BRIEFING | HOUSING | COST OF LIVING

Placing households at the centre of the economy

The UK is on course for a second lost decade in living standards, and the response from politicians is increasingly disconnected from the public's priorities.

We've used new modelling to show what the latest economic forecasts mean for households, ahead of the March Budget. In addition we've used bespoke polling analysis to shed light on public concerns and opinion.

Published on: 4 March 2024
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Reading time: 36 minutes

Summary

The UK is on course for a second lost decade in living standards in a row. Post tax earnings today (Q1 2024) are £1,870 a year (Q1 2024 prices) lower for the average working family than they were in Q1 2021. If current economic forecasts hold, they will remain £1,340 lower by Q1 2029. Meanwhile, the cost of a basket of essential goods and services (excluding housing) for the average family is currently £270 a year more expensive (Q1 2024 prices) than it was at the beginning of 2021, and although this is expected to improve over the coming years, essentials will remain less affordable relative to post tax earnings until 2028.

This paper sets out unprecedented detail into what the latest OBR forecasts being handed to the Chancellor ahead of the March Budget may mean for individual families. The approach uses national surveys, administrative data and the latest macroeconomic forecasts to produce micro-simulated effects at the household level, taking into account changes in the economy and policy across time. The work is also supplemented with new polling analysis which sheds light on what the public is most concerned about with regards to the economy, and the extent to which they hold government responsible.

For households, the economic outlook is bleak. The modelled implications for families also map closely onto what the public are currently most worried about. Specifically, we find that:

- The cost of a basket of essential goods and services for the average family is currently £270 a year more expensive today (Q1 2024) than it was at the beginning of 2021 and worry about the cost of essentials is the number one economic concern for the public.
- Relative to wider prices in the economy, the price of essentials is set to fall in real terms over the remainder of the decade to below 2021 levels. But because household post-tax earnings and benefits will remain below 2021 levels for the entirety of the 2020s after adjusting for inflation, the affordability of essentials for the average family will remain below 2021 levels for several years to come. The exceptionally weak recovery in post-tax earnings is partly a function of wider economic stagnation and partly a consequence of rising taxes on labour income.
- Housing costs are rising especially fast relative to both earnings and wider prices, and by the beginning of 2029 the average family will have seen their housing costs rise by nearly £1700 a year in real terms compared with the beginning of 2021. When excluding those who own their home outright, our polling also found that more people rank housing as a top concern than the NHS.
- While family finances are being squeezed, public services also fail to escape this second decade of stagnation. We find that real terms annual spending per head on the NHS is not set to recover 2022/23 levels until 2026/27, but over the same period spending on services outside the NHS is projected to still be £430 lower (2023/24 prices) by 2026/27. This is caused by planned cuts to public spending that are effectively being used to pay for tax cuts, despite a far higher proportion of the public being ‘very worried’ or ‘fairly

worried' about funding for the NHS (76%) and non-NHS public services (71%), compared with concern for tax on earnings (44%).

Without a decisive intervention from policy makers, the 2020s are set to be a second decade without a recovery in living standards. In fact, by the end of the 2020s, many families will be and feel poorer than they did at the start. But this could be turned around with the right political will. There is a desperate need for immediate measures to support living standards at the coming Budget. But beyond that, the country must start to build the foundations for a much stronger social settlement that can provide proper economic security to families both now and for the long-term.

This should start with a commitment to an Essentials Guarantee in Universal Credit, to ensure everyone has a protected minimum amount of support to afford life's essentials. It would also mean reform to the housing market to ensure more affordable and secure tenures are available where they are needed most. It would mean a redesign of employment services with an emphasis away from monitoring and compliance and towards engagement and supporting people back into the right type of work. And finally, a rethink of our care infrastructure so that parents have access to the right kind of childcare that allows them to work if they want to, as well as proper financial support for people who need to temporarily step away from work to help care for a loved one.

In this current moment, politicians of all parties should be prioritising a sustained recovery in living standards for people who need it most, and setting out how they will rebuild the kind of lasting economic security that can prevent current levels of

suffering from ever happening again. It is perhaps an ambitious agenda, but given the level and urgency of need, anything short of this on the 6 March should be considered a failure.

Erratum

Following the original publication of this report, a model parameter error and computation error were discovered which affected the findings for post-tax earnings and per capita public spending on the NHS and non-NHS public services. This was corrected in the briefing on 6 March 2024. The correction does not affect the narrative or conclusions and all other figures in this report remain unchanged.

The economic and political context

Like a grim game of ‘higher or lower’, February was the month that confirmed whether the UK economy had already entered a technical recession. The answer was it had (ONS, 2024a), but this should not have come as a surprise. After adjusting for population growth, the economy had already failed to grow for nearly two years (ONS, 2024a).

In terms of average living standards, that means the country has been in recession since the start of 2022. But for millions of people who have not even seen their living standards move with the average, the pain has been far, far longer in the making. Long before aggregate statistics caught up with the country’s predicament earlier this month, much of the damage to people’s lives had already been done. The latest poverty estimates put more than 14 million people living below the threshold, including more than 4 million children (JRF, 2024). At least 7.3 million families are going without essentials, such as sufficient food, basic toiletries and hot water (Stirling et al., 2023). And the latest estimates showed that nearly 4 million people experienced destitution in 2022, meaning they were unable to meet the basic physical needs of staying warm, dry, clean and fed (Fitzpatrick et al., 2023).

But irrespective of where people are on the income distribution, families across the country are feeling the squeeze from three sides: high and rising prices that are still yet to settle at their 2% target (ONS, 2024b); elevated interest rates that are still feeding through to mortgages and loans (Bank of England); and a precarious labour

market, with jobs still at risk as spending and investment in the wider economy continues to slow.

This is also not a one off. It follows an accumulation of economic pain across a decade or more. Real earnings today are barely above those in 2005, and are not set to recover 2008 levels until 2028 (Resolution Foundation, 2023). Since 2010, only the richest 5% of households have seen their real income grow well beyond 10% (Corlett, 2023). Investment in the UK's future – both from the private and public sector – has lagged other advanced economies for the entire century so far (World Bank). And over half a million more people are currently out of work due to long-term health issues compared with the pre-Covid norm (Institute for Employment Studies, 2024).

It is against this backdrop of economic insecurity – both at the level of households but also the country as a whole – that the Government will deliver its 2024 Budget on the 6 March. But now, less than 12 months out from an election, it will also be these issues that condition the economic reality for voters when they finally go to the polls.

This briefing

The 'lived experience' of an economy is often talked about but seldom pinned down. In a year when the economic cycle and political cycle appear to each be at an inflection point at the same time, JRF is building a new programme of work with the goal of better understanding both how macroeconomic trends are impacting families from across society, but also how individuals anticipate the economy will affect their lives, and who they hold responsible for the consequences.

This work involves a combination of bespoke polling analysis alongside new microsimulation modelling that converts macroeconomic forecasts into estimated household-level effects. Each set of analysis, the polling and the modelling, examine 4 routes through which the direct economic resources of families can be affected - personal income, the price of goods and services, taxation, and public services. These 4 areas are in turn broken down into a total of 11 sub categories, as set out in Table 1 below.

Table 1: Categories pertaining to how households access economic resources

Economic area	Sub categories	Examples (but not limited to)
Personal income	Income from work before tax	Annual salary or hourly pay
	Income from benefits	Universal Credit, State Pension
	Income before tax from other sources	Private pensions, rental income, capital gains
The price of goods and services	The cost of your housing	Rent, mortgage or council tax
	The price of essentials other than housing	Food, home heating, basic household goods, utility bills
	The price of non-essentials	Meals out, holidays, activities

Economic area	Sub categories	Examples (but not limited to)
Taxation	How much tax you pay on earnings from work	Income tax, national insurance
	How much tax you pay on your investments and profits	Capital gains tax, corporation tax and inheritance tax
	How much tax you pay on things you buy	VAT, alcohol duty, fuel duty
Public services	The amount of funding for the NHS	-
	The amount of funding for other public services	Police, education, adult social care, refuse collection

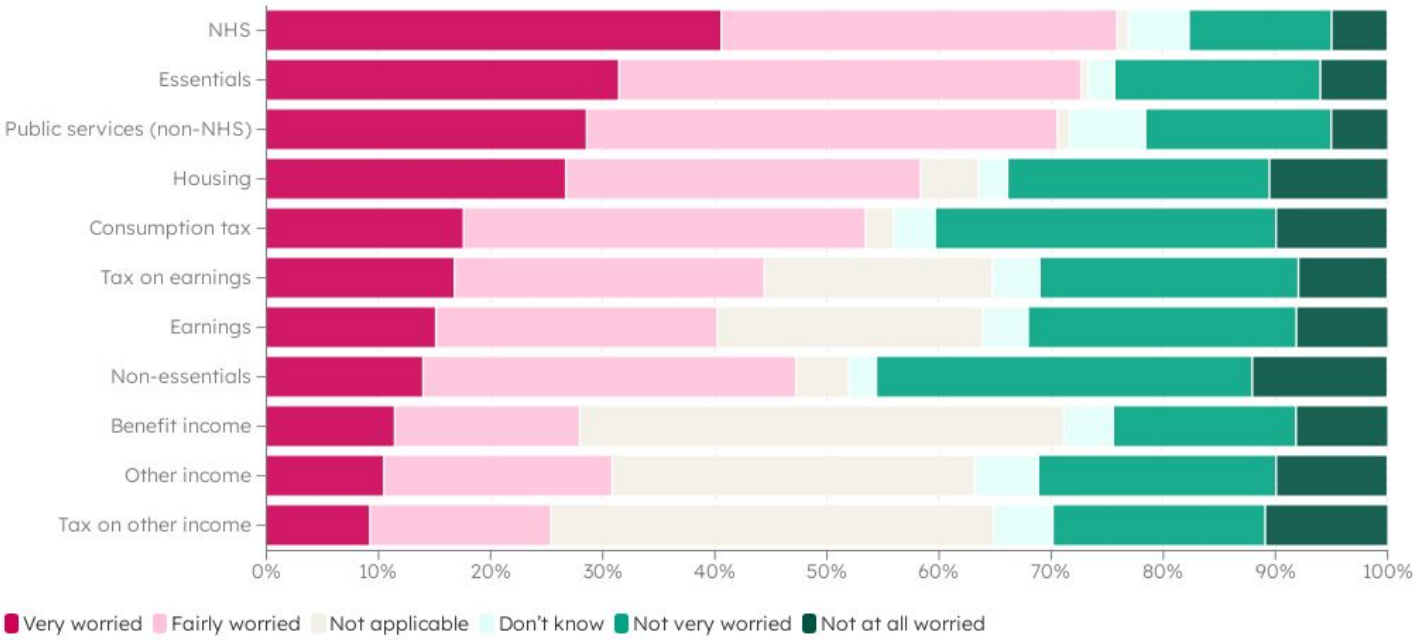
We used the same categories to explore both public preferences and opinions as well as modelled economic impacts. On the polling side, we worked with YouGov to ask a UK representative sample of 4,737 people a number of questions, including to what extent they are worried about their personal circumstances over the next 12 months with respect to each category, and to what extent they hold government responsible for these areas of economic resource. The survey took place 1-5 February, and a full description of our methodology can be found in Appendix 1.

