HOUSE OF COMMONS

Work and Pensions Committee

Oral evidence: The cost of living, HC 1058

Wednesday 9 March 2022

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Watch the meeting

Members present: Stephen Timms (Chair); Debbie Abrahams; Shaun Bailey; Siobhan Baillie; Steve McCabe; Nigel Mills; Selaine Saxby; Dr Ben Spencer; Chris Stephens; Sir Desmond Swayne.

Questions 107 - 162

Witnesses

I: Jack Monroe, writer and campaigner on food poverty; Morgan Vine, Head of Policy and Influencing, Independent Age; and Peter Smith, Director of Policy and Advocacy, National Energy Action.

II: James Heywood, Head of Welfare and Opportunity, Centre for Policy Studies; Julian Jessop, independent economist; Aveek Bhattacharya, Chief Economist, Social Market Foundation; and Mike Brewer, Deputy Chief Executive, Resolution Foundation.

Examination of witnesses

Witnesses: Jack Monroe, Morgan Vine and Peter Smith.

Q107 **Chair:** Welcome, everybody, to this meeting of the Work and Pensions Select Committee, where we are looking at the effects of the cost of living crisis. We are very pleased to welcome three witnesses to the evidence session this morning. Can each of you very briefly introduce yourself to the Committee?

Jack Monroe: I am Jack Monroe, a writer, author and anti-poverty campaigner.

Morgan Vine: I am Morgan Vine, the head of policy and influencing at the national older people's charity Independent Age.

Peter Smith: I am Peter Smith, the director of policy and advocacy at National Energy Action, a fuel poverty charity.

Q108 **Chair:** Thank you all very much indeed for joining us this morning. I will ask you the first question on behalf of the Committee. Who are you most concerned about at the moment, given current price increases? How do you see those people being affected by what is happening?

Jack Monroe: I have two groups that I am most concerned about at the moment. The first group is people who have disabilities. People who are disabled are five times more likely to be at risk of food insecurity than people without disabilities. That is a Catch-22 situation because food insecurity is linked to adverse effects later on in life, so it can exacerbate the likelihood of chronic illness, mental illness, depression—I have a whole list of about 40 different things here, but I won't read them all out.

Food insecurity at any age is then linked to a higher probability of chronic illness. You have a never-ending loop of difficulty and the group of people who have those problems gets larger and larger. There are millions of children living in poverty in Britain today. Their home situations and their families' financial situations are already untenable, and they have become increasingly untenable over the last decade. The impact of the cost of living crisis on those households will be fatal in some cases, and that is not a term that I use lightly.

Morgan Vine: I echo what Jack said about food insecurity. That is definitely something that we see with people in later life—we are talking about people 65 and over. We did some research recently that showed that in a nine-year period, 40% of all older people dropped below the poverty line for at least a year. The first thing I want to flag is that older people as a group are hugely at risk and anyone can drop below the poverty line for lots of different reasons. I don't want the Committee to think it is just one particular select group of older people. There are huge numbers of older people at risk.

We also are concerned specifically about some groups of older people. There are some groups of older people who are more likely to be in poverty. For example, older private renters are at risk; black older people are more likely to be in poverty; people in the oldest category, 85 and over, are more likely to be in poverty; single older people are more likely to be in poverty. We are really worried about those groups. We are also incredibly concerned about people in later life who don't receive their benefit entitlement. At the moment we know that there are 850,000 households that don't receive pension credits and they were struggling before inflation and before cost of living.

To give the Committee an example of some of the stories that we hear, we spoke to a gentleman in the Midlands recently who told us that he and his wife wear coats around the house because they can't afford to put the heating on. He now describes crisps as a luxury that he can no longer afford to buy. We know, to touch on Jack's point, that older people are making choices every day between whether to put the heating on or whether to boil the kettle or whether to skip a meal. These are tough choices that they are making all the time and we hear it through our helpline, so we are very concerned about them.

Peter Smith: As the Committee will no doubt be aware, in less than a month we will see about 22 million households across Great Britain have an increase of about 50% in their energy bills. We know that the biggest impact will be on the poorest households living in the least efficient homes. Overall, across the United Kingdom we estimate that about 6.5 million UK households will be left in fuel poverty at that point. The biggest concern that we have is for those households that have long-term health conditions, particularly respiratory issues and circulatory problems that can be badly exacerbated by living in a cold home. Even before the pandemic we estimated that about 80 people die per day during the winter months because they are unable to heat their homes. This is a very significant issue and, as Jack has rightly said, it can be the difference between life and death.

While the impacts on elderly people are well noted and well represented by excellent organisations, the impact on children living in a cold home is also incredibly acute. We know that the impacts can last over the life course, so if a child is exposed to cold homes as a child, they are likely to suffer breathing and asthma and respiratory problems that last a lifetime. I will pull out those two groups in particular.

Q109 **Chair:** You said you think that the number in fuel poverty will be 6.5 million after the increase. What do you think it is at the moment?

Peter Smith: It is about 4.5 million.

Chair: That is 4.5 million to 6.5 million.

Peter Smith: If energy bills go up by the level that energy analysts are suggesting—about £3,000—we estimate that about 8.5 million UK households will be left in fuel poverty, which will essentially have doubled the number of people in fuel poverty in a year.

Q110 **Chair:** Will that be in six months' time?

Peter Smith: That is right, in October, yes.

Q111 **Chris Stephens:** I will start with Jack. I am a huge fan of your work and your writing, as are many others. I know that you have argued that the current measure of inflation, the consumer prices index, does not adequately reflect the experience of people buying what we would determine as own brand and basic food items from their local supermarket. Why does that matter?

Jack Monroe: It matters because what the data does not show is the real experiences of the people who do not have the luxury of non-essential discretionary spending. The CPI measures is an average across a household basket of goods that includes, in fact, legs of lamb, bottles of champagne, bedroom furniture. Nobody was looking at the basic range of baked beans, the 13p spaghetti, the 29p pasta. When those things quietly disappear from the shelves there is no real recourse for it. There is no record that they were ever there in the first place and that then makes it difficult to identify that a £20 a week food shop a few years ago gets probably about two-thirds of what you could get for that £20 now. That is not people deciding not to go to theatre and not have legs of lamb and bottles of champagne; that is people deciding, "We won't eat on Tuesday and Thursday this week, or we'll turn the heating off, or we'll skip meals."

The Office for National Statistics has been very good. We had a meeting shortly after all of that stuff kicked off, and now it will measure, in its own words, not just the price of one kind of apple in the supermarket but the price of purchase of every kind of apple at every supermarket. That data is coming, but it is questionable as to why it has taken so long and such an outrage for people to notice that the inflation statistics don't accurately reflect the impact of the rising price of basic food on everyday people's everyday lives.

I know that Asda has reintroduced its value range to the supermarket and I welcomed that at the time. I didn't expect it and it is very good that it did, but that is almost a side issue because the onus on ensuring that people are able to feed themselves adequately and decently and nutritiously should not fall on the price point of pasta in a supermarket. People should not have to do those macro calculations walking around the supermarket. It should be something that is available to everybody regardless of their circumstances.

Q112 **Chris Stephens:** That brings me very nicely on to my next question, because you mentioned Asda. Are other supermarkets reintroducing their value ranges? Is that approach sustainable, given that value ranges have previously been reduced by supermarkets?

Jack Monroe: They tend to be loss leaders in a supermarket. They are quite often the same products as the mid-range brands but just with a different label on them. At a price point they tend to make a loss for supermarkets, but I have had conversations with most of the big four now, which have guaranteed that they will keep those value ranges in place for a significant period, although they could not say for how long. They recognise that by not doing so they are failing a core component part of their customer base, but I am not sure how long that will last for. I hope it will last for at least a year, because I would quite like a break at some point from holding them to account.

Q113 **Chris Stephens:** I am more than happy to join you in holding them to account. If we look at food poverty as an issue, you have the food bank, which is an emergency provision, and it is like a ladder, isn't it? The next step in the ladder—and we are seeing this increasing in Glasgow and elsewhere—is pantries, citizens' supermarkets and other food aid projects that I am involved in, and then you have the other supermarkets. The ONS and others will have to look at pantries and citizens' supermarkets and the effect that is having on the price of food, won't they?

Jack Monroe: I think there is definitely work to be done on a proper inquiry into the rise of food banks in Britain, the social supermarkets, the food pantries, the informal food aid—all of the charities and numerous organisations that have sprung up over the last decade and a bit to plug the gap in what used to be a pretty humane and decent welfare social safety net that is now being patched up and held together by ordinary citizens and volunteers. I don't know whose responsibility it is to conduct that inquiry, but I suspect they are probably in this House.

Q114 **Chris Stephens:** Yes, thank you, Jack. I will move on to the other panellists. The ONS is working to increase the number of items it measures to give a clearer picture of inflation's impact on different households. What difference would that make, Peter?

Peter Smith: It would be useful to break down energy consumers beyond the monolith. At the moment, energy is treated in quite a routine way, and all consumers are pretty identical. They don't break it down. They do a little bit of analysis breaking it down by income decile but they don't look at payment type or usage within those calculations. Both of those factors would make a huge difference to your exposure to higher energy costs. We would welcome a bit more granularity in their analysis.

Q115 **Chris Stephens:** Given the alarming rises in energy costs, Peter, how can the basket of measures and the weighting of importance be future-proofed to cope with sudden and extreme inflationary rises?

Peter Smith: Do you mean the analysis be future proofed?

Chris Stephens: Yes.

Peter Smith: It can do forecasts on the basis of the sort of variables that I mentioned. Looking at not only a retrospective on where it is now and break that down by income payment type and usage but also a forward look would be very useful indeed. In that way we might be able to get ahead of the curve in where energy prices are reaching and what mitigation needs to be put in place in a proactive way, as opposed to the back foot where we are now.

Q116 **Chris Stephens:** Thank you. Morgan, is there any danger that the ONS's new items to measure could end up being a mismeasure, further depressing occupational pension levels, for example? If so, what can be done to avoid that?

Morgan Vine: I am not a data analyst so I can't comment on whether the ONS might make mistakes or whether that data will be as accurate as it could be. I think that any more information we can get, particularly on older people—once they get past 65 sometimes they are seen as one big homogenous group—and the age breakdowns within older age and finding out how different groups of older people are affected would be very helpful. We know that food and energy are big things in older people's lives and these are the decisions they are making about which one they need to have. Anything the ONS can do to give us more information would be very helpful.

Q117 **Chris Stephens:** Morgan, in 2010 the Government changed benefits tax credits and public sector pensions indexation from RPI to CPI—the consumer prices index. How significant has the effect of that been on the income and buying power of pensioners?

