Scottish Government
Riaghaltas na h-Alba

The Cost of Living Crisis in Scotland: An Analytical Report

PEOPLE, COMMUNITIES AND PLACES

social research

Contents

Executive Summary

This report draws together analysis from a wide range of sources to provide an overview of emerging evidence on the cost of living crisis. It includes evidence from Scotland and the UK as well as from other European countries. The report has been produced by a cross-government group of analysts.

The latest UK Consumer Price Index (CPI) shows inflation is running at 10.1%, the highest level since 1982. By comparison, at the end of last summer inflation was 2%. The Bank of England is currently forecasting that the UK will enter recession later this year and remain in recession for much of 2023. The Scottish economy is forecast to contract in 2023. Interest rates have risen to their highest level since 2009.

The high rate of inflation has contributed to a cost crisis – more commonly referred to as a 'cost of living crisis'. This crisis follows the Covid-19 pandemic, Brexit and a period of prolonged austerity. It will have detrimental effects on businesses, communities, households, public sector budgets and the delivery of key public services. The negative impacts of rising costs are already being felt in Scotland and are likely to intensify over the coming months.

The First Minister has committed to 'continue to take all actions available to us within devolved responsibilities and budgets' to address cost pressures. The Scottish Government's immediate and overriding priority in its recently published 2022/23 Programme for Government (PfG)[1] was 'to ensure households, businesses and other organisations, as well as the public services that support them, are protected from the worst impacts of the cost crisis'.

Given the pace at which the cost of living crisis is unfolding and the lack of peer-reviewed articles published to date, further analysis will be required over the coming months to more fully understand the emerging consequences of the crisis. However, throughout this report a number of common themes emerge from the analysis.

The cost of living crisis presents serious economic and social challenges for Scotland and the UK.

We are currently witnessing rates of inflation not seen in the last forty years. Economic conditions have rapidly deteriorated since the start of 2022. UK inflation has risen sharply from 0.5% in February 2021 to its current rate of 10.1% in September. It is projected to peak at just under 11% in October. Wages have risen at a much slower pace than inflation putting considerable pressure on household incomes.

Despite the UK Government's Energy Price Guarantee, energy prices have more than doubled over the last year and Scottish Government modelling[2] estimates that

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[1] Scottish Government (6 September, 2022), Programme for Government - gov.scot (www.gov.scot)

[2] See Chapter 3 for further details of this analysis

there are around 860,000 (35%) fuel-poor households in Scotland, of which 600,000 (24%) will be in extreme fuel poverty.

The cost of living crisis is high in the public consciousness and an issue of significant concern. This report contains analysis from a range of sources describing some of the difficult decisions and trade-offs households are having to make due to the rising costs of essential goods. This situation is further compounded as many low income households have limited financial resilience and have entered the cost of living crisis with a backlog of arrears and debt as a result of austerity, reforms to the UK benefit system and the pandemic.

The crisis is placing significant additional pressures on public and third sector services. It is already negatively affecting mental and physical health and driving up demand for health and social care services. Demand is increasing for third sector services such as food banks and advice services. The fact that demand is increasing at a time when the cost of delivering services is rapidly rising suggests that public and third sector services will come under sustained pressure this winter leading to difficult choices.

The cost of living crisis will affect particular households, services and sectors of the economy very differently.

While the crisis will affect all households and businesses, some groups and organisations will be affected more than others. This report includes data illustrating the effects on businesses in Scotland. It shows that business costs have significantly risen over the past year due to rising prices for energy and materials alongside rising labour costs. This presents real challenges for businesses as they continue to recover from the pandemic and ensure the resilience of cash-flow in the face of increasing demand conditions.

The report examines evidence on the types of households that are likely to be most negatively affected. Low income households are most at risk. Low income households with particular characteristics are likely to fare worse. This includes larger families; households in receipt of means-tested benefits (and those narrowly ineligible for means-tested benefits); households who rent their homes; disabled households; households with an unpaid carer; gypsy/travellers; rural and island households; single person households and single parent households. These low income households will face particular challenges as a result of reduced real term incomes and increased costs.

Certain groups are over-represented in these households, most notably minority ethnic groups and women. Minority ethnic households are more likely to have deeper levels of poverty and a greater proportion of their income is spent on essentials that are subject to inflation. Women are likely to experience indirect effects of cost pressures that are not always apparent in routine data. This can, for example, be due to formal or informal caring responsibilities and loss of income or career progression due to these caring responsibilities and divisions of domestic labour.

As new evidence emerges it will be important to re-examine evidence on those groups most affected. For example, mortgage interest rates have been rising, with particularly sharp increases in recent weeks. This means that home owners on variable rates and whose fixed rate deals expire may face very large increases in mortgage payments.

The UK Government response is insufficient to fully address the harms caused by the cost of living crisis.

To date several key interventions have been announced in 2022 by the UK government to help address the cost of living crisis. This includes a cost of living support package, an intervention on energy bills and a programme of support for businesses. These interventions have been notable for their scale. Collectively, they represent a very significant financial intervention.

Policies to address rising costs have also been introduced by other comparator countries. There are a range of examples of how governments have provided short term support to people through universal and targeted approaches. There are also emerging examples of how governments are introducing responses which attempt to realise longer term aspirations to improve energy efficiency and reduce reliance on Russian gas. Governments from some other countries were also comparatively quick to recognise the seriousness of the situation and introduce policy responses to address it with examples of responses being put in place from September 2021.

Despite the interventions put in place by the UK Government, some groups are considerably worse off due to their rising costs and reduced real-terms incomes. This risks increasing inequality.

Further concerted and targeted action will be required to support those people and sectors most negatively affected by the cost of living crisis.

Several research and policy organisations have argued that more targeted support is required than those associated with UK Government interventions to date. The 2022/23 PfG[1] sets out how by the end of March 2023, the Scottish Government will have allocated almost £3 billion in measures that will help to mitigate the impact of the cost of living crisis on households. This package spans a range of support for energy bills, childcare, health and travel, as well as social security payments that are either not available anywhere else in the UK or are more generous.

The PfG also sets out a range of measures to support low income families. This includes confirmation that from November the Scottish Child Payment will increase to £25 per week per eligible child. The PfG also commits to double the Fuel Insecurity Fund to £20 million in order to help households at risk of self-disconnection or self-rationing of energy use and to provide local authorities with additional Discretionary Housing Payment funding. Help for tenants is also being provided through emergency legislation to protect tenants by freezing rents and imposing a moratorium on evictions until at least 31 March 2023.

While the actions outlined above will support households, businesses and organisations, the scale of the remaining challenge is substantial. There will be a need to take a longer term perspective that both provides support through this coming winter and builds Scotland’s future economic and societal resilience in the years ahead.

Chapter 1: Inflation in Context

Introduction

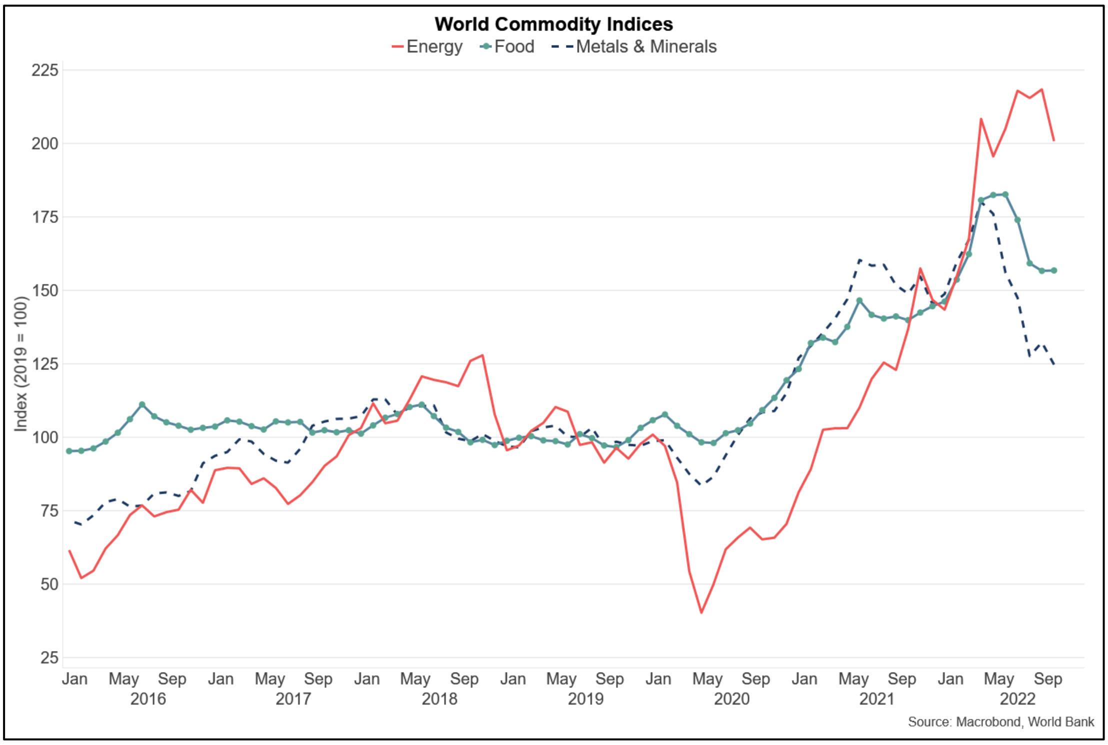
This chapter provides an overview of the latest data on inflation, projections for the economic outlook for the UK and comparisons of the current economic situation with previous periods of high inflation.

Trends in inflation

Economic conditions have rapidly deteriorated since the start of 2022 at a global and domestic level. The war in Ukraine has interrupted the gradual recovery from the pandemic, causing an energy supply and inflationary shock that is expected to push the economy into recession.

These inflationary pressures were initially expected to be largely temporary as the economy adjusted to post-pandemic conditions. However, the war in Ukraine at the start of 2022 has exacerbated and further destabilised recovery on the supply side, placing further significant upward pressure on international commodity prices across food, metals and particularly energy. While commodity price rises across food, metals and oil have eased slightly in recent months (though remain significantly higher than their levels last year), wholesale energy prices, particularly gas, have remained particularly elevated and volatile (see Figure 1).

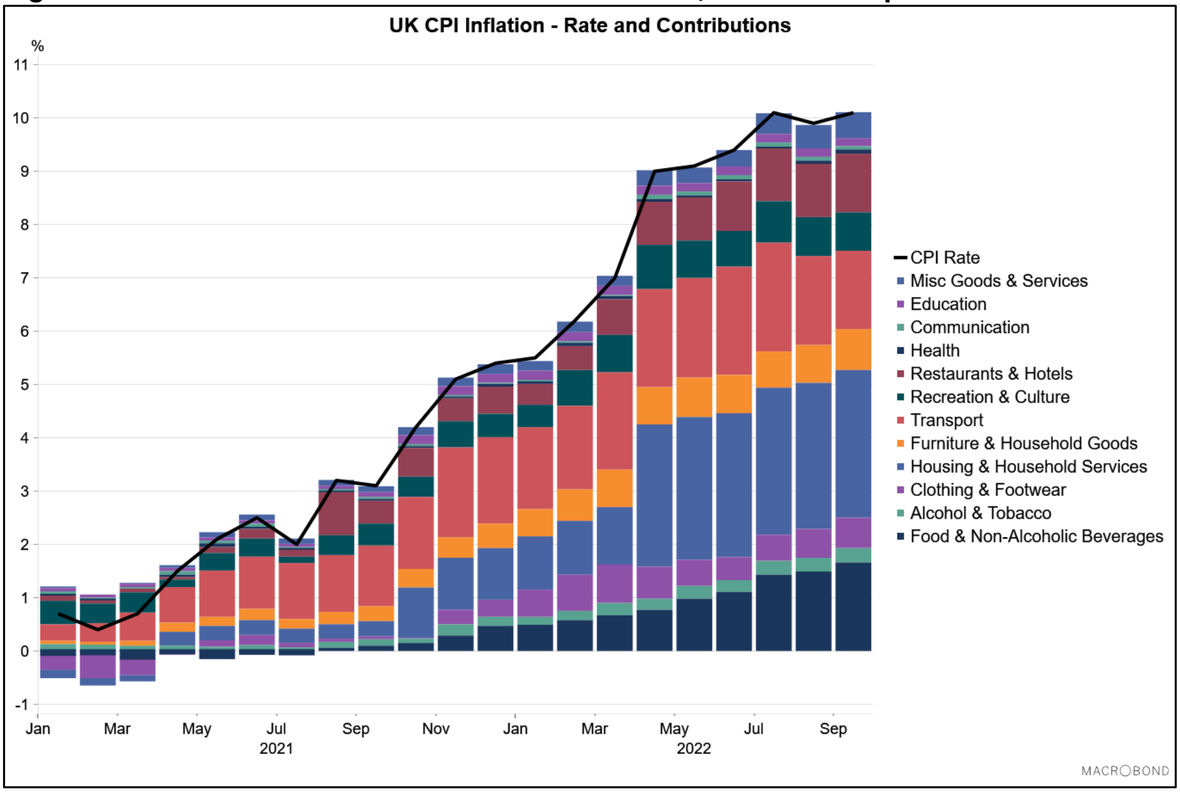
Figure 1: World Commodity Indices, Jan 2016-Sep 2022.



As Figure 2 illustrates, UK inflation has risen sharply over the past year from 0.5% in February 2021 to its current rate of 10.1% in September 2022 – its joint highest rate since the early 1980s.

The rise in inflation has been predominantly driven by increases in the price of electricity, gas and other fuels, up 70.1% over the year to September, driven by the increase in wholesale gas prices, however rising food prices particularly drove the increase in the rate between August and September.

Figure 2: UK CPI Inflation: Rate and Contributions, Jan 2021-Sep 2022.

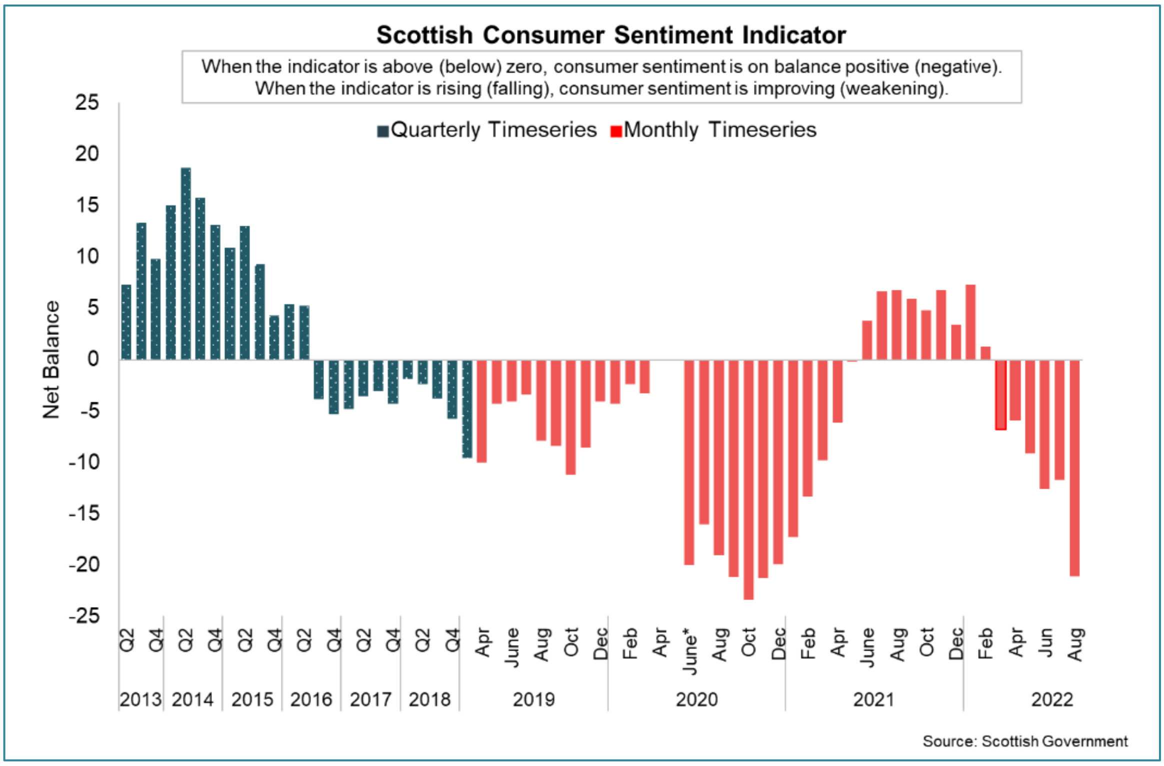


Inflation remains elevated internationally. In September inflation increased in the Euro Area (9.1% to 9.9%) and fell marginally in the US (8.3% to 8.2%).

One of the implications of rising inflation is to squeeze household finances. This feeds through to weaker consumer demand and in turn leads to lower demand for goods and services from businesses, particularly in consumer facing sectors of the economy (see Chapter 4). Demand in the economy is weakening - consumer sentiment has fallen sharply since the start of the year and in August 2022 was at its lowest level since November 2020 during the pandemic (consumer sentiment measure is a combination of sentiment on economic outlook, household financial security and how relaxed households feel about spending money (see Figure 3).[3]

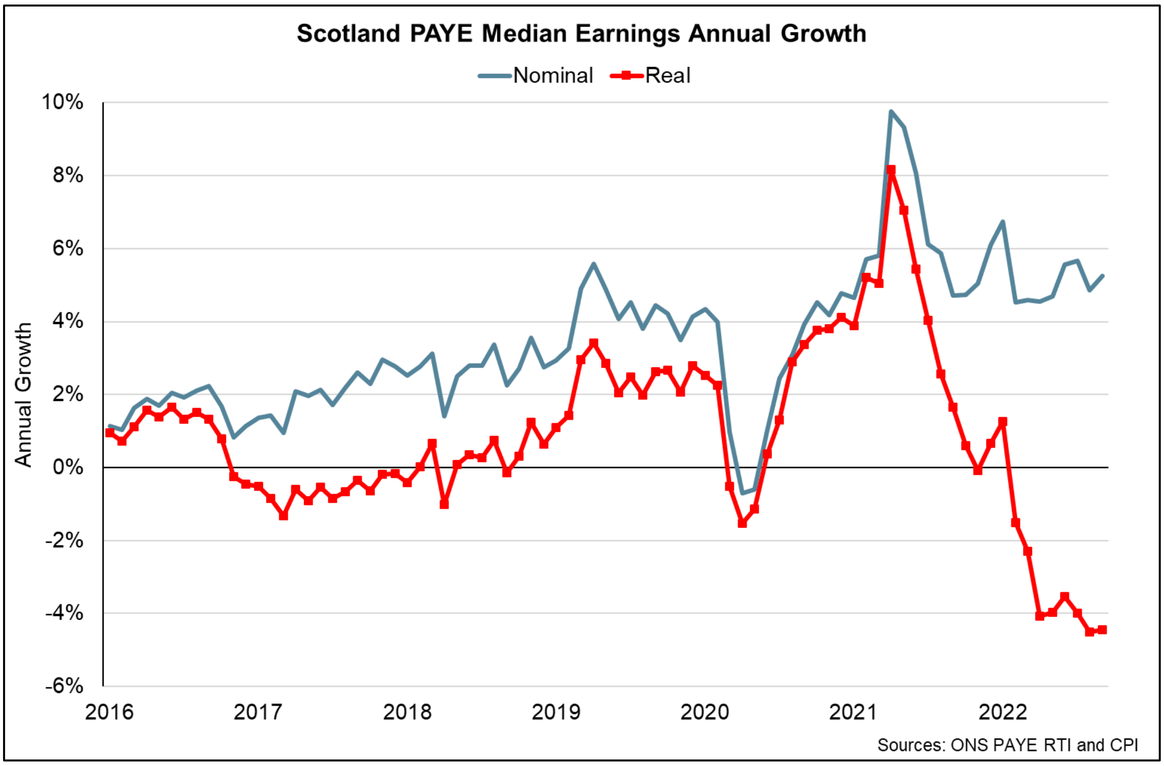
[3] Economy statistics - gov.scot (www.gov.scot)

Figure 3: Scottish Consumer Sentiment Indicator, 2013 – 2022.



The effects of rising inflation on household budgets is further reflected in its impact on real earnings. As Figure 4 illustrates, while nominal median PAYE earnings grew 5.3% over the year to September, they fell 4.4% in real terms once adjusted for inflation; the eighth consecutive month of decline.

Figure 4: Scotland PAYE Median Earnings Annual Growth.

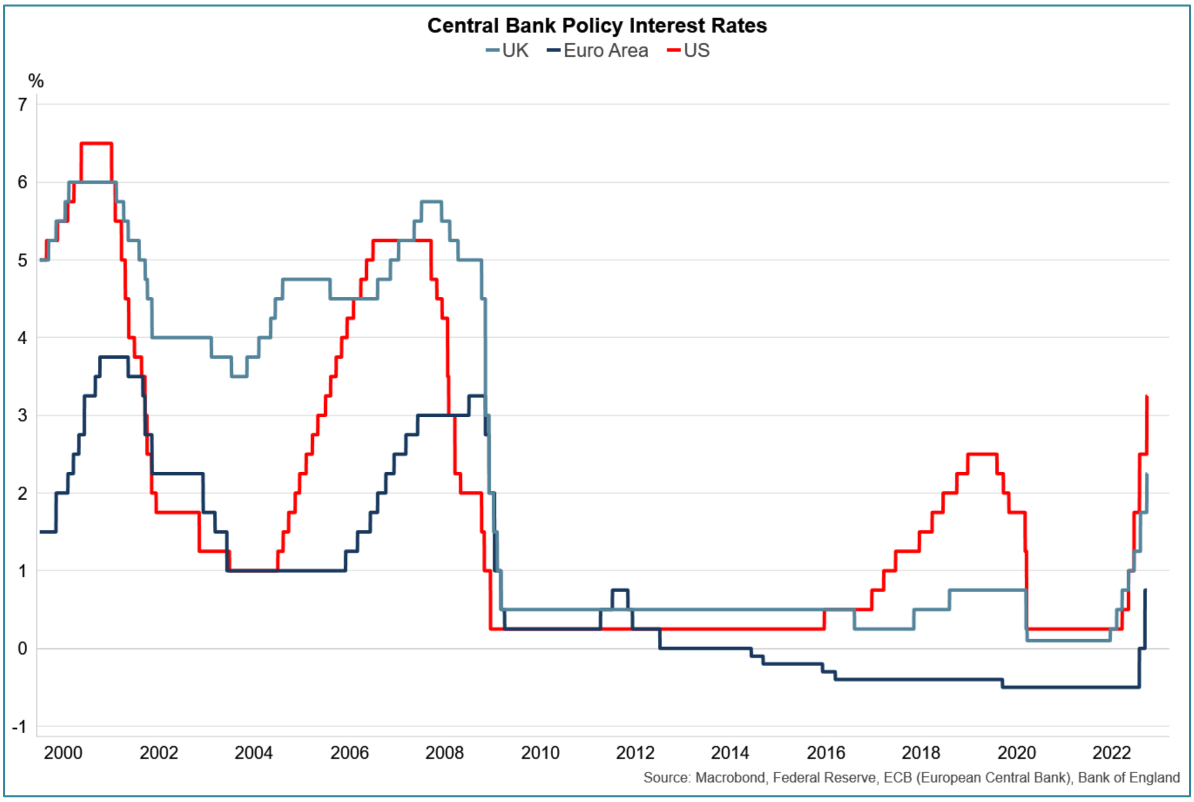


The growth in nominal earnings partly reflects the ongoing tightness in the labour market. Unemployment in Scotland is at a near record low of 3.3% in the 3-months to August 2022, while vacancy rates remain elevated with 42% of firms reporting a shortage of staff into the start of September, placing upward pressure on pay settlements.

Interest rates and the outlook for inflation

To help to bring inflation back to its target of 2%, the Bank of England's Monetary Policy Committee has implemented seven consecutive increases in the Bank Rate since December 2021, taking it from 0.1% in December 2021 to 2.25% in September 2022, its highest rate since 2008, as shown in Figure 5. Other central banks have also been increasing interest rates. For example, the US Federal Reserve announced a fifth successive rate rise in September, increasing its federal funds rate by 0.75 percentage points to a target range of 3% – 3.25%, while the European Central Bank raised interest rates by 0.75 percentage points to 0.75%.

Figure 5: Central Bank Policy Interest Rates.



At the start of August 2022, the Bank of England forecast inflation to reach 13% in Q4 2022, leading to a squeeze in real household incomes, with real post-tax income falling by 1.5% in 2022 and a further 2.25% in 2023, one of the largest sustained falls in real incomes since records began. These forecasts reflected UK Government policy announcements at the time.

Since then, the fiscal expansionary measures announced in the UK Government Growth Plan, many of which have subsequently been reversed, are expected to have material implications for the economic outlook and public finances. It remains unclear how the remaining tax cuts will be funded and the extent to which public expenditure cuts will be forthcoming. The Office for Budget Responsibility are scheduled to publish its forecasts on 17th November alongside the UK Government's Medium Term Fiscal Plan.

