



## Cutting the Cost of Living

British households are facing the steepest fall in their living standards in generations. The Bank of England expects inflation to peak at 10% in Q4 2022 – the highest level in 40 years – with a recession a very real possibility.<sup>1</sup> Even before the Bank updated its forecasts, the Office for Budgetary Responsibility (OBR) was expecting average real wages to take at least five years to recover to 2020/21 levels.<sup>2</sup> In short, Britain is heading towards 1970s-style stagflation – sluggish economic growth and high inflation combining to making people poorer by the day.

Given this dire economic outlook, cutting the cost of living is rightly the Government's number one priority. Unfortunately, most of the short-term factors driving rising prices and stalling growth are outside of its control, whether extreme volatility in global energy markets, Putin's scorched earth campaign in Ukraine or Covid lockdowns in China's manufacturing megacities. However, there are still measures in the short term that cost nothing or fairly little that Government can take to ease the pressures on households – as we outline below. Longer term, wider supply side reforms are essential to boost both growth and incomes.

### General approach

- As ever with economic problems, the main burden of responding the cost of living crisis – and the wider inflationary pressures within the economy – will fall on the Treasury and Bank of England via monetary and fiscal policy. In terms of spending, there is obviously a risk that an inflationary response to the crisis stokes inflation further. But there is equally a need, in the face of these near-unprecedented pressures, for the Treasury to respond to protect the worst-hit, as well as providing what support it can to the rest of the public and to businesses.
- However, the gravity of the cost of living crisis demands a concerted effort across Government to do what it can to lessen the burden via supply-side reform – in particular since the main culprit, energy prices, are driven by global factors over which the UK has little control.
- The most obvious but essential point here is for Government to stop adding any further costs. All departments should immediately assess the next two years' worth of proposed policy changes and ensure that the plans are not adding costs to existing areas.
- Ideally, there would be independent scrutiny/challenge of the figures produced by departments.
- All departments should also be asked to produce a list of charges they currently impose on customers and businesses, in terms of licences, grants, fees and so on, and ask whether they are really necessary. This should also include local government and quangos within its ambit.

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<sup>1</sup> Bank of England, '[Monetary Policy Summary, May 2022](#)' (May 2022).

<sup>2</sup> Office for Budgetary Responsibility, '[Economic and fiscal outlook – March 2022](#)' (March 2022), p.53.



- In terms of areas to target, the obvious ones are the main areas of costs to households: housing, energy, food, childcare and so on. We have therefore focused on those here. None of these ideas will solve the cost of living crisis by themselves. But all will help at least a little.

## Energy

- An obvious win for consumers would be to move the £153 cost of the policy levies on energy bills from consumer bills on to general taxation. This would also be more economically efficient (while requiring the Treasury to find other funding).<sup>3</sup>
- Similarly, we should cancel or postpone the £70 charge that is due to come on to bills from the collapse of the small energy providers.
- Part of the problem with the Green Homes Grant was that installers did not have the skills, equipment or material to fulfil demand stemming from the voucher scheme. If insulation and heat pump installers were able to write off some portion of the costs of installing green upgrades against their tax bills, this could give installers the certainty and stability they need to invest in the requisite skills and equipment, and a clear incentive to do so.
- The Institute of Economic Affairs has suggested suspending Ofgem regulations that limit the type of tariffs for both gas and electricity.<sup>4</sup> Far from improving competition, these sort of tariff regulations prevent innovation and in many cases stop energy companies from offering consumers what they want. The overall impact has been to drive up the average bill.

## Housing

- The obvious point is that house prices are too high. The price to income ratio is at all-time highs, and the UK has seen prices rise since the early 80s by x3 in real terms while most countries have seen a rise of less than x2. Rents are similarly costly as work by e.g. Onward shows.<sup>5</sup> The planning reforms must not reduce supply further.
- In the short term, there is a risk the current plans for a private register of landlords and forced improvements (e.g. to energy standards) will be costly, and that these costs will either be passed on to tenants, or forced on to landlords (it is worth noting that 45% of landlords have just one property, and 38% have between two and four properties – these are not a rentier class but often pensioners who rely on the rental income to supplement their pensions).<sup>6</sup> Obviously, there is a need to guarantee basic standards – ensuring serious convicts cannot be landlords, that landlords pay tax due, that mould or other risks to human health are not present – etc but the register should be a light-touch, low-cost affair.

