

Understanding the Cost of Living Crisis in Scotland



PEOPLE, COMMUNITIES AND PLACES

Understanding the Cost of Living Crisis in Scotland

Cost of Living Analytical Working Group

February 2025

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1. Executive Summary

The 2021 to 2023 cost of living crisis was the most serious inflationary shock to affect Scotland since the early 1980s. This report brings together analysis from a wide range of sources to provide a summary overview of evidence on the cost of living crisis and its impact on Scotland. It includes evidence from Scotland and the UK as well as from other European countries.

The report has been produced by a cross Scottish Government group of analysts. The group was set up in May 2022 to bring together evidence on the emerging crisis and use evidence to appraise policy options and support cross government decision making. This report expands on a more detailed and comprehensive report published by the group in November 2022¹ to present a more up to date assessment of the cost of living crisis and its emerging legacy in Scotland.

Key points:

- The cost of living crisis has presented serious economic and social challenges for Scotland and the UK, and has had a detrimental effect on businesses, communities, households, public sector budgets and the delivery of key public services.
- While the cost of living crisis affected everyone, some households, services and sectors of the economy were much more exposed to rising prices. Low income households were, and continue to be, particularly adversely affected. They were more financially vulnerable entering into the crisis, were subject to higher rates of inflation than better off households in the earlier, acute phase of the crisis, and often pay more for essential goods and services.
- Women, disabled people, ethnic minorities, rural households, larger households, young people, students and carers, lone parents and single person households, households in receipt of income-related benefits, people narrowly ineligible for benefits, and people with no recourse to public funds were particularly adversely affected. Some households will have a number of these intersectional characteristics, potentially compounding disadvantage.
- Businesses responded to the increased costs in a number of ways - by adjusting their prices, absorbing costs through reduced profits, and / or seeking to improve efficiency or reduce wider operational costs.
- The cost of living crisis is likely to have increased the demand for public and third sector services at the same time as increasing the cost of delivering services.
- Governments around the world (including in Scotland and the UK) introduced significant interventions to support businesses and households. While these interventions helped to alleviate the immediate effects of the crisis, think tanks

¹ Scottish Government (2022) [The Cost of Living Crisis in Scotland: analytical report](#)

and research organisations have suggested that these interventions could have been better targeted to support those households most in need of support.

- There is also evidence to suggest that the benefits of government interventions was relatively short lived. Interventions such as the Energy Price Guarantee have also been criticised for doing little to improve Scotland's longer term resilience through reducing energy consumption, supporting more sustainable sources of energy and improving households' financial ability to withstand future economic shocks.
- Over recent months the rate of inflation has fallen to a level which is closer to the Bank of England's target rate of 2%. However, the large increases in inflation over the last three years have effectively been 'locked in' and lower inflation doesn't mean prices are falling, just that they are rising less quickly.
- The fall in the inflation rate coupled with stronger earnings growth has meant that we have seen a return to real earnings growth over the past year. However, polling shows that for many people (particularly low income households) it doesn't feel like things are getting better.
- The longer term effects of the cost of living crisis continue to present serious economic and social challenges for Scotland, and the crisis may negatively affect people's health, wellbeing and future resilience for years to come.

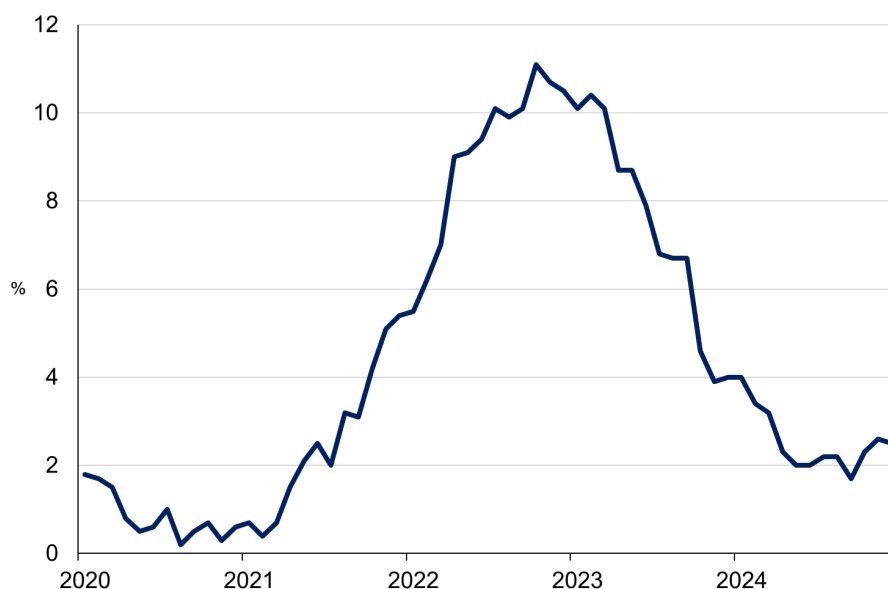
2. The cost of living crisis in Scotland