The increased scale of uncertainty and risk in the economic outlook has been reflected in significant financial market volatility in September and October, with a sharp rise in UK government bond yields requiring the Bank of England to commence temporary purchases of long-dated UK government bonds to restore market functioning and reduce wider risks to UK financial stability.

The introduction of the Energy Price Guarantee (described in Chapter 3) is expected to reduce the extent to which inflation will rise in the short term. The Bank of England expect inflation to peak at just under 11% in October, however remain above 10% over the next few months due to the increase in energy prices already embedded.

The extent to which the policy will mitigate energy price inflation in the economy is uncertain beyond its scheduled 6-month review in April 2023. The overall level of uncertainty around the path for inflation is high and will continue to be influenced by the monetary and fiscal policy response[4]. Despite the risk of recession, monetary policy is being tightened by central banks, as they seek to address underlying inflationary pressures and to reduce the risk that they become embedded more widely in the economy and persist for longer. The Bank of England will publish their next Monetary Policy Report and forecasts on 3 November.

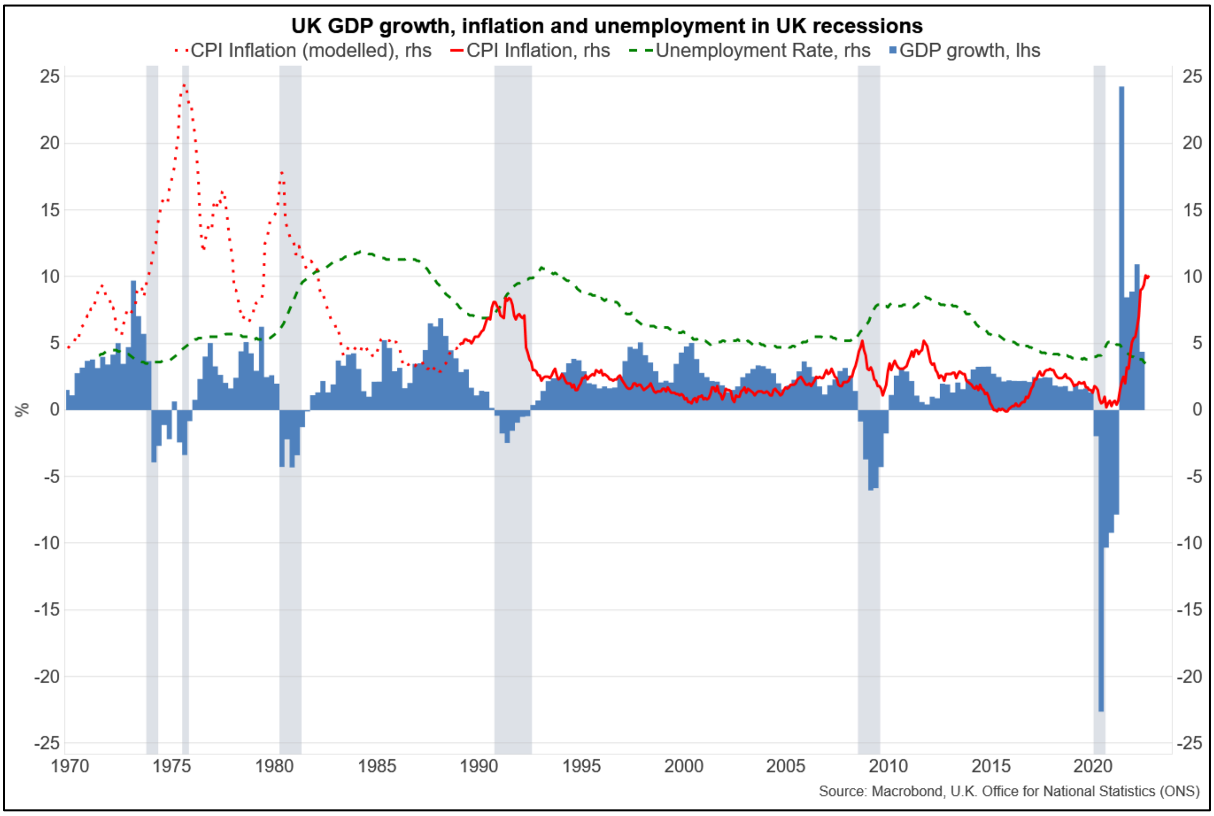
Comparison with previous periods of high inflation

Comparisons with periods of higher inflation and economic downturns can be made to draw key similarities and differences. Figure 6 below shows previous UK recessions denoted by the grey bars. These periods were in the mid 1970s, early 1980s, early 1990s, 2008/09 (global financial crisis) and 2020 (pandemic).

Figure 6 also illustrates that rising inflation and falling output is a similar pattern to the recessions of the mid 1970s, early 1980s (particularly the link to energy price volatility) and early 1990s. There are important differences between the current economic situation and previous recessions. For example, the Bank of England expect inflation to peak at just under 11%. This is higher than its peak in the early 1990s (c.8%), but is notably below the peak inflation rates of the mid 1970s (c. 25%) and early 1980s (c.18%). Unemployment is currently at a record low rate and is forecast to rise to slightly above 6% in 2025, but remain below the +10% rates of the 1980s and early 1990s.

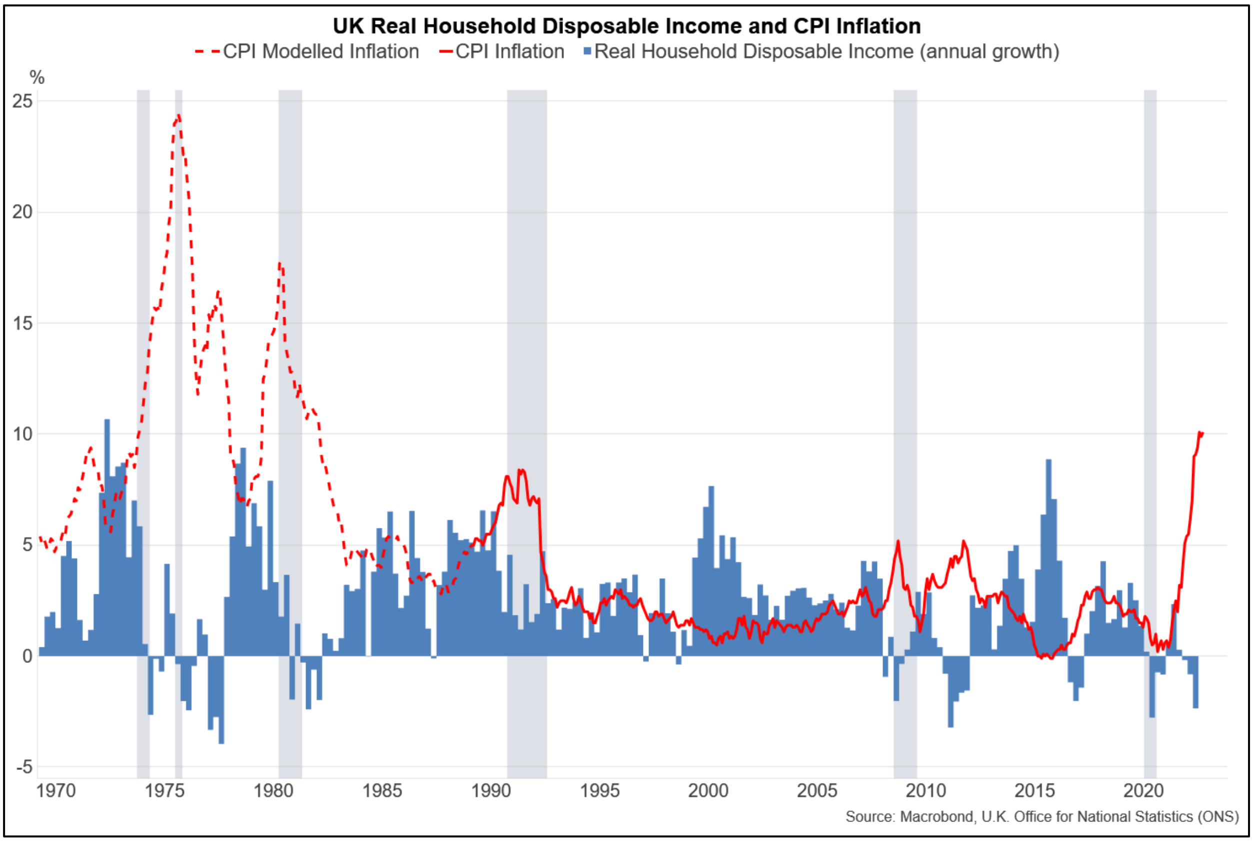
[4] Bank of England Monetary Policy Report August 2022

Figure 6: Comparison of Growth, Inflation and Unemployment in Previous Recessions in the UK.



Periods of higher inflation have tended to result in periods of falling real disposable household income (the amount of money that individuals in the household sector can spend or save after income distribution measures and adjusted for inflation), as Figure 7 illustrates. This was evident in the 1970s and early 1980s. The rise in inflation in the early 1990s and recession saw household disposable income growth slow but remain positive. Compared to periods of high inflation in the 1970s and 1980s, changes to labour market structure means there is less scope for wages to keep pace with inflation and for a subsequent wage price spiral.

Figure 7: Comparison of Real Household Disposable Incomes in Previous Recessions in the UK.



Conclusion

The war in Ukraine has led to elevated energy prices and high rates of inflation: as at September 2022 UK inflation was 10.1%. The Bank of England forecast for inflation is to peak at just under 11% in October 2022 and remain above 10% over the following few months, before starting to fall back. If this transpires then inflation would be higher than in its peak in the early 1990s (c.8%), but notably below the peak inflation rates of the mid 1970s (c. 25%) and early 1980s (c.18%). These forecasts predate the full range of developments since the UK Government Growth Plan in September (see Chapter 3), the reversal of many of its announcements and the period of significant market volatility. As with previous periods of high inflation, the current high rate of inflation will lead to falling real disposable household incomes. In turn this will feed through to weaker consumer demand in the economy and lower consumption.

Chapter 2: International Policy Responses

Introduction

This section examines policy responses taken by governments in response to rising costs and falling real term incomes. It begins by providing the context for these responses (in other countries) by describing public attitudes to rising inflation and costs.

Public attitudes to rising inflation and costs

Public perceptions globally illustrate levels of concern with the cost of living crisis. In July- August 2022, The Open Society Foundations commissioned polling of more than 21,000 people living in 22 countries to gather public opinion on key issues facing the world today.[5] Almost half of respondents (49%) named inflation and cost of living as one of the top-three challenges facing their family/community and country today. Cost of living was ranked as a top-three concern in relation to people's family / community in Singapore (76% of respondents), Great Britain (70%), France and Serbia (58%), Poland (57%), Germany (45%) and Japan (46%).

Online polling conducted by Ipsos MORI in July 2022, across 28 countries, found that, on average, 40% of respondents expect their disposable income to fall in the next year. Expectations of falling incomes was highest in Turkey (58%), France (55%), Great Britain (54%) and Hungary (50%), where at least half agree that this will be the case.[6] From the same polling**,** the 'state of the global economy' was considered to be the biggest contributor to rising prices (76%), followed by the consequences of the Russian invasion of Ukraine (72%). European countries are more likely to see Russia's invasion of Ukraine as a contributing factor to inflation. It is ranked as the biggest driver in Belgium, Germany, Denmark, France, Hungary, the Netherlands and Sweden. COVID-19 is ranked as the biggest contributor predominantly in Asian countries**.**

Rising prices for food, fuel and energy have led to protests and strikes in some European countries.[7] In March 2022 in France, HGV, taxi, coach and construction workers protested over fuel prices.[8] In Spain, lorry drivers went on strike over fuel prices and in Italy (also in March 2022), thousands of cities switched off the power at

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[5] The Open Society Foundations (September, 2022), Fault Lines: Global Perspectives on a World in Crisis - Open Society Foundations. The countries were: Brazil, Colombia, Egypt, France, Germany, Great Britain, India, Indonesia, Japan, Kenya, Mexico, Moldova, Nigeria, Poland, Saudi Arabia, Senegal, Serbia, Singapore, South Africa, Turkey, the United States, and Ukraine.

[6] Ipsos MORI (2 August, 2022), Four in ten across 28 countries expect their disposable income to fall over the next year | Ipsos

[7] ACLED Dashboard - ACLED (acleddata.com)

[8] Reuters (5 October, 2022), French unions march for better pay as cost of living spikes | Reuters

some their major tourist attractions to protest against increasing energy costs.[9] During the summer in the UK (July – August 2022) a number of sectors took part in industrial action as staff pushed for pay rises and better working conditions. This included, in Scotland, a strike by the refuse workers after unions rejected a pay offer and nationwide rail strikes.[10]

A YouGov European cost of living tracker, set up to monitor public attitudes across seven European countries, (Britain, France, Germany, Spain, Italy, Denmark and Sweden) shows that the public across Western Europe have negative attitudes about their governments' approach. Across all countries polled, at least 6 in 10 say the government is doing badly at managing the cost of living. The highest levels of disagreement (82%) are in Italy and Britain. There are slightly higher levels of satisfaction in Denmark and Sweden, where 27% agree their government is doing 'well'. [11]

Policies to address rising inflation in other countries

Since September 2021, governments have put in place a range of policies in response to high levels of inflation.[12] While the policies vary in scope, the majority focus on supporting people with increased energy prices.

Table 1 summarises policy interventions (both proposed and enacted) by a range of other countries in response to rising inflation, with a focus on high income countries particularly in Europe.

As mapped across the top row of the table, these can be broadly grouped into nine different types of response, with the aim of reducing people's costs and outgoings, increasing income and supporting businesses. The next section will discuss these policies in greater detail in terms of the speed and the nature of the response.[13]

To note, the table below considers the response from the UK Government. However, there are measures in place in Scotland that are not available anywhere else in the UK. The Scottish Government will have allocated almost £3 billion in measures that will help to mitigate the impact of the cost of living crisis on households. This package spans a range of support for energy bills, childcare, housing, health and travel, as well as social security payments.

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[9] Reuters (22 March, 2022), Spain's truckers strike expands, prompting food shortages | Reuters; The Local (11 March, 2022), Fuel crisis: Italy braces for delays as truck deliveries suspended from Monday (thelocal.it)

[10] Network Rail (October, 2022), Industrial action - Network Rail

[11] YouGov Tracker 6-28 September 2022 - New cost of living tracker reveals extent of crisis in Western Europe | YouGov

[12] Bruegel (21 September, 2022), National policies to shield consumers from rising energy prices (bruegel.org)

[13] Data was not available for all counties. These countries were selected to provide a snapshot of how different countries are responding to the crisis. Further detail on the policies within a wider range of countries in the EU can be found here - National policies to shield consumers from rising energy prices (bruegel.org)

Table 1: Summary of Policy Interventions in Comparator Countries

	Policy								
Country	**Reduced energy tax/VAT**	**Energy retail price regulation**	**Energy wholesale price regulation**	**Cash transfers to most affected groups**	**Windfall tax profits**	**Energy business support**	**Travel discount**	**Fuel reduction**	**Rent cap or freeze**
Belgium	✓	✓	✗	✓	✓	✓	✗	✓	✗
Canada	✗	✗	✗	✓	✗	✗	✗	✗	✓
Denmark	✗	✗	✗	✓	✗	✗	✗	✗	✗
Finland	✓	✗	✗	✓	✗	✓	✗	✗	✗
France	✓	✓	✓	✓	✗	✓	✓	✓	✓
Germany	✓	✗	✓	✓	✓	✓	✓	✓	✗
Ireland	✓	✗	✗	✓	✗	✗	✓	✓	✗
Italy	✓	✗	✗	✓	✓	✓	✗	✓	✗
Luxembourg		✗	✗	✓	✗	✗	✗	✗	✓
Spain	✓	✓	✓	✓	✓	✓	✓	✓	✓
Sweden	✓	✗	✗	✓	✗	✗	✗	✓	✗
United Kingdom	✓	✓	✗	✓	✓	✓	✗	✓	✓ [14]

[14] Scotland only - Cost of living: rent and eviction - gov.scot (www.gov.scot)

International Analysis - Speed of response

In considering how the UK compares to other countries, it is important to consider the speed of the response. As soon as the crisis began to unfold, in September 2021, some countries began to respond in the form of announcements about forthcoming support and formal actions. In September 2021, Spain, which was one of the first countries to take action, passed a Royal Decree Law to mitigate the impact of escalating natural gas prices on retail gas and electricity markets, with the aim of reducing customers' bills. This was updated again in October 2021 and included additional measures aimed at helping vulnerable customers.[15] Also in September 2021, Italy approved short-term measures to help offset rising prices. This included a reduction in VAT on gas bills and an increase in the 'social bonus' for families in economic difficulty.[16] In December 2021, it was announced that in Ireland (in 2022) all domestic electricity customers would receive €100 credit.[17] In January 2022, Luxembourg increased its cost of living allowance by €200 to protect vulnerable households from rising prices. Subsequent measures were also announced in February and March.[18] [12] In January 2022, Germany announced a package of one time grants to low income households that were paid over the summer of 2022.[12]

As such, the UK government was slower to respond. Initial support measures were only announced in February 2022, which came after months of higher bills, public concern and calls from groups representing vulnerable households and small businesses to act.[19] Significant further packages were then announced in March, May and September 2022.

International Analysis – Type of response

While Table 1 outlines the range of responses, it does not show the scale and detail of individual policy responses within different countries. For example, the nature of broad and targeted support, short- versus long-term response and the use of taxation on the revenues of electricity companies.

Broad and targeted support

The UK government, like most other countries, are providing a mixture of broad and targeted support. Broad-based support measures (such as the £400 payment to every household, a price cap and council tax discounts) are considered to be 'broad' as they benefit households across the income distribution. Similar initiatives are in place in Belgium (all households received a 'heating premium' of €100 by July 2022), in Germany (a one-off payment of €300 was provided to all workers in September 2022) and in Ireland

[15] Royal Decree Law Spain (29 October, 2021), cms-analysis-royal-decree-law-23-2021

[16] Decree Law Italy (27 September, 2021), Official Journal (gazzettaufficiale.it)

[17] Ireland (19 April, 2022), gov.ie - €100 payment to all domestic electricity accounts approved by Cabinet (www.gov.ie)

[18] Official Journal of the Grand Duchy of Luxembourg (19 November, 2021), Regulation of the Government in Council of 19 November 2021 on the granting of a cost-of-living allowance for the year 2022. - Legilux (public.lu)

[19] JRF (18 January, 2022), Rising energy bills to 'devastate' poorest families | JRF

(every household is due to receive a €600 energy credit split into three payments over winter in 2022-2023).[20] [21]

Broad based measures can be criticised for not targeting those who spend the most on their energy, or as with capping price rises (like in the UK and France), it may reduce the incentive for households to use less energy.[22] Also, by targeting the intervention at a household level it means that those with a second home may receive the payment more than once.[23] In July 2022, polling conducted in the UK by The Social Market Foundation, found that the majority of respondents (6 in 10) would like to see more targeted financial support for households who are struggling with rising costs.[24]

The most common intervention across different countries has been to provide targeted financial support to groups (mainly in the form of one-off payments) who are most affected by the crisis, such as those on lower incomes, and pensioners. For example, in Italy, a one off €200 bonus for 28 million workers and pensioners with an income lower than €35,000 was provided.[25] In Spain, a package of measures announced in June included a 15% rise in pensions for particular groups such as widows and the disabled and a €200 payment to some groups of people on low incomes.[26] In Denmark, the government provided a tax-free 'heat cheque' to low income households.[27] Also in Denmark, senior citizens who qualify for social security are eligible to receive 5000 DKK tax-free (about £580), half of which will be made available by the end of September. A one-off, tax-free amount of 2000 DKK (about £230) will be made available for citizens who qualify for student support with disability or single parent allowance. In Sweden, the housing allowance for families with children is to be increased by 25%.[28] For further detail on the packages of financial support within each country, including timings and costs, see Annex 1.

However, not all targeted support may go to those who need it the most. For example, as introduced in the UK, fuel reductions will benefit those who use more fuel and this tends to be higher income households.[23] This compares to countries like Germany, Ireland and Spain who also provided discounts on public transport (see Box 2).

[20] Belgium (10 June, 2022), When will you receive the 100 EUR heating premium ? | Belgium.be

[21] Ireland (27 September, 2022), gov.ie - Budget 2023 (www.gov.ie)

[22] The Economist (11 August, 2022), Which European countries are most vulnerable to surging energy prices? | The Economist

[23] The Institute for Government (16 August, 2022), Cost of living crisis: reducing energy bill costs | The Institute for Government

[24] Social Market Foundation (25 August, 2022). This poll included 2012 people. Energy bill crisis: Majority backs welfare boost for hardest-hit - Social Market Foundation. (smf.co.uk)

[25] €200 is about £170. L'Economia (2 May, 2022), Superbonus 110% for villas valid until September 30 - The 200 euro bonus launched by Draghi and everything in the 2022 Aid Decree - Corriere.it

[26] Reuters (25 June, 2022), Spain approves $9.5 billion aid package for vulnerable families | Reuters

[27] Welcome to the official website of Denmark; The Local (27 January, 2022), Denmark could give tax-free sum to families with high heating bills (thelocal.dk)

[28] European Commission, Sweden - Employment, Social Affairs & Inclusion - European Commission (europa.eu)

Windfall taxes

Another approach that has been proposed and/or enacted by 5 countries in Table 1 is 'windfall tax'. Windfall tax is a term used to describe a one-off tax imposed on companies that have made sudden and significant profits due to external circumstances such as war or a pandemic. There are however differences across the countries. In Spain, the temporary tax will be applied to energy companies and banks.[29] The UK government introduced a 25% 'Energy Profits Levy' (windfall tax) in May 2022 on North Sea oil and gas operators but chose not to enhance it further in this UK Growth Plan.[30] It is reported that there are currently no plans to extend Windfall tax in the UK, although that may change in future. Public opinion polling, conducted by YouGov in the UK, suggests that two-thirds feel there should be a windfall tax on oil and gas companies to help fund the Energy Price Guarantee.[31]

At the end of September 2022, EU Ministers agreed on a package of emergency measures, including windfall tax for certain energy and fossil fuel companies. Further measures include, plans to reduce demand for energy including a mandatory target to reduce electricity consumption by 5% during peak hours. [32] They will apply from 1 December 2022 to 31 December 2023. The energy reduction targets will apply until 31 March 2023.

Short and long-term focus

In the short term, governments (including the UK) are providing direct payments to help people and businesses manage their rising costs.[33] However, longer term policies should consider the root cause of rising prices in order to try and reduce future vulnerabilities and increase resilience. Across Europe, actions such as trying to provide more direct ways to control the price of electricity, (through nationalising the energy provider like in France), reducing energy use (with EU members agreeing to reduce gas consumption by 15% between August 2022 and March 2023)[34] and providing funds to help people make their homes more energy efficient give consideration to wider structural issues.
For example, energy efficiency measures and incentives for take up differ across countries.[35] In order to tackle energy efficiency, most European countries have used a

[29] Reuters (15 September, 2022), Spanish government open to modifying tax on banks, energy firms | Reuters

[30] HM Treasury (26 May, 2022), Energy Profits Levy Factsheet - 26 May 2022 - GOV.UK (www.gov.uk)

[31] Polling conducted on 8th September 2022 - Snap poll: Britons back the £2,500 energy price cap, but most say the government needs to do more | YouGov

[32] European Council (30 September, 2022), Council agrees on emergency measures to reduce energy prices - Consilium (europa.eu)

[33] Longer term approaches taken by the UK government to improve the energy supply include lifting the ban on fracking. However, it has been suggested this will take time, may encounter legal challenge and will not impact on prices in international markets tackling-energy-efficiency-problem.pdf (instituteforgovernment.org.uk)

[34] European Council (26 July, 2022), Member states commit to reducing gas demand by 15% next winter - Consilium (europa.eu)

[35] International_comparisons_of_household_energy_efficiency_2020.pdf (publishing.service.gov.uk)

combination of policies. Including: providing households with grants to pay for improvements, loans to meet high up-front costs, providing clear advice and support to consumers and setting minimum standards that force house builders to use more energy efficient products.[36] (See Annex 1 for a review of European energy efficiency policies, including Scotland). Analysis provided by the Institute For Government, in September 2022, provides suggestions for how the UK can draw lessons from other countries to help improve energy efficiency.[36]

Making international comparisons

It is important to acknowledge, when comparing these policies, that there are some key similarities and differences between the countries. Context is an important factor when considering the potential value of policies and their mitigating impact. Various factors may be influential when considering similarities and differences, including the size of the population, geographical terrain, size of the economy, environmental climate, and differing political and social attitudes. For example, whilst some countries may seemingly be aligned in terms of some of these factors (e.g. population, economic size), they may have important differences on other measures. For example, they may have a different trajectory on societal wellbeing measures.[37]

Countries also differ in their dependence on energy and in their energy markets. Countries in Western Europe use significantly less Russian natural gas than those in Eastern and Central Europe.[38] Additional factors such as different market structures (the pass from wholesale to retail prices), state ownership of the energy provider (like in France), public funding of services, social welfare schemes and levels of taxation (on wages and goods) will all play a part in the way that governments have been able to respond. A further example is that some countries already use ‘social tariffs’ in which a defined, cheaper tariff is offered to the most vulnerable households. This form of targeted assistance supports those on benefits or with a low income. In Belgium, almost one-fifth of households benefit from the tariff.[39] Collectively, this demonstrates how the circumstances in Scotland (and the UK) are different to other countries. Further, that levels of inequality and therefore the disproportionate impact that cost rises will have on those groups most negatively affected by rising costs will vary by country.