On the modelling side, we used a mixture of microsimulation approaches (including making use of IPPR tax-benefit model) and data sources (including national

population surveys, government administrative data and official macroeconomic forecasts). We created a modelled time series for each of the categories in Table 1. Outside of our analysis on public services, the modelling is conducted at the level of households, taking into account both macroeconomic variables such as earnings growth, inflation and interest rates as well as policy variables such the schedules for tax and benefits. Much of this modelling allows for detailed distributional presentations of the data, including by income or household demographics. A full description of our methodology can be found in Appendix 2.

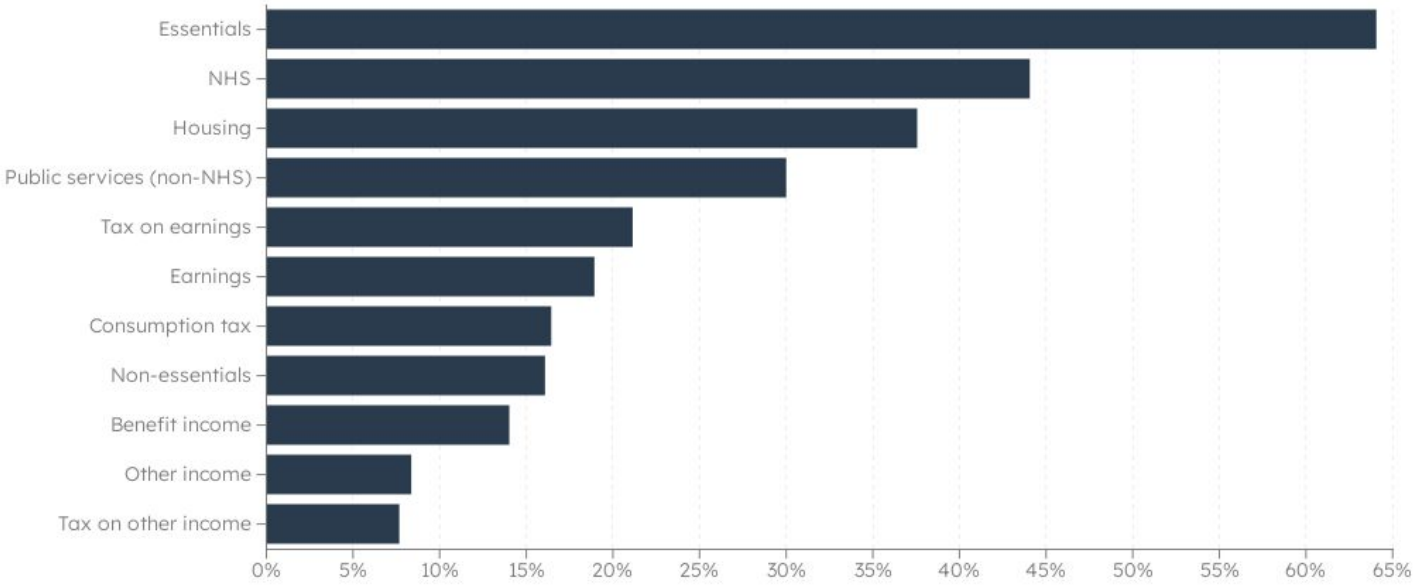
The polling shows that the top concerns for the public are the cost of essentials, public services (both the NHS and non-NHS services respectively) and housing (see Figures 1 and 2 below) and these findings are remarkably consistent across different sections of society.

Figure 1: Proportion of people by how worried they are about each area given their personal circumstances over the next 12 months



Source: JRF analysis of YouGov polling collected 1-5 February 2024. JRF analysis of YouGov polling collected 1-5 February 2024. • The figure displays rounded percentages, so may not add to 100%.

Figure 2: Proportion of people who ranked each area as one of their top 3 concerns over the next 12 months



Source: JRF analysis of YouGov polling collected 1-5 February 2024.

The public's top areas of concern also fit the findings from our modelling exercise. We find that compared with recent years, funding per head for public services is currently weak, real earnings are low and the costs of essentials and housing remain high. Crucially, on average, current forecasts imply that for many of these we will see little improvement by the end of the decade compared with the start, and some will have gotten far worse In the remainder of this report we set out further detail to these findings and trends, as well as arguing for a set of priority actions at the March 2024 Budget.

Essentials

Key findings:

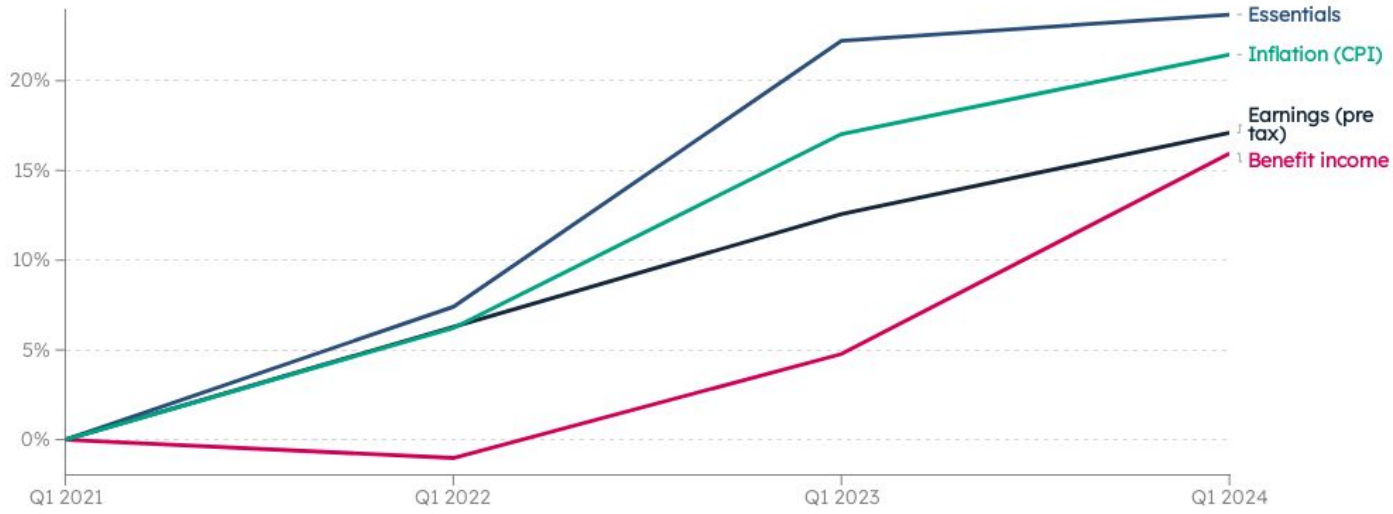
- As of today (Q1 2024) the average family is still spending £270 more a year (2024 prices) on essentials compared with Q1 2021.
- On average, essentials will remain less affordable than they were in Q1 2021 - relative to average pre-tax earnings and benefits – until at least Q1 2027 (Relative to post-tax earnings, essentials will remain less affordable until Q1 2028.
- The cost of essentials was ranked No.1 concern by the public, and a total of 73% were either worried or very worried about essentials given their personal circumstances.
- 90% of the public thought that the Government had either complete (21%), most (31%) or some (38%) responsibility for the price of essentials. Only 4% thought the Government had no responsibility.

At the core of the cost of living crisis is the interaction between earnings, benefits and prices – or more precisely, the extent to which increases in the first two have failed to keep pace with the latter. Despite earnings and benefit income growing in nominal terms (before accounting for inflation) over the past two years, imported price increases have eaten away at purchasing power and reduced real living standards (see Figure 3 below).

This was driven by inputs such as food and energy that disproportionately effected the price of essential goods and services. Between the start of 2021 and the

beginning of 2024, the average price of items in the JRF essentials basket (including things like food, electricity and transport, but excluding housing – see Appendix 2 for details) rose faster than inflation (consumer price index, CPI), average household pre-tax earnings, and household benefit income (see Figure 3 below).