The cost of living crisis in Scotland was caused by a rapid and sustained increase in inflation in 2021 and 2022 which meant that the price of goods increased at a faster pace than household incomes.

The UK inflation rate, as measured by the Consumer Prices Index (CPI) (which measures the average change from month to month in the prices of goods and services purchased by most households in the UK), rose from under 0.5% in February 2021 to a peak of 11.1% in October 2022. At its peak, the rate of inflation within the UK reached its highest rate for 41 years.

From October 2022 CPI gradually reduced to reach the Bank of England's target rate of 2% by June 2024. Figure 1 below shows the sharp spike in inflation that occurred in 2022 resulting in an inflationary shock.

Figure 1: Annual CPI inflation rate (January 2019 to November 2024)

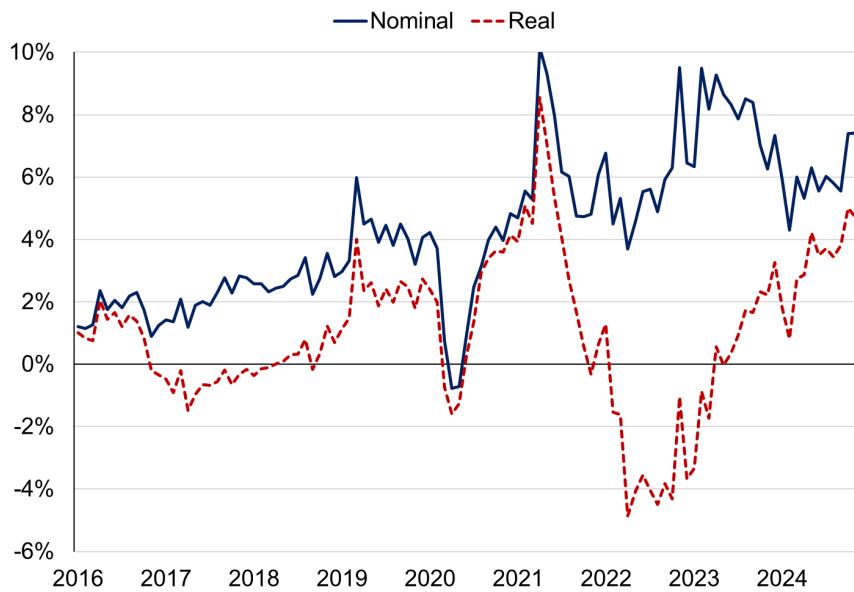


Source: ONS²

From early 2022 to mid-2023 the rate of inflation outpaced median wage growth in Scotland. Inflation also rose at a faster rate than benefits were uprated meaning that household costs were increasing at a faster rate than average household incomes. Figure 2, below shows the real and nominal earnings and annual growth from 2016 to November 2024.