Acknowledging some of these factors, Box 1 and 2 describe in greater detail the range of measures introduced by France and Germany in response to rising costs.

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[36] The Institute for Government (September 2022), tackling-energy-efficiency-problem.pdf (instituteforgovernment.org.uk)

[37] Inequality - Income inequality - OECD Data; https://www.oecdbetterlifeindex.org/

[38] Bruegel (8 March, 2022), The economic policy consequences of the war (bruegel.org)

[39] Resolution Foundation, (August, 2022) A-chilling-crisis.pdf (resolutionfoundation.org)

Box 1: Measures introduced in France[40]

Electricity and gas: In France, the state owns 84% of EDF[41] (the energy provider that supplies households with gas and electricity). This gives the French government greater control to cap energy prices. As such, energy price rises will be capped at 4% until the end of 2022 and then at 15% in 2023.

Fuel subsidy: Fuel rebate (on petrol/gasoline and diesel) to increase from €0.18 per litre to €0.30 in September and October, before falling in November and December to €0.10. This is applied automatically at all fuel stations in France.

Pensions: The index point for pensions will be raised by 4% in September 2022. This covers roughly 14 million people in receipt of a French pension.

Abolishing the TV license fee: The annual TV license has been scrapped. It was €138 per household, for about 23 million households.

Tripling the Macron bonus: The maximum annual bonus – which is exempt from income and social security taxes – will be tripled. This is a one off, tax-free pay-out that can be given to workers by their employers, if they choose. Companies will be able to pay up to €3,000 to their employees (and up to €6,000 for those with a profit-sharing scheme). The bonus can be paid between 1 August and 31 December 2022.

Rent cap: Rent increases to be limited to 3.5% per year for existing tenants. Some cities already have their own rent control schemes but the 3.5% cap is nationwide. The cap concerns annual rent increases falling between July 2022 and June 2023.

Housing allowance: Those who benefit from personalised assistance for housing will see that increased by 3.5%. This affects those qualifying for governmental financial assistance with rent, typically low income households.

One-off payments: €200 to 5.8 million low income individuals (who earn less than €2,000/month), plus €100-200 one-off payments to around 12 million vulnerable households.

Social benefits: Income support for the unemployed and underemployed will rise by 4%. [42]

Reducing gas demand: an energy 'sobriety' plan which includes specific measures for different sectors. Including, banning lit billboards between 1:00am and 6:00am and encouraging the public to reduce their shower time and turn appliances off when they are on standby.

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[40] On 5th August France's parliament voted through a package of measures. French MPs approve 20 billion-euro package to help with soaring inflation (france24.com)

[41] Electricite de France (EDF) The French government already owns 84% of Électricité de France, but it is now planning to fully nationalize the company

[42] European Commission, France - Employment, Social Affairs & Inclusion - European Commission (europa.eu)

Box 2: Measures introduced in Germany

Germany has a federal democracy.[43] The Federal Government agreed two relief packages by March 2022. Measures included:

Tax cuts/benefits: including a rise in the tax-free allowance to €10,347 (+€363), and the employee allowable expenses lump sum to €1,200 (+€200). Also, increased tax benefits for those commuting further than 21km.

Increase in heating allowance: Students, trainees and those on housing benefit are eligible. Single person households receive €270; a two-person household €350; each additional resident €70. The subsidy is paid to eligible recipients of housing allowance by end of the year and before the adjustment to heating bill instalments.

Support for families and low earners: a one-off payment of €100 per child to all recipients of child allowance. Recipients of non-contributory benefits (Universal Credit) to receive an additional €100 payment, on top of €100 announced previously. Non-contributory benefits also to rise with energy price inflation in January 2023.

One-off payment (energy price lump sum): A one off €300 (taxable) energy allowance paid to all workers (including self-employed).[44]

Fuel tax reduction: fuel tax was lowered to the European minimum between June and August 2022.

Travel discount: Between June and August 2022 people could travel on local and regional buses and trains (not long distance) with a €9 ticket. The number of people using public transport in Germany [in July] has risen by 74% over the same period last year. The rise is attributable for the most part to the introduction of the €9 ticket.

Energy efficiency: Launch of a campaign to improve energy efficiency in homes and businesses.

In September 2022, a third relief package was announced in order to protect households and businesses from rising gas prices until Spring 2023.[45] This included:

- A temporary cap on gas and electricity prices and to remove the gas levy on consumers that was due to come into place on 1st October
- Levies on windfall profits made by the electricity market
- One off payments for pensioners (€300) and students (€200)
- Increased child benefits in 2023 and 2024
- Housing benefit reform to provide targeted support to low income households from 2023

[43] Website of the Federal Government | Home page (bundesregierung.de)

[44] €300 is about £260/270

[45] The Federal Government website - Protective shield package of 200 billion euros | Federal Government (bundesregierung.de)

Conclusion

In response to rising costs, governments have provided a range of broad and targeted support to people through directed payments and also by reducing the costs of transport and housing. Initiatives which make public transport more affordable will help those who are struggling with rising fuel costs. Rent caps and freezes help to minimise costs for people and reduce inflation.[46]

In considering how the UK response compares to other countries, there are two areas of focus - the speed and the nature of the response. Governments from comparator countries were quick to respond, some as soon as September 2021, as the crisis began to develop. Considering the nature of broad and targeted support, most governments have offered a suite of measures that are universal (such as a payments to all households and capping rises to energy bills) and also targeted (e.g., one-off payments to particular groups). These have a beneficial, short-term impact. Longer term initiatives include schemes to make homes more energy efficient, energy 'sobriety' schemes, and EU initiatives to impose windfall taxes and reduce the reliance on Russian gas.

[46] LSE (8 September, 2022), Inclusion, inequality, and responses to the cost-of-living crisis | LSE Business Review

Chapter 3: Analysis of the UK Government's Response

Introduction

This chapter of the report examines key policy interventions announced in 2022 by the UK government to help address the cost of living crisis. There may be further developments in the coming weeks and thus the information in this chapter relates to the period up to the end of October 2022. It describes the content of the packages and summarises analysis by a range of policy and research organisations including; Institute for Fiscal Studies (IFS), International Monetary Fund (IMF), Institute for Public Policy Research (IPPR), Joseph Rowntree Foundation (JRF), the Resolution Foundation and the National Institute for Economic and Social Research (NIESR).

UK Government Cost of Living Support Package

On 26 May 2022 the Chancellor of the Exchequer announced a Cost of Living Support Package in the UK Parliament.[47] The package included the following key measures:

- All households with an energy meter will receive £400 of support with their energy bills through an expansion of the Energy Bills Support Scheme.
- More than 8 million households on means-tested benefits will receive a payment of £650 in 2022, made in two instalments.
- Pensioner households will receive an extra £300 this year to help them cover the rising cost of energy this winter.
- Around six million people across the UK who receive disability benefits will receive a one-off payment of £150 in September
- To support people who need additional help, the UK Government is providing an extra £500 million of local support, via the Household Support Fund.
- In addition, the Chancellor committed, subject to the Secretary of State's review, that benefits will be uprated in April 2023, by September's Consumer Price Inflation (CPI)[47]

The package of measures represented a significant financial intervention comprising over £15bn of targeted support to UK households. A number of reports were published that analysed the strengths and weaknesses of the package and how it would affect different groups. Report findings indicated a number of key themes that are summarised below.

[47] UK Government, (26 May, 2022) Cost of Living Support - GOV.UK (www.gov.uk)

The package of measures is broadly progressive**.** The Resolution Foundation calculated that twice as much of the £15 billion package would go to households in the bottom half of the income distribution as the top half.[48] However, the support package does not take into account individual household circumstances**.** This means some groups will do better from this package of lump-sum payments than others as the system of flat payments does not reflect the different levels of need within the benefit system or different levels of energy usage. For example, larger households will receive the same lump sum payments as smaller households despite having higher costs. The Resolution Foundation state that large families face the greatest risks of severe fuel stress this winter. Among working age households receiving means-tested benefits, households with three or more children will see energy bills pushed up by £500 plus a year more than those without children, but will get the same one-off payment. [49]

The support package does not recognise the diversity of need amongst disabled people and their carers. Organisations such as SCOPE[50] and Disability Rights UK[51] have been quick to identify the need for more tailored solutions, rather than blanket payments, which recognise, for example "that disabled people also often need more heating to stay comfortable, extra electricity to charge assistive technology devices and petrol to get about due to limited transport options".[52]

Households that narrowly fail to meet the eligibility threshold for means-tested benefits will not receive an additional £650 payment and be worse off than similar households. The flat rate amounts apply in full to those entitled to very little in benefits, and yet not at all to those whose income is very slightly too high to be eligible, meaning significant inequity in the treatment of very similar households.[53]

The support package announced financial support to better off households**.** For example, there are a large number of relatively well-off pensioners who will receive an extra £300 (in addition to the £400 payment that all households will receive). Around 3.7 million UK pensioner households in the richest half of the population will receive payments.[48]

The interventions in the package provide short-term support. IPPR referred to it as a 'sticking plaster' and suggested further work is needed to 'future proof current homes' and 'ensure our safety net is fit for purpose'.[54] It is also worth noting that there will be a 'cliff edge' for many families when the extra payments are no longer available/have run out.

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[48] Resolution Foundation, (26 May, 2022) - Chancellor almost doubles cost-of-living support with two-thirds of fresh cash going to the poorest half of households • Resolution Foundation

[49] Resolution Foundation, (27 May, 2022) - Back-on-target.pdf (resolutionfoundation.org)

[50] SCOPE, (11 May, 2022) - Why disabled people are at the centre of the cost-of-living crisis | Disability charity Scope UK

[51] Disability Rights UK, (26 May, 2022) - One-off payment not enough to end cost of living crisis – DR UK | Disability Rights UK

[52] Research Institute for Disabled Consumers, (5 May, 2022) - Cost of living crisis: disabled people pay the price | RiDC

[53] IFS, (26 May, 2022) - IFS response to government cost of living support package | Institute for Fiscal Studies

[54] IPPR, (26 May, 2022) - IPPR Scotland Responds to UK Chancellor's Cost of Living Announcement | IPPR

UK Government intervention on energy bills

On the 8th September 2022 the UK Prime Minister set out a package of energy relief for households alongside support for businesses.[55] The Prime Minister also announced plans for energy reforms, with the ambition to make the UK a net exporter of energy by 2040. The package is currently funded through higher government borrowing rather than a windfall tax and was un-costed at the time of the announcement although the subsequent UK Growth Plan costed the package at £60 billion over 2022-23. It should be note that the cost is highly uncertain as it is dependent on the future path of international energy prices. The package included three key measures:

- An Energy Price Guarantee: Typical household energy bills capped at £2,500 per year. Initially this was intended to remain in place for the next two years but a recent statement by the new Chancellor has indicated that this guarantee will only be in place until April 2023. The price guarantee already takes account of the £150 removal of green levies. Together with the previously announced £400 energy price rebate, this means that bills will remain capped at around £2,100 over this winter for a typical household.

- Support for Businesses: Businesses (including charities and public sector organisations like schools) will now pay the same energy prices as households for six months. In three months' from the announcement, there will be a review to consider how to provide ongoing focused support to vulnerable industries, such as Hospitality (further details relating to business support were announced on the 21st September – see section below).

- Supply-side reforms: This includes lifting the current moratorium on fracking, launching a new oil and gas licensing round, speeding up the deployment of clean and renewable energies and a new joint Government and Bank of England 'Energy Markets Financing Scheme'. The intended purpose of these supply side reforms is to secure domestic energy supplies and increase energy resilience with the ambition to make the UK a net exporter of energy by 2040.

Research and policy organisations, that published reports analysing the package, raised a number of key points regarding its likely effects. First, that the Energy Price Guarantee is likely to have a positive impact on household finances and support demand in the economy in the short term. Capping energy prices, rather than raising the Energy Price Cap in line with the cap announced by Ofgem in August 2022 will save the typical household £1,074 on their energy bills over the next six months.[56].

Secondly, that the Energy Price Guarantee may reduce the inflation rate in the short term but this might come at the cost of potentially prolonging elevated inflation and/or higher interest rates. Initial analysis by the Resolution Foundation suggested the guarantee will soften future pressures on incomes by reducing short-term inflation by around four percentage points in January 2023 (rising to almost six percentage points for the poorest

[55] UK Government, (21 September, 2022) - Energy bills support factsheet - GOV.UK (www.gov.uk)

[56] Resolution Foundation, (8 September, 2022) - Liz Truss sets out plans for government to cover three-quarters of the rise in energy bills this winter, but ducks question of its £120 billion plus price tag • Resolution Foundation

tenth of households). It is estimated that an extra one per cent on interest rates would add around £11 billion in public borrowing in the first year. [57]

Thirdly, the Energy Price Guarantee is untargeted. The Resolution Foundation argued that while benefiting those who need to use more energy, the policy is not well targeted at those on low incomes who will struggle most to cope with higher costs. Half of the funding would go to the top half of the income distribution. Higher income households typically use more energy, so the top fifth may save around £1,300 this winter from the guarantee compared to £1,100 for the lowest income fifth.[57]

Analysis also suggested that further UK Government targeted support will be required. Scottish Government modelling estimates with the price cap increasing to £2,500 for a typical household there will be around 860,000 (35%) fuel-poor households in Scotland, of which 600,000 (24%) will be in extreme fuel poverty, from October 2022.[58] On 22 September JRF published analysis looking at the cost rises facing low income working-age households on means-tested benefits this tax year compared to last tax year and found they face a gap of £450 between now and April just to keep up with predicted price rises.[59]

As with the May 2022 cost of living support package, the Energy Price Guarantee provides support in the immediate but not longer term. In particular the IFS argues that the Energy Price Guarantee fails to support longer term measures to reduce energy consumption or support more sustainable sources of energy.[60]

The current package is funded from higher borrowing rather than alternatives such as enhanced windfall taxes on energy producers. The Resolution Foundation argued that the UK government was asking future taxpayers to accept a large and very uncertain, bill to help today's energy bill payers. The Foundation argued that more could have been done to reduce the pressure on tax and bill payers by addressing the windfalls some energy companies are seeing. [56] It should be noted that future UKG plans are unclear at the time of writing and that current decisions about windfall taxes may change.

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[57] Resolution Foundation, (13 September, 2022) - A blank cheque • Resolution Foundation

[58] Estimates for fuel poverty relating to Oct 2022 are based on scenario modelling. Fuel poverty rates are calculated based on 2019 SHCS data, with energy prices uprated in line with the Energy Price Guarantee of £2,500 for the typical dual fuel household. Figures are presented net of the following mitigations: £400 Energy Bills Support Scheme payment, £650 Cost of Living payment for those on means-tested benefits, £300 Pensioner Cost of Living Payment for pensioner households who receive the Winter Fuel Payment, £150 Disability Cost of Living Payment and £150 Council Tax rebate for households in council tax bands A-D or that receive council tax reduction. They do not include the £100 payment for off-gas-grid households under the Energy Bill Relief Scheme

[59] JRF, (22 September, 2022) - Chancellor will leave low-income families out in the cold with tax-cutting agenda | JRF

[60] IFS, (8 September, 2022) - Response to the Energy Price Guarantee | Institute for Fiscal Studies (ifs.org.uk)

UK Government support for businesses

On the 21st September 2022 the UK Government published further detail of how it would support businesses through the energy price crisis. The Energy Bill Relief Scheme[61] will provide support for non-domestic consumers across the UK in the form of a Government supported wholesale price. The scheme has the following key features:

- it will apply to fixed contracts agreed on or after 1 April 2022, as well as to variable and flexible tariffs and contracts. The level of price reduction for each business will depend on their contract and circumstances

- the UK Government will set a Supported Wholesale Price – expected to be £211 per MWh for electricity and £75 per MWh for gas. This is less than half the wholesale prices anticipated this winter. Equivalent support will also be provided for non-domestic consumers who use heating oil or alternative fuels instead of gas. The amount of this discount is likely to be around £405/MWh for electricity and £115/MWh for gas, subject to wholesale market developments

- the scheme will initially run for six months from 1 October 2022 to 31 March 2023. The UKG will publish a review into the operation of the scheme in three months to inform decisions on future support after March 2023. The discount will be automatically applied to bills with the first reduced bills being those received in November 2022

- as part of the package, changes to previous schemes were also announced. The discount will now be available to the 1% of households who did not previously receive it, such as park home residents and tenants whose landlords pay for their energy via a commercial contract, and an additional payment of £100 will be provided to households across the UK who are not able to receive support for their heating costs through the Energy Price Guarantee to compensate for the rising costs of alternative fuels such as heating oil and to compensate off-grid consumers.

The scheme was broadly welcomed by businesses. In response the Federation for Small Businesses in Scotland stated:

'It's hugely welcome to see some tangible support for Scotland's small firms, who have been enduring the most acute cost of doing business crisis for many months. It cannot come a moment too soon. For those who were facing four or fivefold increases in their bills, a reduction on the cost per unit will provide some welcome relief and allow them to plan their way through surviving the winter'.[62]

However as with the cost of living support package and the energy price guarantee, there is concern about the short-term nature of the support**.** The CBI stated:

[61] UK Government, (21 September, 2022) - Energy Bill Relief Scheme: help for businesses and other non-domestic customers - GOV.UK (www.gov.uk)

[62] FSB, (21 September, 2022) - FSB Scotland reacts to small business energy support | FSB, The Federation of Small Businesses

'*Businesses will also want to know more about the exit strategy and what happens when the six-month cap runs out. Working closely with business will be key to successful implementation'.*[63]

It is estimated that the total cost of the energy package, including business support will be around £60 billion in 2022-23.

UK Government Growth Plan and subsequent developments

On the 23rd September 2022, the UK Government published a Growth Plan focusing on tax cuts and supply side reforms intended to grow the economy.[64] The Plan was not accompanied by independent OBR forecasts. It contained a number of proposed elements including: reversing the recent 1.25% rise in national insurance contributions; reducing the basic rate of income tax by 1p; removing the additional rate of income tax for those earning over £150,000 per annum; and cancelling planned increases to corporation tax, among other measures.

Since the publication of the growth plan there have been a range of subsequent developments leading up the resignation of former Prime Minister Liz Truss on October 20th 2022, and the appointment of Rishi Sunak as Prime Minister on 25th October. Taken together they mean that many of the key components of the Growth Plan will not be implemented. At the time of writing, a medium term fiscal plan is expected to be announced on the 17th of November 2022. This will provide further information on changes to tax and spending at UK level in the months ahead.

Conclusion

Over the course of this year the UK Government has introduced several packages of interventions to support households and businesses in the context of rising costs. These interventions have been notable for their scale. Collectively, they represent a very significant financial intervention. At the current time, the UK Government has chosen to fund these interventions through increased borrowing, rather using alternative options including an enhanced windfall tax on energy producers and/or providers.

A range of research and policy organisations have argued that more targeted support is likely to be required to address the deficits associated with UK Government interventions to date. They have also argued that more longer term support will be required for households, businesses and organisations. The UK Government has committed to release an economic and fiscal forecast alongside its medium-term fiscal plan on the 17th November. This will provide more information and allow for a more thorough analysis of the likely impacts of the measures that have been announced and how they will be paid for.

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[63] CBI, (21 September, 2022) - CBI responds to business energy support package announcement | CBI

[64] UK Government (23 September, 2022), The Growth Plan 2022 (HTML) - GOV.UK (www.gov.uk)

Chapter 4: Impact on Business

Introduction

The cost crisis is facing every business in Scotland. Business costs have significantly risen over the past year due to rising prices for energy and materials alongside rising labour costs. This has presented significant challenges as businesses continue to recover from the pandemic and attempt to ensure the resilience of cash-flow in the face of challenging demand conditions.

Businesses respond to the increased costs in a number of ways - by adjusting their prices, absorbing costs through reduced profits, or seeking to reduce other costs, including wages. Where feasible, they may seek to reduce activity levels, particularly if moving into periods of lower seasonal demand.

Higher energy prices may also make business viability more challenging. Businesses that use energy more intensively, with a large share of spending on energy, may find themselves under more pressure to pass on higher energy costs or may be more vulnerable to closure.

The impact of higher costs will also be felt by businesses through the secondary impacts on lower household incomes. This takes the form of reduced demand, particularly in consumer facing sectors of the economy, that depend on 'discretionary' spend. In September, retail sales volumes in GB fell 1.4%, continuing a downward trend over the past year and in recent months, affected by rising prices and cost of living.[65] As shown in Chapter 1 we are also already seeing the risks to demand with consumer sentiment currently at its lowest level since November 2020.

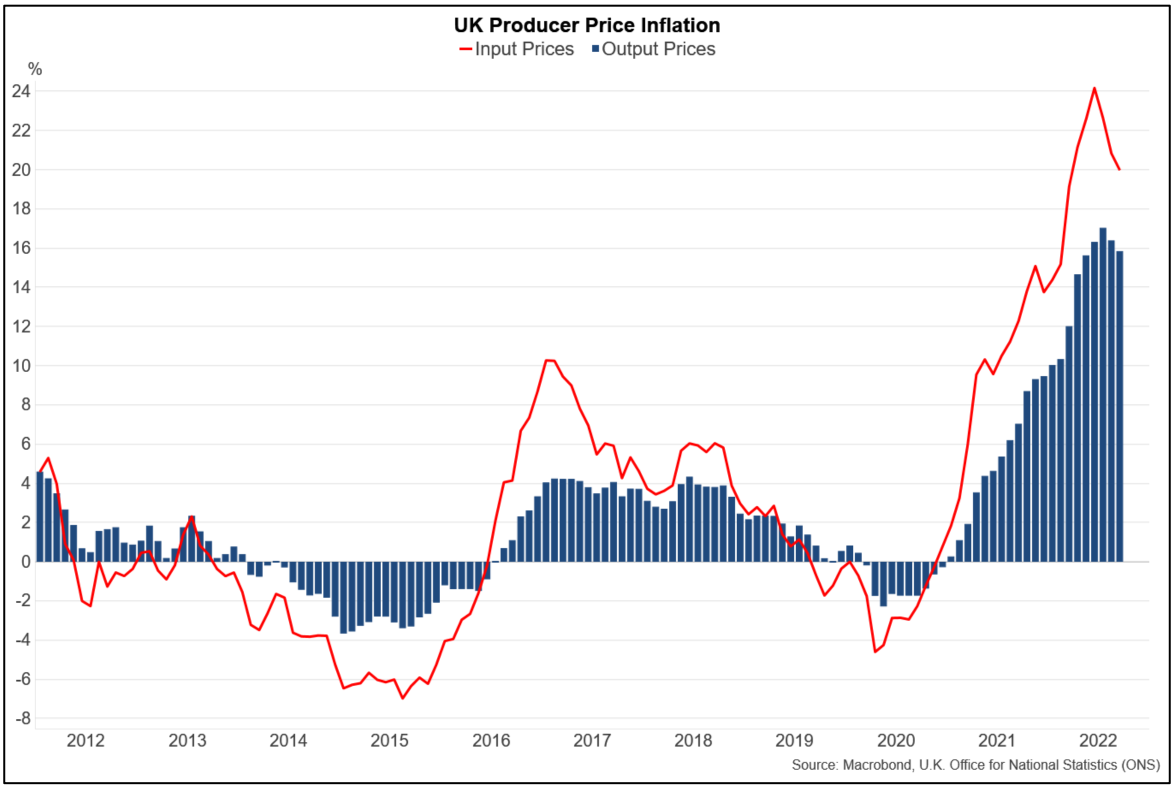
Employees may also respond to the cost crisis in the form of higher wage claims on their employers (see Chapter 6 for information on private sector wage growth).

Input prices

As Figure 8 illustrates, producer input price inflation rose to a record high annual rate in June (24.1%) before easing back slightly over the third quarter to 20% in September.