Morgan Vine: Are we talking about the uprating? Yes. We know that uprating is having an impact. The state pension in this country is not good when you compare it to other countries, and we know that even people who receive the full state pension currently are struggling to afford life if they don't have other income avenues. We were concerned that the decision was made six months in advance, particularly this year when we saw how different the circumstances were six months before the increase came in. From what we can see, there will be a real-terms pensions cut in what they receive. Also changes to the uprating of things like that affect people this year but they will affect people every other year because the amount they receive is lower and that will only increase by a lower amount every year.

We are really concerned about older people and their income, particularly private renters, as I mentioned earlier, because they are relying on that money. The state pension does not account really if you have rent going out. We are very concerned and we want the triple lock to be reinstated, but we think that the state pension should be looked at.

Q118 **Nigel Mills:** The Minister for Welfare Delivery told us six months or so ago that he could not think of an objective way of deciding what an adequate level of benefits should be. Do you buy that or do you think that the Government could do a proper exercise and work out whether the level of benefits for key household sizes and makeups is sufficient to buy a basket of goods and energy and whatever else they need? It does not strike me as being an impossible task to do that.

Jack Monroe: It is certainly not impossible. All the Minister for Welfare would have to do is to consult a core group of constituents based across the UK and ask them. People who are most affected by the cuts to welfare and have been most affected by the cuts to welfare over the last 12 years have routinely had decisions made about them and on their behalf without any consultation or with minimal consultation. When consultations have happened, the results and the reports—and I have been part of a dozen of them myself—have not been to the Minister's liking, so they have simply been discarded.

The information on the price of an average rent, an average council tax bill, an average gas and electricity bill is all there; it is all publicly available. It is simply a matter of giving people the dignity and the advocacy to say, "This is what I need" and give it to them. No one is asking for the moon. People just want to be able to pay their rent and feed their kids.

Peter Smith: I believe the JRF has done some fantastic work on the minimum income standard and that follows quite a lot of academic work on how you most accurately match need to outgoings across all the essential spending areas. I think that strong evidence exists about how you could more accurately capture outgoings and look at the level of benefits to track it accurately. I commend people to look at that research and I think that colleagues in the session after us might be able to talk in more eloquent ways about this.

Q119 **Nigel Mills:** It does matter, doesn't it, because there is not much point inflating benefits based on the increase in the price of goods if you can't afford the basket of goods in the first place? The gap just gets bigger. On that kind of inflating theme, we are about to see welfare levels go up next month by about 3%. Will that help or will things get worse next month because bills are going up by more than that anyway?

Jack Monroe: Everything helps, but the Trussell Trust, Child Poverty Action Group, Christians Against Poverty and the Joseph Rowntree Foundation have issued a joint call for benefits to be uprated by a minimum of 6% next month, not 3.1%. Even that 6% will not adequately cover the difference in the cost of living and plugging the gap for what people have not had for so long, but it is a start. Every increase will be helpful statistically to a degree but it is not as helpful as it could be.

Peter Smith: I believe that there is a gap in provision for those households that are on legacy benefits and also those households that are not able to work and they will not see any significant increase in their entitlements. On the whole it is positive that benefits will be going up but not for everybody.

Morgan Vine: You don't have to be a mathematician to look at the fact that the uprating will be about 3%, but it is looking like inflation will be about 7%, so there is a huge gap for people. If you are in your 80s or 90s the chances of your income changing is low. If you were lucky enough to potentially get a new job—and I know that is also not the case for some working-age disabled adults—that is not happening if you are in your 80s and 90s. They are making decisions about how to cut back because they are looking at these numbers, "I might be getting X amount back but that will not plug the gap and I am cold and I don't have enough food." There are definitely problems on the horizon.

Jack Monroe: To add to that, there are currently 4.1 million households in the UK living in poverty, so for a benefit increase to not even cover the cost of inflation for people who are already living in poverty in Britain today will make that gap even worse and make that number even larger.

Q120 **Nigel Mills:** Do any of you have any views on how we could systemise a different way of inflationary increase? The IFS suggested we should look at a near-term forecast. I think that many of us thought that if we used the December inflation number rather than the September number, we would have got more like 6% rather than 3%. Is there a better option that is easy for the Government to use that they could adopt rather than plucking something out of the air every year on a complete judgment that I suspect will create a different mess at some point in the future?

Morgan Vine: I think this has been an exceptional year, is the first thing. We appreciate that when looking at how the systems work we need to bear in mind future years and past years. We agree that it makes sense if the number is closer to when you make the rise happen because you will get a more accurate number, but there are also things that can be done with more targeted support so that if you are in this situation you are targeting the people who are in poverty. Jack mentioned the large number. We know that there are over 2 million older people living in poverty at the moment and that number is on the rise. I think that any targeted support you can give children, families, older people who are already living in poverty or hovering above would also be welcome.

Jack Monroe: Nearly half of the people who have been referred to Trussell Trust food banks over recent years are there because they are in debt to the DWP or have had their benefits cut, delayed or changed in some way. I argue that possibly the most effective thing that could happen is to strip out the inbuilt five-week delay for first universal credit payments, because that five-week delay forces a claimant to take an advance payment that is then removed from their benefits over a matter of weeks but not at a rate that is set with them.

If you are in debt to a private company, a private bailiff company will get in touch with you. They do big long forms—I have done lots of them myself—all about your income and your expenditure and they work out what you can give them. If you say, "I can give you 20p a week" they go, "Okay then, it is going to take you eight years to pay that off but here is your 20p a week." I heard yesterday from a woman who was paying back £5 a week in a council tax debt. The council had taken the debt back from the private bailiff because it was not being paid back fast enough for their liking and have taken £57 a week out of her benefits, which means that she has something like £112 a week now to live on and that is £112 a week for rent, clothes, heating, food and two children.

By the Government not pushing people into unwanted debt in the first place, simply by closing that gap with the universal credit delay, will lift half of the people who are currently in poverty in the UK out of that overnight. That is a button push.

Peter Smith: We totally support that as well.

Q121 **Nigel Mills:** On the state pension, last year, when we were talking about suspending the triple lock, we were all thinking that we can't really justify an 8% rise in the state pension when inflation is 3% and wages are not going up by that because of the pandemic quirk. It turns out that the world has caught up with us, hasn't it, in that situation? Morgan, did you think the Government were right to do that or has it turned out to be wrong to restrict the state pension increase this year?

Morgan Vine: We think that it was wrong because the state pension is not at a good enough rate already, so by removing the triple lock this year you are uprating it at a lower level. As I said earlier, that will affect everyone who is claiming a state pension for years to come because the percentages, even if the triple lock is reintroduced, which we definitely want it to be, will only increase—this year will mean that people will not get as much money as they would have done before. It was a missed opportunity to keep that protection for older people who are struggling. As I said, there are a lot more older people now living in poverty, relying on the state pension to pay rent and things like that, which people do not always assume. We think it was a missed opportunity to keep the triple lock.

Q122 **Nigel Mills:** The official data on the amount that households spend on food and non-alcoholic drinks suggest that even for the bottom 20% of household income, that percentage fell from 16.8% of their household income in 2008 down to 14.7% by—I think the last number is 2019-20. That is quite a different experience from the one you are setting out to us. Is that data wrong or is it just if you get further down below the bottom 20% the number is completely different? You would look at that and think the affordability of food got better over the last decade, whereas I think your evidence suggests that is not the case.

Jack Monroe: No, it is not that affordability of food has got better; it is that the expense of everything else has got worse. Food is one of the most fundamental human necessities for survival. It is the last thing that any household chooses to cut in its budget, but rents, gas, electricity, council tax have gone up and the general cost of living has gone up to a point where people have less to spend on food in their household expenditure. In my experience, and from 10 years of working at the coalface of anti-poverty work, I can tell you that people are eating less and skipping meals and having less or eating cheaper food, less nutritious food, bulking out on the 45p white rice and the 29p pasta in lieu of being able to have things like fresh fruit and vegetables and nutritionally balanced meals. It is not that food has got cheaper, because it certainly has not. It is that everything else has got more expensive so there is less in the household budget for food.

Morgan Vine: To add to that, we did some polling just before Christmas, so before inflation really took off, and we asked people if they needed to cut back what would they cut back on, and 24% said heating but 10% said food and drink. We have also heard stories of people not buying fresh fruit because they are worried it will go off so they are eating really unhealthy microwave meals, for example, relying on food that is not good for them. That is exacerbating long-term conditions that they live with. There is a massive impact across somebody's whole life if they are not able to buy the right food or if they are skipping meals.

Q123 **Sir Desmond Swayne:** We are told that there is no saving to be had to the public purse by the underclaiming of pension credit because those costs present in other budgets, particularly health. Does anyone have any idea as to how that calculation is made and how robust it is?

Morgan Vine: Yes, I can answer that. We commissioned the research that I think you are talking about. We worked with a renowned academic at Loughborough University, who does work for JRF and others. They did a calculation looking at if you took the money that is currently there for eligible non-recipients of pension credit and you gave it to all of the people who don't receive it—the newest statistics show that is about 850,000 households, so obviously it is more individuals because some of those households will be couples—you would save the NHS and the social care systems £4 billion. The amount unclaimed at the moment in the most recent statistics for 2019-2020 was £1.7 billion. When we did the calculation with the academic—and I can share it with the Committee if that is helpful—it was looking at a year previous to that and the unspent amount was about £2 billion, so it was slightly more.

The calculation clearly shows that you would save about £4 billion to the economy. As well as it being an individual benefit to make sure people get the money they are entitled to, to protect their own mental health and physical health, it would have a benefit to the economy.

Jack Monroe: Can I come back in with the other end of life? I don't have a copy of the report with me but I can certainly send it on to the Committee. There was an extensive report done that said that for every pound that is invested in children's health, early years education, fresh fruit, milk, Sure Start children's centres and things like, you save something like £220 later down the line in things like social care, justice, NHS. It is not just at the older end of life but as a first instance that is a pretty good return on your investment. It is an economic argument. If I can't win you over with the emotional argument as to why feeding kids is important, there is a very good financial one for it.

Q124 **Sir Desmond Swayne:** We are told that overwhelmingly the underclaiming of pension credit is due to ignorance of it. Am I alone in my experience where pensioners who are in straitened circumstances come to me and I have said, first of all, "Are you getting pension credit?" The reaction is that they view the pension that they receive not as a contributory benefit but as something that they have earned in the same way as they would view a money purchase private pension. When you come to pension credit there is a resistance because this is charity. I wonder to what extent that is general and it is not just a question of ignorance, it is a question of a resistance to taking something that they feel is beneath them.