Figure 3: Percentage change in the nominal cost of items in the JRF essentials basket for the average household, average pre-tax household earnings, average household benefit income and the consumer price index, Q1 2021 to Q1 2029



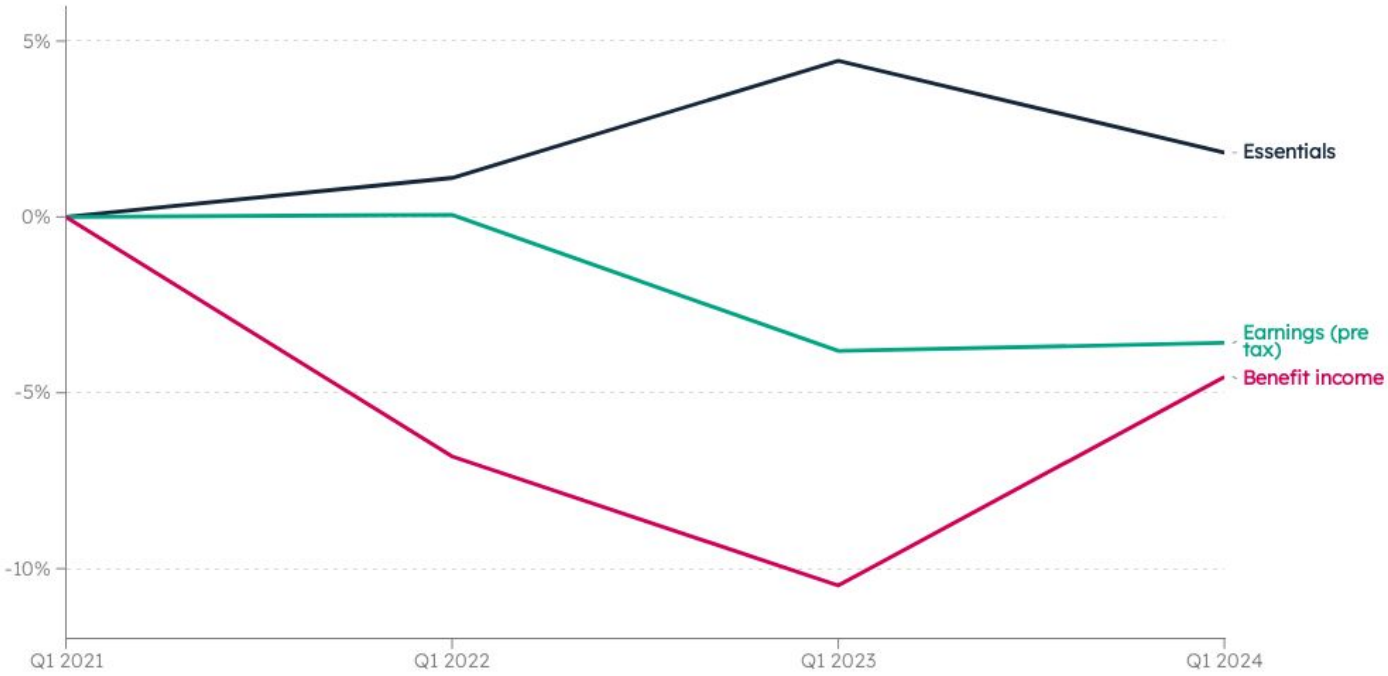
Source: JRF microsimulation analysis. Earnings and benefit income projected using the IPPR tax and benefit microsimulation model. Cost of essentials projected using data from the Living Costs and Food Survey and OBR CPI projections. CPI based on OBR's november forecast adjusted inline with the Bank of England's february forecast. See appendix for details.

Over this period, Government did introduce a number of support measures to soften the blow. The Energy Price Guarantee lowered the peak in inflation for energy prices (Department for Energy Security and Net Zero, 2024), and therefore CPI too (ONS, 2023). Additional cash support for energy bills and elevated costs more generally was

also made available, particularly for families in receipt of means-tested benefits (Office for Budget Responsibility, 2022). However this cash support was temporary, and did not change the permanent rates of entitlement for benefit recipients. From April 2024 onwards, much of this temporary Government support will have expired altogether.

More importantly, it was also insufficient. In real terms (adjusting for CPI) the basket of essential items for the average household rose rapidly. As of today (Q1 2024) the average family is still spending £270 more a year (2024 prices) on essentials compared with Q1 2021. At the same time, real average pre-tax earnings and benefit income (respectively) in Q1 2024 remained below Q1 2021 levels (see Figure 4 below).

Figure 4: Real percentage change (CPI adjusted) in the cost of items in the JRF essentials basket for the average household, average pre-tax household earnings and average household benefit income, Q1 2021 to Q1 2024



Source: JRF microsimulation analysis. Earnings and benefit income projected using the IPPR tax and benefit microsimulation model. Cost of essentials projected using data from the Living Costs and Food Survey and OBR CPI projections. See appendix for details.

The current salience of concern for price increases mirrors these recent trends in the wider macro economy. Our polling analysis shows that the price of essential goods and services (such as food and household bills but excluding housing costs), was among the areas of greatest concern (73% were either 'very worried' or 'fairly worried'), and this was remarkably consistent across different sections of society, as seen in Table 2. These figures were far higher than the average level of concern about income from work (40%), taxation of earnings (44%) and benefit income (28%).

Concern for earnings and the taxation of earnings was slightly higher among working-age adults only (49% and 52% respectively), but still well below the levels of concern expressed for essentials (75%) from this group. Concern about benefit income was also predictably higher (49%) for those among the poorest fifth of households than for the population as a whole, but this group were also far more concerned about the price of essentials overall (81%).

The public also think that government holds considerable responsibility for essentials. Nine in 10 (90%) people thought that government had either complete (21%), most (31%) or some (38%) responsibility for the price of essentials. Only 4% thought government had no responsibility, while 6% didn't know.

Table 2: Concern over the price of essentials by the proportion of people who were 'worried', ranked it as a top 3 concern and by government responsibility, by different demographics

Demographic		Total 'worried' about price of essentials	Consider price of essentials a top 3 concern	Think the government has complete, most or some of the responsibility for the price of essentials
Total population		73%	64%	90%

Demographic		Total 'worried' about price of essentials	Consider price of essentials a top 3 concern	Think the government has complete, most or some of the responsibility for the price of essentials
Income	Lowest income (0-20%)	81%	69%	87%
	Middle income (40-60%)	74%	65%	93%
	Highest income (80-100%)	61%	54%	95%
Voting intention	Conservative	61%	57%	90%
	Labour	78%	67%	94%
	Don't know	76%	67%	90%
Benefit status	Means tested benefits	83%	69%	87%

Demographic		Total 'worried' about price of essentials	Consider price of essentials a top 3 concern	Think the government has complete, most or some of the responsibility for the price of essentials
No Benefits	70%	63%	91%	
Age	Working age	75%	63%	90%
	Pension age	66%	67%	91%
Children	Has children	78%	66%	92%
	No children	71%	64%	91%
Ethnicity	Black	74%	50%	82%
	Asian	78%	62%	92%
	Mixed and Other	69%	58%	89%
	White	72%	65%	91%

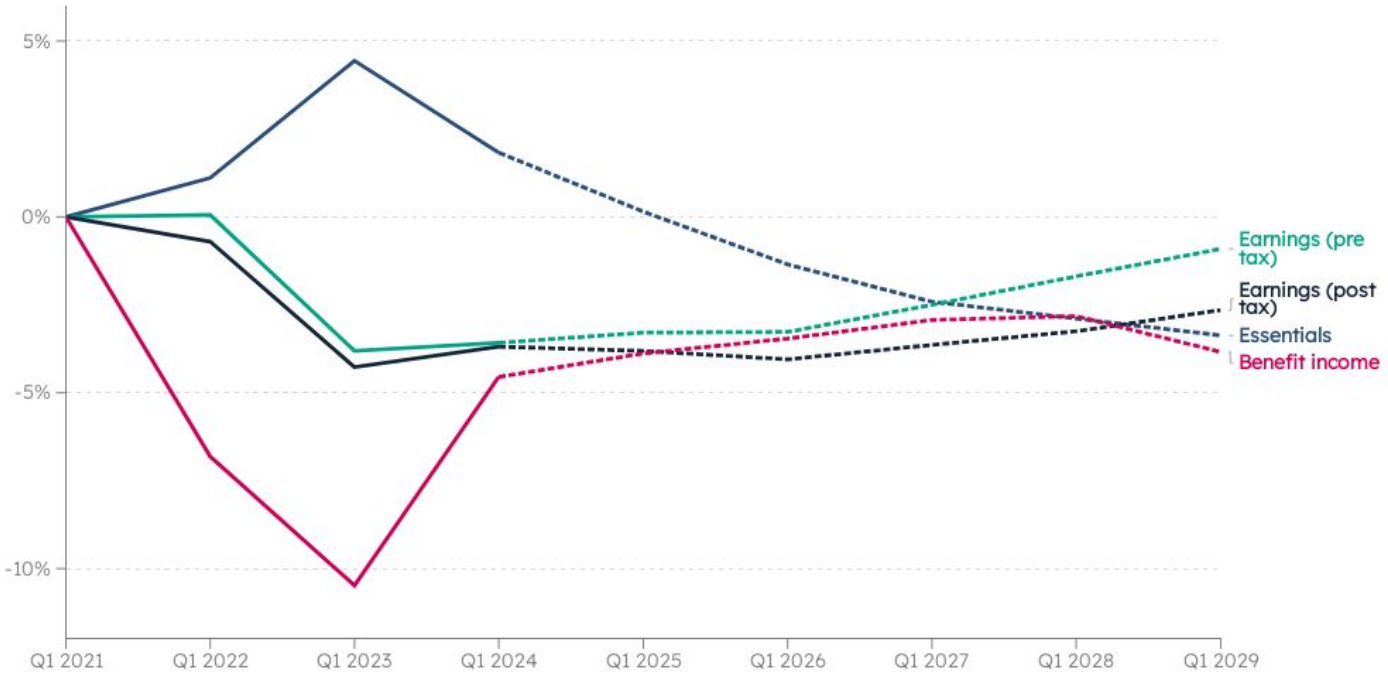
Source: JRF analysis of YouGov polling collected 1-5 February 2024.