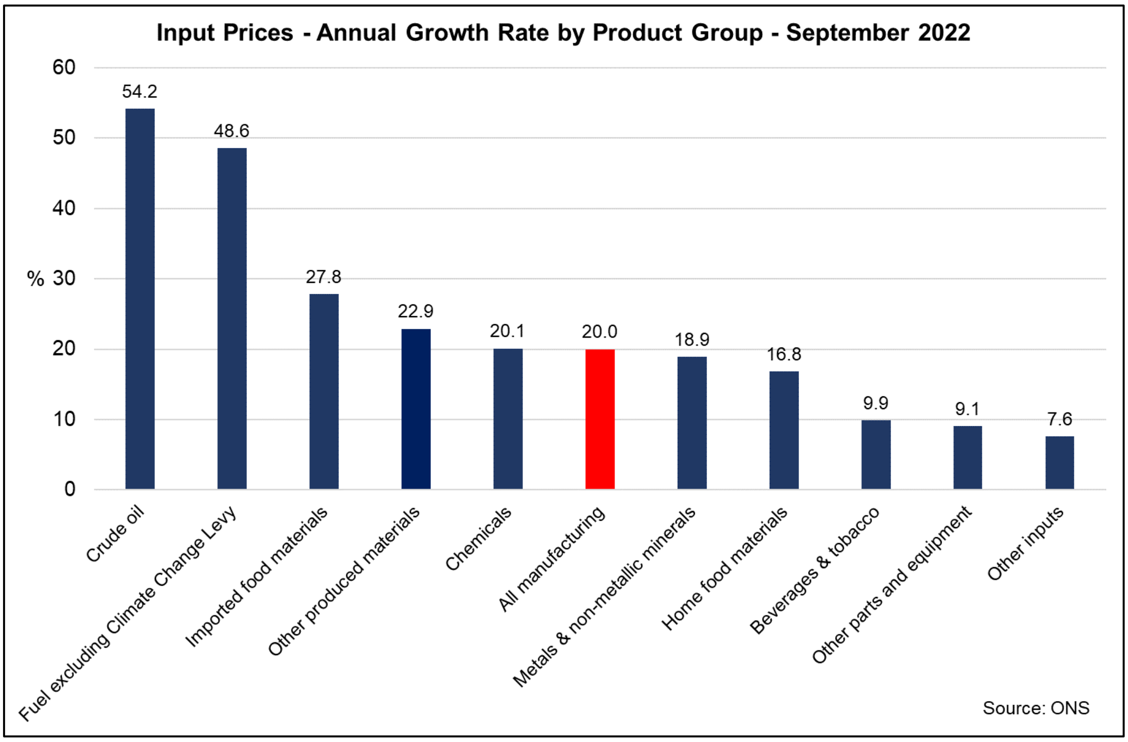
[65] ONS (21 October, 2022), Retail sales, Great Britain - Office for National Statistics (ons.gov.uk)

Figure 8: UK Producer Price Inflation.



The rise in input prices have been broad based across product groups, however, as can be seen in Figure 9, crude oil and fuel have had the largest increases reflecting the rise in energy prices driving cost pressures.

Figure 9: Annual Growth Rate by Product Group – September 2022.

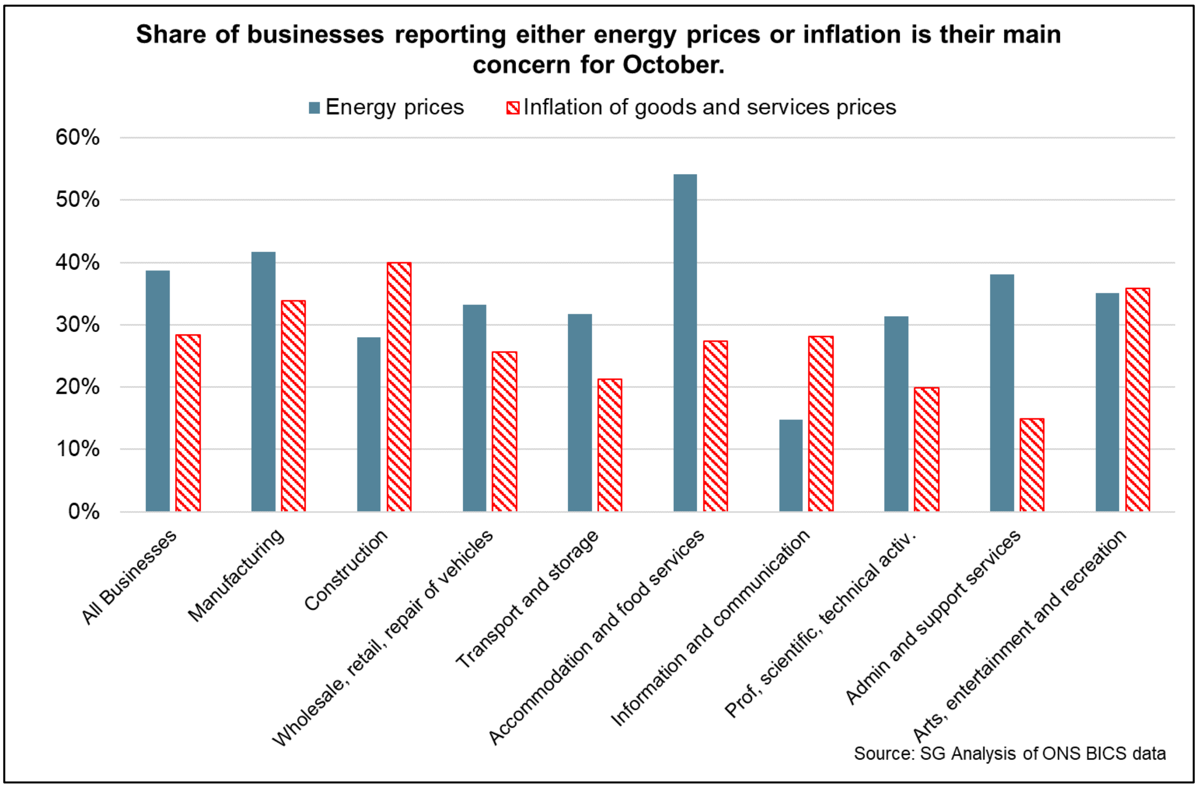


Source: ONS Producer prices

Main concerns for businesses in Scotland

Increasing costs of production (energy, raw materials and labour) are the most significant immediate challenge facing businesses in Scotland. The latest Business Insights and Condition Surveys show that 67% of all businesses reported that energy prices or inflation of goods and services prices were the main concerns in October. Concerns are highest Accommodation and Food (82%), Manufacturing (76%), Arts, Entertainment & Recreation (71%), and Construction (68%). (See Figure 10).

Figure 10: Main concerns for businesses in October 2022.



For small businesses, the FSB Small Business Index shows that fuel (72.9%) and utilities (67.1%) have been the main factor for higher business costs followed by inputs and labour.[66] At the UK level, the Office for National Statistics energy spending statistics found that the smallest "micro" businesses with zero to nine employees were much more likely than larger businesses to have a very high energy intensity of more than 20% of total purchases being spent on energy in 2019.[67]

The Energy Bill Relief Scheme announced in September 2022 will provide support for non-domestic consumers across the UK in the form of a Government supported wholesale

[66] The Federation of Small Businesses (3 August, 2022), FSB Scotland Voice of Small Business Index Quarter 2 2022 | FSB, The Federation of Small Businesses

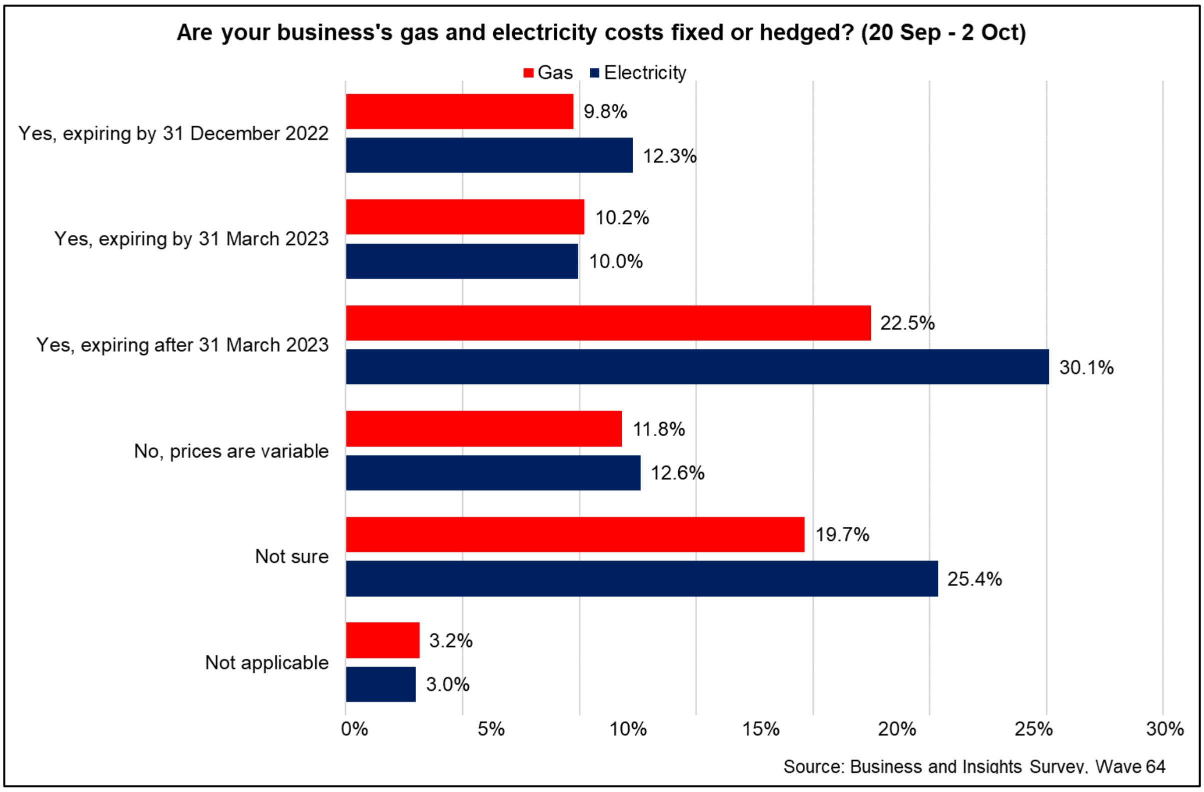
[67] ONS (7 September, 2022), Business energy spending: experimental measures from ONS business surveys - GOV.UK (www.gov.uk)

price, as outlined in Chapter 3. The extent of benefits to businesses will depend on the specifics of the contract an individual business has. There are many contract types and data is not readily available on number of businesses by contract type.[68]

Cornwall-Insights estimate that, notwithstanding the challenge of calculating a homogenous discount across so many contract types, this represents a 45% discount to closing wholesale energy prices as at the end of last week. The support effectively reverts the market back to where it was price wise in the Spring of 2022. However, many large- and even medium-sized businesses buy energy in advance and operate hedging strategies. Therefore these businesses will have secured energy prices below what has been quoted and so will not benefit from the scheme.

Business surveys suggest that 9.8% of gas and 12.3% of electricity contracts are expiring by the end of 2022 (see Figure 11). The high share of businesses reporting ‘not sure’ about their contract type, underlines the importance of energy advice measures. The percentage of businesses ‘not applicable’ is likely to reflect responses by micro businesses that may rent space within a large building and may not hold the energy contract.

Figure 11: Gas and electricity costs for businesses.



There some sectoral differences in whether gas and electricity costs are fixed, with manufacturing, arts and entertainment, accommodation and food and wholesale and retail amongst the most likely to have fixed rather than hedged contracts for gas and electricity.

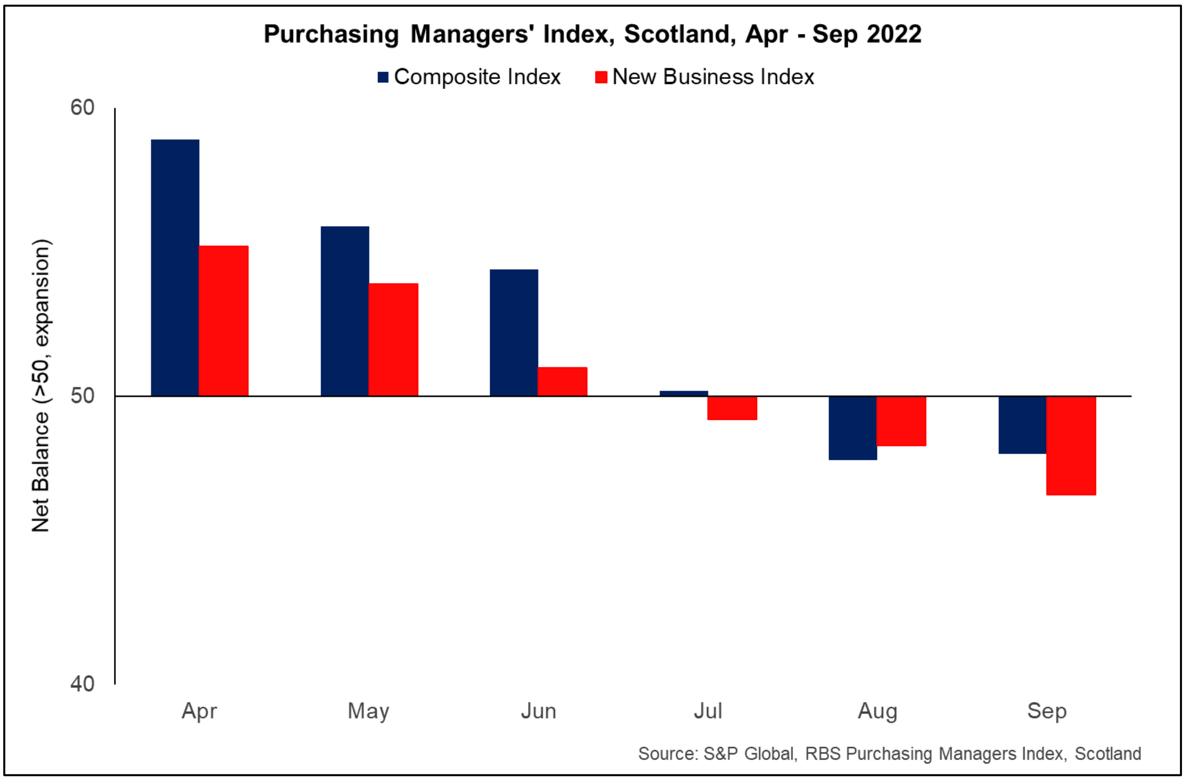
[68] Cornwall-Insights (21 September, 2022), https://www.cornwall-insight.com/energy-bill-relief-scheme-the-devils-in-the-detail/

Impact on business demand

Inflationary pressures and the cost of living crisis are feeding through to weakening demand and business activity. Latest business surveys show that business activity and new business/orders continued to decrease across the Scottish private sector during September (Figure 12).

New business received at Scottish private sector companies contracted for the third month running during September, with inflationary pressures and the cost of living linked to the recent weakening At the sectoral level, new orders in manufacturing firms contracted for a fifth consecutive month, though at the softest rate of decline in three months, while services providers reported their first contraction since March 2021. [69]

Figure 12: Business Activity, April – September 2022.



Conclusion

Business costs have significantly risen over the past year due to rising prices for energy and materials alongside rising labour costs. Input prices are around 20% higher than last year. Increasing costs of production (energy, raw materials and labour) are the most significant immediate challenge facing businesses in Scotland and threaten viability. The extent to which businesses benefit from the energy price guarantee depends on their individual contract type.

[69] Royal Bank of Scotland (10 October, 2022), Royal Bank of Scotland PMI report for September 2022 | Royal Bank of Scotland (rbs.co.uk)

As well as the direct impacts from higher energy prices, businesses, particularly those in consumer facing sectors, will be affected by lower demand as a result of falling real household incomes. The squeeze on customer disposable incomes amid a high inflation environment has led to a recent downturn in business activity and new business.

Chapter 5: Households Most Affected

Introduction

While all households in Scotland will be affected by increases in the cost of living, the resulting harms will not be evenly distributed. It is those with lower incomes and little or no savings who will be most impacted. This section of the report describes:

- types of low income households
- why these households are particularly vulnerable when the cost of goods and services increases.
- how recent announcements by the UK government (described in Chapter 3) may, when fully implemented, affect these types of low income households

This chapter draws on routinely available data in Scotland, some bespoke analysis by analysts in the Scottish government, and is also informed by recently published reports from research organisations.

Low income households

There are a number of ways to define low income households. Examples of measures used include relative poverty (after housing costs), or the lowest income decile or quintile or the lowest 30% of households.[70] People on low incomes are not a homogeneous (or permanent) group and encompass different groups at different life stages. Irrespective of which of these measures are used, households with low income are likely to include over representation from the following groups:[71]

- disabled people
- lone parent families
- minority ethnic households
- other child poverty priority group households[72] (3+ children, mother under 25, baby under 1)
- renters (private and social)
- young adults (under 25)
- unemployed adults
- those with no formal qualifications
- recipients of income-related benefit

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70 This paper focuses on income of households rather than SIMD. However, it is important to consider issues that exacerbate the crisis for people living in the most deprived areas, for example availability of affordable and healthy food.

71 Poverty stats and tables with additional breakdowns (from Family Resources Survey data) Financial vulnerability (from Wealth and Assets survey data) Cost of living analysis (document 3) (from Living Costs and Food Survey data)

72 Scottish Government (4 October, 2021), Tackling child poverty priority families overview - gov.scot (www.gov.scot)

- people with no recourse to public funds
- people with multiple complex needs

Low income households as a whole are likely to be disproportionally negatively affected by increases in the cost of living due to:

Spending a higher proportion than average on energy, food and transport and therefore being more affected by inflation and having less flexibility in their budget to cope with price rises.

The percentage of net income spent on housing, fuel and food is considerably higher for households in the lowest three income deciles compared to those with higher incomes.[73] Low income households will therefore be relatively more affected by increases in prices. The IFS indicates that lower income households spend almost three times as much of their budgets on gas and electricity as the highest-income tenth on average (11% versus 4%).[74] Because low income households tend to spend more of their budgets on essential goods that have risen in price, the inflation rates they are experiencing are accelerating even faster than those faced by other households. The IFS predicted in August that the poorest fifth will face an 18% inflation rate in October 2022, compared to 11% for the richest fifth.[75]

Being more likely to be financially vulnerable, and entering the cost of living crisis in a position of financial hardship.

The poorest groups were already least financially resilient, with pre-existing hardship, and for some, a backlog of arrears and debt as a result of the austerity, reforms to the benefit system and the Covid-19 pandemic.[76] The Resolution Foundation argue that more than a decade of weak growth combined with high inequality means that the UK's poorer households are particularly exposed to income or spending shocks.[77] Many households went into the crisis already financially struggling, with 30% of households in Scotland not having enough savings to keep them above the poverty line for one month should they lose their income. This figure rises to 50% for the 20% of households with the lowest incomes.[78] Those on the lowest incomes were also most likely to lose their job, at least early in the pandemic.[79] Scotland saw a 108% rise in the number of emergency food

[73] Scottish Government, National Performance Framework – Cost of living https://nationalperformance.gov.scot/measuring-progress/national-indicator-performance

[74] IFS, (17 November, 2021), The cost of living crisis – who is hit by recent price increases? | Institute for Fiscal Studies (ifs.org.uk)

[75] IFS, (15 August, 2022), The long squeeze: rising inflation and the current government support package | Institute for Fiscal Studies (ifs.org.uk)

[76] JRF (29 June, 2022), Not heating, eating or meeting bills: managing a cost of living crisis on a low income | JRF

[77] The Resolution Foundation (13 July, 2022), Stagnation Nation: Navigating a route to a fairer and more prosperous Britain

[78] Scottish Government (18 February, 2022), Wealth in Scotland 2006-2020 (data.gov.scot)

[79] The Resolution Foundation (16 May, 2020), The-effect-of-the-coronavirus-crisis-on-workers.pdf (resolutionfoundation.org)

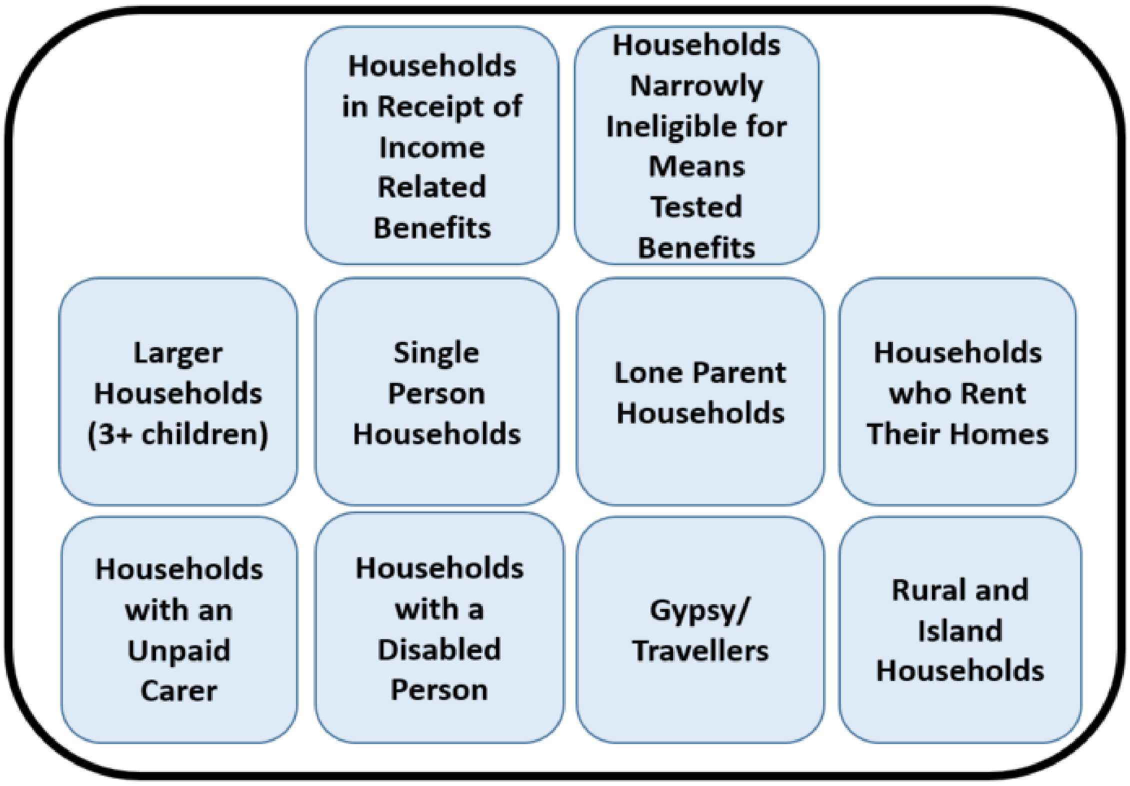
parcels distributed in July 2020 compared with July 2019, and one in five households in Scotland with dependent children reported that they were "in serious financial difficulty".[80]

Being disproportionately affected by real-terms reductions in income-related benefits (more detail on this is included in the section below).

Low income households particularly negatively affected

Within low income households there are a number of groups of people who are likely to incur additional costs and / or receive real-terms reduced income because of their particular characteristics and / or circumstances, and are therefore likely to be disproportionately affected by increases in the cost of living.[81] These frequently overlapping groups include sub groups of low income households, as set out below.

Figure 13: Low income households most negatively affected by the cost of living crisis.



Descriptions of these households are included in Annex 2

Minority ethnic groups and women are more likely to live in the types of low income households identified in Figure 13.

[80] Scottish Government (5 October, 2021), Covid recovery strategy - for a fairer future: fairer Scotland duty assessment - summary

[81] This assessment is based on a review of the best available evidence on who is most negatively affected by increases in the cost of living. It is a dynamic picture and subject to change as new evidence, interventions and support measures are introduced. Because of this, groups initially included have been removed, and conversely new evidence or interventions may emerge that highlights ways in which other groups, not included here, are being particularly affected.

Minority ethnic groups are significantly more likely to live in larger households[82], to be unpaid carers and live in private rented accommodation. Minority ethnic households are also more likely to have deeper levels of poverty[83] and so a greater proportion of their income is likely to be spent on essentials which are subject to inflation.

Women are likely to experience indirect effects of cost pressures that are not always apparent in routine data. This can, for example, be due to formal or informal caring responsibilities and loss of income or career progression due to these caring responsibilities and divisions of domestic labour. They are more likely to live in lone parent households, households with an unpaid carer and larger households. The Women's Budget Group produced a recent briefing on the gendered dimension of the cost of living crisis and argued that women are more exposed to cost of living pressures, due to lower earnings and savings (amongst other factors and structural inequalities).[84] [85] In addition, the six child poverty priority family types identified within the Child Poverty Delivery plan, which are more likely to include women, feature prominently within the groups identified above.

It is also important to consider major life events and points of transition, which can affect a range of different types of low income households. For example, additional costs may be incurred due to the arrival of a new baby, a child starting school, parental separation, bereavement, retirement, or the onset of poor health. There are also individuals within households with complex needs that may not be captured within the groups included in Figure 13. In addition, it is important to recognise that people who arrive in the UK as refugees and are seeking asylum also face particular hardship that will be exacerbated by the rising cost of living, as they are on very low fixed incomes and do not have the right to work.