Morgan Vine: From the people we hear from there is a bit of both. We know that lots of older people have no idea pension credit exists. Even if they are not getting the full state pension and could be entitled to pension credit, they don't know about it. If they do find out about it, some people have told us they have made an assumption that pension credit is like a credit card and money they have to pay back, so they don't go there. We have also heard of people thinking they might have too much in savings, that if they own a property they would not qualify. All of these things are myths that are not true, so we are trying to bust them.

But there definitely is an element around stigma. To give an example, I was in Chris's constituency and I spoke to an older constituent who told me that she wears a hat to bed, she often skips meals and when I said, "Why don't you call us? We can give you information about pension credit," she said, "There must be people worse off me. I wouldn't want to take the money away from somebody else." There is stigma around that, always thinking that there are other people in a worse situation and there is stigma for some people around claiming a benefit. Many of these people have worked hard all their lives. The reason they have not qualified for the full state pension is they might have had a low-paid job the entire time or they have taken time out to care for family or friends.

These are people who don't want to necessarily feel that they are claiming a benefit, and that is why Independent Age has been asking about system change: can we just get this money to people, because they are making tough choices? They are not living great lives at the moment and we want to make sure that they do. We don't want any barriers to be in place to stop that from happening.

Q125 **Sir Desmond Swayne:** What response have you had from the Department in your demand for a strategy to increase the uptake of pension credit?

Morgan Vine: The Department has made some positive steps forward. It has done a communications review, which has involved looking across the Government website about where it can signpost pension credit. It has also included it in some uprating letters to 11 million state pension recipients and it has done a few small awareness-raising initiatives. Our problem is that there does not appear to be a written strategy. There are no targets. We don't know who is missing out on pension credit and where they live. We know that about £1.7 billion goes unclaimed—that was in the last year that we have statistics for. We know that that is about 850,000 households. We know that these people are in a dreadful situation, but there is no written strategy.

To give the Committee some context, there were statistics released at the end of February that looked like pension credit uptake increased by 3%, from 63% to 66%. We would not personally celebrate a 3% rise, because that is still over 30% of older people entitled to this money not receiving it, but I thought it was important to mention that from the analysis we have done we think the reason for the 3% rise is that eligible claimants in the mixed couples group who are no longer eligible have just been taken out of the pool. The uptake of single households is almost the same as it was before. From what we can see, there has been no change but as far as we know there is no written strategy, there is no plans for new resource. There is no targeted awareness campaigns. There are some local councils doing some great stuff. We are doing a project to talk to local councils about what they are doing to try to find out if there are learnings from it, but the DWP is not initiating that.

There is definitely more that could be done to get this money. As I said, this is costing the individuals highly, but it is costing the state as well to not get these people their money.

Peter Smith: I agree absolutely with the points about pension credit, but want to broaden it out to talk about the massive need for an income maximisation push generally on all entitlements. Pension credit alongside other benefits is a passport to other forms of assistance, particularly in my world the Warm Home Discount Scheme, which provides an automatic rebate for some of the poorest pensioners. If you are eligible for legacy benefits you would be entitled to discretionary support by your energy supplier. There is an absolute need for a big push on this. We provide income maximisation services and see the huge return that we make on even a couple of hours-worth of calls and form filling, returns of £2,000, £3,000 back to people through a range of benefits. It could be massive and a major way of coping with this cost of living crisis.

Q126 **Selaine Saxby:** Good morning. Thanks for coming. I think that we have touched on part of what I am going to speak about, but it is to do with housing costs. Historically, when we look at benefits keeping up with costs, housing is an element that has increased in some parts of the country very dramatically. Moving forward and looking back, if you think it is relevant, how is the change in the cost of living affecting those housing costs for renters and home owners?

Peter Smith: I will touch on something that is slightly related to housing costs. The calculations that we make on fuel poverty levels are now after housing costs, so the picture that we have about fuel poverty is after housing costs but we did know before that change was made that costs were rising for households, particularly on the housing and rent side. We have seen massive inflation in rents since the semi-return back after the pandemic, particularly in inner cities. We know that is putting a pressure on other essential items in the household budget. The particular point I wanted to come in on housing costs relates to housing quality and there is a trade-off between pushing landlords hard on trying to make sure that those properties are habitable for rent and also keeping the rent down for people. I welcome talking about that a little bit further but it is probably not the exact object of your question.

Morgan Vine: As I said earlier, we are concerned about older people who are privately renting who are really struggling. I spoke to a gentleman a few months ago who told me that he was in his late 60s and he did quite a manual job. He was struggling to continue but he was going to work as long as possible, but when he retired he was going to move into his van with his wife because he couldn’t afford the rent. We know that that is having a serious impact.

On the things that we think could support private renters, the first thing is getting them their pension credit if they are entitled to it, because that will help and pension credit includes a range of other passported benefits. I am sure that the Committee is aware that that can total up to about £7,000 a year. Even if you only get 20p a week in pension credit, you can get all these other benefits that can support, including housing benefit.

We also think that there is an opportunity with the Renters' Reform Bill to make sure that section 21 is got rid of so that people who are renting have more protection. We also support recommendations that were made by the Good Home Inquiry, which was set up by the Centre for Ageing Better. That includes a national strategy to improve the existing housing stock that we have in this country and make sure that it is as energy efficient as possible, and make sure that those sorts of schemes are funded in a better way.

Jack Monroe: I have done some work with an organisation called Generation Rent. I spoke to them yesterday and they said that they are concerned that landlords are currently trying to raise rents at a time when all the other bills are skyrocketing. In theory a rental tenant can negotiate with their landlord to halt or negotiate a rent rise or they can take it to a property tribunal, but in reality this almost never happens. Morgan mentioned section 21 notices. I have rented 22 properties in my short lifetime and in several of those I was served no-fault eviction notices—section 21 notices—by my landlord, for no reason other than that they didn't want a tenant on benefits, which one of them was quite open about. There were various reasons but I have been a pretty model tenant. I did nothing wrong but found myself having to pack up all my stuff and a child and find somewhere else to live.

The other thing that I would like to draw to your attention is that there is a two-tier discrimination bar in private rentals as to what is available to people who receive housing benefit and what is available to people who have that little bit more. It has been made illegal for landlords to discriminate against people who claim any form of benefit, so what they do instead is put the properties that are mouldy, damp, uninsulated, single glazed and pretty unfit for human habitation at the rate that housing benefit is set at for that area. If you have a nice flat and you think, "I don't want benefit claimants living my flat or my house" you simply add £100 to the bill. I have lived in both kinds of properties. I have been in many different financial situations in my lifetime, and when I was a single mum claiming benefits the only properties that were available—I wouldn't keep a dog in them. Now that I have sold a few books and have a moderate income, the whole world is my oyster.

It is wrong to say to people, "You don't deserve safe, decent, clean, habitable housing simply because of your circumstances." It is part of the renters' reform. I think landlords need to be held to account for the conditions of their properties and we should have a granular look at those two different price points and what is available to tenants in two completely different situations, because they are two completely different sets of housing.

Peter Smith: Colleagues will know this, but I think the levelling-up White Paper committed to an end of section 21 notices, so there has been a commitment but I don't think any clear timeframe for making that a reality. That is one to keep an eye on but a positive step none the less.

Q127 **Selaine Saxby:** Thank you. We have already covered some of those but is there anything else that you feel the Government could be doing to support the most vulnerable and low-income tenants with housing costs? Morgan, while I have the opportunity to ask you, you have mentioned on pension credit that you would not actually call it by that name. Do you have any thoughts on what you should call it instead?

Morgan Vine: We don't yet have research on what we could call it instead but when we speak to older people and explain what it is they use language like "top-up" or things like that. We have to be careful with language in general, because when you start using the term "benefit", particularly with the people that we support, sometimes they are immediately turned off from wanting to find out more information. We don't have an answer to exactly what we would want to call it, but we definitely think that research should be done into it, whether that is done directly by Government and charities can obviously support. We have connections with lots of older people in that situation, but I think the name does need to be looked at because it seems to be a real barrier.

Q128 **Selaine Saxby:** Is there anything else anyone would like to add on what the Government should be doing?

Jack Monroe: There used to be a top-up benefit called discretionary housing payment that was available to people who claimed the housing benefit but their rent exceeded their housing benefit costs. You could write to your local council and it was not advertised in any way. The DWP is very good at keeping its money to itself, but if you knew about it, found out about it, if you had a sympathetic local councillor who told you about it, for example, you could get that difference in your rent paid by a discretionary housing payment. It was discretionary and done case by case, but that was taken away about eight years ago and that has very sharply tabled with the rise in food bank use and the rise of poverty in the UK. That little extra top-up between being able to pay your rent and not able to pay your rent—landlords are not generally sympathetic people who go, "Okay, well, never mind, we'll dock your rent because your housing benefit has been docked and we will put it down. We understand you are having difficulties at the moment." They want their rent and they demand it. When that extra top-up payment was taken away, overnight that plunged millions of people into difficulty. If there is any way that could come back, that would be delightful.

Chair: Discretionary housing payments are still available.

Jack Monroe: They are, but there is not the budget—they are nowhere near as available as they were. It used to be that basically if you asked for it you would get it, and now it is a very—

Chair: Constrained, yes.

Morgan Vine: To add to what the Government can do, we think there are lots of opportunities to explore data sharing between Government Departments and how that can be better. At the moment you can claim one benefit that would entitle you to another benefit but the systems don't speak to each other. We think that there is lots that could be explored with DWP and HMRC, local council databases. With the pension dashboard coming in, that could give more information as well. Then if you claim pension benefit you would automatically qualify for other things or, vice versa, if you get housing benefit or council tax reduction, that could come back to DWP. We think there is lots that could be explored in a systems approach to it.

Q129 **Siobhan Baillie:** Jack, I think you made a good point about it being illegal to discriminate against benefit claimants staying in a property. Nobody can legislate for that and it is very difficult to come up with an alternative. We know that people will not be able to afford to litigate and take things to tribunal. Is there any good practice that you have seen or heard about where you can highlight or somebody has highlighted or challenged to show the discrimination without taking it to the litigation route? Is there anything you have seen that is working under this umbrella of not being allowed to discriminate?

Jack Monroe: I can't think of anything off the top of my head but I will go away and look it up and get back to you, if that is all right.

Q130 **Siobhan Baillie:** I wondered, if it was something you experienced as a claimant, whether there could be a report into a council and there could be some sort of monitoring of this, because it is a very difficult issue, isn't it?