Notes: Total worried is the sum of the proportion of people who said they were very or fairly worried about the price of essentials over the next 12 months. Complete or most of the responsibility is the sum of the proportion of people who said the Government had complete or most of the responsibility for making changes to the price of essentials.

Looking forward, the immediate economic outlook going into the 2024 March Budget is likely to bring a mixture of challenge and respite for families. By adjusting the OBR's autumn forecast in line with the latest revisions between the Bank of England's February forecast compared with their November forecast, we are able to provide an indication of the type of projection the Chancellor might be handed in a few days' time.

Running this adjusted forecast data through our various microsimulation analyses shows that real pre-tax earnings will remain below Q1 2021 levels across the forecast period(see Figure 5 below). Unless there is another imported price shock, the cost of essentials for the average family will fall gradually in real terms over the next five years. But with precious little growth in real household pre-tax earnings or benefit income, essentials will remain less affordable than they were in Q1 2021 - relative to pre-tax earnings and benefits – until Q1 2027. As a proportion of post-tax earnings from work, essentials won't return to Q1 2021 levels until Q1 2028.

Figure 5: Real percentage change (CPI adjusted) in the cost of items in the JRF essentials basket for the average household, average pre-tax household earnings, average post-tax earnings and average household benefit income, Q1 2021 to Q1 2029



Source: JRF microsimulation analysis. Earnings and benefit income projected using the IPPR tax and benefit microsimulation model. Cost of essentials projected using data from the Living Costs and Food Survey and OBR CPI projections. See appendix for details.

Income and tax from work and capital

Key findings:

- Average household post-tax earnings from work are £1,870 lower today (Q1 2024) than they were at the beginning of 2021, and by the end of the decade (Q1 2029) they will still £1,340 lower compared with 2021.

- 44% of the public were worried or very worried about tax on earnings compared with just 25% worried or very worried about tax on other sources of (capital) income
- Other income and tax on other income had the lowest proportions of people 'very worried'.
- Other income and tax on other income were the least likely two areas to be ranked as a top three concern (both 8%).

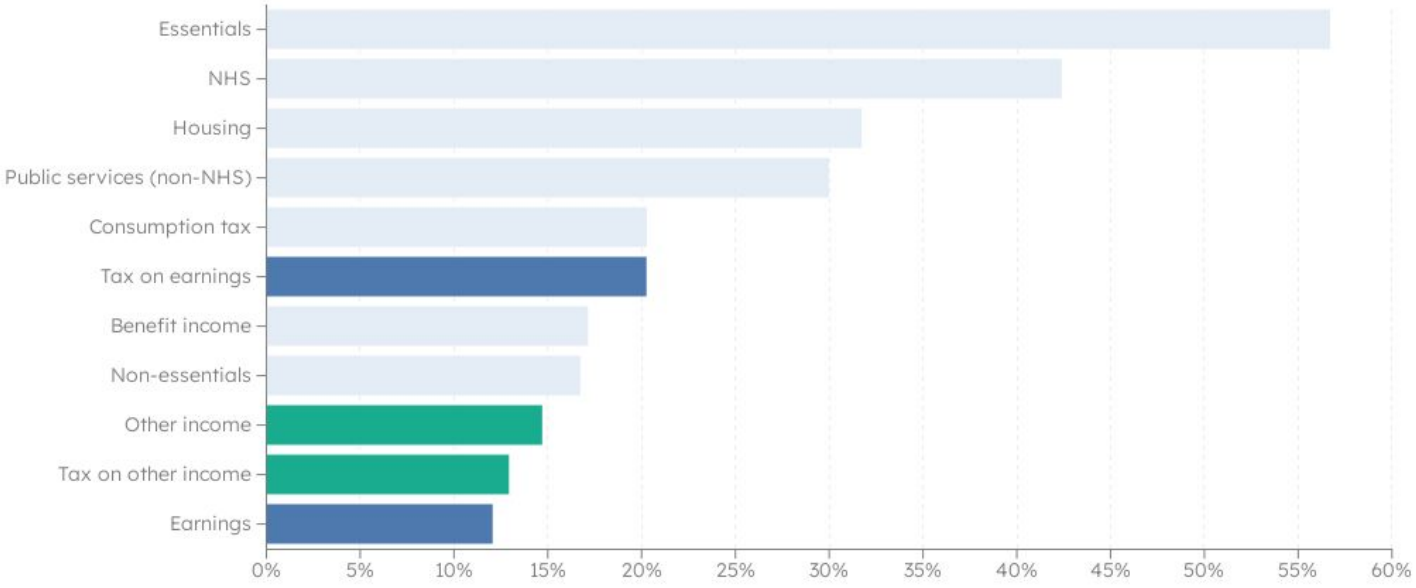
Much of the Government's recent policy focus has been on the taxation of income (whether personal or business), but the direction of policy change has been erratic in recent years. Even putting aside the introduction, and eventual withdrawal, of the now infamous 2022 'mini-budget' (House of Commons Library, 2022), much of the Government's biggest moves on tax have swerved in opposing directions. The 'health and social care levy' (largely made up of an increase in headline rates of National Insurance and worth upwards of £20 billion a year in the second half of the 2020s), was introduced and then reversed in the space of 12 months between 2021 and 2022 (House of Commons Library, 2022). National Insurance rates were then cut even further still in autumn 2023, alongside generous capital allowances in corporation tax being made permanent – at an eventual cost of around £10 billion a year each (HM Treasury, 2023).

But in terms of the overall tax share, all of this is dwarfed by the effects of so called 'fiscal drag' (whereby tax thresholds are held constant in cash terms rather than rising with inflation) introduced by Rishi Sunak in 2021, when Chancellor. As more and more people see their gross incomes grow beyond various (now frozen) thresholds of

taxation, the share of taxation on income rises too. The initial intention for these measures was to raise a little over £10 billion a year by 2028, but the significant spike in inflation during 2022 pushed this up significantly to an expected £45 billion a year by 2028/29 (Office for Budget Responsibility, 2023. This, alongside other measures, means that the tax share in the UK is gradually rising – a trend that is common to most advanced economies seeking to maintain (or limit the deterioration in) the quality of public provision in view of an aging population (OECD).

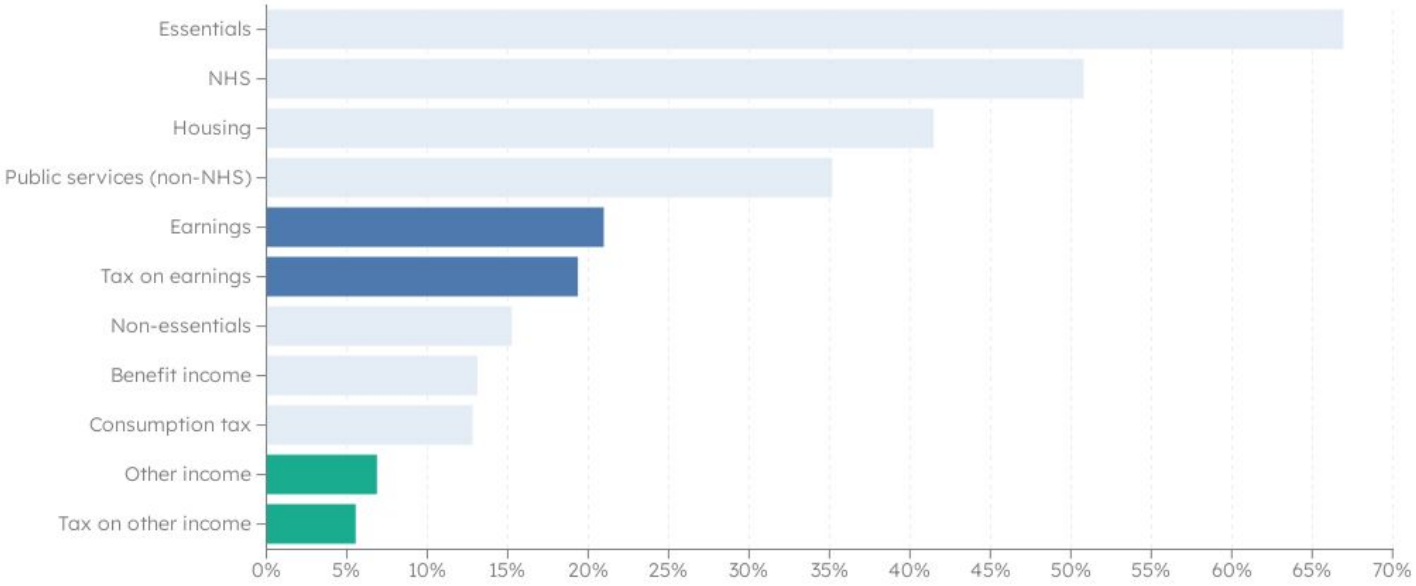
Despite this, the UK public appear to be relatively sanguine about the apparent pressures from taxation, but there is a clear differential with respect to the type of income. Our polling showed that 44% of all adults were worried about the effects of tax on earnings when thinking about their personal circumstances, and 25% were worried about tax on other income (largely capital income, whether personal or corporate), which is similar to the differential in concern about earnings from work compared with other income. Worry about taxation on earnings increases when you look only at working-age people in employment (58%), but still lags behind worries about essentials and public services. Both income from sources beyond earnings and benefits, and the taxation of this income, were ranked in the bottom three concerns across all income deciles, and across people currently intending to vote Labour, Conservative or who don’t know, as seen in Figure 6, 7 and 8.