² ONS [Consumer Price Inflation Data](#)

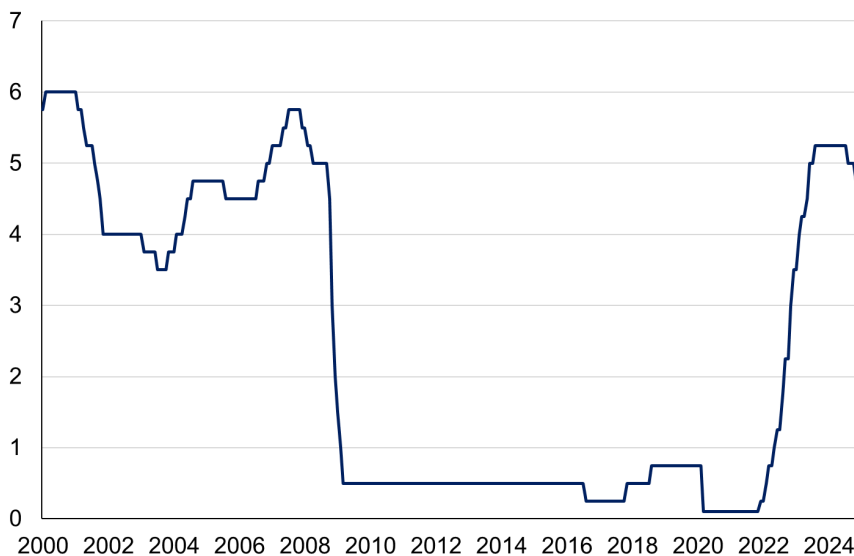
Figure 2: Scotland PAYE Median Earnings Annual Growth



Source: ONS PAYE RTI and CPI³

High inflation led the Bank of England to raise interest rates. From the end of 2021 the Bank raised interest rates 14 consecutive times from 0.1% in December 2021 to 5.25% in August 2023. As inflation has gradually stabilised, the Bank of England reduced interest rates twice in 2024 (in August and November) from 5.25% to 4.75%. The gradual pace of interest rate reductions reflects the persistence of some underlying inflationary pressures, most notably above inflation pay rises in some sectors of the economy.

Figure 3: UK Bank Rate (%) (2000-2024)



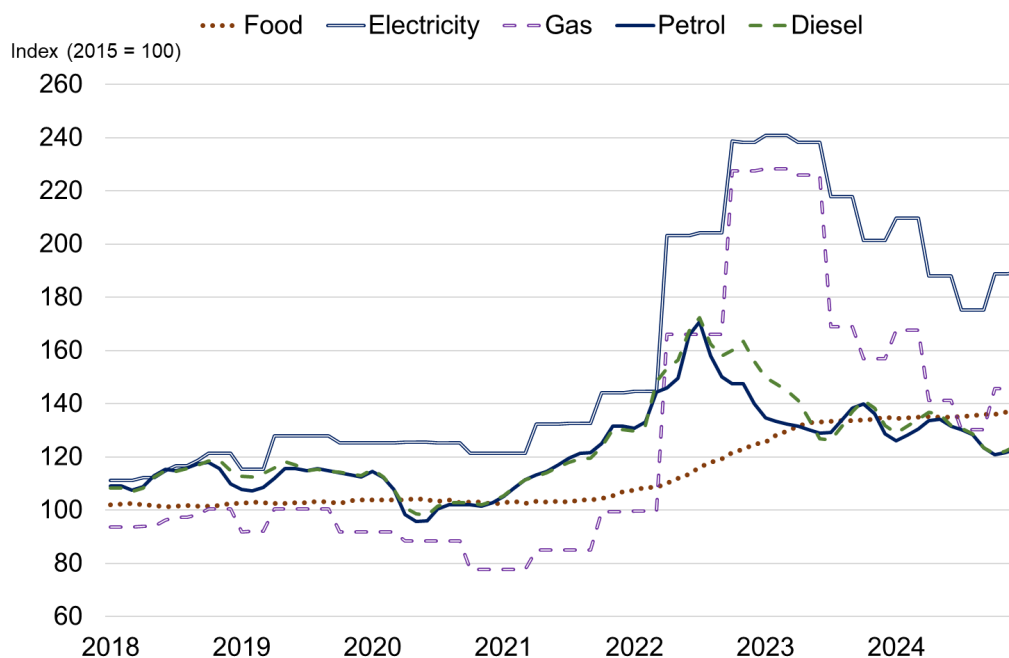
Source: Bank of England⁴

³ ONS [Earnings and employment from Pay As You Earn Real Time Information, UK Statistical bulletins](#)

