point. Each issue would be serious enough on their own, but when they come together the impact is massive.

This is clearly an issue of major concern for local people many of whom are struggling to cope with the rising cost of energy. We have spoken to many clients who have already switched off their heating as they cannot afford to pay their bills and are extremely anxious about switching it on a again as the weather cools. And that was before the latest announcement from Ofgem.

Add to that the pre-existing circumstances of a poor city, with many sub-standard and thermally inefficient homes, inflation at levels not seen for fifty years and rising interest rates and it is hard to see how many people in the city will cope in the coming months without major improvements in the support available and major changes to the domestic energy market.

There is only so much we can do to help people: we can maximise their income, help them make their money go further and share advice and tips on improving their energy usage but if that sometimes feels like building sandcastles in the face of a tsunami then that is because the scale of the problem is so huge.

The current support provided by government is welcome but as it is based on estimates of cost increases made earlier in the year it has been overtaken by the speed at which the problem has grown. The piecemeal nature of this support with five different payments, two of which are universal and three targeted, one of which is made in two instalments and one in six, means it is no wonder many people are confused. But even the maximum available support of £1,650 will be dwarfed by the scale of the increase in fuel bills, for the few entitled to all the payments, with nothing left to pay the increasing costs of food and other essentials.

This is clearly a crisis as serious and, potentially, as deadly as COVID, that threatens the health and welfare of many people across North Staffordshire and beyond. The response therefore needs to be bold and proportionate.

The measures we are proposing will be expensive. Not implementing them will also be expensive, probably more so, with additional costs falling on the NHS, social care and other public services. The choice is therefore not whether or not additional money is spent, but how much, when and where.

Therefore we would recommend:

1. An immediate cost of living supplement of £40 per week paid to every household receiving Universal Credit or Pension Credit;
2. An increase equal to CPI in the Local Housing Allowance;
3. The introduction of a social tariff for vulnerable customers' domestic energy bills that is set on a sliding scale linked to means-tested benefits and focuses the cost on unit charges rather than the standing charge;
4. The continuation of locally distributed crisis funds as a safety net for those customers who risk losing their supplies despite the measures listed above;
5. Investment of funding in targeted benefit take up campaigns to help boost incomes, focusing on means-tested and disability benefits;
6. Increased investment in renewable energy;
7. Increased investment in improving the thermal efficiency of the local housing stock.