Figure 6: Proportion of people currently intending to vote Conservative who ranked each economic concern as one of their top 3 concerns



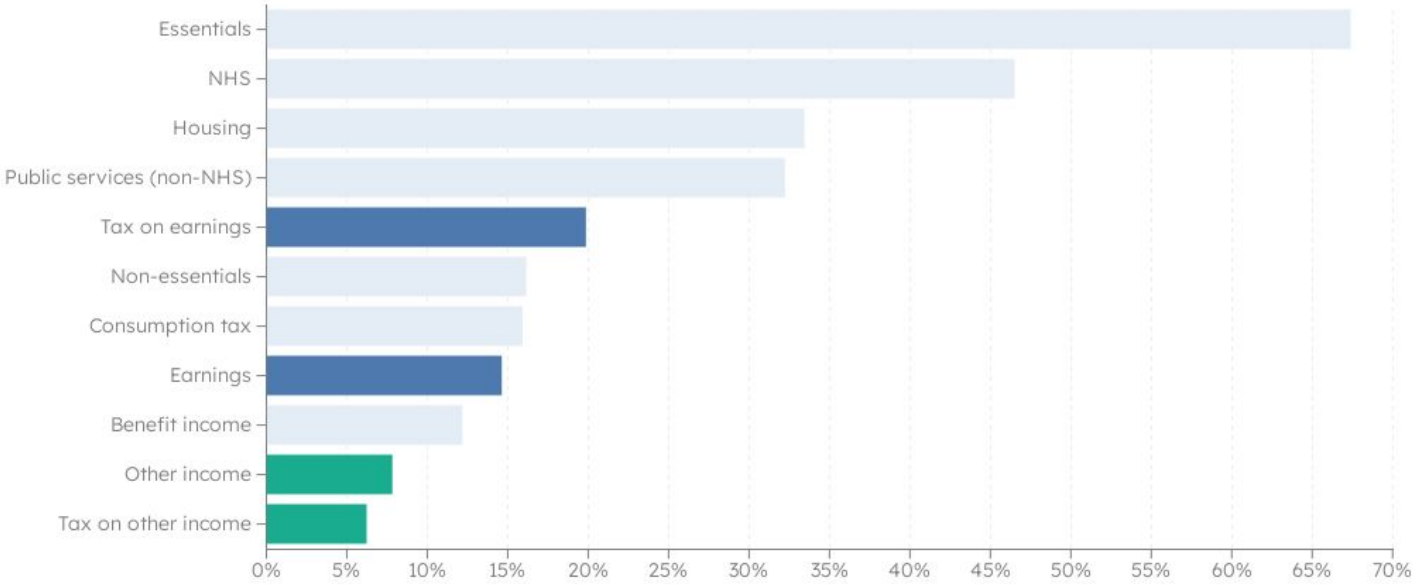
Source: JRF analysis of YouGov polling collected 1-5 February 2024.

Figure 7: Proportion of people currently intending to vote Labour who ranked each economic concern as one of their top 3 concerns



Source: JRF analysis of YouGov polling collected 1-5 February 2024.

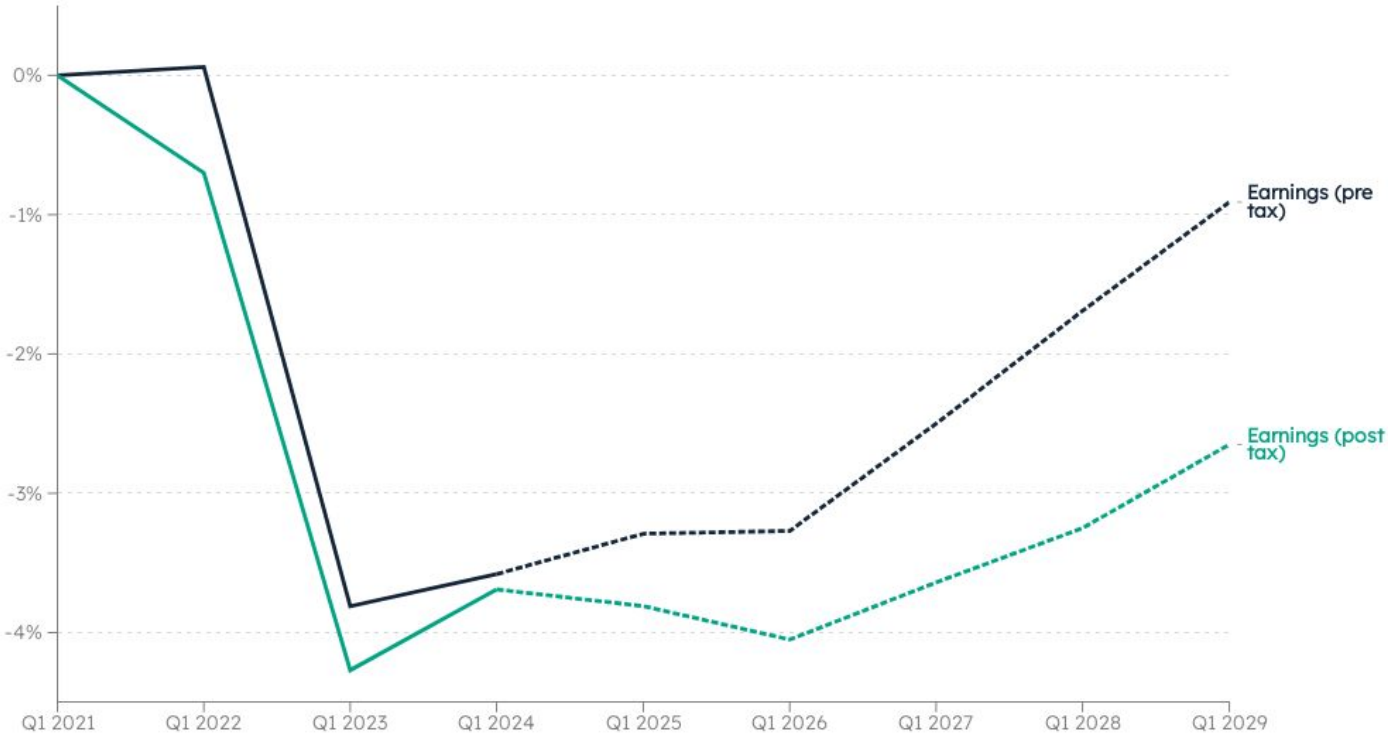
Figure 8: Proportion of people who currently don't know who they would vote for who ranked each economic concern as one of their top 3 concerns



Source: JRF analysis of YouGov polling collected 1-5 February 2024.

This gradient in concern for tax by source of income is prescient. Between Q1 2022 and Q1 2029, our modelling suggests the share of tax on earnings is growing – likely driven by fiscal drag The result is that for the average working family, annual post-tax earnings are £1,870 (2024 prices) lower today (Q1 2024) compared with the start of 2021. On current projections this hit to living standards is largely set to stay; by Q1 2029 average household earnings will still be £1,340 lower than they were in Q1 2021. Over the same period we do not see the same increase in the share of tax on other sources of income, including dividends, capital gains, interest on savings and private pensions.

Figure 9: Real percentage change (CPI adjusted) in average pre- and post-tax household earnings, Q1 2021 to Q1 2029



Source: JRF microsimulation analysis using the IPPR tax and benefit microsimulation model. See appendix for details.

Housing

Key findings:

- By Q1 2029, after excluding those who own their home without a mortgage, we estimate the average family will be spending £1,690 more a year in real terms on housing (including Council Tax), compared with Q1 2021 (2024

prices).

- The cost of housing ranked as the No.3 concern for the whole population, and was No.2 concern (second to essentials but above the NHS) for everyone excluding those who owned their home outright.
- 87% of the public thought the government had complete (22%), most (28%) or some (37%) of the responsibility for housing, of those who answered, only 7% thought the government had no responsibility.

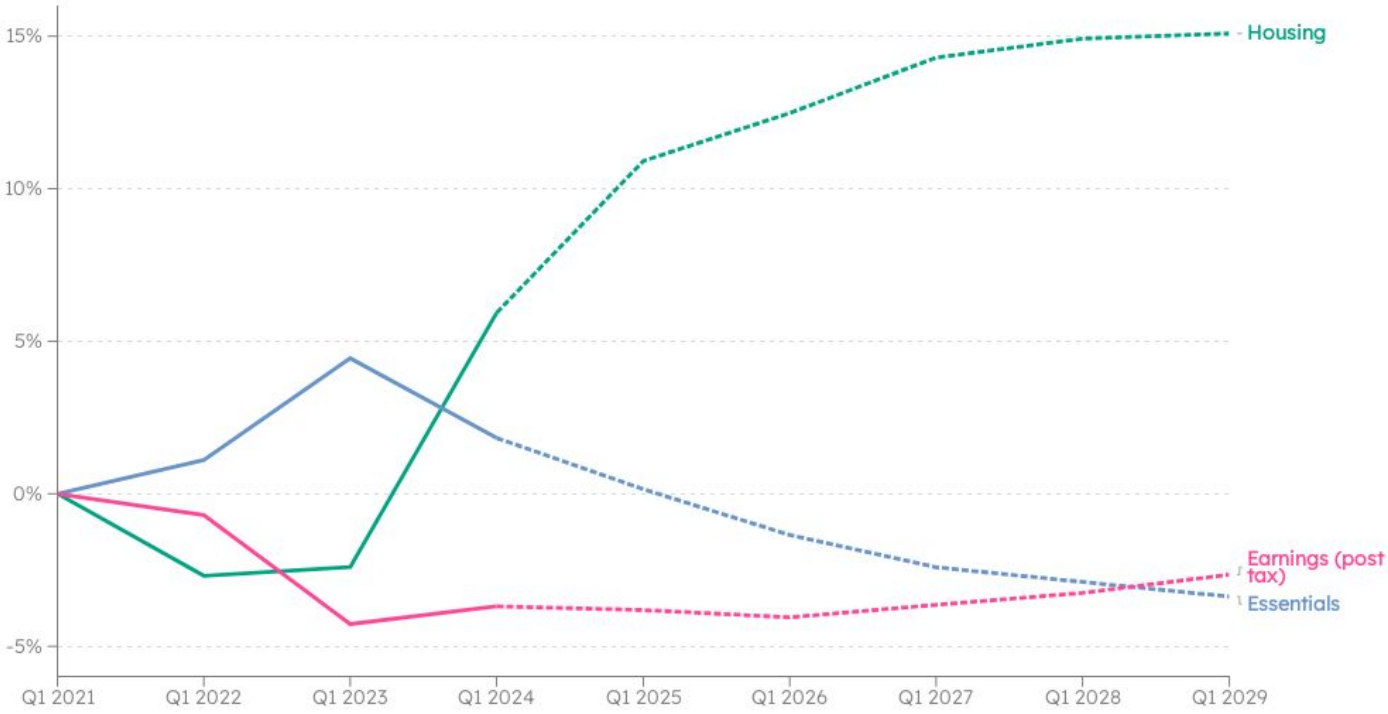
Because of the unique nature of housing markets and provision across the economy and society, we treat this separately from the rest of the 'basket' of essential goods and services. The affordability of housing was an indirect casualty of the cost of living crisis in at least three important ways. First, the housing market contains a key transmission mechanism for monetary policy; higher interest rates are used to offset inflation through reduced consumer demand via the mortgage market. Many owner-occupiers with a mortgage will continue to see their costs accelerate even if interest rates start to come down from their peak, because borrowers' older, lower-rate mortgages will continue to end, exposing them to higher interest rates as they renegotiate their deals.