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<sup>3</sup> For more on reducing energy bills in the short term, see: CPS, [‘Back to the 1970s? Energy Prices and the Cost of Living Crisis’](#) (March 2022), p.7.

<sup>4</sup> IEA, [‘The price mechanism revisited: banning ‘loyalty penalties’ in the energy sector’](#) (March 2022).

<sup>5</sup> Onward, [‘Green, pleasant and affordable’](#) (June 2018), p11.

<sup>6</sup> MHCLG, [‘English Private Landlord Survey 2018: main report’](#) (January 2019), p.5.



- Another area in the short term would be to consider improvements to moving home. Streamlining this process and reducing the likelihood of chains collapsing would be very useful - and save thousands in lost surveys, fees and so on.
- We could also do more to reduce the cost of expanding or renovating your home. Last year around 24,000 people applied for a large extension, often to avoid the cost of having to move house. The typical advice is that even before applications are approved in principle, you should budget some £5,000 to £10,000 for planning administration. This is stressful and burdensome if you are approved – but even worse if you are turned down, as around half of such applications are.
- A final area would be to build on the existing tenant deposit schemes and allow people to take a loan out from one of these programmes backed by the Government for part of their first deposit or up to £1,000 in total (e.g. £500 backed by Government, paid off by £50 each month for 10 months). For those trying to move house or move up to a bigger property, this could help people by reducing the cost of initial moves. This could have a small admin fee/interest payment (e.g. £20) to discourage those who do not need it – but this could be waived for users in the next two years given current cost of living issues.

#### **Relax childcare regulations**

- According to OECD data, the UK has the second highest childcare costs as a proportion of average wages in the entire OECD (behind only Cyprus).<sup>7</sup>
- High childcare costs can significantly reduce the returns from working enjoyed by parents of younger children, and can discourage some out of the labour market altogether.
- These high costs are in part driven by excessive regulation of the sector.
- The UK has the strictest staff:child ratio requirements in Europe. For children under two there must be at least one member of staff for every three children, and at least one staff member present with a Level 3 qualification.
- Not only do such rules increase the cost of childcare, they also reduce pay in the sector by restricting how many children can be taken on in each setting.
- Providers of pre-school childcare must also conform to the Early Years Foundation Stage statutory framework, which consists of a range of welfare and safeguarding requirements and a set of Learning and Development goals, and is inspected by Ofsted.
- Relaxing some of the stringent rules around childcare, especially the ratios and qualifications, could bring costs down considerably. Such reforms were considered by the Coalition Government but abandoned after opposition from the Liberal Democrats.

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<sup>7</sup> OECD, [‘Net childcare costs’](#) (2022).



- We should also seek to rebuild the informal childcare sector, and make it far easier for people to look after small groups of children informally (ideally incentivising this within the tax system).