There is also likely to be some overlap in relation to the household types identified above, and within them, people's membership of multiple interconnected social categories, and experiences of structural inequalities.[86] For example, a person could have a number of protected characteristics and experiences, and be, for example, a minority ethnic disabled renter on income-related benefits, or a rural low income, lone parent family headed by a mother with caring responsibilities. Some of these overlapping characteristics interact with each other in a way that may compound negative outcomes.

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[82] According to 2011 Census Data

[83] Scottish Government (2020). Poverty and income inequality in Scotland 2016-19 and Additional poverty analysis 2018 - gov.scot (www.gov.scot)

[84] And a recent gendered analysis of the cost of living crisis argues that the impact of the energy crisis on public services and small businesses is also likely to hit women particularly hard, as they are the majority of workers in most affected sectors like social care and education, and hospitality and retail. Women's Budget Group (5 September, 2022), The Cost Crisis: a Gendered Analysis - Womens Budget Group (wbg.org.uk)

[85] Women's Aid (1 August, 2022), The cost of living - Women's Aid (womensaid.org.uk)

[86] Scottish Government, (9 March, 2022) Using intersectionality to understand structural inequality in Scotland: Evidence synthesis (www.gov.scot)

Evidence for the selection of households most negatively affected

This section sets out the evidence and rationale for why low income households with particular characteristics are more likely to be disproportionately affected by the cost of living crisis.

Households in Receipt of Income-related Benefits

Households in receipt of income-related benefits are likely to be disproportionally negatively affected, due both to the starting point of financial hardship following a sustained period of austerity and a series of benefit reductions since October 2021. These households are likely to be negatively affected by rising costs as a result of:

1) The removal of the temporary £20 per week uplift to Universal Credit (UC).
In March 2020 the UK government announced a £20 per week increase in UC and Working Tax Credit to "strengthen the safety net" during the pandemic. This uplift was withdrawn in October 2021. This meant a fall in income for over 400,000 households in Scotland.[87] A recent welfare reform report estimated that reinstating the £20 uplift would cost £540 million in Scotland in 2023/24, which is equivalent to the total income lost in that year as a result of the uplift being withdrawn (this includes the knock-on impact on devolved benefits like SCP).[88] Subsequent increases (a reduction in the taper rate and an increase in work allowances) only benefitted claimants in work.

2) Entering the cost of living crisis at a point where they were already struggling, and for some, having their UC reduced to pay off historic debts.
The Trussell Trust found that 17% of people receiving UC visited a food bank between Dec 2021 and March 2022.[89] JRF and others have written that benefit deductions are exacerbating this situation.[76] [90]

3) Being subject to a higher real-terms percentage fall in their income than people in employment (on average), by not receiving an uprating of benefits that reflects current rates of inflation.
Due to a range of UK government policy decisions, UK benefit rates have not kept pace with inflation in recent years.[91] In 11 of last 15 years the value of unemployment related benefits (including UC and Job Seekers Allowance) has declined and now have around 14% less purchasing power than they did in 2008[92]. This problem is particularly pronounced in a context of rising inflation due to the lag between the inflation period used

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87 DWP, Stat-Xplore, 'Households on Universal Credit' dataset, September 2021; and HMRC, Provisional tax credit award statistics, April 2021.

88 Scottish Government, (April, 2022), Welfare reform - impact on households with children: report - gov.scot (www.gov.scot)

89 The Trussell Trust (17 March, 2022), Two in five Brits receiving Universal Credit forced into debt this winter as payments failed to cover soaring cost of living, says the Trussell Trust - The Trussell Trust

90 Child Poverty Action Group (17 May, 2022), Reducing deductions: the first step in a package of support for low-income households | CPAG

91 The real-terms value of a benefit removes the effect of inflation by converting the nominal (cash terms) value of a benefit in any given year to its value in 1 consistent price year.

92 Internal Scottish Government analysis.

(e.g. September) and when it is applied for benefit uprating (e.g. following April). The impact of the long-term approach has been to undermine the confidence that benefits will maintain their real value. In essence, there was already a long-term cost of living crisis for those on benefits which is the context for this current immediate pressure on prices. The real-terms value of benefits devolved to the Scottish government have held up more than reserved benefits, largely due to the 6% uprating of the Scottish low income benefits in April 2022 compared with 3.1% for most reserved benefits. By way of comparison PAYE data show median monthly nominal pay grew 4.7% over the year in August 2022, however fell 4.4% in real terms (CPI adjusted), the seventh consecutive month of negative annual growth.[93]

In April 2022, UK benefits and state pensions were uprated using the annual rate of CPI to September 2021 (3.1%). However, this was significantly lower than the 7.0% recorded in March 2022, just before benefits were uprated, and inflation has risen since then to 10.1% in September. Although households will potentially benefit from these being uprated in April 2023 based on CPI rate in September 2022[94], there is still an issue with households not receiving uplifts to their benefit income when they actually need it. These households will have to wait for uprating to catch up with inflation in order to regain the real value of benefit payments.

As set out in Chapter 3, households in receipt of income-related benefits were specifically targeted for UK government support in the May 2022 Cost of Living Support Package. Despite this, these households are still likely to be disproportionally negatively affected given the latest forecasts for inflation. JRF published analysis that examined the cost rises facing low income working-age households on means-tested benefits this tax year compared to last tax year. They found that these households face a gap of £450 between now and April just to keep up with predicted price rises.[59]

Households Narrowly Ineligible for Means-tested Benefits

Amongst the groups identified by the Poverty and Inequality Commission and their Experts by Experience Panel as missing out, or receiving limited support under the UK government's Cost of Living Support Package, are households just above the benefits threshold, as well as disabled people who face higher energy costs but do not qualify for low income benefits.[95] There could be a significant number of people in Scotland who narrowly miss out on qualifying for the £650 Cost of Living payment for low income households. For example, there could be around 10,000 households in Scotland who earn just too much to qualify for Universal Credit.[96]

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[93] ONS (13 September, 2022), Earnings and employment from Pay As You Earn Real Time Information, UK - Office for National Statistics (ons.gov.uk); ONS (14 September, 2022) Consumer price inflation, UK - Office for National Statistics

[94] There is uncertainty at the time of writing as to whether benefits will be uprated by the September 2022 CPI

[95] Poverty and Inequality Commission (12 August, 2022), Poverty-and-Inequality-Commission-Final-Cost-of-Living-advice-to-Scottish-Government-12-August-2022-002.pdf (povertyinequality.scot)

[96] Based on internal Scottish Government analysis using the number of households in Scotland with monthly Universal Credit awards no higher than the equivalent of £20 per week, and assuming a similar number of households earn £20 per week too much to qualify for Universal Credit. DWP, Stat-Xplore, Households on Universal Credit, May 2022.

This group do not receive the additional £650 payment in the UK government's Cost of Living Support package. The flat rate support to households on benefits, as well not taking account of family size or position in the labour market, represents a "cliff-edge" effect. This means that households who just become ineligible for benefits, for example through extra earnings, may lose that money, and not receive cost of living payments.

Households with an Unpaid Carer

Caring comes with additional costs that can significantly affect a carer's financial situation. For example, having to spend a larger proportion of their income on energy costs to keep the person they care for warm and manage their condition, having higher food bills due to the nutritional requirements to support the person they are caring for, and having higher transport costs because the person they care for needs support to travel or the carer has to travel to provide care.[97]

Carers UK have reported survey findings that found financial pressures for carers were exacerbated in the six months to March 2022, with the number of carers who are worried that they will not be able to manage their expenses more than doubling during that time. Almost half of carers in their survey indicated that increases in energy bills would negatively affect their health or the health of the person they care for.[97] Carers eligible for Carer's Allowance also only received a 3.1% uprating in April 2022.

Larger Households (3+ children)

The larger the family, the more goods and services need to be purchased. The proportion of children in combined low income and material deprivation is higher than average if they live in households with 3+ children.[98] A recent report from JRF finds that in line with findings from October 2021, families with three or more children were also disproportionately more likely to be in arrears, with 64% in arrears, compared to 27% of households without children.[76]

The Poverty and Inequality Commission and their Experts by Experience Panel identified larger families as one of a number of groups who miss out, or receive limited support, under the UK Government's May support package.[95] Larger households will receive the same lump sum payments as smaller households despite having higher costs.

A recent report from Professor Donald Hirsch -'Is cost of living support enough?'- found that the larger the household, the more the household will lose, and a couple with three children is losing almost as much again from rising prices as they did from last year's cut in the UC uplift.[99] The two-child benefit limit already means that larger families will not receive increasing support to reflect their situation.

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[97] Carers UK (15 March, 2022) Under Pressure: Caring and the cost of living crisis - Carers UK

[98] Scottish Government (25 March, 2021), Poverty and Income Inequality in Scotland 2017-20 (data.gov.scot)

[99] Hirsch, D (August, 2022) Is-cost-of-living-support-enough.pdf (jpit.uk)

Lone parent Households

Lone parent households, which are more likely to be headed by women, are at a much higher risk of poverty than the average household and have the highest living costs relative to their net income of all household types. In 2017-20, they spent on average 46% of their income on fuel, food and housing.[100]

JRF's recently published 'Poverty in Scotland 2022' report highlights the financial position of single parents as "extremely concerning" and "significantly more so than even the average position for all low income households": [101]

- they are significantly less likely to have savings than is seen in Scotland overall, with nearly 60% having no savings at all and almost 70% having either no savings or savings of less than £250
- 70% have one or more debts and a quarter with debt have more than £2,500 of debt
- nine in ten single-parent families have cut back on a basic and eight in ten have cut back on an essential goods
- nearly half (45%) of single-parent families are behind on at least one bill or payment, nearly one in ten (9%) are behind on three or more

Single Person Households

As highlighted in the above section, the percentage of net income spent on housing, fuel and food is highest for single parent households, followed by single adult households without any children. Households with two or more adults (with or without children) have a lower cost of living.[73]

In May 2022, analysis from the New Economics Foundation (NEF) indicated that single female and black, Asian or other ethnic minority households are experiencing costs that are 50% higher than their male and white counterparts (respectively) as a portion of their income. Single women will see average costs increasing by £1,400 (6% of income) compared to £1,110 (4% of income) for single adult male households. The NEF argue that these outcomes are partly due to pre-existing gender and racial inequalities such as those that contribute to pay gaps in the labour market and unequal responsibility for childcare.[102]

Rural and Island Households & Households using off-gas-grid fuel

Whilst rural areas have lower levels of relative poverty overall, low income households living in rural areas face particular challenges. There is widespread evidence that rural areas, and remote and island communities in particular, experience higher costs of living for some goods and services.[103] A Scottish Government report shows that additional

[100] Scottish Government (20 January, 2021) Cost of Living analysis

[101] JRF (3 October, 2022), Poverty in Scotland 2022 | JRF

[102] New Economics Foundation (5 May, 2022), Losing the inflation race | New Economics Foundation

[103] Scottish Government (29 March, 2018), Supporting documents - Tackling child poverty delivery plan 2018-2022: annex 2 - gov.scot (www.gov.scot)

minimum living costs for households in remote rural Scotland typically add 15-30% to a household budget, compared to urban areas of the UK.[104]

Rural households tend to spend more on transport costs and so will be more adversely affected by the increase in fuel prices - in 2019, rural households in Scotland spent, on average, £135 per month on fuel compared with £107 for urban households (26% more).[105]

Energy Action Scotland recently reported that fuel poverty levels in the Western Islands and Highland Council areas are the worst in Scotland.[106] In recent months, fuel prices[107] have increased substantially not just for gas and electricity, but also for liquid fuels, more commonly used in off-gas-grid areas.

Approximately 100,000 off-gas-grid households were considered to be in fuel poverty in 2019, representing a fuel poverty rate of 34%, above the national rate of 24.6%. This is likely to have risen with rising costs.[108] The vast majority (250,000 out of 280,000) of off–gas-grid households live in island or rural communities and use fuel such as oil, gas canisters or solid fuels. The recent cost increases in heating oil prices are likely to see more households fall into fuel poverty.

The 2019 Scottish House Condition Survey found that 8% of homes in Scotland did not use mains gas or electricity for heating, with 5% of homes using oil as their primary heating fuel[109]. In their advice to the Scottish Government on the cost of living crisis in August 2022, the Poverty and Inequality Commission state that prices of oil have continued to rise and there is no regulation of off-grid fuel costs such as oil and LPG, although many suppliers are signed up to industry body codes of conduct. The lack of regulation means that there is no price cap and price rises can be passed on to consumers more frequently. Those who use off-gas-grid fuel need to pay upfront, and normally for a fixed minimum amount to guarantee delivery (e.g. for oil this is 500 litres, which currently equates to over £500). Prices are very volatile and can change daily, and between making an order and getting delivery.[95] Fuel prices will need to be monitored to see whether the price of heating oils not covered by the Energy Price Guarantee continues to rise after October 2022 or whether they stabilise alongside gas and electricity prices paid by households.

All households connected to mains electric will receive the £400 energy bill discount announced in May, and almost all households in Scotland have a connection to the

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104 Scottish Government (29 September, 2021), The cost of remoteness - reflecting higher living costs in remote rural Scotland when measuring fuel poverty: research report - gov.scot (www.gov.scot)

105 Transport and Travel in Scotland, unpublished analysis of Scottish Household Survey data.

106 Scottish Government (23 February, 2021), Scottish House Condition Survey: Local Authority Analysis 2017-2019 - gov.scot (www.gov.scot)

107 Department for Business, Energy & Industrial Strategy (29 September, 2022), BEIS Domestic Energy Price Statistics

108 Revised methodology applied to SHCS: Scottish house condition survey: 2019 key findings - gov.scot (www.gov.scot)

109 2 Key Attributes of the Scottish Housing Stock - Scottish house condition survey: 2019 key findings - gov.scot (www.gov.scot)

electricity grid [110]. However, the Poverty and Inequality Commission state that, as this is applied to electricity accounts, it is of limited help to households struggling to afford to buy oil or other fuel (and that this may be a particular issue for households just above the benefits threshold who are not entitled to any other support).[111]

BEIS announced further detail on energy price guarantee for households on September 21 targeted at some rural households/people using off-gas grid fuel. An additional payment of £100 will be provided to households across the UK who are not able to receive support for their heating costs through the Energy Price Guarantee to compensate for the rising costs of alternative fuels such as heating oil and to compensate off-grid consumers. However, it seems unlikely that £100 will meet the price increases of heating oil and LPG costs seen in the past few months.

Households with a Disabled Person

Households with one or more disabled people are more likely to be in poverty. 23% of people in households with a disabled household member were in relative poverty after housing costs in 2017-20, compared to 17% of people with no disabled household members.[98] The percentage of net income spent on housing, fuel and food is higher for households with a disabled household head.[73] Food insecurity is also more common among adults with a limiting longstanding illness (18%).[112]

Disabled people often use more energy, as many need to keep heating on for medical reasons, or use electricity to charge essential equipment such as mobility aids.[113] Many disabled people have needs which mean that economising on energy can bring severe hardship.[99]

There are high levels of concern about the cost of living crisis amongst disabled people. Recent data from Scotland show that nearly one in four families (23%) where someone is disabled are behind on at least one bill or payment and 4% are behind on three or more.[101] Findings from Disability Equality Scotland's weekly poll on the cost of living crisis show that (for week beginning 18 April 2022) 85% of participants were very concerned about the current cost of living.

Disabled people (receiving qualifying disability benefits) were given an additional £150 as part of the Cost of Living Support Package. However, this will not cover the additional cost of inflation applied to disability-related benefits. For example, on UC, the supplement for someone unable to work or engage in work-related activity rose by around £240 a year less than if it had been CPI-uprated. Similarly, someone receiving the daily living component of PIP is worse off by £185 on the standard rate and £274 on the enhanced rate, as a result of sub-inflation upratings.[99]

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[110] 2019 Scottish House Condition Survey – all households in the survey had a connection to the electricity grid

[111] Poverty and Inequality Commission (14 June, 2022), Publications - Poverty & Inequality Commission (povertyinequality.scot)

[112] National Performance Framework – Food insecurity https://nationalperformance.gov.scot/measuring-progress/national-indicator-performance

[113] Scottish Government (December, 2021), fuel-poverty-strategy-analytical-annex.pdf (www.gov.scot)

Organisations representing and supporting disabled people report that many face above average energy costs associated with their particular disability. The UK government's Cost of Living Support Package provides a flat payment of £150 to disabled people and does not distinguish between disabled people on the basis of additional needs meaning that for many people it is insufficient.[114]

In their advice to the Scottish government in June, the Poverty and Inequality Commission identified disabled people who faced higher energy costs, but were not on low income benefits as one of the groups who missed out under the May Cost of Living Support Package.[111]

Households who Rent Their Homes

Households in the rented sector are more likely to be financially vulnerable than households in other tenures. This reduces their ability to cope with rental increases and other inflationary shocks.[115]

Housing costs have also been a contributor to increases in the cost of living, with private housing rental prices in Scotland increasing by an annual 3.6% in August 2022, compared with 1.0% in March 2021.[116] It is estimated that between 15% and 35% of tenants who have been in their properties for more than 1 year could have faced a rent increase during the initial 6 month period that the Cost of Living (Tenant Protection) Scotland legislation will be in force.[117]

JRF find that of those on low incomes across the UK, 75% of private renters and 73% of social renters are going without at least one essential, compared to 39% of those who own their homes outright.[76] JRF's more recently published Poverty in Scotland 2022 found that renters in Scotland were at a higher risk of arrears, with around one in three renters being behind on one or more bills, and that renters feel more financially insecure than homeowners.[101]

Citizens Advice Scotland have reported that advice to renters (either social or private) about threatened homelessness due to possession action has increased by 17% between April to June 2021 and April to June 2022, while queries about private sector rents as a proportion of all private rented sector queries has increased by 28% across the same time period.[118]

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[114] House of Commons Work and Pensions Committee (20 July, 2022), https://committees.parliament.uk/publications/23272/documents/169744/default/

[115] Financial vulnerability is defined as households with savings which would cover less than one month of income at the poverty line. Data covers the 2018 to 2020 and is sourced from Scottish Government Statistical publication on Wealth in Scotland 2006-2020)

[116] Index of Private Housing Rental Prices, UK - Office for National Statistics (ons.gov.uk)

[117] Estimates taken from the Cost of Living (Tenant Protection) (Scotland) Bill 2022: Business and Regulatory Impact Assessment (www.gov.scot). This draws on a recent survey of landlords and letting agents in Scotland: Nationwide (August, 2020), RentBetter Baseline Full Reports | Rent Better (indigohousegroup.com)

[118] Figures provided by Citizens Advice Scotland

Households in the rental sector are also more likely to be in fuel poverty. Under the energy price guarantee it is estimated that around 54% of households in the social rented sector and 48% in the private rented sector will be in fuel poverty. By comparison it is estimated that 24% of owner occupiers will be fuel poor.

Details on the impacts households who rent their homes privately and social renters, can be found in Annex 2.

BEIS announced further detail on the energy price guarantee for households on September 21 that will benefit some renters. From 1 October 2022, the £400 Energy Bills Support Scheme (EBSS) discount will now be available to the 1% of households who did not previously receive it such as park home residents and tenants whose landlords pay for their energy via a commercial contract. The UK government intends to introduce legislation that will ensure landlords pass the EBSS on to tenants who pay all-inclusive bills.

Gypsy/Travellers

Among Gypsy/Traveller communities, low incomes, poorly insulated accommodation and the way some members of the community pay for their energy, mean that fuel poverty can be a particular issue, with feedback suggesting that some existing accommodation is cold, difficult to heat and prone to condensation.[119]

The Charity Friends, Families and Travellers recently highlighted the high prices of heating mobile accommodation with gas cylinders or generators, and raised concerns that travelling households in park homes may not be individually eligible for the UK government scheme of £400 support towards energy bills.[120]

However, BEIS announced further detail on energy price guarantee for households on September 21 that may support Gypsy/Travellers. From 1 October 2022, the £400 EBSS discount will now be available to the 1% of households who did not previously receive it such as park home residents and tenants whose landlords pay for their energy via a commercial contract.

Conclusion

All households are now reporting an increase in their cost of living. This chapter has outlined how low income households and those with particular characteristics are likely to be most negatively affected by increases in the cost of living. Chapter 6 outlines how this is likely to lead to worse health outcomes for these groups and increase demand for public and third sector services.

This chapter presents a summary of current evidence on the characteristics of low income households most negatively affected by the cost of living crisis. As new evidence emerges it will be important to re-appraise this assessment. For example, mortgage interest rates

[119] Scottish Government (3 February, 2022), Gypsy/Traveller accommodation fund and site design guide: fairer Scotland assessment - summary - gov.scot (www.gov.scot)

[120] The Guardian (30 August, 2022), Gypsies and Travellers fear missing out on energy bills support | UK cost of living crisis | The Guardian

have been rising, with particularly sharp increases in recent weeks following the UK Government's mini-budget. Around 85% of households with mortgages in the UK are on fixed rate deals[121] and these households will currently have some protection from the increased monthly mortgage payments, as will private rented households following the passage of the Cost of Living (Tenant Protection) Scotland legislation. However, home owners on variable rates, as well as home owners whose fixed rate deals expire in the coming months, may face very large increases in mortgage payments.

Whilst an additional £650 of the UK Government Support Package announced in May was targeted towards low income groups on means-tested benefits it falls short of fully compensating them for rising costs.[99]

The September Energy Price Guarantee was untargeted and low income households will struggle to meet rising energy costs which have more than doubled over the last year.

The UK Government's one-off payments are inadequate in addressing the needs of these families and do not reflect the different levels of need within the benefit system or different levels of energy usage. These payments also fail to adequately support particular households, for example larger families, disabled people with above average energy costs due to the nature of their disability and households who marginally fail to qualify for benefits and are not supported by social security.

The low income groups highlighted within this chapter are similar to those identified within the Covid Recovery Strategy[80], such as women, disabled people and people from minority ethnic groups who have been disproportionately affected by Covid-19.[122] There is also significant overlap with the priority family types identified within the Child Poverty Delivery Plan[123].

[121] The share of outstanding regulated mortgages on fixed rates in Q2 2022, taken from Financial Conduct Authority (13 September, 2022), Mortgage lending statistics - September 2022 | FCA

[122] Scottish Government (17 September, 2020), Coronavirus (COVID-19): impact on equality (research) - gov.scot (www.gov.scot)

[123] Scottish Government (24 March, 2022), Best Start, Bright Futures: tackling child poverty delivery plan 2022 to 2026 - gov.scot (www.gov.scot)

Chapter 6: The Impact on the Delivery of Public and Third Sector Services

Introduction

This chapter provides illustrative examples from across several different public and third sector services, with the aim of demonstrating the range of challenges being faced as a result of increased costs. These examples are not exhaustive and will not necessarily be representative of all services in these sectors. The effects are grouped into: demand for services, access to services, staffing and workforce, and the overall sustainability of services.

Demand for Services

Health and social care

Actual and anticipated increased demand for NHS services and both formal and informal care and support, as a result of the cost of living crisis, are highlighted in polling, expert commentaries and journal articles. A common theme emerging from these sources is the increased level of anxiety being felt within the population in response to the crisis. The need for more mental health and wellbeing support, alongside practical financial advice, will be an immediate and medium term effect. Longer term impacts on services will arise due to worsening physical health and related health and care needs.

In a Royal College of Physicians' survey of 2,000 UK adults conducted in spring 2022, just over half of respondents indicated that their mental and/ or physical health had worsened due to the cost of living crisis. A quarter of these individuals had also been told this by a medical professional.[124] This finding was very similar to recent Scottish Government polling of around 1000 adults in Scotland which found that almost half of respondents felt their mental health had been affected by the cost of living crisis and a third their physical health.[125] JRF have also highlighted that half of all adults in Scotland reported a negative impact on their mental health due to the cost of living crisis, with this proportion higher in low income (59%) and very insecure households (82%).[101]

The Institute of Health Equity's recent report on fuel poverty and cold homes notes the link between cold homes and an increased risk of respiratory and cardiovascular illnesses, poor mental health and unintentional injury.[126]

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[124] Royal College of Physicians (16 May, 2022), Over half of Brits say their health has worsened due to rising cost of living | RCP London

[125] Conducted by YouGov on their online omnibus on behalf of Scottish Government; sample of c.1000 adults 18+ each wave across Scotland; latest fieldwork 27-29 September and prior to this 23-25 August and 28-30 June; weighted to be representative of the adult online population. Data tables for all waves can be found here: Public attitudes to coronavirus, cost of living and Ukraine: tracker - data tables - gov.scot (www.gov.scot)

[126] Institute of Health Equity (August 2022), read-the-report.pdf (instituteofhealthequity.org)

Importantly, individuals with long-term conditions and disabilities often have particular needs around home energy use (see Chapter 5). The UK's energy regulator has been warned by a regional NHS executive that "clinically vulnerable people are being admitted to hospital as a result of having their energy supplies disconnected".[127]

Third Sector Services

Third sector organisations, are also facing a deeply challenging combination of increasing needs among the communities they work with, rapidly rising operating costs and reductions in fundraising income.