Jack Monroe: I think the best way to legislate for it would be to raise the standard of rental accommodation across the board so that, regardless of budget or personal circumstances, everybody has a safe, decent, warm, habitable home to live in. Currently landlords get away with not providing those things and the people who live in those situations, live in that shoddy accommodation are generally exhausted and ill and don't have the emotional, mental and physical resources to challenge it. You get to a point where you go, "This is my lot, this is what I deserve, this is what I have got." Having been there, I can come across as a bit of a battle-axe these days but I have spent a good year and a half sitting in my house thinking, "This is all I deserve, this is all I have, this is me, this is my life now, I am not challenging it." I will try to find something that we can use as a best practice example.

Chair: We would be very interested, thank you.

Q131 **Steve McCabe:** Good morning. I want to focus on energy costs. The Chancellor announced a series of measures on 3 February, which he says are worth £9 billion and will help 28 million households. It is things like the upfront discount, which I think most of us have called a loan, the council tax rebate and new discretionary fund for local authorities. Why isn't that helping low-paid people, or what is wrong with that series of measures?

Peter Smith: The figures I gave earlier about the 6.5 million UK households that will be in fuel poverty does not take account of those interventions. The principal reason is that we do not think they can be relied upon to directly reduce cost to the people who need it the most.

If you look at the first intervention in April, which was the council tax rebate, it is pretty straightforward. If you are a direct debit council tax payer, you should get that back pretty easily. If you are a cash payer there are question marks about the accessibility of that variance across local authorities. If you are already in relief of council tax or exempt entirely you fail to benefit from that initiative but you are still struggling with the costs of essentials, including energy itself.

Then you look some months forward, albeit after massive increases in energy bills, to October and the second intervention, which is this "heat now, pay later" rebate. It has to be paid back so we have not figured in those costs or reduced the numbers of fuel-poor households to take account of that because the money will need to be paid back. It is not just the fact that money needs to be paid back but it will be paid back in an exceptionally regressive manner, we understand.

I failed to mention earlier one of the hardest hit groups in the energy cost increases will be prepayment meter customers. We know from 1 April that the increase will be about £3 billion for prepayment customers and the way that the "heat now, pay later" rebate will be paid back is to take £40 off people each year for five years through a higher standing charge. Those standing charges have been increasing year on year anyway, regardless of the energy crisis. We think that to try to use that mechanism as a way of clawing back the costs of this seemingly ambitious set of interventions will be disastrous for prepayment meter customers in particular. It could drive up significantly instances of self-disconnection, which is where households do not get disconnected by their energy supplier but just stop buying credit because they are unable to afford it.

For those reasons we have not discounted our figures for those interventions. If you were to be very generous and factor in both of those, it would reduce that 6.5 million by 1 million households. There are still 1 million households in fuel poverty and £350 is not as much as the £700 increase, let alone what it might get to by the end of this year.

Morgan Vine: I completely agree with all of Peter's points and we have also been very concerned about older people living in poverty who do not currently have to pay council tax because they are exempt. We do not know how they will get this money but often they will be the types of people living with long-term conditions at home, with mobility issues. We are very concerned about it.

The other thing that we thought was useful to flag is that there are ways that this money could have been targeted in a different way. It did not have to be council tax as a mechanism but because things like pension credit do not have good take-up you cannot use it as a mechanism to get the money to the people in most need because 40% of the people entitled to it do not receive it. Again, if pension credit and other benefits like that had better uptake, they could be used as a vehicle to target these interventions.

Jack Monroe: In 2015, I helped set up an organisation called the Fuel Bank Foundation to help people with rising energy costs. It was part of a Empower initiative but now it is a standalone charity. To date they have helped 500,000 people by giving them a fuel voucher to pay for their energy, all of whom are on prepayment meters for their energy. Of those 500,000 people, half still face self-disconnection at least weekly as a result of rising energy costs and the rising cost of living. The plan that the Chancellor has laid out to help those 28 million households—the loan that is not a loan—does not take any of those households or circumstances into account.

Q132 **Steve McCabe:** Morgan, Sir Steve Webb, the former Pensions Minister, said that older people will be more affected because energy costs form a larger part of their budgets. Is he right?

Morgan Vine: Yes, the older people we speak to are often making choices about what to cut back on, rather than knowing they can get more money. Energy is something that they would often pay. I was in a meeting with people from the energy sector and even they were flagging that often they would not get a flag that an older person had missed paying their bill, for example, as a way that they could then reach out to help them. Older people will make cutbacks in every other area of their life to make sure they do not miss paying that bill.

It is definitely something that we are very concerned about. As I said, the stories that we hear are people often not putting the heating on because they are so worried about it. I heard from a woman called Yvonne a couple of weeks ago who told us that she sits and watches her smart meter and the minute it reaches a certain amount she turns everything off, all the heating, regardless of the state she is in or how cold she is feeling. She just puts on coats, puts on hats inside. It is having a huge impact obviously on people of all ages but for older people, particularly during the pandemic, mobility has been a big issue. We have spoken to people who have gone from being mobile, going for regular walks, who have become housebound and have not been able to go out because of the virus. We know that they are really concerned about energy prices.

Q133 **Steve McCabe:** Peter mentioned people on prepayment meters and I think, Jack, you said earlier about the difficulties that people with disabilities suffer. Are they also affected by energy costs?

Jack Monroe: Yes, definitely. There is a lot of data out there—and again I can find reports and research and send it on to the Committee—that shows that living in cold homes exacerbates a number of physical and mental illnesses. I have arthritis and it is affected by the cold. If my house is cold I am bedbound. I am 33 years old and I end up hunched in a little scrunched-up ball in agony in my bed because the cold gets into my joints and cannot get out again. I am by no means exceptional.

It is people who have a range of disabilities and respiratory problems, but also mental health can be severely affected by being cold and being hungry. It is a ticking timebomb. People do not have to experience these situations for very long at all to end up with things like complex post-traumatic stress disorder or suicidal ideation. It goes back to my original point about how for every pound that we invest in feeding people and keeping them warm, you generate £220 later down the line in what you save on having to pick up the pieces of their broken lives.

Q134 **Steve McCabe:** Finally, if the Government do not quite have it right on helping people in these groups, what should they do? What is missing?

Peter Smith: I think the first priority is to fix the "heat now, pay later" rebate. Reflecting on the concerns that I have raised around PPM customers in particular, the Government should take the view that that should form a grant and not need to be paid back for those customers, perhaps a broader set of vulnerable customers.

Then you are into what more they can do beyond what they have announced. There we would look to be expanding existing schemes as opposed to trying to create a perfect new scheme from scratch. We would like to see entitlements such as the winter fuel payment extended to other low-income, working-age households. There are about 2.4 million working-age households that could benefit with the higher rate of the winter fuel payment of £300, and they could do that in advance of this coming winter.

Similarly, other schemes such as the warm home discount scheme could be extended and expanded. That was much mooted by the Government and special advisers prior to that intervention but there has been no further news on that scheme, despite various regulations taking effect by April. They could, while it is still sat with the Government, expand and extend that scheme to go further and could do that at no expense to other energy consumers.

Slightly longer term, going into next winter, we think it is essential to look at the impact of soaring energy debt. There is welcome good practice in the water sector, for example, whereby you can enter into a shared repayment plan with your water supplier. They put in £1 and you put in £1 and you clear that debt twice as quick. There is no good practice like that in the energy sector. We would love to see Government work with the suppliers to help stimulate that type of model.

The final thing—and I reflected on it earlier—is that prepayment customers, in particular, are worst hit. The regulator Ofgem took a decision about two or three years ago to roll the deeper protection that was in place for prepayment customers into the wider protection that customers that have never switched now benefit from as well. We think that was the wrong decision and they need to revisit the case for a much deeper price protection for the poorest and most vulnerable households.

Morgan Vine: I agree with everything that Peter said and have a couple of extra things to add. We have been looking at what the Scottish Parliament has been doing on social security and benefit take-up, and we wonder whether there could be something like a statutory obligation on the DWP to increase take-up. That exists in Scotland and the Government have to report on what they are doing on it.

As I have said, we would also like a written action plan on how DWP will increase pension credit take-up and new research that it will be able to commission, which at the moment we have not seen.

Jack Monroe: I will come in very briefly. We have talked about prepayment meters but I also want to raise people who rely on heating oil and buying it in bulk. It sounds like a quaint thing to do but 6 million people in the UK rely on buying bulk heating because they are not connected to the mains. They are usually renters, people living in poor financial circumstances so they can't just go and connect themselves to the mains. The price of that heating oil has doubled and is set to skyrocket over the next few months as well. I have heard from quite literally hundreds of people over the last few weeks who cannot afford now to go and buy bulk oil to put into their systems to heat their homes. I think that ought to be looked at and taken into consideration as well.

Peter Smith: We very much support that, particularly for households in Northern Ireland that have seen a 30% increase in the cost of heating oil since the situation in Ukraine. We massively support that.

Q135 **Debbie Abrahams:** I think that Steve has covered it. I wanted to get an understanding of who you think will be worst affected? We have not talked about disabled people but I think Jack has probably covered it. Peter has just touched on the war in Ukraine and how that will have an impact not just on energy and inflation more generally, but with commodities such as wheat and corn that will have an impact on food prices. We designed this inquiry prior the invasion. What do you think the added significance of this war will be on the cost of living crisis and who will be most affected?

Peter Smith: Analysts are already predicting a £3,000 energy bill by the end of this year. If that was to come into fruition it would mean that the cost of domestic energy per year is doubled in the space of a year. That is a massively profound change and wholly at a scale that I have never seen. I am genuinely concerned that the significance of that has not been picked up by the UK Government as yet. The comments earlier about what more the Chancellor could do we hope are being actively considered in advance of 23 March.

To look a little bit broader, the CBER today has published statistics looking at its analysis of where it thinks inflation might reach by the end of the year. It says it could be 8.7% by later this year and thinks that disposable income will take a hit not seen since records began in the 1950s, with households not having £2,500 in their pockets that they would have had prior to this crisis or prior to the start of the year. They attribute half of that to the Ukrainian crisis. I hope that gives an indication. It is not a pretty picture.

Jack Monroe: Currently the UK imports 13% of our gas from Russia. Ukraine is the largest exporter of wholegrains and grains. Russia is the second largest exporter of wheat products. Between them, they make up 80% of the exports of sunflower oil. We are talking about bread, rice, pasta, all the grains in the supermarket, and the oil you need to cook them. All those things will skyrocket in price as a direct result of the current situation between Russia and Ukraine. The people who are currently scrabbling around at the edges trying to survive do not have the capacity to absorb those price increases. There is nowhere for them to go. People who already struggle will be really struggling for the most basic household essentials, the absolute bare bones of what you need to run a household.