### **Food and drink**

- Food costs form a higher proportion of lower-income households' budgets. Despite the partial trade liberalisation embodied by the UK Global Tariff, there is still significant scope to reduce some consumer prices through a policy of unilateral free trade. Particular examples include meat, fish, clothing and footwear – areas where import tariffs were largely maintained (or simply rounded down) after Brexit. Pre-UKGT modelling by the UK Trade Observatory in partnership with the Resolution Foundation suggested that consumer price reductions of c.4-8% were achievable via unilateral free trade in these markets.<sup>8</sup>
- There is also fairly good evidence that restrictive planning laws have meant that supermarkets are generally much smaller than they could be, and have to charge higher prices. Making it easier to build would lower prices in the long run.
- Promotional restrictions on HFSS food and drink come in from April 2022. The new plastic packaging tax is also coming into force. Further planned policies include the 9pm watershed and online ban for certain advertising, and the Deposit Return Scheme. These are on top of other recent interventions such as the Soft Drink Industry Levy ('Sugar Tax'). The Food and Drink Federation estimate that the cumulative cost of these regulatory interventions to the industry will be £4.4 billion over the next year, and £8.3 billion in total over 2022-24, feeding through to an extra £160 on household shopping bills<sup>9</sup>
- UK alcohol duties are relatively high by European standards. Our beer and wine duties are the third-highest in Europe; our spirits duties are the fourth-highest. Scaling duties back to average European levels would take nearly £4 off a bottle of spirits, £1.95 off a bottle of wine, and 30p off a pint of beer. More generally, 'sin taxes' hit the poorest households hardest. There would obviously be political difficulties in making cutting taxes on alcohol, gambling and cigarettes the centrepiece of a cost of living push, but it is worth pointing out that these are not the painless revenue-raisers for the Treasury that they are often portrayed as.

### **Transport and infrastructure**

- Broadband rollout for home working is currently being slowed by the fact that we charge existing fibre infrastructure within the business rates system. The Government currently grants relief on new fibre infrastructure, but this is due to end in 2022. Rather than just granting another temporary extension of relief on new fibre, it should go further and make relief on both new and existing fibre infrastructure permanent.

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<sup>8</sup> UK Trade Policy Observatory & The Resolution Foundation, ['Changing Lanes: The impact of different post-Brexit trading policies on the cost of living'](#) (October 2017), p.6.

<sup>9</sup> Food and Drink Federation, ['Eating into household budgets: the Government's recipe for food price inflation'](#) (July 2021), p.9.



- As the media has highlighted recently, vehicles which are older than three years have to have an annual MOT to check for roadworthiness and environmental performance, which can cost between £30 and £125 depending on size and class. Most passenger cars will pay £55 for their MOT. MOTs were introduced in the UK in 1960 when many vehicles had not been serviced due to the Second World War. Today, vehicle defects are a contributory factor in just 2% of all reported traffic incidents.<sup>10</sup> MOTs could be made less frequent for newer vehicles. Or the age at which vehicles need to complete their first MOT could be increased. Or we could streamline what a typical MOT checks for, so that MOTs can be completed more quickly and less expensively.

### **Small businesses**

- Given the fact many of the 5.6 million small businesses in the UK are family firms, reducing their burdens can cut the cost of living.
- This could include automatically aligning corporation tax and Companies House accounts (currently joint filing is allowed but this is complicated and requires alignment of time periods), aligning VAT, corporation tax, and business rates into a single one-off calculation where the business wants this based on cash accounts, or allowing biannual accounts rather than annual accounts. We have also suggested an NI holiday for firms when they start to hire, so that they do not have to pay extra for the new body before revenue has increased.

### **Competition policy**

- One of the best ways to drive down prices is to promote competition. The CMA does a good job, but it cannot tackle every case of market abuse, or remedy it with sufficient speed.
- As with Jacob Rees-Mogg's recent call for evidence on regulation and red tape, the Government should campaign fiercely against 'Rip Off Britain', perhaps partnering with leading consumer champions or organisations. The aim would seek to identify areas where consumers are being charged too much as a result of market distortion or concentration – or highlight areas where firms are exploiting market concentration and inflationary price rises to pad their profits at the consumer's expense.
- Dominic Raab's CPS paper 'Capitalism for the Little Guy' contained a range of measures that would encourage consumer switching and improve competition to reduce the cost of living for ordinary people. Two particularly valuable ones might be to separate the supply of water from retail, potentially allowing competition in the retail aspect to drive down costs (this has saved consumers money in Scotland) or requiring retail banks to allow people and small businesses to switch accounts more easily.<sup>11</sup>

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<sup>10</sup> Department for Transport, ['Reported road accidents, vehicles and casualties tables for Great Britain'](#) (December 2021).

<sup>11</sup> Dominic Raab, ['Capitalism for the Little Guy'](#), *Centre for Policy Studies* (February 2013).