2.1 Phases of the cost of living crisis

Whilst the headline CPI figure presents the overall rate of inflation it doesn't show variations in the different component parts that make up the measure. Figure 4, below, shows the changes in price levels for electricity, gas, petrol, diesel and food since 2018. It illustrates the initial sharp increase in energy prices followed by the increase in food prices. While electricity and gas prices fell over 2023 and 2024 and the pace of food price inflation stabilised, price levels remain notably higher than in 2021 prior to the inflation shock.

Figure 4: UK Consumer Prices Index for Selected Items, 2018-2024



Source: Scottish Government, ONS⁵

The rapidly changing economic picture set out in Figure 3 and Figure 4 resulted in the cost of living crisis progressing through a number of distinct phases over the last three years. These phases overlapped with each other to an extent, but received different public and political prominence as certain issues became more acute.

2.1.1 Phase 1: A focus on energy prices

During the initial phase in 2022, households and businesses were subject to very steep energy cost increases due to rises in energy wholesale prices and, as a result, changes in the Energy Price Cap. This was partially mitigated by the Energy Price Guarantee, where the UK Government funded the difference between the maximum price for consumers, and the Energy Price Cap. The changes to household energy

⁴ Bank of England [Website](#)

⁵ ONS (November 2024) [Consumer Price Inflation](#)

bills resulted in a large increase in the percentage of households in Scotland in fuel poverty and extreme fuel poverty⁶, significantly increasing costs for businesses and increasing fuel costs for motorists (with petrol and diesel pump prices peaking in July 2022⁷).

As household incomes came under increased pressure there was a corresponding increase in industrial action as employees demanded higher pay rises. Overall, the number of working days lost because of labour disputes in 2022 (2.5 million) was the highest since 1989⁸. Over the course of the crisis the proportion of people in Scotland who reported taking steps to reduce energy use in the home decreased from a peak of 65% in December 2022, to 45% in December 2024⁹.

2.1.2 Phase 2: A focus on food price inflation

By early to mid-2023 food inflation became more of a focus as UK Government interventions were introduced in response to energy prices and the rate of energy price increases began to subside. This led the Resolution Foundation to argue in May 2023, that ‘the food price shock is about to overtake the energy price shock as the biggest threat to family finances’¹⁰.

Annual food price inflation reached 19.2% in March 2023, the highest rate of increase in food prices since 1977¹¹. The number of Scots reporting cutting back on essentials such as food peaked at 24% in February 2023 before falling to 15% by December 2024. In December 2022, 62% of households who said that they were managing less well financially¹² reported cutting back on essentials such as food¹³. Some food categories rose in price faster than others. Some of the foods subject to the biggest annual increases, such as sunflower oil (up 85%), cucumbers (up 83%) and dairy products are set out in figure 5 below.

⁶ The fuel poverty rate increased from 24.6% in 2019 to 31.0% in 2022, and extreme fuel poverty from 12.4% to 18.5%. See table 3.2 in the [Scottish Household Condition Survey: 2022 Key Findings](#)

⁷ Department for Energy Security and Net Zero: [Weekly road fuel prices](#)

⁸ ONS Data [Labour disputes; working days lost due to strike action](#)

⁹ YouGov (2024) [Public attitudes to cost of living and other topics: tracker - data tables](#)