Morgan Vine: I agree completely with what the other witnesses have said. Some work we did in January looked specifically at income dynamics past state pension age. We were trying to understand if certain groups of older people were not in poverty in working age and moved into poverty, of which there are a lot. We also wanted to see whether older people entered later life financially secure and then dropped into poverty.

I am particularly worried about those groups as well because now the energy and food costs will hit them hard. To be specific—and I can share this research with the Committee—single people are more at risk. We found that Asian older people were more likely to drop below the poverty line past state pension age and, again, private renters and social renters. Those at-risk groups need to have targeted support because the food and energy costs will hit them.

Q136 **Chair:** Thank you very much indeed. Jack, can I put a final question to you? From your discussions with the supermarkets, why have they been withdrawing their basic ranges? What is going on in the market that has led them to do that?

Jack Monroe: They have been doing it stealthily over the last decade and they will not be particularly open about the reasons why, but it is just because they can. Those products do not make a huge amount of profit for them and the people who rely on those products generally do not have recourse to shop elsewhere—people who use public transport and do not drive, people who literally walk to their local supermarket and buy whatever is on the shelves. If you have a decent income and a car, you can shop around and get the best deals. You can pop to a couple of different shops. But if you are disabled, have limited mobility, have young children or you do not drive or you live in precarious circumstances, you are limited in what you can walk to.

It is just because they thought they could get away with it. They did for a long time. They probably did not think anybody would notice and the people who did notice were not the people who tended to be listened to. I am grateful that they have listened but exasperated that it took a late-night rant on Twitter for anybody to pay any attention.

Chair: Thank you for the late-night rant. Thank you all very much indeed. That is unfortunately all we have time for with our first panel. We are grateful to all of you for the extremely helpful answers you have given to us and the information that we will certainly draw on as we make some recommendations in future. A couple of you have mentioned additional information that you will send to us and we are keen to receive that. Thank you very much indeed.

Examination of witnesses

Witnesses: James Heywood, Julian Jessop, Aveek Bhattacharya and Mike Brewer.

Q137 **Chair:** Thank you very much indeed for joining us. I had not realised that all of you were in the Public Gallery for the first session. Thank you for listening in to that. Can I ask each of, first of all, in one sentence, to tell us who you are?

Julian Jessop: Good morning. I am Julian Jessop, an independent economist. I am also a fellow at the free market Institute of Economic Affairs.

James Heywood: I am James Heywood, the head of welfare and opportunity at the Centre for Policy Studies.

Mike Brewer: Hello. I am Mike Brewer, chief economist at the Resolution Foundation.

Aveek Bhattacharya: I am Aveek Bhattacharya, chief economist at the Social Market Foundation.

Q138 **Chair:** What will be the impact of the cost of living increases over the next few months, particularly on the least well-off? To what extent could measures be taken to mitigate those difficulties in the short term?

Julian Jessop: Good morning. I think it is no surprise that you will hear me say that the impact will be severe. This is obvious if you not only look at the headline numbers, but of course listen to the experiences of people on the frontline, such as Jack Monroe.

Interestingly, if you look simply at headline inflation numbers, they are not hugely different for most different types of group, including income groups. There seems to be a process of swings and roundabouts. The ONS publishes an enormous amount of data, breaking down inflation for different types of group. The rates are surprisingly similar, but it is dangerous to lean too much on that evidence for a number of reasons. One is that those inflation numbers may not be entirely accurate because they do not pick up the sorts of problems that Jack Munroe has identified around shrinkflation and the disappearance of value ranges.

Secondly, a lot of that data is now effectively out of date because we know that the big shock that is coming is this huge rise in domestic fuel Bills, which we know will disproportionately affect poorer people. The third point is that even for people facing the same inflation rates, or even if inflation rates were the same for all different income groups, poorer people are still more vulnerable in lots of different ways. In particular, of course, they spend more of their money on essential goods that are non-discretionary. They cannot afford to hold off spending until goods are more affordable; they have to continue to spend.

Secondly, they are extremely unlikely to have savings to tide them through a temporary squeeze on their real incomes. A significant number of people during the pandemic did build up savings and the aggregate numbers look quite healthy, but this is a good example of where averages mislead. Poorer people are far more likely to have gone into increased debt during the pandemic. Even if the headline inflation rates were the same for everybody, I will still be more worried about the impact of what is coming in the pipeline for poorer households.

James Heywood: I echo a lot of what Julian said. There has been a lot of debate about whether inflation rates are higher for lower-income households. That misses an important point, which is that poorer households are hurt more by high inflation regardless of whether it is higher for them than it is for higher-income households. That is partly because, as Julian said, essentials—energy and so on—are a particularly high proportion of their spending, but it is also because there is a lag between changes in incomes and changes in prices.

On the benefits uprating issue, for example, many people are reliant entirely on the state for their income, not just unemployed people but people who may be raising children or people who cannot work because they are disabled or ill. Unfortunately, because of the way our uprating system works, the timing of the uprating, September to September, which is the CPI measure used, coincided last year with inflation starting to take off. The 3.1% September CPI measure used for the uprating this

April will not take into account the six months or so from September to April when we already will have seen significant price increases plus then the 12 months from April to April. By the time we get to April 2023, when people will finally see probably a substantial increase in their benefit rates, we will have had 18 months of a lag between significant increases in prices and people's incomes going up to reflect that.

We have been talking about stagnant real incomes and stagnant real wages in this country ever since the financial crisis. It is important to emphasise that this is a different scale that we are talking about now. We may be seeing a situation where—it sounds ridiculous—living standards rise over the next four or five years and at the end of that period we may only be getting back to where living standards were during the lockdowns in 2020 because of the hit to living standards that we will probably see over the next 12 months.

Mike Brewer: The cost of living crisis is extraordinary, given that we are not in a recession at the moment. The economy is growing yet household income will shrink. We published research yesterday, which was extremely well timed. We think that typical incomes will fall by 4% in the next financial year, which is absolutely unheard of outside of a recession.

I will focus on what the Government could do. The Government should revisit their uprating decision, for all the reasons the previous two speakers suggested. Benefits are going up by 3.1% at a time when inflation could be hitting 8%. The Government should try to revisit that as quickly as possible, maybe immediately for universal credit and in October for those benefits that cannot increase immediately.

Also, the Chancellor should start thinking now about what he will do about the energy price rise in October. If gas prices stay at their current rate, we could be well beyond £3,000. Ideally, he needs to think about that now. He has six months warning of what could be an extremely damaging energy price rise. We do not need action now but we need the work to start now.

Aveek Bhattacharya: It is pretty clear that it will be bad. Everyone is agreed on that. As Mike says, this is a recession-level hit to living standards.

On what the Government need to think about, inflation will be high for everyone. Inflation generally has moved relatively closely for higher-income and lower-income households, but we know that lower-income households spend more of their budgets on energy. It is entirely foreseeable that even those quite alarming 8% or 9% inflation forecasts will probably be higher at the lower end. On what the Government should do, they need to be thinking about the mindset that we had around the pandemic and the mindset that we have in recessions. When we hit these sorts of dramatic shocks to living standards, we need to be thinking big in scale.

My instinct is to be thinking about how we can get cash out of the door. It is a little bit unusual, as Mike says, in that we have a bit of advance warning and we have a bit of a run-up and hopefully that gives us a bit of time for the Government to be thinking about how best to get their response right and what mechanisms they can use. But the objective should be about getting cash into the hands of those who need it.

Q139 **Shaun Bailey:** We have heard the testimony from the earlier panel about the current measure of inflation and the use of the consumer prices index and the fact that this does not reflect the experiences of people, particularly when they buy basic food items. As a panel, do you recognise this too? From my interpretation of what we have heard, is this a persistent issue that we have to get a grip on?

Julian Jessop: First of all, in defence of the ONS, it publishes quite a lot of detailed data already and it suggests that the inflation rates are not that different for different income groups. There is a potential measurement problem in that it has not kept pace with the way that spending patterns have changed. In particular, the value range argument is strong. The good news is that the ONS has in train a plan for updating the way it collects the data. Traditionally, it literally employs people to go around with clipboards who are told to look for a certain type of apple or a certain can of baked beans and measure the price. Fortunately, with the advance of technology, we can use a much more sophisticated way of measuring the prices paid at the till. That data can be scraped off and can produce a much more accurate pattern of spending and prices. We will have a lot more, better data.

I am not sure whether that will show a significant difference in inflation rates. I suspect that in practice there is still plenty of scope for people to shop around. I listened to the experiences of people like Jack Monroe who tell me otherwise. The general rule of economics is that more data is better than less. If the ONS can do measurement of these things more accurately and that shows up a big difference, we have learned something important.

James Heywood: It is worth pointing out that over, say, the last 20 or 30 years, we have had quite a competitive market for food prices in this country. Particularly over recent years, the introduction of the budget supermarkets has revolutionised the grocery sector. If we had had a different system that, for example, had been taking greater account of food prices that we were using for our operating purposes, over recent decades people on benefits may have been getting a worse deal.

Overall, you need to be careful if you get into a territory of talking about whether you need to be looking at different measures than the overall CPI for uprating benefits that go to different groups. Efforts should be focused more on ensuring that, for example, benefits are actually being uprated in the first place. Obviously they are being uprated but not by as much as they should be, as we have discussed. There is also a freeze, for example, on local housing allowance rates, and I am much more concerned about addressing those issues rather than tinkering with the measures of inflation we use.

Aveek Bhattacharya: Again in defence of the ONS and in defence of existing inflation measures, I wonder how far this is just because we expect too much from a single number. The CPI sets out to measure the average level of price increases across the economy, which is an important indicator for macroeconomic policy. I would not want the Bank of England necessarily to be looking at a separate measure, but the ONS for a few years has been working on another measure called the household cost index, which is meant to describe the experiences of households in the costs that they face.

The major difference, as I understand it, is the difference between the plutocratic weighting versus the democratic weighting. Do you give more weight to people who spend more, who are richer and who are more significant at an economic level, which is important for the Bank of England and the macro picture? If we are talking about, for example, benefits uprating, the household costs index in principle seems a better measure and maybe even something a bit finer grained. You are democratically weighting each household the same and zeroing in on households at the lower end of the income spectrum, which would seem to make sense.

James's point is well taken. In most circumstances maybe this does not make a huge difference and maybe this is moving us a couple of percentage points one way or the other. But as a point of principle, in theory, some of the criticism of the CPI may be a bit unfair because we are asking the wrong question of the measure.