Findings from Wave 4 of the Scottish Third Sector Tracker,[128] which surveyed 429 organisations in July and August, describes these increasing pressures. Respondents were asked whether demand for their services or programmes had changed since April 2022. 64% of organisations reported that demand had increased, with 23% saying it had significantly increased. Just 9% of organisations felt that demand for their services had decreased. Organisations largely still felt able to meet most increased demand, with 80% saying they had been able to meet most or all of the increased demand to date, and 19% saying they were able to meet some or none. Respondents did note, however, that they expect demand to increase significantly in the winter as the impacts of rising energy costs and debt begin to be felt more deeply within their target groups and communities.

Scottish Third Sector Tracker respondents working directly with service users were asked which needs or concerns they considered to have worsened in the period since April 2022. 71% of organisations said they were concerned about worsening that mental health among their service users, while 79% of organisations highlighted increasing financial needs. Several organisations mention the rise in debt that the people they work with are taking on, many to unsustainable or crisis levels. As a result of financial worries, organisations reflect concerns about people being increasingly vulnerable to scams or crime, having to sell assets to pay for essentials, or experiencing increased levels of family breakdown or domestic abuse.

The Poverty and Inequality Commission have also reported increased demand for third sector organisations. After conducting nine visits to community organisations from June-August, with the support of their Experts by Experience Panel, they reported that most organisations described increased demand as a result of both the cost of living and the continued effects of Covid-19. One organisation cited the removal of the £20 Universal Credit uplift as a specific trigger, which necessitated them closing their waiting list for three months. Some described a change in profile of those seeking help, with more people experiencing in-work poverty and whose income is marginally above benefit thresholds (a group highlighted in Chapter 5). Organisations cited food costs, energy costs, debt, and transport costs as specific issues.[129]

127 BMJ (6 September, 2022), Disconnecting energy supplies can be "life threatening," NHS chief warns regulator | The BMJ

128 SVCO (October 2022), The Scottish Third Sector Tracker – SCVO

129 Poverty and Inequality Commission (October, 2022), Poverty and Inequality Commission - Briefing on the cost of living crisis - Poverty & Inequality Commission (povertyinequality.scot)

In May, the Trussell Trust and Independent Food Aid Network (IFAN) highlighted that many food bank teams now found demand outstripping their resources. They reported that food banks were rationing resources and trying to distribute foods that can be eaten without the use of an oven, and emphasised that 1 in 3 parcels issued in the Trussell Trust network over the previous year were for children.[130] This increased demand is demonstrated in an August survey of 84 organisations operating 169 independent food banks across England, Scotland and Wales, 90% of whom had seen demand rise yet further since April (when 93% had reported an increase since the start of the year). 68% said they may not be able to support everyone who needs their help or may need to reduce the size of their food parcels. 35 of these organisations reported a 25% increase in the percentage of people supported for the first time in April-August 2022 compared with last year, while 22 had seen an increase between 25% and 50%, and 22 an over 50% increase.[131] Citizens Advice Scotland (CAS) have reported that while in 2021/22 36% of the finance and charitable support advice they provided was food bank referrals and shopping vouchers, this figure stood at 45% in the first quarter of this year.[132]

CAS have also highlighted an increase in people seeking advice on paying for utilities. Comparing the first quarter of this year with 2022/21, they report a 122% increase in unique page views of their webpage ‘grants and benefits to help pay energy bills’, a 120% increase for ‘struggling to pay energy bills’, and a 92% increase for ‘can’t afford to top up prepayment meter’.[132]

Demand has also arisen for ‘warm banks’ – several local authorities across Scotland are examining options for using heated public buildings to ensure that people can stay warm through the winter as their energy bills rise. Glasgow City Council have already voted unanimously to establish these, with suitable sites currently being sought out.[133] Data from the Third Sector Tracker also suggested that third sector organisations expect increasing demand to provide ‘warm hubs’ for their target groups and communities during the winter.[128] This is, however, controversial as it implies the public and third sector should provide extra support instead of adequate resources for heating being made available to households.

Public Transport

Demand for public transport may also change as a result of increased costs. Wave 23 of Transport Scotland’s Public Attitude Survey (July 2022) found that 32% of respondents were struggling to afford their travel costs – an increase of seven percentage points compared to the previous wave of the survey undertaken in May. Importantly, those with a long-term limiting health condition or disability, women, and those in socioeconomic grouping DE were more likely to say they were struggling to afford their travel costs. 57% of respondents agreed that the cost of fuel had caused them to drive less frequently or for fewer miles, with 34% agreeing it had led them to switch transport mode for some or all of

[130] The Trussell Trust and Independent Food Aid Network (26 May, 2022), 260522 IFAN Trussell Trust Letter to Cabinet Secretary Cash First (5).pdf (strikinglycdn.com)

[131] Independent Food Aid Network (August, 2022), Data - Independent Food Aid Network UK

[132] Citizens Advice Scotland (August, 2022), col_aug_2022_proof_2.pdf (cas.org.uk)

[133] Glasgow Times (9 September, 2022), Glasgow City Council to introduce 'warm banks' for freezing Scots this winter | Glasgow Times

their journeys. Participants were not asked what mode of transport they had switched to, and so it is not possible to estimate the impact this will have on public transport networks.[134]

Criminal Justice

The cost of living crisis may increase deprivation levels and volumes of Adverse Childhood Experiences (ACEs), which may have significant long-term effects on crime and the criminal justice system.

Research consistently shows a strong association between ACEs and crime. People who experience multiple ACEs are more likely to engage in risk taking behaviours which are harmful to health and sometimes associated with criminal behaviour. [135]There is a strong inter-relationship between offending, justice contact and poverty in the teenage years and early adulthood, with poverty during childhood and adolescence directly relating to involvement in youth violence, resulting in police charges and youth justice supervision, which in turn predicts poverty in adulthood. [136]

Emergency Support

Since the beginning of the Covid-19 pandemic, the Scottish Welfare Fund has seen a considerable increase in demand, particularly in crisis grants. This increased demand continues, reflecting the cost of living crisis. From the beginning of April until the end of August local authorities have provided around £8.4 million in crisis grants, 11% higher than during the same period last year.[137]

Access to Services

While demand for certain public services is rising, there is also evidence of emerging barriers to access.

Health and social care

Increasing travel costs are likely to affect people's ability to attend appointments and support services. A recent survey of 500 respondents from across the UK noted that 80% of people with cancer said they are worried about the cost of travel to their hospital appointments, with over a third saying they worry 'very much'.[138]

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[134] Transport Scotland (22 September, 2022), Public Attitudes Survey Data: Wave 23 | Transport Scotland

[135] Scottish Government (May 2018), Understanding childhood adversity, resilience and crime - gov.scot (www.gov.scot)

[136] University of Edinburgh (March, 2022), ESYTC Report (4.3.22) (ed.ac.uk)

[137] Scottish Government (4 October, 2022), Scottish Welfare Fund, Self-Isolation Support Grant and Discretionary Housing Payments: monthly data - gov.scot (www.gov.scot)

[138] Maggie's (24 August, 2022), People with cancer more worried about cost of living than diagnosis | Maggie's (maggies.org)

The ability of services to heat their premises and retain sufficient staff could affect opening hours and in turn affect access. Access also continues to be affected by delays incurred and lengthened due to Covid-19.

Digital Access

As well as physical access to services, there may be implications for digital access. A YouGov poll conducted in May 2022 indicated that around one fifth of UK consumers would cut back on their data packages if their household budget was coming under pressure.[139] CAS have also reported on a recent poll which found that 15% of people in Scotland who ran out of money before payday had gone without internet access once or more, amounting to almost 240,000 people. In these cases, people may turn to CAS for help with Universal Credit journals or job applications.[140] Reductions in access to digital services can have a range of adverse outcomes, from not being able to find information and support to effects on educational outcomes for children, young people and adult learners.

Domestic Abuse Support

Scottish Women's Aid have recently reported that domestic abuse support services are still dealing with an increase in demand following Covid-19 (e.g. Scotland's National Domestic Abuse and Forced Marriage Helpline reports an 18% increase in call volume compared to the previous year)[141] and reports are now emerging of refuge services facing increased strain as a result of the cost of living crisis. Hestia, a charity who deliver support services in London and surrounding regions, has reported that in the first three months of 2022 their referral line saw a 30% increase in requests for accommodation.[142]

While the increased cost of living is already affecting demand for domestic abuse support services it is also having access implications. Scottish Women's Aid have recently stated that the crisis is now "creating new barriers and accentuating existing issues that women face when leaving a relationship with an abusive partner".[141] They cite research with victim-survivors conducted by Women's Aid England, in which almost 73% of respondents, from a sample of 137 women, said the cost of living crisis had either prevented them from leaving or made it harder to do so. Of these respondents, 67% said this was due to the immediate cost of leaving, and 69% cited not being able to afford ongoing living costs on a single income.[143]

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[139] YouGov (23 May, 2022), Cost of living: what have Britons had to cut back on? | YouGov

[140] Citizens Advice Scotland (19 September, 2022), The hidden part of the cost of living crisis | Citizens Advice Scotland (cas.org.uk)

[141] Scottish Women's Aid (September, 2022), Microsoft Word - SWA Briefing the Cost of living crisis August 2022.docx (womensaid.scot)

[142] Hestia, (1 July, 2022) - The cost of living crisis is leading to increased need for domestic abuse support (hestia.org)

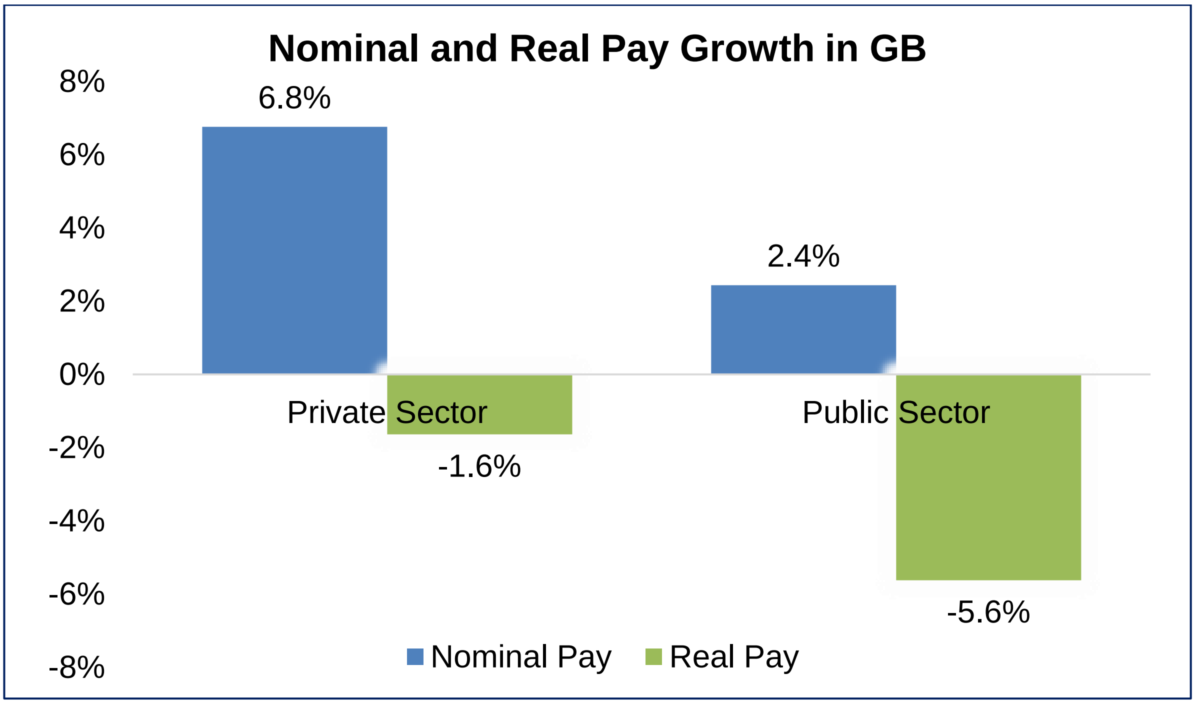
[143] Women's Aid (July, 2022), Womens_Aid_cost_of_living_survivor_survey_July_22.pdf (womensaid.org.uk)

Staffing and Workforce

Falling public sector pay

Earnings growth in the private sector has been significantly stronger than in the public sector. However, pay in both sectors has failed to keep up with rising inflation. As Figure 12 demonstrates, total nominal pay in the private sector across Great Britain rose 6.8 per cent year-on-year in the 3 months to August 2022 whereas total nominal pay in the public sector rose only 2.4 per cent over the same period. Real pay has fallen by 5.6% in the public sector and 1.6% in the private sector. Recent public sector pay settlements may mitigate some of this but inequalities are likely to remain.

Figure 14: Pay Growth in Private and Public Sector, GB, Year on Year in the 3-months to August 2022.



Source: ONS Average Weekly Earnings and ONS CPIH Inflation

In June, Unison conducted a survey of public service staff earning £20,000 or less in Scotland, England and Northern Ireland. 95% of respondents were finding it increasingly hard to pay their household bills, and 31% were skipping meals. 84% of those surveyed stated that rising bills and pressure on household budgets was having a negative impact on their mental health.

Increases in fuel costs have also made it more expensive for staff to get to work, and unsociable hours such as those worked by individuals in health and social care often mean that public transport is not an option. A particularly acute issue exists for those who drive as part of their job, for example health visitors and district nurses. All of this is exacerbated by rurality and shift working.

Staff shortages

Given these rising costs and falling pay, the cost of living crisis poses considerable challenges not just for workers, but also public and third sector services in their ability to recruit and retain sufficient skilled staff. For example, the latest NHS Scotland workforce statistics show that at the end of June there were over 6,000 nursing and midwifery vacancies across NHS Scotland – up from 4,845 in June 2021, a 24% increase.[144] Wider factors may also be affecting this as low levels of unemployment are exacerbating staff shortages in most parts of the labour market.

Within social care there are particular challenges around recruiting and retaining staff. At the end of 2020, 36% of care services in Scotland reported vacancies, with shortages particularly pronounced in areas such as care homes (55%) and care at home (59%).[145] The Scottish Government has provided additional funding over recent years to increase pay for social care workers,[146] but many still report difficulties with living on their income. As well as paid staff and carers, the cost of living affects the many unpaid and informal carers providing vital support across the country (as outlined in Chapter 5). Should they become unable to provide this support, pressure on the formal sector would increase.

Local authorities are also experiencing staff shortages. For example, around 18% of local authorities reported that a lack of applicants made it hard to recruit school meals staff, while around 15% reported a lack of suitable skills among applicants, and another 15% reported that they received a lower quality of applicants than before. Overall, 61% of local authorities said recruitment challenges had got worse over the last 6 months[147].

The Scottish Third Sector Tracker highlights how ongoing challenges relating to workforce and volunteering are being intensified by the cost crisis. Overall, 44% of organisations said that their biggest current challenge related to staffing or volunteering concerns, while 72% of organisations had at least one concern relating to staffing or volunteering in their top three challenges. 69% of organisations which employed staff said that their staffing costs had increased since April 2022 – compared with 53% in March/April. 35% of organisations said volunteer shortages was one of the top three challenges they have faced since April 2022.[128]

Pay settlements and industrial action

The devolved public sector employs around 447,000 full time equivalent staff (around a fifth of Scotland's workforce). This includes not just government employees but also wider public sector bodies such as the National Health Service. The total devolved public sector pay bill is over £22 billion per year, the majority of which supports the running of frontline public services.

[144] Turas (30 June, 2022), 06 September 2022 Workforce | Turas Data Intelligence (nhs.scot)

[145] Scottish Social Services Council (December 2021), Staff Vacancies in Care Services 2020 (sssc.uk.com)

[146] Scottish Government (21 June, 2022), 4. Ongoing issues for the adult social care workforce - National Care Service - adult social care workforce: evidence - gov.scot (www.gov.scot)

[147] Unpublished ASSIST data held by Scottish Government. May be available on request from ASSIST Chair.

The Scottish Government's role in public sector pay negotiations to date has focused on maximising the support to the lowest paid, who are most vulnerable to increasing energy and food costs. As a result of this approach, public sector pay deals in 2022-23 are, so far, costing around £700 million more than originally budgeted for. Pay deals have so far been agreed for key public sector employers such as Local Government, train drivers and the police.

The control and management of workforce costs remain crucial for the sustainability of public finances in the medium to long term. The Resource Spending Review highlighted the need to reset pay and workforce expectations, and announced a broad aim to maintain paybill costs (i.e. all staff costs, as opposed to pay awards) at 2022-23 levels, and a pathway to return the overall size of the public sector workforce to around pre-Covid levels, recognising expansion would be required in certain key areas of service delivery.

The Scottish Government will need to strike a balance between creating financial headroom for direct policy interventions to support cost of living such as doubling the fuel insecurity fund, the increase in income to the public sector workforce, particularly those who are lowest paid, through higher wages, and the fiscal sustainability challenges of further investment in public services.

It is also important to consider that public sector pay negotiations may lead to disruptions in the delivery of public services, and some core services delivered by the private sector, if industrial action is taken. We have already seen strikes by railway and refuse workers, which significantly affected essential public services. Pay negotiations are still ongoing for other areas of the public sector, such as teachers and NHS staff, and several unions have highlighted the possibility of future industrial action.

Sustainability of Services

Rising costs may also influence the sustainability of public and third sector services, particularly in the medium and longer term. The sustainability of Scotland's public services was considered in depth by the Christie Commission[148] which published its findings in 2011. The economic and social challenges of that period have clear resonance with the current conditions this Government and Scotland's public services are experiencing today.

Scottish Government Spending on Public Services

The effects of inflation means that the Scottish Government 2022-23 Budget is already worth £1.7 billion less in real terms than it was in December. The UK Government's existing spending plans, coupled with latest inflation forecasts, mean that at the time of writing it is anticipated that the Scottish Government's funding could fall by up to 4.5% in real terms this year. Looking ahead over the remaining term of this Parliament, inflation will continue to increase pressures on budgets, with an expanding share of the budget required to deliver essential public services and statutory policy commitments via:

[148] The Scottish Government (29, June 2011), Christie Commission on the future delivery of public services - gov.scot (www.gov.scot)

- increased energy costs, even after accounting for support through UK EBRS
- increased contractual obligations and higher prices when they are renegotiated
- increased costs of delivering statutory commitments, e.g. social security
- increased cost of higher than anticipated, pay settlements (as noted above)

Broadly speaking, spending power falls with higher inflation. Nevertheless, there remain significant uncertainties over how and when inflation will affect budgets. For example, although inflation is reflected in pay negotiations, there are other factors to consider – so pay uplifts do not track inflation. Inflation also produces a range of indirect impacts, such as the impacts on demand discussed within this report. Potentially mitigating some of these effects, there may be public services where there are opportunities for reform of delivery.

Scottish Government Spending on Infrastructure

Inflation has also affected the purchasing power of Government capital funded infrastructure that provides the settings for the effective delivery of public services, with significant cost increases on the common materials used on construction projects. According to BEIS' Monthly Statistics of Building Materials and Components commentary of August 2022, the material price index for 'All Work' increased by 24.1% in July 2022 compared to the same month the previous year.[149] There are also reports warning that construction inflation of 5% year-on-year may become the norm and reports continue to circulate stating that further material price increases will continue in the short to medium term.[150] Going forward, labour shortages, materials supply difficulties and material cost increases when combined with available budgets, could result in a reduction of projects coming to market and of those that do, delivery may take longer than was envisaged.[150]

Health and social care

Running a sustainable NHS and care sector is increasingly challenging in the face of rising fuel bills, food and consumable costs for service providers, and issues for staff affecting recruitment and retention. Nine in ten NHS leaders of services provided in the community in England say they are either extremely or moderately concerned about their organisation's ability to deliver all services due to staff shortages related to recent increases in the cost of fuel.[151] Directly comparable data is not available for Scotland but there may be similar concerns amongst NHS leaders here.

GP and dentistry services, which are predominantly based upon an independent contractor model, are facing the same challenges as other healthcare providers plus issues specific to this model of delivery. There is a risk that practices will have to reduce

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[149] UK Government (7 September, 2022), 22-cs9 - Construction Building Materials - Commentary August 2022 (publishing.service.gov.uk)

[150] Scottish Government, (15 June, 2022), Infrastructure Investment Plan 2021-22 to 2025-26: progress report - 2021 to 2022 - gov.scot (www.gov.scot)

[151] NHS Confederation (26 August, 2022), Petrol price increases are driving away staff and putting services at risk, warn NHS leaders in new survey | NHS Confederation

services or close, and particularly in dentistry, that they may withdraw from NHS provision. A recent opinion piece in the Dentistry Journal sets out issues being felt within the profession.[152] Moves by practices towards private-only dental provision may leave people in areas of the country unable to access NHS services.

The Third Sector

Charities Aid Foundation (CAF) reported earlier this year that the number of people across the UK donating to charity has significantly decreased. From January-April 2022, an estimated 4.9 million fewer people reported having donated to charity or sponsored someone over the previous year, compared with the same months in 2019. CAF also estimate that the total amount given to charities in 2021 was £10.7 billion, compared to £11.3 billion in 2020. The Scottish Council for Voluntary Organisations have warned that rising costs are putting lifeline services at risk, noting that from February-April 2022 only half of organisations were able to meet or exceed their planned programmes of service.[153]

Wave 4 of the Scottish Third Sector Tracker[128] provides more insight into the ways the cost of living crisis is affecting on operational costs and delivery within the third sector. 93% of respondents said they were experiencing rising costs in at least one area of their business, compared with 86% in Wave 3 (March-April 2022). Cost rises were reported across all aspects of operations, with significant increases in the percentage of organisations reporting rising energy costs, rental costs, transport costs, staffing costs and cost of materials/supplies, when compared with the Wave 3 findings.

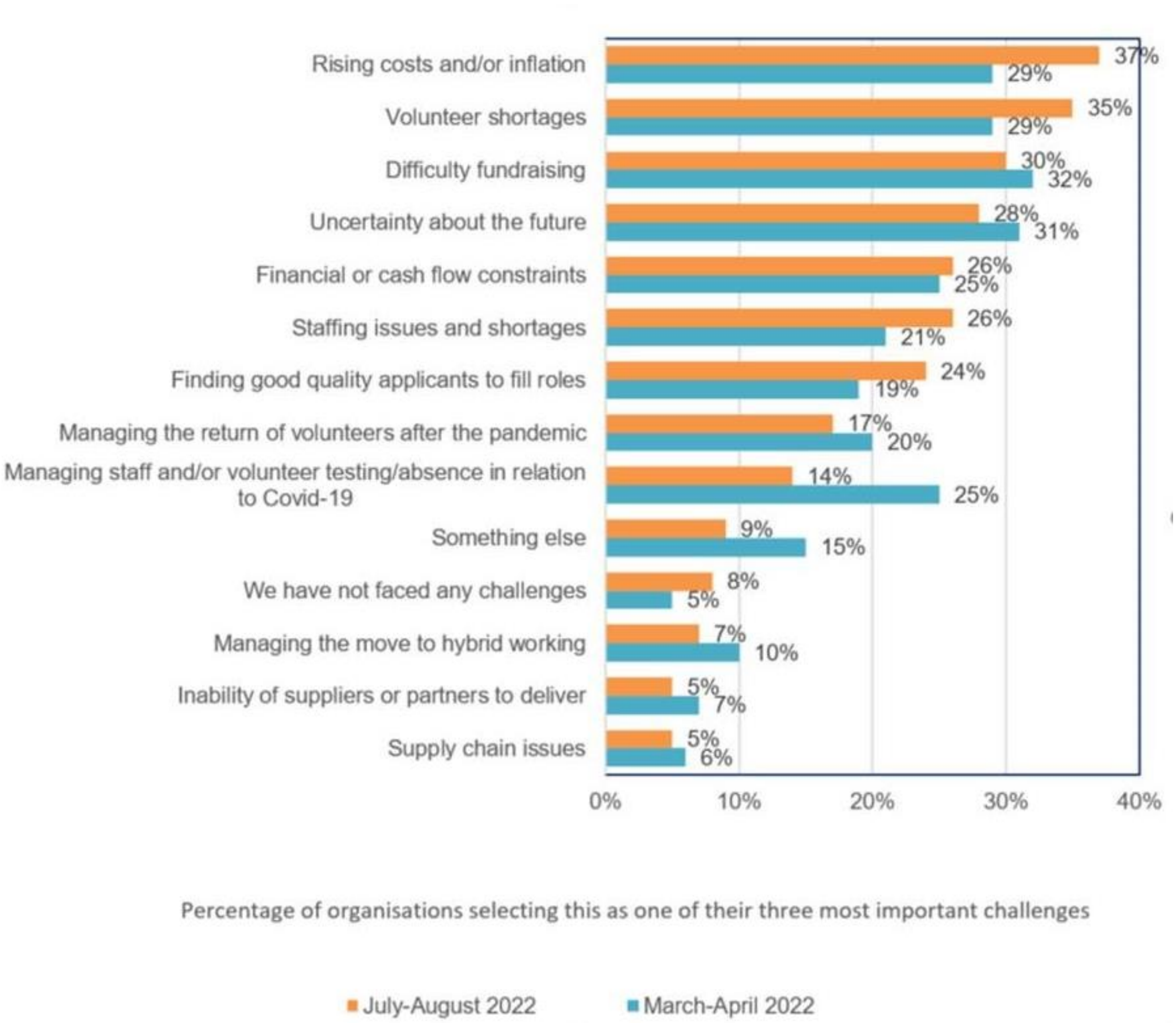
Organisations that reported rising costs in the Tracker were asked to what extent their ability to deliver their core services and activities had been negatively affected by this. 9% said that their services and activities had been 'significantly affected', while 43% said their ability to deliver their core services had been significantly or moderately affected.