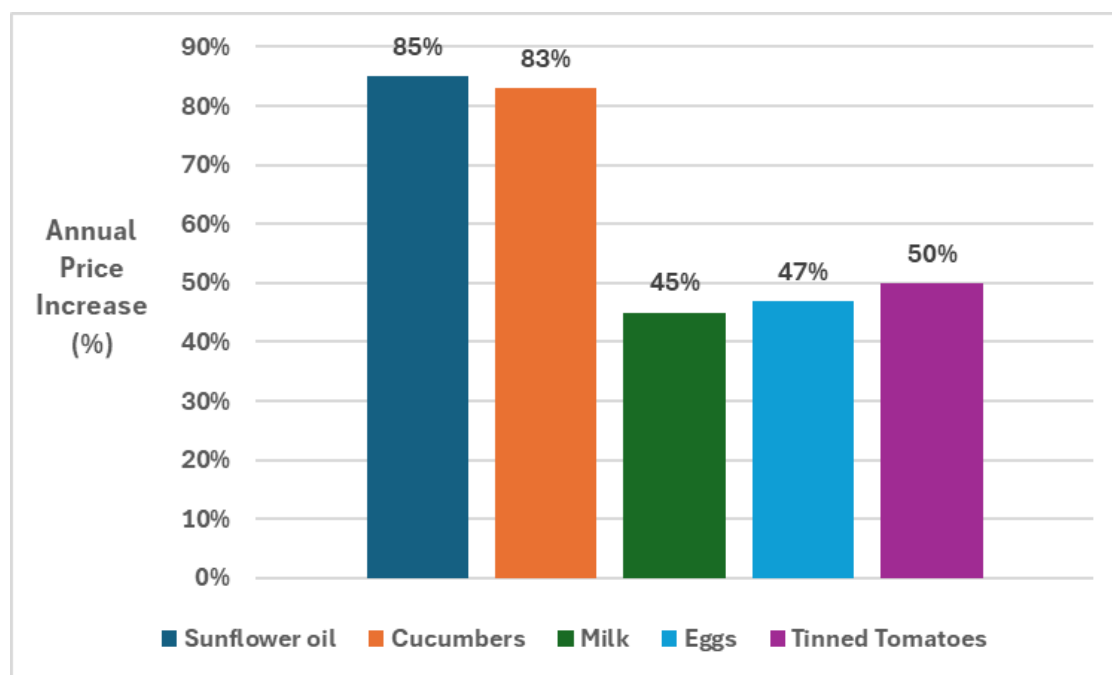
¹⁰ Resolution Foundation (2023) [Food for thought: The role of food prices in the cost of living crisis](#)

¹¹ [Cost of living insights - Office for National Statistics](#)

¹² Throughout the report this group of ‘those managing less well financially’ refers to those who say they are: not managing very well, having some financial difficulties or in deep financial trouble, when asked which option best describes how they and their household are managing financially

¹³ YouGov (2024) [Public attitudes to cost of living and other topics: tracker - data tables](#)

Figure 5: Annual price increases in selected foods (April 2022 to April 2023)



Source: Food foundation¹⁴

2.1.3 Phase 3: A focus on rising interest rates

As the crisis progressed into late 2023 the focus began to incorporate increasing concerns about the impact of rising interest rates on mortgages and rents. When mortgage rates first began to rise, the impact was initially focussed on those purchasing a house and the relatively small share of households with a variable rate mortgage. Over time the impact became more significant as interest rates continued to rise and an increasing share of fixed rate mortgages reached their end of term¹⁵. By the third quarter of 2024, the number of regulated UK mortgages entering arrears had increased by 36% (compared to quarter one of 2022), although the number of mortgages going into arrears remains lower than the spike at the outset of the pandemic and notably lower than the peak recorded in 2008 during the global financial crisis.¹⁶

Furthermore, rents began to rise for people agreeing new tenancies in the private rented sector as landlords reacted to higher buy-to-let mortgage rates and other cost pressures (existing tenants were protected by emergency measures under the Cost of Living (Tenant Protection) (Scotland) Act 2022). There were also wider economic impacts of high borrowing costs for businesses.

Whereas low income households experienced higher inflation relative to high income households in the earlier, acute phase of the cost of living crisis, by mid-2023 high

¹⁴ Food Foundation (2023) [Food Prices Tracker: April 2023](#)

¹⁵ Section 6. Mortgage Interest Rates in Scottish Government (2024) [Scottish Housing Market Review Q4 2024](#)

¹⁶ Financial Conduct Authority (2024) [Mortgage lending statistics - December 2024](#)

income households were experiencing higher rates of inflation as a consequence of rising interest rates (since high income households are more likely to be home owners).¹⁷

2.2 The causes of the cost of living crisis

The high rate of inflation within the UK seen in 2021 and 2022 was due to a number of factors including:

- Strong global demand for consumer goods – as the economy adjusted and recovered following the Covid-19 pandemic and associated lockdowns;
- Related supply chain disruption; and
- Soaring energy and fuel prices – particularly, but not exclusively, due to Russia’s full-scale invasion of Ukraine in February 2022¹⁸.