Second, private rents have also risen rapidly, as landlords seek to grow their rental income against a backdrop of rising nominal earnings, as well as pass on their own higher costs from buy-to-let mortgages, where possible. Third, social rents have also been rising as home maintenance costs (labour and materials) have risen with the cost of living crisis generally. There has been some minimal provision from Government to offset some of these effects. Social rents were capped in 2023/24 and

will be again in 2024/25 (though the increases still exceed actual and expected earnings growth for those years), access to Support for Mortgage Interest was speeded up and widened in 2022 (though there was no increase in generosity) and last autumn Local Housing Allowance was restored at the 30th percentile of market rents (though the rates remain frozen so this restoration is only temporary).

The inadequacy of these support measures is made evident by our modelled household level effects. Overall, housing costs have accelerated ahead of inflation and incomes, and the gap is likely to widen throughout the rest of the decade. Outside of those who own their home without a mortgage, by Q1 2029 this would imply that the average family will be spending 22% of their total post-tax income (from all sources) on housing, up from 18% in Q1 2021 and 21% today (Q1 2024). That's an increase of £1,690 a year (2024 prices) by Q1 2029 compared with Q1 2021, largely driven by increased costs for those with a mortgage due to higher interest rates. For those among the poorest 40% of households (excluding those who own without a mortgage) we estimate housing costs rising to 38% of total post-tax income by Q1 2028, up from 35% in Q1 2021.

Figure 10: Real percentage change (CPI adjusted) in the cost of items in the JRF essentials 'basket', housing costs and post-tax earnings, Q1 2021 to Q1 2029

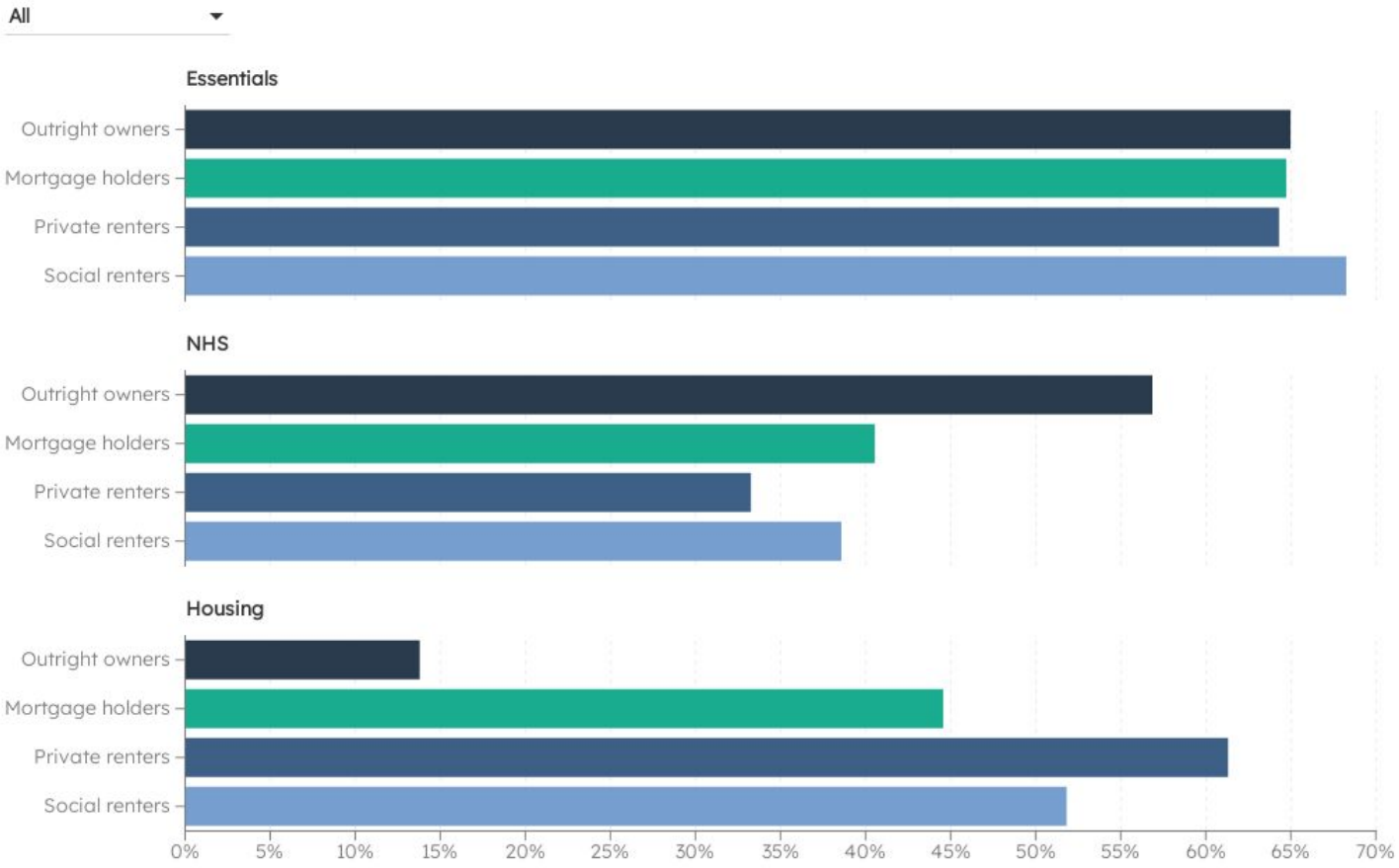


Source: JRF microsimulation analysis. Earnings and benefit income projected using the IPPR tax and benefit microsimulation model. Cost of essentials projected using data from the Living Costs and Food Survey and OBR CPI projections. See appendix for details.

Public concern from these outcomes and trends comes through strongly in our polling analysis. Housing was chosen by 38% of the public as one of the top 3 economic issues they were most concerned about over the next 12 months (see Figure 11 below). Only the price of essentials (chosen by 64% of the public) and funding for the NHS (44%) ranked higher. But once those who own their home outright are taken out of the sample, these numbers rise considerably. 45% of mortgage holders, 61% of private renters and 52% of social renters ranked housing costs as one of their top 3 issues – making it the second most important area of concern for these groups,

behind only the price of essentials. Furthermore, nearly 9 in 10 (87%) of the public thought the government had complete (22%), most (28%) or some (37%) of the responsibility for housing. Only 7% thought the government had no responsibility, while 7% didn't know.

Figure 11: Top 3 ranked concerns by the total population, split by proportion of people who ranked each in their top 3 by housing tenure



Source: JRF analysis of YouGov polling collected 1-5 February 2024. • Housing costs included mortgage, rent and council tax as examples in the polling, hence some outright owners expressing concern over their housing costs.

Public Services

Key findings:

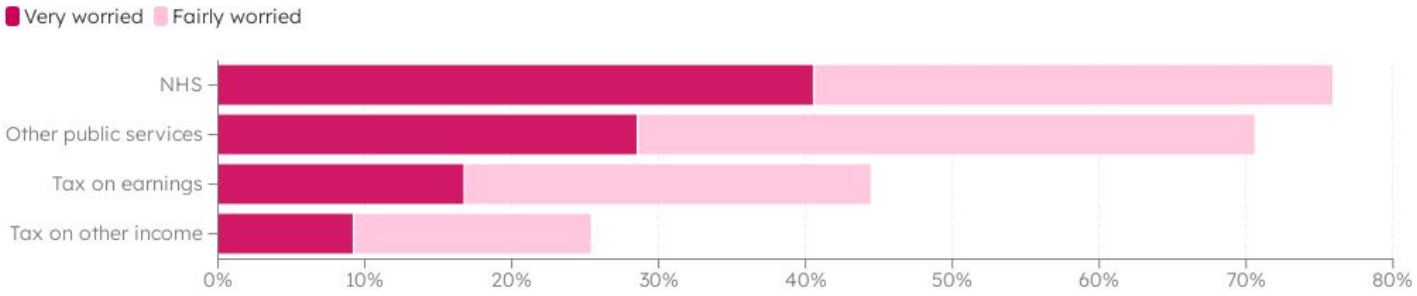
- real terms spending per head on the NHS is not set to recover 2022/23 levels until 2026/27
- by 2028/29, annual spending per head on services outside the NHS is projected to be £430 lower than it was in 2022/23 (all in 2023/24 prices)
- a far higher proportion of the public were 'worried' or 'very worried' about funding for the NHS (76%) and non-NHS public services (71%), compared with concern for tax on earnings (44%).