Q140 **Shaun Bailey:** On that train of thought then—and forgive my ignorance of this—and thinking more broadly, is headline inflation a metric that should be in the conversation or do we perhaps need to look at how we change the metrics? It sounds, certainly from what you have said and even from the ONS in the acknowledgements it has made, that it appreciates there needs to be perhaps a more tailored way that we frame the conversation and the metrics used to analyse it. Do measures such as headline inflation have a place in this broader conversation that we are having now about costs of living in general?

Aveek Bhattacharya: The good thing is that there are a lot of measures out there. We need to be careful about the measure we use and whether we use it appropriately for the conversation. In most cases, headline inflation is probably a good proxy for what we want to talk about, but if we have a better measure that is better at capturing the things we want to talk about—the costs that households face—why not shortcut to the things we are actually interested in?

Q141 **Shaun Bailey:** This is probably for everyone else on the panel. Are you confident that we can get a grip on the pressures that households face? Again, from what I see as a constituency Member of Parliament, and certainly from what I have heard today, this situation seems to be gathering pace quickly. The circumstances change quickly as well. I know we have floated around the general metrics of it, but how do we get to a point where we truly understand the pressures there? I appreciate that that is probably an ongoing conversation, but can we get there? I suppose that is the real question I am trying to ask.

Julian Jessop: I am relatively optimistic. In a sense we have had a trial run during the pandemic. The Government have been able to do some things successfully, particularly the furlough scheme, which on the one hand cost an awful lot of money but on the other hand protected millions of jobs and businesses. We need to take the same approach to this crisis.

Also, we are literally in a war situation. We know that in a war you do not worry about the levels of Government borrowing and debt; you do whatever is required to win the war. Whether it is a war against Russia or a war against poverty, it is the same issue. We have a recent template for being bold in the policies we can implement and we have all the moral and political pressures to act.

On the impact on Government borrowing, I am fairly relaxed about that anyway because interest rates will remain relatively low. There is plenty of appetite for Government debt even if inflation is higher. But this crisis quite possibly will have a small silver lining in being positive for the public finances in some respect. Rising nominal incomes and prices mean that households and businesses will be paying more tax than they would otherwise have done. We have already seen that start to come through in the borrowing numbers.

There will be some extra headroom in there that the Chancellor could reasonably use to pay for additional benefits to those who really need it at the moment. Even if there was not that headroom, it is perfectly justified to borrow and add a bit more to longer-term debt to pay for this.

James Heywood: It is worth adding to that point that measures such as the freezing of the tax thresholds will now be worth a lot more to the Exchequer as well. But I am probably less optimistic than Julian because the attitude that seems to prevail within the Treasury, understandably, is that there has been a colossal fiscal effort over the last two years to cushion the impact of the pandemic and spending on the pandemic itself, the healthcare system and so on, particularly when you consider that the Treasury will be wary of certain types of measures.

Yes, it is true that one-off emergency measures were introduced and worked relatively well. The Treasury will be aware that, for example, it ended up having a lot of political pressure to make permanent the measures put through on universal credit. Emergency measures are all well and good, but it is not easy to make sure that they remain temporary from a fiscal perspective. Therefore, the impression I get is that in this new crisis there will be more scepticism about those sorts of measures.

Q142 **Nigel Mills:** There is something reassuringly simple about having an annual increase tied to inflation and that you know it is happening and it ought to happen. Is there a risk that if we start doing discretionary uplifts at random points that they become quite hard to predict? There is no guarantee that the Chancellor will allow the 8% rise in April 2023 that we are all probably expecting to see. What is the best system we have for uprating benefits that is timely, fair, predictable and secure?

Mike Brewer: You are right. Looking across other European countries, we see that few have statutory rules about uprating benefits. That means benefits can sometimes get forgotten about. It is good that the UK has this system. It is not an obligatory uprating but at least the Government have to say something every year about whether benefits are going up. That is good.

We see now that the system we have—where we use the September inflation rate to uprate things in April—is not a great system when we have high and volatile inflation. To be fair to successive Governments, we have not had these since perhaps the early 1990s or even the 1970s. We have discovered that our system, which works fine when inflation is stable, is coming apart a bit.

A system I like is what the French do with their minimum wage. If price pressures are too great during the year, they have an automatic half-yearly adjustment. That was where we had the idea of the April and October adjustments. The minimum wage in France goes up in April and, if inflation is too high, it goes up again in October. This is not a permanent increase; it is like giving minimum wage workers or benefit recipients an advance on a rise they would get the following April.

We could come up with a system that is automatic enough but still protects benefit recipients in times of high and volatile inflation.

James Heywood: There are two separate issues here. One is that, as Mike said, this is highly unusual and, at least in theory, we assume that we will go back to a situation where we expect roughly 2% inflation year on year. This is an unprecedented and hopefully one-off time when there may be a case for, for example, a higher uprating this year, offset by a slightly lower uprating next year.

Then there is the separate issue of the fact that we use the September measure, which in my understanding is largely because it used to be the case that there was a long lead-in time to increase benefit rates, which is no longer the case, at least for the universal credit system. There is a separate debate to be had about whether that should be updated and whether we should move to a month that is more recent to April. But if we are to do that, there is a permanent structural increase in spending on the welfare system because at the moment the Treasury benefits from the fact that there is a six-month lag between the inflation measure used and the benefits actually going up.

Julian Jessop: I looked at the numbers yesterday and I am astonished that we rely on a September number for a decision that will not be implemented until April. If we had waited until January before making the decision, instead of 3.1%, it would have been 5.4%, based on the December number. I simply struggle to understand why the system cannot move more quickly than it does. I am assured by various experts on this that it is an IT problem to do with using old-fashioned programming or whatever, but if the private sector or the military was faced with this problem, it could fix it in a short period of time. If that is still the reason, I find that disappointing.

Even if that is the problem, you do not necessarily do it through a statutory uprating; you do it with some sort of top-up payment. The Treasury is reluctant to admit the mistake and to reintroduce the £20 uplift to universal credit, but it worked perfectly well during the pandemic. Why not do something again similar now?

Q143 **Nigel Mills:** When an employer offers you a one-off bonus rather than a pay rise, you are quite foolish to accept it. You are better off having a pay rise that then lives forever. Do you worry that when the Government start doing these one-off interventions and running tax systems in reverse, if we are not careful, we will lose the baseline and inflate that? We will think that we have got over a one-off hurdle, but if we are dealing with a long-term structural change we will not have fixed it well at all. Should we have that concern?

Julian Jessop: I would certainly be concerned about that. The way that the tax and benefit system is developing at the moment is rather like one of those Heath Robinson machines, with things being added to it all the time. You would not start from here if you were building a tax and benefit system from scratch.

There is a number of separate issues. How do we deal with the immediate crisis? If that means making things more complicated, so be it. We have to do that. There is also an issue of stepping back—I know this has come up in other questions—and thinking about whether the levels of benefits are appropriate in the first place. We were discussing whether they should go up by 3% or 5%, which is the immediate problem, but are they fit for purpose? There is a bigger, longer discussion to have around that.

In the short term, it is whatever works. If we have to do this through a rather messy £20 uplift to universal credit or some variation on that, so be it.

Aveek Bhattacharya: The framing of the problem is critical. You suggested that it is a structural issue. If your pay is structurally low, a bonus is not a good way around that, but if your bonus is because you face exceptional pressures or you have done exceptionally well, a bonus is perfectly reasonable. That gets to the heart of the dilemma here. I do not know if we even know the answer and how best to frame this crisis.

Is this temporary and to be ridden through or is this a case of adjusting to a new normal that will be far harsher than what we were used to? That is the dilemma.

A bonus is not in principle bad. When I have written about this, I have had in mind that in recessions it seems like a perfectly sensible way of dealing with a downturn in demand to be getting cash quickly out the door into people's hands so they can spend it. You can frame it quite clearly to people, "We will struggle through some hard times but here is something to try to get you through," rather than, "This will patch the fundamental inadequacy of the benefit system." It is not a solution for that.

Q144 **Debbie Abrahams:** When you think about top-ups and so on, one real criticism of the £20 a week top-up for universal credit was that it did not take into account legacy benefits. We were hearing earlier on that those who will be most affected by the cost of living crisis are people who are sick and disabled, who will still be in receipt of legacy benefits. Does that alter your perspective or have you considered that in your response?

Mike Brewer: You are absolutely right, this cost of living crisis is affecting the entire population. Every benefit recipient is about to see their benefit income fall in real terms when Government policy is supposedly designed to keep it constant in real terms. That is the issue we are facing. I hope that if there is a solution announced in the spring statement, it is not just for universal credit. It affects all pensioners as well. The state pension is going up by 3% and inflation will be 8%. We cannot have a solution only for universal credit this time around.

Q145 **Selaine Saxby:** Good morning. I want to talk about housing costs and the implications they have had both longer term and shorter term for social housing and private rental accommodation. How is that different as an experience for homeowners, please?

James Heywood: Something that did not come up when you asked a similar question of the last panel and that I raised slightly earlier in this session is local housing allowance rates. The way that system works is that the local housing allowance rate is set based on market rents in the local area. When the pandemic started, after years of freezes, they put it back up to the 30th percentile, which is the measure that is meant to be used. They have now started freezing it again.

The problem is not just that, as with benefit rates, for example, it does not take account of overall inflation; it is also that it does not take account of relative changes between different areas because it is a freeze. Particularly because of the impact that the pandemic has had on work patterns and therefore on patterns of commuting and where people live, there have been substantial changes in rent rates in specific local areas. The fact that local housing allowance rates have been frozen, and are therefore not taking into account any of those changes, is quite concerning.

Julian Jessop: I have two quick points on that. First, I looked at the different inflation rates for people who are in social housing or private rented or who own their own properties. Surprisingly, they do not appear to be different, which is not what I expected. I thought people in private rented property, because they are more likely to be poorer, might see higher inflation, but it seems to replicate that general pattern that inflation rates are similar.

There are two caveats to that. First, the measured rents component of the official inflation numbers looks extraordinarily low. There is a line in there for actual rents and the latest increase was only just over 2%, which might be a good example of this difference between what some sort of average measure tells you and the reality for people on the ground. That might be for the ONS to look into. Also, of course, most of the data we have now is effectively out of date. We know that all these additional pressures come through. Just because inflation for these different groups has been similar in the recent past, it does not mean that will continue to be the case when we have this massive energy price shock coming through.

Q146 **Selaine Saxby:** Should the Government be doing anything else to support those most vulnerable and low-income tenants with housing costs? Are there any other measures we could look at?

James Heywood: There has been an issue—it has been recognised by the Government but there is probably not enough being done on it—to do with poor energy efficiency in private rented accommodation. The private rented sector is by far the least energy-efficient sector in our housing stock simply because there is no real incentive. It may take bills down for the tenants but not for the landlords who have to pay for the investments. The Government have made some regulatory changes to try to address that, but now that energy will become such a significant part of people's outgoings, it should incentivise the Government to take stronger action on that.