The cost of living crisis was a global crisis with the US and Euro Area experiencing similar patterns of inflation. Inflation in the US and Euro Area peaked at 9% and 10.6% respectively. Some commentators have also argued that the UK entered the cost of living crisis in a weaker position than comparator countries due to the reduction in productivity and competitiveness that occurred as a result of Brexit¹⁹.

¹⁷ ONS (2024) [Household Costs Indices for UK household groups: January to March 2024](#). Following ONS convention, low income is defined as the second decile and high income as the ninth decile. Note that there are some differences between the measurement of the household cost indices (HCIs) and the CPI; in particular the HCIs include changes in mortgage interest rates, stamp duty and other costs related to the purchase of a dwelling, which are omitted from the CPI. The HCIs are classified as statistics in development, and estimates may be revised due to methodological improvements.

¹⁸ Commons Library Research Briefing (2024) [Rising cost of living in the UK](#)

¹⁹ Resolution Foundation and LSE (2022) [The Economy 2030 Inquiry: The Big Brexit](#)

3. The differential effects of the cost of living crisis on households

Whilst the cost of living crisis affected everyone, some households, services and sectors of the economy have been much more exposed to the effect of rising prices.

During the peak of the crisis low income households were subject to much higher rates of inflation due to spending a higher proportion of their overall income on food, transport and energy costs²⁰. Some low income household types (such as households with disabled people) also incurred additional costs and / or received real-terms reduced income because of their particular characteristics and / or circumstances. Low income households were also more likely to be financially vulnerable, and entering the cost of living crisis in a position of financial hardship.

People on low incomes often end up paying more for essential goods and services. This is sometimes referred to as the 'poverty premium'. Examples of this include the increased likelihood that low income households will be reliant on more expensive pre-payment meters, will be unable to move to the best fuel tariffs, and will be unable to access consumer credit.²¹ There is also evidence that the prices of cheaper brands of food, drink and other grocery products increased much faster than more expensive varieties²² meaning that poorer households were harder hit by rising costs.

By way of contrast some households, such as home owners with no or only a small mortgage and with sizeable savings, will have seen a net benefit from higher interest rates. For example the Resolution Foundation estimated that overall, the tenth of households with the most savings wealth will receive an average of £20,000 each, before tax from interest on savings²³.

The section below sets out summary evidence on how the cost of living crisis has disproportionately affected some groups. In reality there is a significant level of overlap between these groups and it is important to, consider the data from an intersectional perspective recognising that people are shaped by their simultaneous membership of multiple groups which can compound disadvantage. The section below is not comprehensive, but is included to illustrate some of the ways different groups have been affected.

3.1 Women

The First Minister's National Advisory Council on Women and Girls published a report in May 2024 which summarised the multiple ways in which women have been disproportionately affected by the cost of living crisis²⁴. The report presented

²⁰ IFS, (2021), [The cost of living crisis – who is hit by recent price increases?](#)

²¹ Scottish Government (2024) [A review of emerging evidence on the effects of the cost of living crisis on debt in Scotland.](#)

²² IFS (2024) [Cheapflation and the rise of inflation inequality](#)

²³ Resolution Foundation (2023) [The Living Standards Outlook Summer 2023 Update](#)

²⁴ First Minister's National Advisory Council on Women and Girls (2024) [Phase Two Report](#)

evidence showing women are more likely to be in debt than men, more reliant on benefits, have lower savings and less access to occupational pensions. The report also highlighted evidence from third sector research that the crisis is exacerbating existing financial barriers that prevent women leaving abusive relationships and that instances of financial abuse are increasing as a result of the crisis.