The current strain on public services is palpable. It comes following three waves of pressure: first from deliberate and discretionary cuts to spending during the 2010s, then a surge in demand (on already reduced capacity) due to the pandemic, and then a final round of real-terms spending cuts during the cost of living crisis, this time as soaring inflation diminished the spending power of department budgets.

The results have been as grim as they were predictable. Elevated NHS waiting times, crumbling school buildings, and workforce strikes, have all come to symbolise the strain of an under resourced public realm. The immediate consequences – in terms of worsening health outcomes and a demoralised workforce – are already having significant feedback effects on wider society and the economy as a whole (Office for Budget Responsibility, 2023).

The degree to which this deterioration has cut through to the public is made evident by our polling analysis. Both the NHS, and public services outside of the NHS, feature prominently in people's concerns. More people were worried about funding the NHS (76%) than any other part of the economy we asked about, and concern for funding non-NHS public services (71%) was similar to concern for essentials (73%). This was also remarkably consistent across different parts of the population. For example, the funding of both the NHS and other public services were in the top 3 worries for all income quintiles, and for those currently intending to vote Labour, Conservative or unsure of their vote. Public worry over the NHS and other public services also far outstrips any concerns around taxation, as seen in Figure 12 below.

Figure 12: Proportion of people very or fairly worried for public services compared to taxation, over the next 12 months



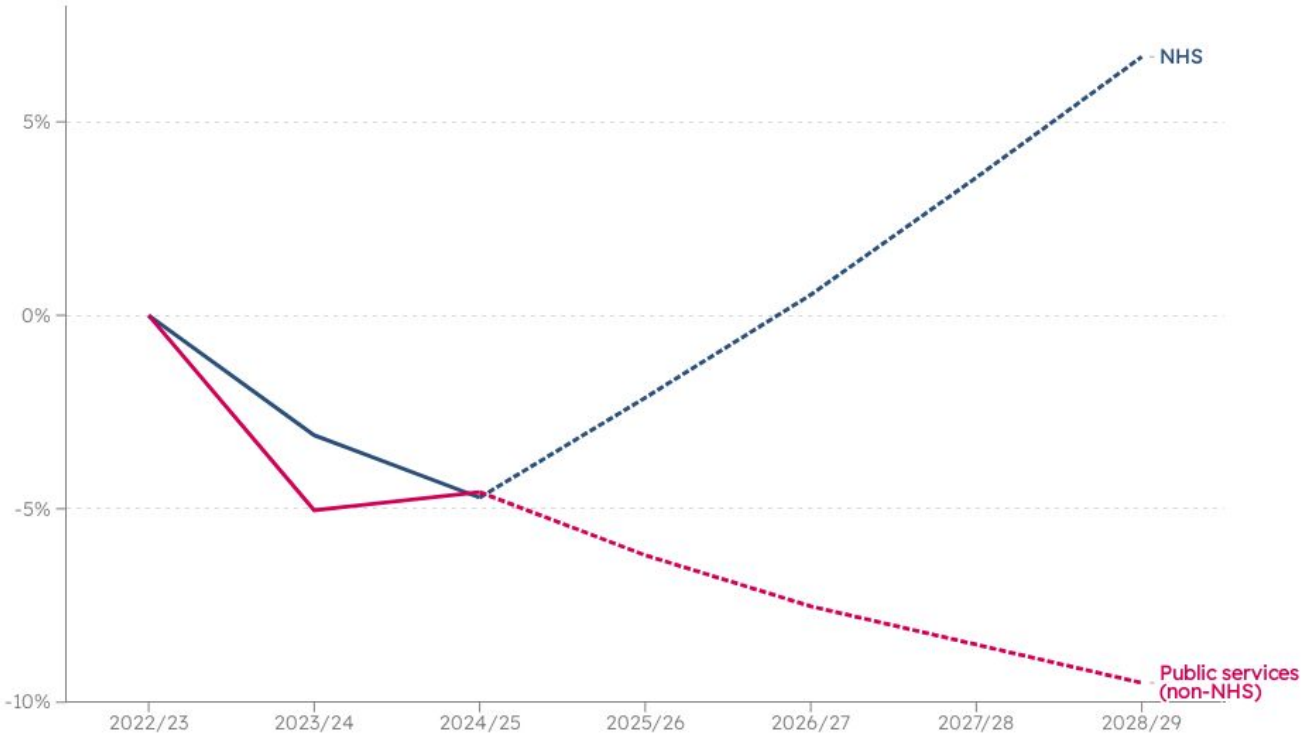
Source: JRF analysis of YouGov polling conducted 1-2 February 2024

Looking ahead, changes to the fiscal outlook since the 2023 Autumn Statement are mixed. In the short term, inflation has fallen faster than expected in the months following November, GDP has come in lower than expected too, with a contraction in

the final three months of 2023. Having initially fallen back at the beginning of the year, Government borrowing costs are also now back at similar levels to where they were in the autumn. Taking all these things together, the so called 'headroom' – scope to increase spending (or cut taxes) without increasing (other) taxes or breaching the rules for debt and borrowing that the Government have set themselves – is likely to be relatively unchanged (with current reported estimates suggesting it could change by as little as £10 billion a year in either direction).

This means that despite the recent and substantive deterioration in public service provision, and the high levels of public concern for public service funding, the current policy position is still set to make things even worse. In effect, the £20 billion a year of fresh tax cuts announced at the 2023 Autumn Statement were 'paid for' by not increasing total spending on government departments in line with inflation, saving a little over £19 billion a year by the end of the decade. Analysis for this briefing shows what the latest forecasts for inflation and population growth imply for public spending per head on both the NHS and non-NHS services respectively (see Figure 13 below).

Figure 13: Real percentage change (GDP deflated) in the funding per capita for the NHS and other public services, Q1 2022 to Q1 2029



Source: JRF analysis using HMT outturn data, OBR projections of spend, and ONS population projections. See appendix for details.

Real NHS spending per head has been squeezed in recent years due to elevated inflation, and is not expected to return to 2022/23 levels of per capita spending until 2026/27. Outside of the NHS, the story is even worse. There is no recovery in real spending per head following the effects of the cost of living crisis. By 2028/29, spending per head on services outside the NHS is projected to be £430 lower than it was in 2022/23 (2023/24 prices). We also know this understates the depth of implied per capita cuts to certain departments outside health. Some areas outside of the NHS, such as defence, education and foreign, commonwealth and development

budgets, also have their own spending protections. This means real terms cuts per head for areas such as justice and local government services are likely to be even deeper than those implied by the headline for non-NHS spending.

Asks for the Spring Budget

The current moment is one of an enduring living standards crisis. Material hardship is already at unprecedented levels, and high interest rates and labour market fragility continue to add further pressure. The fact this is the economic backdrop in an election year only makes it more dangerous. Between now and when the public go to the polls, politicians will naturally place a higher premium on electoral calculations than on lasting solutions to what is a series of national crises.

For the current Government, that likely means a continued focus on tax cuts. Observed behaviour would suggest this is unlikely to be done in a way that is well targeted, either in terms of addressing inequities in tax treatment between labour income and capital income, or in terms of channelling support through the tax system to where it is needed most to address the cost of living crisis. In truth, outside of taper rates in the benefit system, the structure of the UK tax system is not conducive to distributing support efficiently to people in hardship: the more in need you are of support, the less tax (if any) you are likely to be paying on your financial transactions. Worse still, observed behaviour (as well as stated intention) tells us that the Government is willing to effectively pay for further tax cuts by putting public services on an even less sustainable footing. To paraphrase the chair of the Office for Budget Responsibility, it is true that much of these spending cuts are likely to be a ‘fiction’, given they are undeliverable in practice (The Guardian, 2023). But even unrealistic plans today can set the course for tomorrow.

For the opposition, defending a large polling lead makes them less likely to attempt to create new momentum on policy solutions – from benefit adequacy, to service delivery, or to market reform. That means precious time and oxygen are lost to the ideas debate, and with it the impetus and pressure for immediate and effective action. We can ill afford this as a nation. Inaction now will come at a high price for people living at the sharp end of the crisis, both today and in the future.

Optimism should come from the fact that many of these challenges are ultimately political in nature, as opposed to insurmountable economic realities. With the right political will, they could be turned around at the coming Budget. Such a Budget would need to have two clear priorities.[i]

First, there is a need to ramp up immediate targeted welfare for families, through existing channels of support. This should include things like: a commitment to retaining and strengthening the Household Support Fund, enabling households to afford their housing costs by ensuring Local Housing Allowance and Support for Mortgage Interest are adequate and work as intended and perhaps most important of all, protecting spending per head on public services in real-terms.

Second, we must start to build the foundations for a much stronger social settlement that can provide proper economic security to families both now and for the long-term. This would mean rejuvenated effort and attention from all political parties on areas like strengthening Universal Credit (UC). This should start with commitment to an Essentials Guarantee in UC, to ensure everyone has a protected minimum amount of support to afford life's essentials. It would also mean reform to the housing market

to ensure more affordable and secure tenures are available where they are needed most. It would mean a redesign of employment services with an emphasis away from monitoring and compliance and towards engagement and supporting people back into the right type of work. And finally, a rethink of our care infrastructure so that parents have access to the right kind of childcare that allows them to work if they want to, as well as proper financial support for people who need to temporarily step away from work to help care for a loved one.

Focusing political energy and policy innovation at lasting solutions is needed now to prevent the situation getting worse. Government needs to chart a course for a sustained recovery in living standards for people who need it most, and to rebuild the kind of lasting economic security in the UK that can prevent such levels of suffering from ever happening again. It is perhaps an ambitious agenda, but given the level and urgency of need, anything short of this on the 6 March should be considered a failure.