Organisations were also asked what their top three challenges had been since April. 'Rising costs and inflation' was the most frequently-selected challenge, with 37% of organisations placing it in the top three, a significant increase from 29% in Wave 3 (March-April 2022). 'Volunteer shortages' was the second most frequently-selected challenge, and 'Difficulty fundraising' was the third. Overall, 62% of organisations surveyed had at least one financial concern among their top three challenges, while 72% had at least one concern relating to staffing or volunteering. Figure 13 provides an overview of delivery challenges faced by third sector organisations in Scotland, and how these have changed between March-April and July-August.

[152] Dentistry (31 August, 2022), Will the cost of living crisis obliterate NHS dentistry? - Dentistry

[153] Scottish Council for Voluntary Organisations (15 August, 2022), Lifeline services at risk as voluntary organisations call for funding assurances (scvo.scot)

Figure 15: Top three challenges for Third Sector Organisations in Scotland.



Source: Scottish Third Sector Tracker – Wave 4 (Summer 2022)

A recent Volunteer Scotland report sets out potential effects of the cost of living crisis on volunteering and volunteers.[154] Emerging findings include the likelihood of increased demand for third sector services in areas of higher deprivation in particular, leading to increased need for volunteers. Challenges in the supply of volunteers to take on these roles are likely to be exacerbated as a result of the cost crisis, both due to people having to increase paid work hours, reducing the time that they have available for volunteering, and increases in the costs of volunteering (e.g. travel). Conversely, the report also suggests that volunteering may become attractive where it takes place in warm spaces away from volunteers' homes. The report also highlights potential concerns about the health and wellbeing of volunteers due to the cumulative impacts of the cost crisis and Covid-19.

[154] Volunteer Scotland (27 September, 2022), [Cost of Living Report - Volunteer Scotland]

Local Authorities

As noted above, local authorities are facing significant budgetary issues as a result of rising costs. In England, this is resulting in councils being forced to revise financial plans and consider cuts to local services such as bin collections, road maintenance and care for elderly and disabled people.[155] Anecdotal reports suggest similar decisions are becoming necessary in Scotland, with local authorities deprioritising work seen as less urgent in order to focus on work such as Crisis Grants.

Local authorities are reporting impacts on school transport, with feedback suggesting that increased costs are making it harder for bus operators to fulfil these contracts. Rising fuel costs and driver shortages have led to disruption in school transport services, most notably in Lanarkshire where bus operators withdrew from new contracts resulting in several routes not running for 2 days during August. Although the situation has since improved following redeployment of local authority drivers to school transport services, challenges persist in securing new school transport contracts.

School meal provision is another area facing the effects of cost rises. In a June 2022 survey, around 55% of local authorities reported that they had changed their school meals menu due to food shortages. Almost 26% had reduced the choices on their menu, with around 6.5% being unable to provide a service at some point. Large increases in the cost of food and kitchen materials were reported, with almost 90% of local authorities reporting increases of 20% or more in the price of fresh meat.[147]

Conclusion

Emerging evidence suggests that the cost of living crisis is already resulting in increased demand for some public and third sector services and it will be worth reflecting on the ongoing relevance of the work of the Christie Commission when seeking to address the increasingly complex challenges being faced as a result of current circumstances. This comes at a time when the costs of operating these services is increasing and some are being reduced. Looking ahead the context is likely to become increasingly challenging, particularly as households start to struggle with the deepening impacts of cost rises during winter. Where possible, this chapter has included evidence from Scotland in addition to insights from the UK that may have broader relevance. As noted however, this is not an exhaustive list of impacts on public services and the third sector, and there is likely to be a range of effects on services and the groups they serve which have not been covered. For example, qualitative feedback from the Third Sector Tracker suggests that increased spending on essentials is resulting in reductions in discretionary spending, with people unable to participate in their usual paid-for services such as leisure or physical activities, or children and young people’s activities outside of school. As the cost of living crisis unfolds it will be important to examine all areas that are being affected, while considering the longer term impacts on the Scottish public and third sectors and how changing demands for services can best be met with limited resources.

[155] Local Government Association (28 June, 2022), Inflation and National Living Wage pressures to add £3.6 billion extra costs onto council budgets - LGA analysis | Local Government Association

Chapter 7: Public Attitudes and Behaviour

Introduction

This chapter of the report examines public attitudes and behaviour, drawing on evidence from four key sources:

- recent opinion polling carried out on behalf of the Scottish Government among a representative sample of the general population across Scotland[125]
- accounts of lived experience from the Scottish Government's People's Panel for Wellbeing[156]
- qualitative research with low income families[157] and stakeholders[158]
- evidence from the Poverty and Inequality Commission's September Cost of Living Briefing - (based on visits to community organisations and from the Commission's Experts by Experience Panel)[129]

Findings are summarised in the following sections: the mood of the nation; concerns relating to the cost of living; how rising costs have affected people in Scotland; behaviour change in response to rising costs; and views on what needs to be done to address the cost of living situation.

The mood of the nation

Opinion polling conducted by YouGov for the Scottish Government at the end of September 2022 found a high level of anxiety amongst the general population in Scotland, driven mainly by financial concerns:

- after falling in June to the lowest level seen this year (24%), optimism that things will start to get better soon remained low at 29% (similar to 27% in August)
- just under two fifths of people (39%) reported high levels of anxiety, up from 34% in June to one of the highest levels recorded since March 2020, with people as anxious now as they were during the pandemic other than during the first lockdown
- one third (33%) agreed that they are worried about their mental health.

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[156] People's Panel evidence comes from previously unpublished data from research events on 24 June and 23 September 2022. The People's Panel is made up of around 30 diverse members of the public - recruited to ensure a wide range of experiences of, and attitudes towards, the COVID-19 pandemic.

[157] Qualitative research was carried out on behalf of Scottish Government by JRS in August 2022 with low income families potentially exposed to child poverty. The sample represented each of the six core most at risk segments: lone parents; families with a disabled parent or child; larger families - those with 3 or more children; minority ethnic families; families where the youngest child is aged up to 1 year; young mothers – aged under 25 years. The research consisted of an ethnographic video diary task followed by online in-depth interviews with 35 participants and in home and community face-to-face immersion sessions with 14 participants. All respondents were either receiving benefits, within the DE socio-economic groups (SEGs), or, living within the most deprived SIMD communities, and stated they are currently facing 'challenges with their household finances'.

[158] The methodology also included 2 mini groups (3 respondents each) and 4 one to one depth interviews with stakeholders who represented organisations and job functions that focus on supporting parents and their children, e.g. Family Nurses, Health Visitors, charity and family support group workers.

Looking to the year ahead, financial concerns (whether rising energy/fuel prices (60%), inflation in general (38%), rising cost of groceries (39%) or household finances (36%)) continue to be most mentioned as the top three concerns. However, concern about rising energy prices has declined from 65% in August – potentially reflecting the UK Government Energy Price Guarantee announcement. The war in Ukraine (at 23%), delays/ backlogs in NHS treatment/ operations of non-COVID related issues (at 22%) and new strains emerging, causing outbreaks of coronavirus requiring restrictions (6%) remain less prominent as top three concerns than seen earlier in the year, although concern about the war in Ukraine has increased from 17% in August.

Most of the community organisations spoken to as part of the Poverty and Inequality Commission's research described an increase in demand for their services. They acknowledged, however, that this is not simply in response to the cost of living, but in many cases demand had increased as a result of the pandemic and had not reduced since. This is consistent with data from the third sector included in Chapter 6 above.

Some of these organisations reported a change in the profile of people seeking support from them, with more people who are experiencing in-work poverty and whose income is just marginally above the level where they would be eligible for benefits.

Many members of the Scottish Government's People's Panel talked about the negative impact on physical and mental health caused by the pandemic on individuals (especially disabled people and children), communities, businesses and services. They discussed how they felt that the damage done by the pandemic was not yet being addressed and now may not be addressed because of the cost of living crisis – leaving them with a deep sense of pessimism.

Concerns relating to the cost of living

Opinion polling found that at the end of September around four in five agreed they are worried about the impact of the current cost of living crisis on businesses across Scotland (81%) and the knock-on effect of this on themselves (79%), although strong agreement on the latter has declined from 41% in August to 34%. Over three quarters (77%) agreed that this financial crisis feels more worrying than others in the past, and two thirds (67%) agreed that it will have a long-term negative impact on them and their families – both representing slight decreases on a month ago (from 84% and 75% respectively).

For People's Panel members with children, their concerns had built up from worry about suffering of their children during the pandemic to now having to "go without" as the cost of living crisis hits.

The qualitative low income families research revealed that at this time, given the pressures on household finances, many goals that normally seem achievable (such as health and happiness, avoiding getting into financial difficulty, reducing stress and ensuring their children don't miss out) feel out of reach for many parents. Low income families are facing multiple layers of anxiety and this is compounded by financial pressures, leaving them ultimately feeling unable to get on with life.

Based on its visits to community organisations, the Poverty and Inequality Commission stated in its September briefing that the cost of living crisis is becoming a mental health crisis. A number of the organisations highlighted the cumulative impact of first the pandemic and now the cost of living crisis on mental health. Debt and inability to buy food and pay bills is leaving people stressed and anxious, and increasing numbers of service users are experiencing mental health concerns.

A member of the Poverty and Inequality Commission Experts by Experience Panel commented:

"It's downright upsetting. This uncertainty. This feeling of impending doom that seems to permeate life now. It feels like there is no way out of it. It just feels hopeless at the minute."

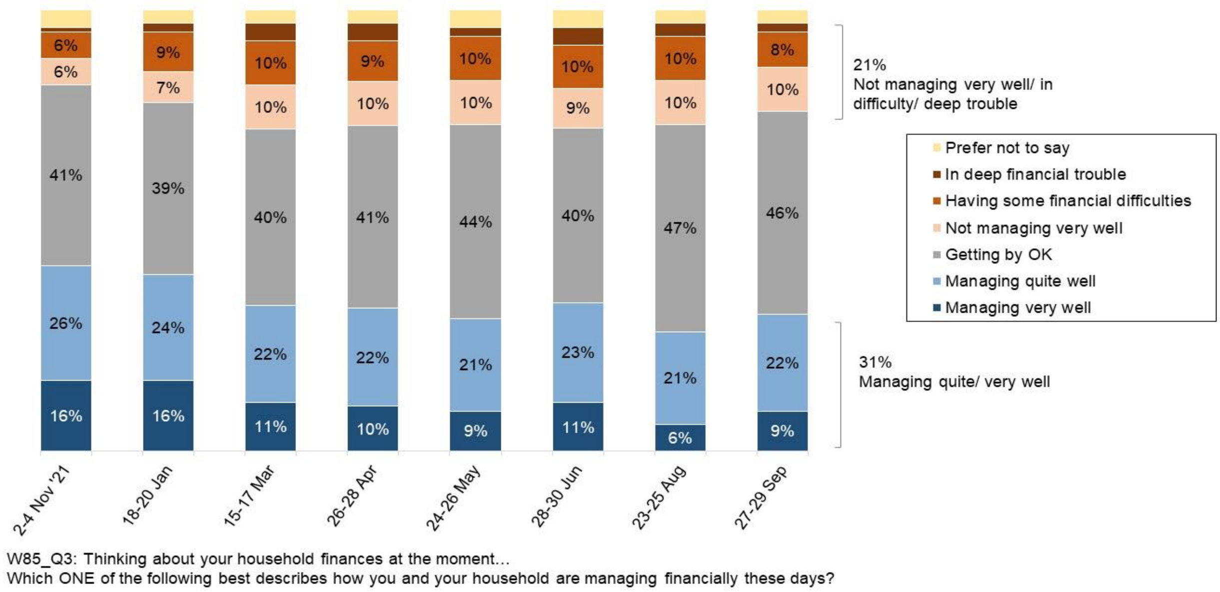
The Scottish Government's People's Panel members echoed the findings above. For some members the crisis has escalated from initial worries and anxieties into mental health problems. Some also reported fearing for their physical health this winter. As one member said:

"I'm resigned to being ill over winter. I can't see how I can keep warm and feed myself, something's got to give."

How rising costs have affected people in Scotland

The August polling data found that over a fifth (23%) of the general population are 'not managing very well' with household finances or are 'in financial difficulty' or 'in deep financial trouble', while almost half (47%) are 'getting by okay' and 27% managing 'quite' or 'very' well. This was first measured at the start of November 2021 and the profile changed quite considerably in the intervening time. While the proportion managing less well at the end of August had changed little since June, there was an increase in the proportion saying that they are 'getting by okay' (from 40% to 47%) and a corresponding decrease in the proportion managing well, illustrating the extent to which the impact of rising costs and inflation is continuing to spread throughout the population. In September, there were some fluctuations but the picture is broadly similar to August.

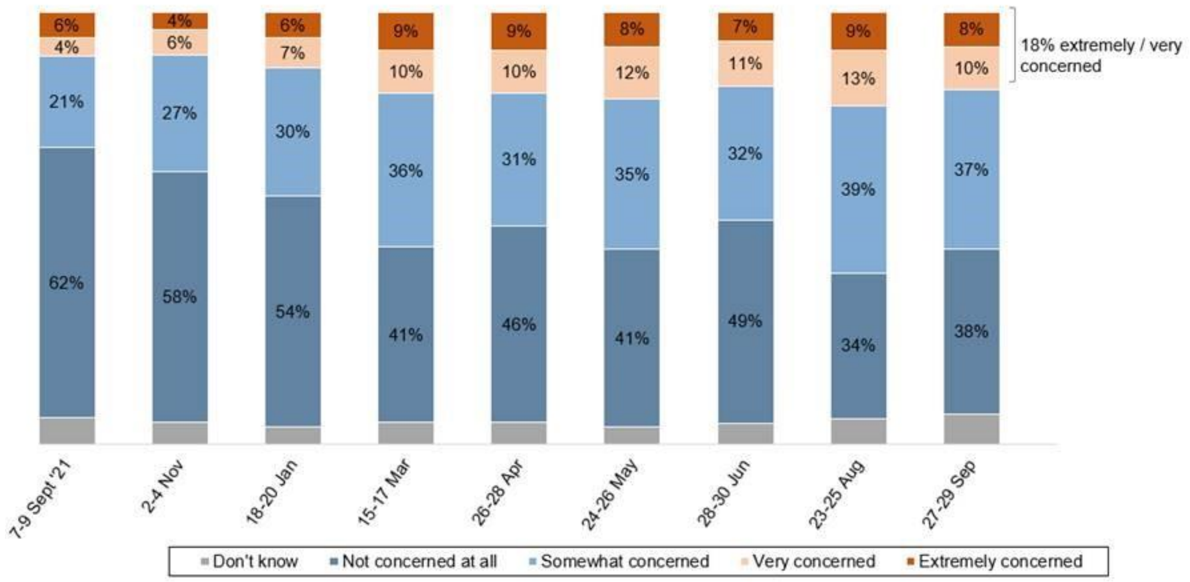
Figure 16: Rating of household finances over time.



A further indicator of the deterioration of the situation between June and August, and in the longer term, is the increase seen in the proportions who said they are extremely or very concerned about paying bills (24%) and providing for their household (22%) a month from now (up from 19% and 18% respectively in June).

In September, however, concern on these measures decreased to 18% saying they are extremely or very concerned about paying bills a month from now and 18% extremely or very concerned about providing for their household a month from now – thought to potentially reflect the UK Government Energy Price Guarantee announcement. The results for 'providing for my household' are shown in Figure 17 below.

Figure 17: Financial concerns – 'I won't be able to provide for my household'.



Q67a. Thinking ahead to one month from now… How concerned, if at all, are you about the following?

In September polling, over two fifths (43%) reported struggling somewhat or a lot to pay for non-essentials (such as going out and on holiday), while just over a fifth said they are struggling to pay for each of grocery shopping and essential travel, and household bills - both at 22% and fairly similar to the figure of 25% seen for each in August. Overall, nearly half (48%) are struggling to pay for any of these, unchanged since August but increased from 37% in June.

In terms of wider impact, September polling found that mental health (48%) and physical health (33%) were felt to have been negatively impacted (to a large extent or to some extent) by the rising cost of living. Two fifths (39%) reported this to be the case for spending time / connecting with others. Just over one third (35%) of parents said that the cost of living situation has negatively impacted their child(ren)'s development, while three in ten (30%) of those not retired said that the cost of living situation has negatively impacted their job prospects.

Among those who felt that their mental / physical health has been affected by the cost of living situation, trouble sleeping (50%), unable to afford to go out / do leisure activities

(49%) and a cold house (45%) are the most common factors felt to have caused this. Two fifths (39%) also referenced reduced contact with friends and family and a third (33%) changes to diet.

Those who are managing less well financially (survey respondents who reported 'not managing very well' or 'having some financial difficulties' or 'in deep financial trouble') are not just facing financial issues. September polling indicated that they are:

- more likely to be highly anxious (57% vs 40% among those getting by okay and 26% among those managing well)
- more likely to be worried about their mental health (56% vs 31% vs 22% respectively)
- less likely to feel optimistic (22% vs 28% vs 35% respectively agree things will start to get better soon)

Over half (56%) are extremely or very concerned that they won't be able to pay their bills in a month's time (although down from 65% last month) and 49% that they won't be able to provide for their household in a month's time (down from 60% last month).

Just under two thirds are struggling (a lot / somewhat) to pay for grocery shopping and essential travel (64%) and to pay household bills (67%). The vast majority (85%) are struggling to pay for non-essential items.

Agreement that this financial crisis feels more worrying than others in the past stands at 88% among those managing less well, while agreement that it will have a long-term negative impact on them and their families stands at 92%. Mental health (76%) and physical health (63%) are felt to have been negatively impacted by the rising cost of living at particularly high levels among this group, while 61% reported that their social contact (spending time / connecting with others) has been negatively impacted.

The qualitative research with low income families made clear the scope and scale of the financial pressures being experienced – from those who are extremely worried about the future to those who are already not managing to avoid debt. Participants explained that financial pressures span all areas of their life, going beyond food, heat and housing. Many participants recognised that their children are missing out through a lack of experiences (holidays, days trips, entertainment), extra-curricular activities and support with learning. At the extreme, this group can be left feeling helpless. Rural families face significant challenges primarily due to their reliance on cars, a lack of local value grocery shopping options and energy costs.

People's Panel members reported overwhelming concerns for their children's long-term mental health. Members with children talked about crippling guilt at the sacrifices they've had to make:

"We've given up our car, we never eat out or have a takeaway so my child's life will be very different and the guilt eats me."

More generally some People's Panel members reported feeling stigma at having to use food banks and community larders and at not being able to travel to see sick relatives or buy presents for their grandchildren.

The above findings are consistent with findings in the Poverty and Inequality Commission briefing. Household costs for energy, food, transport and debt are a big concern reported by the organisations visited, with households struggling to pay energy bills and buy food. One organisation reported that people who use their service are skipping meals and changing their cooking habits. One of the Experts by Experience panel members talked about missing meals:

"*I can't remember the last time I had three proper meals. I take a lot of pain meds and I need to take them with food. At the minute I might get one proper meal in the evening. For breakfast and lunch it's just a slice of toast, maybe a biscuit to take with the meds."*

One of the community organisations stated:

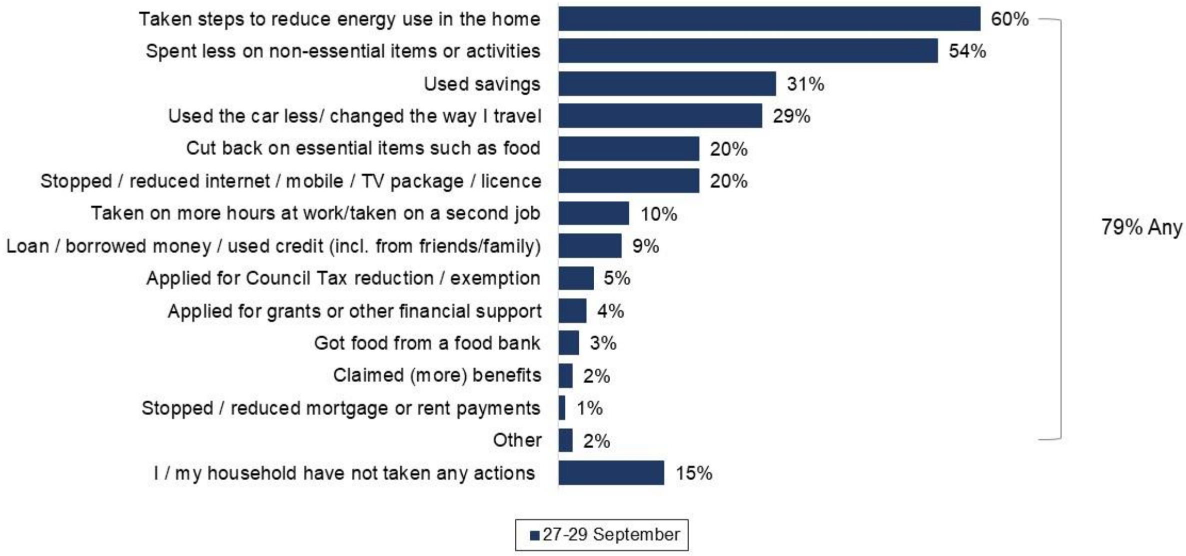
"People are not using cooking facilities due to fear of the cost of them - food preferences have changed as a result, e.g. pot noodles that they only need to boil the kettle for."

Energy costs are causing problems for families and some organisations described people's plans to stop direct debits in October (prior to the announcement of the UK Government's energy price guarantee), risking being cut off. Those already using gas camping stoves and heaters because they cannot afford gas or electricity from the grid - causing condensation and risk of fire. Debt was another significant issue highlighted by some organisations, particularly council tax debt, which one organisation flagged as having mainly been built up during the pandemic.

Behaviour change in response to rising costs

Regardless of their current financial situation, many people have changed their behaviour in response to the rising cost of living. Just under four fifths of the general population (79%) said they have taken action to help manage their household finances in the last six months, including: reducing home energy use (60%), spending less on non-essentials (54%) and cutting back on luxury items (54%). One fifth (20%) have cut back on essential items such as food. This is illustrated in Figure 18.

Figure 18: Actions taken to help manage household finances.



W127_Q7 Over the last six months, what actions, if any, have you or your household taken to help manage your household finances?

Among those managing less well financially, the vast majority (90%) acknowledged action in the past six months. 66% have taken steps to reduce home energy use and 66% have spent less on non-essential items or activities. 52% have cut back on essential items such as food (vs 17% for those getting by okay financially and 3% for those managing well), 39% have used savings (vs 39% and 16% respectively) and 26% have taken a loan / borrowed money / used credit (vs 8% and 1% respectively).

The majority of Scottish Government's People's Panel members reported changing their behaviour due to rising costs of food, clothing, domestic fuel and transport – amongst other things. Many observed similar adjustments among their families, friends, and their communities. For food shopping this ranges from some members being "mindful" of what they buy to others "tightening their belts", for example, buying margarine instead of butter, and tinned or frozen food instead of fresh. Others have stopped visits to the shops and relied more and more on foodbanks and food parcels and using leftovers rather than cooking fresh each day. Members using foodbanks and parcels have also noticed a decrease in both the quality and the quantity of the food.

People's Panel members reported buying clothes less frequently and therefore wearing older clothes, and buying second hand. Some members said that they find trying to keep warm a constant problem. Being disabled and unable to leave the house is a particular issue with the need for heating. Members spoke of layering on jumpers, using hot-water bottles, not lighting the fire, staying totally in one room in the house. Saving electricity in other ways has become the norm for some, with people cutting down on the number of hot drinks they have, only using the microwave not the hob or oven and sitting in the dark. For some members travel of any type is seen as an unaffordable luxury, including local journeys. One member talked about being unable to go to college unless she walked some distance, as she couldn't afford the bus fare of £4.

Views on what needs to be done to address the cost of living

The research summarised here suggests that people in Scotland have a range of views about the changes and initiatives that need to be made to address the cost of living crisis.