Julian Jessop: To add a longer-term point—obviously it is not a short-term fix—part of the poverty problem in the UK is related to the housing crisis, which in turn is driven by the lack of housing supply. As a free marketeer, I think that is largely to do with the planning system, but at the end of the day I do not care whether it is the public sector or the private sector that builds more houses and more affordable homes. Somebody needs to do it.

Q147 **Selaine Saxby:** Thank you. Is there a potential for housing assets to play more of a role in increasing retirement incomes and, if so, for whom?

Julian Jessop: In principle, yes. In practice, it is not that easy. In principle, people sit on an asset and they can get a nice equity release scheme and release their cash from that, but there are lots of practical barriers to doing that. Equity release schemes are often financially not attractive. They are also psychologically different for a lot of people because it is their home and they feel that they no longer own the place that they live in. A lot of people, particularly older people, may find it more difficult to understand exactly what they are signing. In principle, there is an easy free-market solution, in that you have an asset that you can raise cash against. But I appreciate that in practice it is not an easy fix for many people.

Q148 **Steve McCabe:** I want to go back to energy costs. Mike, I saw that the Resolution Foundation said that the increase in the energy price cap means that households in the bottom income decile will end up spending around 12% of their total budget on fuel, which is up from 8.5% in the previous month. What does that mean in practical terms for people?

Mike Brewer: Yes. It is a good point that we talk about inflation and the cost of living and lots of statistics come out with percentages. But it means that if you spend 4% more of your budget on fuel, you spend 4% less of your budget on something else. If you are on a low income, as you heard in the previous session and as will be fairly obvious, you do not have much slack anywhere else. If you spend 4% more of your budget on heating, you may face difficult choices elsewhere in your budget. That is what it comes down to.

Q149 **Steve McCabe:** The Chancellor said, when he was defending or explaining his council tax proposals, that "lots of people on middle incomes struggle right now." Which groups are most affected by the rise in energy costs?

Julian Jessop: First, it is worth separating three different aspects of this. The impact of the increase in domestic heating bills will primarily be felt by poorer people because they spend a bigger proportion of their income on those bills. The impact of rising fuel costs more generally—things like petrol with the impact on motorists, the rising cost of air flights and so on—will be more evenly spread. In some ways, middle-income to higher-income earners will be hit harder by that because they are more likely to take expensive foreign holidays and so on. There is a small offset.

The third way that this operates is the knock-on effect on other prices, because almost everything has an element of fuel involved in it as a cost. The danger here is focusing just on the headline fuel prices and forgetting that they have a knock-on effect on all sorts of other prices as well. In particular, in the context of the Ukraine crisis, as others have said, it is not just fuel but wheat, metals and all sorts of things, so not just the cost of food but the cost of the cans that the food comes in. That complicates things further.

The headline impact of the energy crisis we are probably most worried about is the fuel bills, which primarily affect poorer households, but there will be ripple effects throughout the whole economy. Almost everybody will end up getting hit in some way.

James Heywood: I agree with a lot of what Julian said. As Mike was saying, the people who only just make ends meet and the people who are on much lower incomes are the people who are least able to bear the cost, regardless of whether the cost in and of itself is higher for them, because they do not have the space in their budgets.

On balance, I would prefer to see support measures more targeted towards the lower end of the income distribution. The measure that was introduced—the £150 rebate going to 80% of households—is quite messy in the way it will have to be distributed and eligibility worked out. You may as well, to be honest, have taken a slightly higher fiscal hit and paid it to every single household.

Points have been made by the Government about the fact that specific support schemes are available for lower-income households, but it is worth saying that with all the talk about benefits uprating, all of those support schemes do not have regular uprating. The cold weather payment, as far as I am aware, has been £25 for a long time. The winter fuel allowance is £100 or £300 depending on your age and has been for a long time. The warm home discount is going up but only by £10, from £140 to £150. While the eligibility is being expanded a little bit, the actual rate has not gone up much, despite the fact that people's energy bills are doubling or more. The support schemes in place to help with people's energy costs are not reflecting the changes that we see in people's energy costs.

Mike Brewer: The increase in the price of gas and electricity comes down particularly hard on people who live in energy-inefficient homes, to be quite frank. The difference between living in an A-to-C-graded home and a D-to-F-graded home is absolutely enormous. We need to insulate anyway as we get towards net zero, so I hope that the energy price shock focuses the Government's mind, as we were saying earlier, about the need to improve energy efficiency, which is particularly a problem in the private rented sector but also among low-income owner-occupiers. Across the age distribution, we found that fuel stress will be highest among pensioners after April's energy price rise.

We mention energy prices a lot. We have been talking about gas and electricity. If oil and petrol prices go up, they are not skewed towards low-income households; they are skewed more towards high-income households. Not everything about the Ukraine crisis is necessarily the worst news for low-income households.

Aveek Bhattacharya: I agree with the Chancellor that this is not just about the poorest, but it is clearly true from what we have been talking about that the poorest will be hit worst in the first instance because, as we have heard described, there is less slack in their budgets and because they are more exposed to the gas and electricity spikes.

James was hinting at it and I have said it more explicitly. I am in favour of giving a broad-based cash payment to more or less everybody—

perhaps excluding higher-rate taxpayers—to recognise the fact that everybody will be suffering at least a bit but with a higher payment targeted on lower-income households, on universal credit and legacy benefits to recognise that differential reality. Everybody is suffering but the ones at the bottom end of the spectrum will be suffering hardest.

Q150 **Steve McCabe:** Aveek, I noticed that the Social Market Foundation said it was in favour of a cost of living bonus as the best way to help people. Could you say a little bit more about exactly what you have in mind and how that might work?

Aveek Bhattacharya: Yes. As I was saying, the proposal that we sketched out back in January was for a £500 one-off—or maybe in a couple of tranches—cash bonus to those on universal credit and legacy benefits and then a £300 payment to other households. Essentially, this is a cross between the UC uplift and the CARES Act in the US where, as a stimulus response to the pandemic, there was a concerted effort to put cash into people's pockets.

That worked in multiple ways. It worked through the tax system. It worked through focused outreach, leveraging administrative data and sending out literal cheques, prepaid cards and so on. An interesting discussion is to be had about the logistical challenges of that and James might want to speak to that as well because I know the CPS has been talking about the limitations of Government capacity and how straightforward it would be to do this.

Starting from first principles, a simple cash payment is better than a complex, convoluted scheme. As we have seen with the Chancellor's measures, there has been a lot of misunderstanding and a lot of confusion. It seems almost too clever. From what we have seen since, to directly subsidise energy seems somewhat perverse. Part of the response will probably have to be to try to reduce energy consumption in some ways.

As we have been discussing, exactly how this cost of living crisis will take shape and which goods will be expensive is not easy to anticipate. Giving people money in their hands to make those judgments for themselves as to how best to manage it seems to be better than trying to subsidise certain goods and not others.

Q151 **Steve McCabe:** Julian, I noticed that you were writing about this and you were critical of the Chancellor's efforts to smooth the increase, if I understood correctly, largely because of the way it would be clawed back and also because the taxpayer was bearing quite a risk. Do you broadly agree with the Social Market Foundation?

Julian Jessop: In short, yes. I absolutely agree with what was said about the benefit of doing it through some form of direct cash payment. Even from a free-market perspective, that is the right approach to take. You do not want the Government to intervene to set individual prices.

You want market forces to be allowed to work. Those people who can afford to pay higher prices for goods that are in short supply should do so. That is how markets work. Giving people some form of lump sum payment is the classically liberal economic way of doing it and is absolutely the right way to go.

The Treasury—and the Chancellor in particular—often says the right things but it is not necessarily followed through in what he does in practice. The Treasury has been right during this process to say that it will not just lower energy prices for everybody and will not go down the French route. As you know, it has capped increases in domestic bills at no more than about 3.5%. As well as enormously expensive, it is inefficient because it ends up helping people who do not need help with their bills and it also defeats the market mechanism. Something more targeted is better.

If we look at the detail of what the Chancellor has done, the council tax cut is not well targeted and lots of people will miss out on that. The loan, as it is and not a discount, for a start does not come through until October and lots of people will miss it. Then there is that messy process of paying it back. The regressive element, as somebody mentioned in the previous session, because it will come off the standing charge, disproportionately falls on poorer people.

The Treasury has the right general ideas but the implementation has been poor. They need to rethink what they do and they certainly need to do more as well.

Q152 **Steve McCabe:** What about you, James? Do you support the same approach that Aveek was outlining?

James Heywood: I would. We should not underestimate—and I am sure when Ministers come to this Committee they will always emphasise these points—the difficulty of getting money to people. I do have some sympathy with the Government in that sense. However, it would be possible to do a one-off universal payment to everybody, as has been discussed.

The difficulty comes when you try to assess eligibility. That is why they have gone down the council tax route. From the sounds of it, part of the reason they ended up with the council tax route was that they were originally possibly looking at a slightly narrower choice of bands and then decided to include band D, which brought loads more people into it and now 80% of households will be eligible for it. As I say, that makes me think they may as well have just spent a little bit more money and given it to everybody for the sake of it being a lot less messy.

I would also have liked to see something done on universal credit as a one-off measure, because that is ultimately the best system we have for assessing whether the Government think somebody is on a low income—that is the point of the universal credit means-testing system. It is the best system that the Government have been able to come up with for working out people’s circumstances. That would have been a much better system, although Mike has made the point that we did need a broader support package than just universal credit this time because of the scale of the changes that people will see in their bills. There needed to be more than just a universal credit change.

Mike Brewer: As I said earlier, the Chancellor now needs to look at the October energy price rise coming up and he probably needs to go back to square one and look at all possible solutions. It could well be more than a £700 increase that we see in April.

Q153 **Dr Spencer:** Clearly, one way of responding to a price rise is to find a way of getting more money coming in income. That is easier said than done for improving wages and progression at work. When the Government looked into this with the In-Work Progression Commission, they unsurprisingly found that childcare costs and the costs of transport are particular barriers to people increasing their income. What is your take on that and what is your take on the Government’s programme to support people around childcare and transport?

James Heywood: My two pennies’ worth on that is that the best thing the Government could probably do on that front is to change the way that they regulate the childcare market. The childcare ratios that we have in particular in this country are low in the number of children that a single childminder is allowed to be responsible for compared with similar countries. That significantly inflates the cost of childcare. The Government could do things that would not cost the Government any money to make childcare cheaper for families.