Appendix

Further detail on polling methodology

We commissioned public attitudes polling from YouGov. All public attitudes figures, unless otherwise stated, are from YouGov Plc. The total sample size was 4,737 UK adults. Field work was undertaken between 1-5 February 2024. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+). The analysis of these figures is JRF's own.

The questions asked were:

1. Which of the following, if any, do you think are the most important issues facing the UK today? Please rank up to 3:

- health
- immigration and asylum
- crime
- the economy
- tax
- pensions
- education
- family life and childcare
- housing
- the environment

- Britain leaving the EU
- transport
- welfare benefits
- defence and security.

2. Thinking about your personal circumstances over the next 12 months, how worried are you, if at all, about each of the following:

- the cost of your housing - rent, mortgage or council tax
- the price of essentials other than housing - food, home heating, basic household goods, utility bills
- the price of non-essentials - meals out, holidays, activities
- how much tax you pay on things you buy - VAT, alcohol duty, fuel duty
- your income from work before tax - your annual salary or your hourly pay
- how much tax you pay on earnings from work - income tax, national insurance
- your income from benefits - universal credit, state pensions
- your income before tax from other sources - private pensions, rental income, capital gains
- how much tax you pay on your investments and profits - capital gains tax, corporation tax and inheritance tax
- the amount of funding for the NHS
- the amount of funding for other public services e.g. police, education, adult social care, refuse collection.

Response options:

- very worried
- fairly worried
- not very worried
- not at all worried
- not applicable
- don’t know.

3. Thinking again about your personal circumstances, which of the following are you most concerned about in the next 12 months? Please select up to 3:

- the cost of your housing - rent, mortgage or council tax
- the price of essentials other than housing - food, home heating, basic household goods, utility bills
- the price of non-essentials - meals out, holidays, activities
- how much tax you pay on things you buy - VAT, alcohol duty, fuel duty
- your income from work before tax - your annual salary or your hourly pay
- how much tax you pay on earnings from work - income tax, national insurance
- your income from benefits - universal credit, state pensions
- your income before tax from other sources - private pensions, rental income, capital gains
- how much tax you pay on your investments and profits - capital gains tax, corporation tax and inheritance tax

- the amount of funding for the NHS
- the amount of funding for other public services - police, education, adult social care, refuse collection.

4. How much responsibility, if any, do you think the UK government has for making changes in each of the following areas:

- the cost of your housing - rent, mortgage or council tax
- the price of essentials other than housing - food, home heating, basic household goods, utility bills
- the price of non-essentials - meals out, holidays, activities
- how much tax you pay on things you buy - VAT, alcohol duty, fuel duty
- your income from work before tax - your annual salary or your hourly pay
- how much tax you pay on earnings from work - income tax, national insurance
- your income from benefits - universal credit, state pensions
- your income before tax from other sources - private pensions, rental income, capital gains
- how much tax you pay on your investments and profits - capital gains tax, corporation tax and inheritance tax
- the amount of funding for the NHS
- the amount of funding for other public services - police, education, adult social care, refuse collection.

Response options:

- complete responsibility
- most of the responsibility
- some of the responsibility
- no responsibility at all
- don't know.

Further detail on modelling methodology

The modelling analysis in this report uses three main methodologies

- **Method 1 (income tax and housing)** – forecasts generated using 2021/22 survey data (FRS) and the IPPR Tax-Benefit Model.
- **Method 2 (essential and non-essential household spending)** – forecasts generated using 2021/22 survey data (LCF) combined with OBR data on drivers of inflation.
- **Method 3 (NHS and public services funding)** – forecasts taken from HMT, OBR and using ONS population projection data.

Notes on Method 1

This analysis uses the Family Resources Survey (2021/22) and the IPPR Tax-Benefit Model to project household income, housing, and tax expenditure for February of each forecast year. The model takes the base survey data to a given month (February in this instance) and then applies inflation and the known or anticipated tax and benefit policy regimes to project household incomes and tax liabilities in future years.

The IPPR Tax-Benefit Model uses OBR projections of CPI and AWE to uprate 2021/22 survey data to future years. At the time of publishing, the latest OBR estimates of these were published in November 2023. To bring them further up to date we calculated the ratio difference between the Bank of England's November and February forecasts, and applied the same ratio to the OBR forecast.

All projected household income and expenditure is converted into 2024 Q1 prices (unless explicitly stated otherwise) for which we use the same adjusted CPI.

Notes on Method 2

This analysis starts with the Living Costs and Food survey (2021/22) where we look at spend on essentials and non-essentials for that year, with essential categories matching up those in JRF and Trussell's campaign for an Essentials Guarantee in Universal Credit. We then apply the relevant published CPI sub-indices to the essentials costs and use the residual from the combination of this and rents to deduce inflation in non-essentials. This allows us to look at price changes for 2021/22 to the latest published data, covering January 2024. To project these values forward we use OBR analysis of which components drive changes in inflation, as shown in Chart 2.4 of their November 2023 Economic and Fiscal Outlook (Office for Budget Responsibility, 2023).

Because we have based our initial spending estimates on Living Costs and Food figures and inconsistencies between the share of essential and non-essential spend on the LCF and those parts of the CPI index making up those categories, weighted changes in spend on essentials, non-essentials and rents derived in this way will differ

from overall forecast CPI.

Note also that our recommended Standard Allowance benefit amounts are based on separate calculations looking mainly at expenditure of singles and couples without children at the bottom of the income distribution, rather than overall averages presented here. Movements in the price of essentials in this paper are indicative of likely trends in the Essentials Guarantee level going forward, but will not match it exactly.

Notes on Method 3

We use HMT's outturn and plans for day-to-day spending by departments (resource departmental expenditure limits, RDEL) published in the Autumn Statement 2022 and 2023 which splits NHS expenditure from other public services. We then apply the published assumption of an annual 3.6% increase in NHS funding during the forecast period, and derive funding of other public services from the OBR's forecast for RDEL from November 2023. We convert total expenditure to a per capita annual amount by applying the ONS's latest population forecast.

We start our projections from 2022/23 in order to reduce the influence of the additional covid spending in both the NHS and other public services in 2020/21 and 2021/22.

Funding for the NHS and public services is taken to 2023/24 prices using the OBR's GDP deflator index from November 2023.

Notes on categories

Income from work is any income earned through employment including self-employment. In the period between March 2020 and September 2021 when some workers were furloughed, total earnings reflect the actual money they received, not their original salaries, and income from the furlough scheme is treated as earnings. Some workers were still furloughed during the FRS survey data collection period, and these workers have been 'unfurloughed' in the model for future forecast periods.

Other income is predominantly made up of income from dividends, savings interest, and private pensions but also includes income from a range of other sources including (but not limited to) royalties, child maintenance, grants, private insurance payments, and statutory pay. A full list of categories is available on request.

Income Tax is calculated for each household and then separated into 'earnings tax' and 'other tax' based on the following criteria:

- Other tax is any tax paid on income treated by the dividend or savings tax thresholds and allowances, plus any other income tax paid by non-earning households.
- Earnings tax is any income tax paid by households with employee or self-employment income, excluding dividend or savings tax.

This means that some income tax will be allocated incorrectly (for example, working households that contain pensioners, will have any tax paid on private pensions allocated to 'earnings tax'). Our hope is to improve on this methodology in future

data releases in order to reduce the level of misallocation.

Housing costs include rent, mortgage payments, council tax, water payments, ground rents and service charges. For some of the analysis we have excluded households who own their housing outright and the small number who are classified as 'rent free' from the calculated average. It is explicit in the report where we have done this. Where we have calculated housing costs as a proportion of income, we take income as unequivalised household income before housing costs are subtracted. We base our deciles on equivalised household income after housing costs.

Income from benefits includes all cash payments received directly to households from local or national government. This includes means-tested benefits (e.g. Universal Credit), non-means tested benefits (e.g. Personal Independence Allowance, Child Benefit, Winter Fuel Allowance), the state pension, and additional 'one off' payments (the cost of living payments). A notable exclusion is the £400 energy payment made to all households in 2022/23. Wage-supplements made via the furlough scheme in 2021 have been included in the 'earned income' category.

Expenditure on essentials includes items we consider to be non-negotiable household spending (except housing costs). These include food, utilities, clothing, household goods, personal care, banking and insurance, transport, and communications. While the categories fit the criteria of 'essential', we don't attempt to make any judgement on spending choices within those categories. For example, while food is an essential category of expenditure, we don't claim that a household's weekly spend on food was all strictly essential. For more information on JRF and

Trussell's essentials basket see Guarantee our Essentials: reforming Universal Credit to ensure we can all afford the essentials in hard times (Joseph Rowntree Foundation and Trussell, 2024).

Expenditure on other 'non-essential' items is calculated by removing housing and essential expenditure from total household spending. Inevitably for some households this category will include expenditure they deem to be 'essential'.

Funding for NHS and other Public Services includes all expenditure (excluding depreciation).

Note on data sources

Family Resources Survey 2021/22: Housing, Earnings, Other income, Income Tax, Benefits

Living Costs and Food Survey 2021/22: Cost of essentials and non-essentials

NHS and other Public Services funding uses:

- Table 3.4 - OBR Autumn 2023 Economic and fiscal outlook supplementary tables: expenditure
- Table 2.1 - HMT (November 2023) Autumn Statement 2023
- Table 2.1 - HMT (November 2022) Autumn Statement 2022 ONS population projections

(ONS, 2024c)

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Note

[1] Some of the policy directions referred to here speak to the UK Government in their role as it relates to England only. Clearly it will be for the devolved administrations in Wales, Northern Ireland and Scotland to react, within their powers, to public demand for change in areas like housing, care and local crisis support.