Polling at the end of September found that almost a quarter (24%) of the general population think that the amount of support provided by the Scottish Government is about right, while 16% say the same for the UK Government. Although slightly improved from August (prior to the announcement of the UK Government Energy Price Guarantee) when Scottish Government stood at 20% and UK Government at 11%, both levels remain low, with around two thirds (68%) saying there is not enough support provided by the UK Government compared with 50% for Scottish Government. 14% and 23% respectively are unsure what they feel about it.

The qualitative research with low income families suggested that any support provided will ideally need to address a number of challenges. This includes structural changes that can reduce household costs, help to access benefits and financial support and help to get (back) into work or into an improved working situation, as well as the importance of maintaining public and third sector services that these families rely on. It will also need to be communicated to those in need to ensure they are aware but also in a way that encourages engagement and minimises stigma.

Polling at the end of September identified a number of barriers to seeking financial support: four in ten (40%) agreed they would feel embarrassed seeking support for their finances, only two in ten (20%) agreed they feel confident that financial help and support is available and only three in ten (30%) agreed they know where to go to find financial help and support.

The organisations consulted by the Poverty and Inequality Commission talked about 'the perfect storm ahead'. They are struggling due to the increased community need for their services and the unstable higher costs of providing them. Many talked about the challenges of expanding their support and serving more people, with the same amount or less funding.

Nearly all the organisations raised the issue of funding in the light of rising energy and other costs. The additional funding provided by Scottish Government during the pandemic due to the increased demand was spoken about very positively by those who had received it to support frontline work. However, that funding has now ended but demand has not reduced and in most cases, is increasing. Some organisations said they are finding it ever more difficult and stressful to cover their core costs.

For some organisations, the combination of rising costs and static funding is having an impact on staff recruitment and retention, as staff are forced to look for better paid and more secure work.

People's Panel members echoed the findings above reporting that they would support the UK Government and the Scottish Government giving more financial help to third-sector organisations.

A further expectation from some panel members is for more help to be given to small businesses, especially in rural communities where there are often no alternative shops or services. These businesses, they reported, are still suffering from the effects of the pandemic and their rising costs could add to pressure on their sustainability.

Conclusion

This chapter examines public attitudes and behaviour in response to the cost of living crisis. There is a high level of public anxiety related to rising prices and inflation, similar to that seen during much of the Covid-19 pandemic. Some people are concerned about how they will meet their basic needs and concerned about the effects that rising prices will have on them and their families. The situation appears to have worsened over recent months, albeit slightly alleviated following the September 2022 UK Government Energy Price Guarantee announcement. There is evidence that people are changing behaviour in response, with many making difficult choices. This is particularly the case among low income families who are cutting back on food and/or heating, and are very concerned about the impact on their children.

Annex 1 – International Policy Responses

This is an overview of some of the main policies and interventions within each country at the point of publication (October 2022). This is a summary and therefore not every policy proposed or enacted by each country is included here. Information on the policies in France and Germany can be found in Chapter 2.

Belgium

- On 14 March 2022, the federal government announced a series of measures. This included, extending VAT reduction until the end of September 2022, a €200 payment for oil-heated households and an extended social tariff until 30 September 2022.
- Reported in August 2022, the federal government announced a further response.[159] This centred around 6 areas: reduction of consumption, support to the general population, support from the banks to the most severely affected households, help to companies, promoting investment in sustainable solutions and windfall profits.

Canada

- In September 2022, the Prime Minister Justin Trudeau announced new measures.[160] These included a one-time top-up to the Canada Housing Benefit (to benefit Canadian renters).
- Doubling the Goods and Services Tax Credit for 6 months, which would support around 11 million individuals and families who receive the tax credit, including about half of Canadian families with children, and more than half of Canadian seniors.
- Expansion of the Canada Workers Benefit to provide relief to approximately 3 million low income workers.
- Canada Dental Benefit to children under 12 who do not have access to dental insurance.

Denmark

- In August 2022, the government provided a tax-free 'heat cheque' (of around £700) to low income households which are primarily heated by gas.[161]
- In September 2022, the government passed a bill to provide financial aid to vulnerable citizens who are badly affected by the rising energy prices.[162]
- Also in September 2022, energy saving efforts will be implemented in public spaces and buildings, such as schools, municipalities and parliament. These include:

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159 A federal crisis plan to combat soaring energy prices | Belgium.be

160 Making life more affordable for Canadians this year | Prime Minister of Canada (pm.gc.ca)

161 Another billion kroner for increased heating assistance (kefm.dk)

162 Legislative proposals on compensation for rising energy prices have now been adopted - Regeringen.dk

lowering the temperature in office spaces and rooms, turning off external lightings and energy saving information to be distributed throughout the workplace.[163]

Finland

- In February 2022, the government introduced temporary targeted responses focusing on transport, agricultural entrepreneurs and households.[164]
- In August 2022, an energy saving campaign was unveiled that encourages all people living in the country to save energy.
- In September 2022, the European Commission approved a €5 million Finnish scheme to support commercial fishermen and aquaculture companies for part of the additional costs incurred due to the price increase of certain primary production inputs, such as fuel, electricity, fishing gear and packaging materials.[165]

Ireland

- In February 2022, the government announced grant supports for home energy upgrades.[166]
- In March 2022, the government announced a cut in excise duty on petrol and diesel with reductions of 20% per litre on petrol and 15% per litre on diesel. It will be in place until 31 August.
- From April 2022, 370,000 Fuel Allowance recipients will receive a €100 lump sum.
- VAT on gas and electricity was cut from 13.5% to 9% until the end of October 2022.
- A temporary 20% reduction in public transport fares applied from April 2022 until the end of 2023.
- New measures were also announced as part of the budget which was announced at the end of September 2022.[21]

Italy

- In April 2022, the Senate approved €8 billion in extra spending, 5.5 billion of which is to counteract rising energy prices and the rest to help the most affected productive sectors of the economy. System charges on electricity bills will be kept at zero throughout summer and VAT was fixed at 5% on gas bills.[167]
- In May 2022, a new package of measures was announced to help families and business but also to speed up the deployment of renewable energy and regasification plants.
- In September 2022, the Council of Ministers announced a new package of measures including that the qualifying income level for the 'social electric and gas bonus' will be raised to €15,000 which will reach an additional 600,000 households. The package also includes a one-time bonus of 150 euros for those

[163] The Danish Government, Danish Regions and KL agree to save energy in the public sector

[164] National fiscal policy responses to the energy crisis (bruegel.org)

[165] Daily News 08 / 09 / 2022 (europa.eu)

[166] National Retrofitting Scheme | Press Release | SEAI

[167] Bills, green light to support: 5.5 billion against the expensive energy - Corriere.it

with incomes below 20,000 euros gross annually, including pensioners, employed, self-employed and seasonal workers.[168]

Luxembourg

- In January 2022, the government increased its cost-of-living allowance by €200 to better protect vulnerable households from rising energy prices.[169]
- In March 2022, the government introduced new measures. These included a guarantee scheme aimed at facilitating bank loans for eligible companies, reductions in fuel and a temporary rent freeze until December 2022. [170]

Spain

- In October 2021, The Royal Decree-Law was introduced to approve urgent measures for the protection of customers and the introduction of transparency.[171]
- In June 2022, the government extended its measures and announced that VAT on electricity bills will be reduced from 10% to 5%, that the rent cap will be extended, discounts on fuel prices will remain until December 2022 and that there will be a €200 subsidy for wage earners, the self-employed and the unemployed registered at employment offices who live in households with an income of less than €14,000.[172]
- With the aim of promoting public transport, a 50% reduction was approved on the price of all monthly season tickets and any multi-trip ticket for land transport provided by the state or state entities.
- Temporary windfall tax on banking and energy companies to begin in 2023.

Sweden

- In March 2022, the government a package of measures including: fuel tax on diesel and petrol will be temporarily reduced to the lowest level permitted under EU regulations.
- The housing allowance for families with children will be temporarily increased from July to December 2022.[173]

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[168] Bonus 150 euros, in November for employees, pensioners and self-employed: who is entitled to it - Corriere.it;

[169] Regulation of the Government in Council of 19 November 2021 on the granting of a cost-of-living allowance for the year 2022. - Legilux (public.lu)

[170] Agreement between the government and the Union des entreprises luxembourgeoises and the trade union organisations LCGB and CGFP following the meetings of the Tripartite Coordination Committee on 22, 23 and 30 March 2022 - gouvernement.lu // The Luxembourg Government

[171] Royal Decree-Law cms-analysis-royal-decree-law-23-2021

[172] La Moncloa. 25/06/2022. The Government of Spain expands measures to cushion the effects of the war and protect the most vulnerable [Government/Activity of the Council of Ministers]

[173] Government presents package of measures to address rising fuel and electricity prices as a result of the invasion of Ukraine - Government.se

- Sweden is expecting both households and industry to ration energy. However, Sweden uses significantly less natural gas, in absolute terms, in its energy makeup compared to similar sized comparators.

Annex 2 – Additional information on low income households most affected

Households in Receipt of Income Related Benefits	The Department of Work and Pensions (DWP) means-tested benefit caseload in Scotland includes UC, Housing Benefit, Employment Support Allowance, Income Support, Jobseekers Allowance and Pension Credit. The total caseload (avoiding double-counting benefit units which receive multiple benefits) was around **891,000 in November 2021.** The caseload of tax credits (Working Tax Credit and Child Tax credit) was around **108,000 in December 2021.**

Households in receipt of income related benefits are likely to be disproportionally negatively affected, due both to the starting point of financial hardship following a sustained period of austerity and a series of benefit reductions since October 2021.

In May 2022, JRF reported that around seven million low income households in the UK were going without at least one essential (such as a warm home, enough food, appropriate clothing or basic toiletries) and almost all (93%) families on means-tested benefits that are being deducted to pay off debt have gone without at least one essential.[76]

A survey commissioned by the Trussell Trust in August 2022 found that nearly 40% of people in receipt of UC said they had gone a whole day with no food or just one meal in the last month because they could not afford to buy enough food.[174]

Households Narrowly Ineligible for Means-tested Benefits	There could be a significant number of households in Scotland who narrowly miss out on qualifying for the £650 Cost of Living payment for low income households. For example, there could be around 10,000 households in Scotland who earn just too much to qualify for Universal Credit[175] who would have been better off earning less, and remaining on UC.

[174] The Trussell Trust (September, 2022), Cost-of-Living-campaign-policy-briefing-Sep-2022.pdf (trusselltrust.org)

[175] Based on internal Scottish Government analysis using the number of households in Scotland with monthly Universal Credit awards no higher than the equivalent of £20 per week, and assuming a similar number of households earn £20 per week too much to qualify for Universal Credit. DWP, Stat-Xplore, Households on Universal Credit, May 2022.

Households with an Unpaid Carer	Definition - anyone who provides care for a friend, neighbour or family member unpaid. Before the pandemic there were 700-800 thousand unpaid carers in Scotland. In 2020, this figure was estimated to be over 800,000.[176]

Reduced ability to work can push carers into poverty - unpaid carers already have lower financial resilience as caring is often unpredictable and can be difficult to plan for financially, reducing their capacity to work to earn money, with carers working part time, in lower paid jobs or having to give up work entirely in order to care. This situation is likely to be worsened for people with more intensive caring roles. Based on the 2022 UK poverty data, 6 in 10 of those who are caring for 35 hours or more a week are not in paid employment, 3 times the rate of those caring for less than 20 hours a week.[177] In Scotland, 29% of carers in the most deprived areas care for 35 hours a week or more– more than double the level in the least deprived areas.[178] Minority ethnic carers are more likely to suffer financial difficulties as a result of caring, reporting higher rates of struggling to make ends meet, and greater increases in household bills due to the pandemic, than White carers.[179]

Larger Households (3+ children)	11% of all families in Scotland have 3 or more children.[72] In 2019, there were approximately 130,000 large family households (two adults plus three or more children, or three or plus one or more children) in Scotland.[180]

The risk of relative poverty increases with number of children and overall, larger families require higher levels of income to achieve an adequate standard of living. Cost of childcare and other living costs are higher with more children. However, housing costs for children living in poverty are only marginally higher than the average for all households with children, but this is possibly due to overcrowding. Families from some minority ethnic groups are more likely to have three or more children.

[176] Scotland's carers: update release - gov.scot (www.gov.scot); Carers Census, Scotland, 2019-20 and 2020-21 - gov.scot (www.gov.scot); National Care Service evidence paper: people who get adult social care and unpaid carers - easy read - gov.scot (www.gov.scot)

[177] JRF (18 January, 2022), Poverty rates for informal carers | JRF from UK Poverty 2022: The essential guide to understanding poverty in the UK | JRF

[178] Scottish Government (29 September, 2020), Scottish Health Survey 2019: main report - gov.scot (www.gov.scot)

[179] Carers UK (9 August, 2022), Carers_UK_BAME_covid_report_2022.pdf (carersuk.org)

[180] Scottish Government (2019) Scottish Surveys Core Questions 2019

JRF argue that this it is not surprising that families with three or more children are disproportionately more likely to be in arrears, given the evidence of sharply rising poverty among large families in recent years and the fact that providing for larger families simply costs more.[76]

Lone Parent Households	Lone Parent Households make up 25% of all families. 92% are headed by women. 90,000 children living in relative poverty are in a lone parent family, and 80,000 children are living in absolute poverty.[181]

Lone parent families are the least wealthy household type in Scotland, and also the most financially vulnerable. 64% of lone parent households were financially vulnerable in 2018-2020, meaning that their savings could only replace their income for a month before falling below the poverty line. Lone parent households were also the most likely to have unmanageable debt, compared to other household types.[78]

Children living in lone parent families are more likely to be in relative poverty and or material deprivation.[182] Economic effects are likely to disproportionately affect those on low incomes with limited savings, particularly lone parents who are more exposed to the impacts of earning reductions.[72]

Figures compiled by the Centre for Economic & Business Research (CEBR) indicate that whereas parents as a whole were estimated to spend 28% of their income on bringing up their child each year in 2014, the figure was 54% for single parents. The CEBR research also reports that single parents have been hit the hardest by inflation in recent years, particularly on essential goods and services whose prices have risen disproportionately.[103] Food insecurity is most common among single parent households (31%) and working-age single adults (20%), compared to 9% across all household types.[112] Lone parents face significant barriers to employment, and are more likely to be locked out of work due to childcare responsibilities.

[181] Scottish Government (20 August, 2020), Tackling child poverty: second year progress report - annex C - gov.scot (www.gov.scot); Scottish Government (5 April, 2022), Additional child poverty analysis 2022 - gov.scot (www.gov.scot)

[182] Document 1 here: Scottish Government (5 April, 2022), Additional child poverty analysis 2022 - gov.scot (www.gov.scot)

Single Person Households

18% of households are single adult households[180]

JRF estimate that after April 2022, households on low incomes will be spending on average 18% of their income after housing costs on energy bills. For single adult households on low incomes this rises to 54%, an increase of 21 percentage points since 2019/20.[19]

Rural and Island Households

17% of households are in a rural area (11% in an accessible rural area, and 6% in a remote rural area).[180]

Approximately 100,000 off-gas-grid households were considered to be in fuel poverty in 2019, representing a fuel poverty rate of 34%, above the national rate of 24.6%. This is likely to have risen with rising costs.[108]

There is widespread evidence that rural areas, and remote and island communities in particular, experience higher costs of living for some goods and services.[103]

Transport costs - In 2019, rural households in Scotland spent, on average, £135 per month on fuel compared with £107 for urban households (26% more).[105] This is primarily driven by longer journey distances in rural areas (a median journey length of 9.0km in rural compared with 3.8km in urban Scotland) as well as lower availability of public transport (which is likely to exacerbate issues for rural households from high fuel prices in terms of fewer alternatives to car use). In 2019/20, the average urban household spent 13% and rural households spent 16% of their income on transport across the UK.[183]

Households with a Disabled Person

There are 100,000 children living in relative poverty, and 90,000 people in absolute poverty, in families with a disabled person[72]

Over a third of adults (35%) are disabled (defined as having a limiting long-term condition).[184] This equates to approximately 1,590,000 adults (aged 16+), based on the mid-2020 population estimates.[185]

[183] ONS (16 March, 2021), Family spending in the UK - Office for National Statistics (ons.gov.uk)

[184] Scottish Government (29 September, 2020), Chapter 1: General Health, CVD and Diabetes - Scottish Health Survey 2019 - volume 1: main report - gov.scot (www.gov.scot)

[185] NRS (25 June, 2021) Mid-2020 Population Estimates Scotland | National Records of Scotland (nrscotland.gov.uk)

Households with disabled members were more likely to be financially vulnerable, and more likely to have unmanageable debt. [186]

Households with disabled people are one of the six priority household types identified as being at highest risk of child poverty. Analysis shows that:

- 29% of children in families with a disabled person are in relative poverty
- overall, disabled families face higher costs of living than non-disabled
- families with long-term conditions find it harder to afford childcare and there are barriers around finding the right childcare to support children's needs
- they are less likely to have savings (among families with long-term conditions)[186]

Hospitalisation can represent another particularly significant source of costs for families with disabled members, (care for children, travel to hospital, overnight stays etc.)[103]

The latest findings from the Citizens Advice (CA) cost of living dashboard (September 2022 and applies only to England and Wales) show that CA are providing more advice and referrals for cost of living issues (such as seeking advice about homelessness, food bank referrals, debt issues etc.) for people with a disability.[187]

A UK survey commissioned by the Financial Fairness Trust conducted in May-June 2022 found that households with a disability had taken greater steps to reduce their energy usage in 2022 with nearly half struggling to keep their home warm (48% compared to 30% of non-disabled households) and 43% reporting that the quality of food they eat has declined (compared to 25% of non-disabled households).[188] The Scottish government did not uprate devolved disability benefits at 6 per cent to avoid inequity with many Scottish residents still being on DWP benefits during the transition to Social Security Scotland benefits.

Households who Rent Their Homes	People who rent their homes privately and/or social renters. 23% of households are social renters, and 14% are private renters.[180]

The rented sectors have a higher proportion of people who are in relative poverty, as well as children in relative poverty.[98]

Combined Scottish Household Survey data from 2017-2019 indicates that households with a minority ethnic highest income householder (HIH) were more likely to be living in the private rented sector (PRS) than white Scottish/British HIH households. However, the

[186] Scottish Government (2 July, 2021), Tackling child poverty - third year progress report : annex B - child poverty in families with a disabled adult or child - gov.scot (www.gov.scot)

[187] Citizens Advice (September, 2022), CA cost of living data dashboard | Flourish

[188] Evans and Collard (September, 2022), Facing Barriers (financialfairness.org.uk)

proportion of those living in the PRS varies by ethnic group.[189] Householders in the PRS are more likely to be experiencing financial hardship, compared to homeowners. Recent research on low income renters shows Black and minority ethnic families are much more likely to face unaffordable rents than White families (65% compared to 52%) driven by factors like geography, labour market inequalities and elements of the social security system (e.g. the benefit cap), which they argue disproportionately impact Black and minority ethnic groups.[76]

Households on pre-payment meters will be particularly affected by the increase in energy prices, as around 80% of annual household gas consumption falls within the winter months, and these households are unable to spread the costs over a longer period. The share of households on pre-payment meters is much higher in the private rented sector (22%) and social rented sector (43%) than in the owner occupier sector (5%). Furthermore, within each tenure, households on pre-payment meters are more likely to be in fuel poverty than those paying by other means, with around three-fifths of households who live in the rented sectors and who have a pre-payment meter being in fuel poverty.[190]

Private renters

Levels of poverty are high in the private rented sector, with 34% of people in the private rented sector in 2017-2020 living in relative poverty after housing costs. While the sector is smaller than the owner-occupied sector, this still means that nearly one in four (24%) people in relative poverty were living in the private rented sector.[98]

Local Housing Allowance (LHA) rates, which set the maximum amount of rent which can be claimed for under Housing Benefit or the UC Housing Element and which had been frozen in cash terms for 4 years, were raised to the 30th percentile of market rents by emergency Covid-19 legislation in March 2020. However, rates were then frozen for 2021-22 and again for 2022-23.

Many private renters will lose out due to the policy of freezing LHA rates as if they cannot find a property with a rent within the LHA rate, they will have to pay for the difference between their LHA rate and their rent. Private rental price inflation has increased over recent months. As measured by the ONS's Experimental Index of Private Housing Rental Prices, rental price growth in Scotland, which averaged less than 1% during 2020, is now at 3.6% as at August 2022.[191] If this trend continues or accelerates, the gap between LHA rates and market rents will increase and renters will have to cover the shortfall. Where households on housing benefit or UCHE have rents below the LHA rate, any increases in rents to the LHA rate will also be reflected in increased benefits, although this depends on incomes and taper rates, which may result in additional costs for some households.

Qualitative research by JRF from November 2021 on the challenges of living in Scotland's private rented sector showed that in winter last year; affordability pressures forced 31% of low income renters surveyed to cut spending on other essentials such as food or heating

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[189] Scottish Government (29 January, 2021), Housing needs of minority ethnic groups: Evidence review (www.gov.scot)

[190] Unpublished analysis from the 2019 Scottish House Condition Survey looking at the impact of the Energy Price Guarantee on fuel poverty in Scotland.

[191] ONS (14 September, 2022), https://www.ons.gov.uk/datasets/index-private-housing-rental-prices

to pay their rent and over half of lower-income renters surveyed (55%) were worried about being able to afford essentials in the future – rising to 62% of those who received support through UC/Housing Benefit. It showed that 88% of PRS renters surveyed reported affordable rent as their most important priority and 30% of private rented sector renters worry about being able to pay their rent – rising to 44% of low income renters and people on UC /LHA, women, people with disabilities and people with children are more likely to report this worry.[192]

Minority ethnic households with children in Scotland are overrepresented in the private renting sector and spend a higher proportion of their income on housing costs than other families.[72]

Social renters

While social renters are not affected by the freeze in Local Housing Allowance rates in the same way as private renters, there may be some households with additional costs if increases in rents are not fully covered by corresponding increases in housing benefit or UC Housing Element.

Returns to the Scottish Housing Regulator show that following the impact of Covid, social landlords reduced the rent increase they planned to apply from 2.5% on average in 2020-21 to 1.2% in 2021-22.[193] Despite this more moderate increase in rents, rent arrears as a proportion of rental income increased from 5.8% in April 2020 to 6.3% in March 2022.[193] For 2022-23, social landlords planned to increase rents by an average of 3.0%, with increases ranging from 0% to 6%.

In 2018/19, social renters spent 25% of their net (i.e. after tax and national insurance) income on housing costs, and private renters spent 29%. This compares to 8% across all tenures.[194] The recently published Fraser of Allander Institute Commentary finds that in June 2022, inflation for social rented sector tenants was 11.2%, compared to 8.2% and 8.6% for other renters and owner-occupiers respectively. The report states "the most likely driver of this difference in experienced inflation is food costs rather than housing; social rented sector tenants spend 16.3% of expenditures on food and non-alcoholic beverages. The same share is about 10% for other renters and owner-occupiers."[195]

[192] UK Collaborative Centre for Housing Evidence (September, 2022), Low_income_renters_priorities_for_change_scotland_synthesis_report_sept_2022.pdf (housingevidence.ac.uk)

[193] Scottish Housing Regulator (31 August, 2021), National Report on the Scottish Social Housing Charter - Headline Findings - 2020-21 | Scottish Housing Regulator

[194] Scottish Government, https://www.gov.scot/binaries/content/documents/govscot/publications/statistics/2020/06/housing-and-regeneration-outcomes-framework-indicator-updates2/documents/har-outcome-indicators-master-spreadsheet-june-2020/har-outcome-indicators-master-spreadsheet-june-2020/govscot%3Adocument/HAR%2BOutcome%2BIndicators%2B-%2BMaster%2BSpreadsheet%2B-%2BJune%2B2020%2B-%2BWeb%2Bversion.xlsx

[195] Fraser of Allander Institute (5 October, 2022), FAI Economic Commentary 2022 Q3 | FAI (fraserofallander.org)

Gypsy/ Travellers	Definition -The term 'Gypsy/Travellers' refers to distinct groups – such as Roma, Romany Gypsies, Scottish and Irish Travellers – who consider the travelling lifestyle part of their ethnic identity. There are 15,000 - 20,000 Gypsy/Travellers - estimated in Scotland.

Gypsy/Travellers are more likely to be in seasonal work, saving money in the summer to last them through the winter and may find it more difficult to access lending or benefits, depending on their lifestyle; these issues were highlighted during the lockdowns as a result of the COVID-19 pandemic.

How to access background or source data

The data collected for this social research publication:

☐ are available in more detail through Scottish Neighbourhood Statistics

☐ are available via an alternative route

☒ may be made available on request, subject to consideration of legal and ethical factors. Please contact frances.warren@gov.scot for further information.

☐ cannot be made available by Scottish Government for further analysis as Scottish Government is not the data controller.

social research

The views expressed in this report are those of the researcher and do not necessarily represent those of the Scottish Government or Scottish Ministers.

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