Julian Jessop: To add a more general point there, it is important to recognise that this not just about benefits. The Government have done other things. I gave them a bit of a kicking earlier but, to give them credit for a few things, the reduction in the universal credit taper is exactly the right sort of thing to be doing to make work pay. It is clearly not enough on its own but it is an important step in the right direction.

It is important also to recognise the general strength of the labour market. Yes, nominal wages will probably not keep pace with prices but they will go up a fair chunk, which will cushion the blow for some people. It is not just about wages. It is also about job security. Most people will feel more comfortable in their jobs now and that is a positive for consumer confidence and for spending. For those people who have savings built up during the pandemic, the strength of the labour market is important for that reason as well, encouraging them to dip into those savings to tide them through. It is not just about benefits. Keeping a flexible labour market and making it easier for people to get work and move jobs is important as well.

Aveek Bhattacharya: It is a good question and it is good to keep in mind that we want to be looking at the income and earnings side of the equation as well as cost and outgoings. I am not sure how much will happen on a month-to-month timescale. This is a longer-term project, as the In-Work Commission looked at trying to improve progression and trying to improve productivity and improve earnings.

I will use this opportunity to plug some of my colleagues' work. They have been looking at this. They found that 70% of employers are willing to go beyond the legal minimums to address poverty and 84% of them recognise that poverty is a problem in their workforce.

We are bringing employers together at the Social Market Foundation. We are trying to come up with a Kitemark scheme for employers who are doing their best and what employers can do to address poverty, which will be some of the things we are talking about, potentially helping out with childcare and transport issues, mentoring, skills and training and developing progression pathways. Over the medium term, hopefully that gets us to a better situation, but I am not sure what will happen in the next few months in the crises we have been talking about.

Q154 **Siobhan Baillie:** I have a quick question to James on childcare ratios. We have another inquiry on this and IEA was talking about that recently. Have you or the CPS come across anything about a change of attitude to changing childcare ratios? We know that this was looked at before a few years ago and there was an awful lot of pushback about safety concerns. Is there any sense of a change? I feel that the cost of living crisis will put a lot of pressure on those ratios.

James Heywood: We certainly, as far as I am aware, have not done any specific work on attitudes to that policy. But if the Government's assessment is that it would be a positive step for families and would make childcare more affordable, it requires a communication effort on the part of Ministers and the Government more generally to get that message across if there were to be concerns that that policy would be unpopular, emphasising particularly in the context of a cost of living crisis the point of those sorts of measures.

It is not a measure that will immediately come in and help the cost of living crisis over the next year. It is a measure that is years in the making because it will take time to consult and come up with the right proposals, but it is still worthwhile in the long term.

Q155 **Dr Spencer:** To come back on the childcare point, when you model and look at how much bang you get for your buck as in hours worked, you see that quickly—and I was reflecting on it in the context of your comment, Julian, on the taper—as people try to go above a certain threshold of hours, because of additional childcare costs the money they get back rapidly decreases. I wonder whether it would be useful to look into this in more detail, to make sure there is always a trajectory of making work pay in the context of additional childcare costs for extra hours above a certain point of hours worked. I see Aveek is nodding.

Julian Jessop: I can only agree. It is important to view all of the challenges presented by the tax and benefits system in the round. We tend to focus on individual pieces but somebody needs to have a huge model that captures all of this.

I still wonder whether these models really exist. You would expect them to exist in the Treasury or the DWP but I am well aware that sometimes you ask Ministers the questions and for some reason they do not have the answers. These models should exist and they should take account of the admittedly complicated interaction between all the tax benefit changes and other costs that evolve as you move up and down the income scale.

James Heywood: It is worth noting that work allowances within the universal credit system are set on a household basis and childcare is normally particularly a problem for a second earner. Having a specific second earner work allowance could potentially help with this problem.

Q156 **Sir Desmond Swayne:** We have covered the extent to which the cost of living crisis is equally about wages. Unless you have anything to add to what we have said on that, I would like to ask Aveek about what employers can do in London and the work that you have been doing on that.

Aveek Bhattacharya: Absolutely. I hinted at it a bit earlier. There is a lot of stuff to do around skills and training. The first obvious thing is pay. The Government have done things around raising the minimum wage, for example, but a lot of employers want to go beyond that. That is first and foremost. Touching on the childcare point, allowing for more flexible working practices so people can fit work around their caring responsibilities could be important for keeping them in work and making sure that work does pay for them.

Over the longer term, we know we have a structural problem as employers and as an economy more broadly not investing enough in workers and upskilling. That will be an important part of it. Build progression pathways. If you start on the shop floor right at the bottom rung, how can you get to the upper tier? How can you progress? How can you advance in your career rather than getting stuck where you are?

That is just a handful of things. There is probably a lot more that employers can do and an ongoing discussion about best practice, how employers can evidence it, how we can learn from one another and how we can certify and identify the best employers in this regard.

Q157 **Sir Desmond Swayne:** To what extent is it realistic to expect employers to do some of the work that you have suggested and also to increase wages in response to cost of living pressures without a commensurate increase in productivity? Is that realistic given the relatively poor performance of productivity over the last few years?

Julian Jessop: In the short run, many employers will not have a lot of choice but to raise wages and improve pay and conditions because of the shortage of labour. One small silver lining of the way that the economy has recovered from the pandemic is that a lot of bargaining power has shifted towards workers. Many people—clearly not a majority—have the option of moving to a better job if their existing employer does not look after them properly. A lot of it will be done through market pressures.

I am a little bit sceptical, as you might expect, of national minimum wages in general. In practice, a lot of lower-income earners would have seen quite a substantial pay increase at this point anyway but, as it happens, that increase of 6% or 7% was quite prescient giving the cost of living pressures. That is a positive as well.

You have also put your finger on the bigger longer-term issue. In the absence of productivity gains, if employers just pay people more, it has to come from somewhere. If it is not coming from productivity, it will be passed on in hard prices. That is when you start getting into the territory of the wage-price spiral, which is a concern particularly at the Bank of England.

On that, though, the Bank of England is wrong to insist that people exercise wage and price restraint now. That is not the Bank of England's job. If somebody is lucky enough to be able to get a decent pay increase, they should argue for every single penny that they can get. That is how markets should work. But I am concerned that a temporary inflation shock like we see now could become more permanent if it gets embedded in expectations and if the Bank of England is seen to be losing credibility as far as inflation is concerned.

We have talked a fair bit about how high inflation might go in the short term. One cannot do a lot about that, but you can at least make sure that inflation falls over the medium to longer term. There are challenges for monetary policymakers as well as fiscal ones.

Q158 **Sir Desmond Swayne:** But inflation is always and everywhere a monetary phenomenon. There is no such thing as cost-push inflation, is there? We had better not go down that route given the time.

Julian Jessop: I would be happy to have that discussion with you offline. Yes, I am with you on that.

Q159 **Chris Stephens:** The Joseph Rowntree Foundation, Trussell Trust and Citizens Advice told us that while local welfare schemes can be vital for people in particular forms of crisis, they are not a substitute for adequate levels of social security benefits. Do you agree with that statement?

James Heywood: Broadly, yes. There is a role for local welfare delivery. On a related point, there was some discussion in the last session about discretionary housing payments, for example. People will always fall through the cracks in particular cases, for example, who have no recourse to public funds where there is a need for local welfare delivery.

But, yes, in general, of course you do not want a system that is essentially a postcode lottery. It is better to have an adequate national welfare system.

Mike Brewer: I agree. I am less worried about a postcode lottery. I am more worried about a system that relies on people coming forward to make a claim and relies on an element of discretion among the officials evaluating the claim. The great thing about our social security system is that it is by and large an entitlement-based system. If you are in need, you are due the money. Some of our local systems do not have that feature. They are discretionary. That is the worry.

Q160 **Chris Stephens:** I was conscious, James, that you had mentioned no recourse to public funds. The Committee is looking at that. But if a better system was to be created in future, what role if any should local welfare schemes play in the overall support system? Does that create any problems or does it fix problems? Do you have any suggestions on how we fix them?

Mike Brewer: In the pandemic, we saw local authorities had a role in administering the self-isolation support grant, but that was more because that was the quickest way the Government could devise a mechanism for paying the money, which was fair enough. That system was devolved but within England it had a minimum amount. It was like an entitlement. It was administered by local authorities because that was the quickest thing the Government could come up with.

If the Government decide that because of the cost of living emergency they will give local authorities the powers to do something about that, I would be relaxed, provided it was an entitlement-based system. Yes, I was a little bit worried by the Chancellor putting more emphasis on the discretionary forms of local support, which he did in the October budget.

James Heywood: We also need to be careful about the overall funding packages that these things tend to involve. My understanding was that some people for specific reasons will not be eligible for the council tax rebate support that is being introduced and so a discretionary scheme will be available to local authorities but it is worth only about £144 million. Compared to the overall cost of that policy, it is not much. Part of the problem with having discretionary schemes like that is that ultimately they are entirely dependent on the pot of money that the Government have decided to make available.

Q161 **Chris Stephens:** The Secretary of State mentioned community foundations as an example of effective local welfare when she gave evidence to us a couple of weeks ago. What role do these organisations play in meeting local needs and are they equitable and transparent?

James Heywood: I do not about how that works on the ground. On the face of it, those sorts of organisations have a role to play. Probably to an extent sometimes in policymaking we are too keen to leap to entirely state/Government-based approaches to delivering support and delivering welfare. Ultimately the role of those organisations is limited. It is right for local authorities, local jobcentres and so on to work closely with those sorts of organisations, but they are no substitute for the overall welfare package that the Government should have on offer as a safety net.

Q162 **Chair:** Finally, James, you have suggested—or the CPS has suggested—that there is scope for reducing the cost of living by making markets more competitive in the UK. Can you say a little bit about the scope that you see there? Might something be done quite quickly in that area? How do you see the potential?

James Heywood: Your last point touches on a bit of a problem with these sorts of things. There are many ways the state, through the way that it regulates markets and the economy, unnecessarily increases costs for consumers and for households. The problem with that as a solution to an immediate cost of living crisis is, for example, the issue that we were talking about with childcare, or indeed the other big issue that I would point to that Julian raised earlier with the housing market and the fact that planning reform could substantially help with the problem of rising housing costs and rising house prices. Those things do take time.

Yes, those are worthwhile things to do. Do I emphasise them as silver bullets to the immediate crisis that we face this year with living standards? That is probably only limited because they are long-term reforms.

Chair: Fine. Thank you all very much indeed for the extremely interesting and useful evidence that you have given us. We are extremely grateful to you. That concludes our questioning for this morning and concludes our meeting.