Evidence from the latest YouGov survey for the Scottish Government²⁵ from December 2024²⁶, shows how the cost of living crisis has seriously affected women's mental and physical health. When asked about the wider impacts of the cost of living situation in Scotland today 34% of women reported that their physical health has been negatively affected (compared to 27% of men) and 48% of women reported that their mental health has been negatively affected (compared to 39% of men). Furthermore the survey shows that the majority of women in Scotland do not feel that the cost of living crisis is abating. Seventy one per cent of women disagreed with the statement that it feels like the cost of living crisis is easing, compared to 62% of men.

3.2 Disabled people

The main piece of research on the effects of the cost of living crisis on disabled people in Scotland was a report published by the Glasgow Centre for Population Health and the Glasgow Disability Alliance²⁷. It stated that since 2021, the cost of living crisis has created severe impacts for the most vulnerable members of society, creating an unfolding 'social catastrophe'. The crisis has worsened poverty and financial insecurity, with disabled people unable to heat their homes, going hungry or eating a nutritionally deficient diet. The study presented multiple examples of where this had directly compromised the management of participants' health conditions:

"I've to take my medication with a meal, three times a day. There has been days when I can only afford one half-decent meal. So when I'm taking my pills without a meal I feel pretty bad, my stomach isn't right and I'm worried about the long term impacts that's having on me" Focus group participant.

Households with one or more disabled person are more likely to be in poverty²⁸. Disabled households are also likely to incur greater costs as a result of their disability. UK research from July 2024 showed that households with an adult limited a lot by disability are more likely to experience food insecurity (32%) than households with an adult not limited by disability (10%)²⁹. People with chronic health problems or disabilities are more likely to experience destitution³⁰. More than two thirds of people referred to food banks in the Trussell network, are disabled³¹ and

²⁵ Research carried out by YouGov on behalf of the Scottish Government; regular waves from March 2020; online survey with sample of c.1000 adults 18+ across Scotland at each wave; data weighted to be fully representative of all adults in Scotland (aged 18+).

²⁶ YouGov (2024) [Public attitudes to cost of living and other topics: tracker - data tables](#)

²⁷ GCPH and GDA (2023) [The impacts of the cost-of-living crisis on disabled people: a case for action](#)

²⁸ Scottish Government (2021) [Poverty and Income Inequality in Scotland 2017-20](#)

²⁹ Food Foundation (2024) [Food Insecurity Tracking | Food Foundation](#)

³⁰ JRF (2023) [Destitution in the UK 2023](#)

³¹ Trussell Trust (2023) [Hunger in Scotland](#)

research by Trussell in 2023 found that many disabled families in Scotland are going without dental treatment (32%) and medication (8%) due to lack of income.³²

3.3 Ethnic minorities

Minority ethnic groups are significantly more likely to live in larger households³³, to be unpaid carers and to live in private rented accommodation. These households are also more likely to have deeper levels of poverty³⁴ and so a greater proportion of their income is likely to be spent on essentials such as energy and food which have been subject to very high levels of inflation.

Over half of children in minority ethnic families (53%) are in poverty³⁵. Non-white ethnic groups are at higher risk of food insecurity (32% for Black/African/Caribbean and 29% for Mixed/multiple) than white ethnic groups (13%)³⁶. Black, Black British, Caribbean or African-led households and Migrants are disproportionately likely to be affected by destitution³⁷. Research by the National Centre for Social Research in 2023 found that nearly 40% of Black people were 'were in arrears with household bills' and this had increased from 19% in 2019³⁸.

3.4 Rural households

Rural and remote places in Scotland are more exposed to high inflation due to high levels of fuel poverty combined with other local factors such as higher food and transport prices. Significant parts of Scotland's remote communities are particularly vulnerable to fuel poverty because the Scottish gas grid does not reach them, leaving them dependent on alternative sources of heating.

The 2023 Scottish Islands Survey³⁹ gathered views about different aspects of island life from Scottish island residents, including the cost of living and fuel poverty. It found that more than one fifth of respondents were concerned about paying for a range of everyday items in the next two to three months, such as household repairs and groceries, while one in ten were concerned about credit card repayments and paying the mortgage/rent. Paying for heating and hot water was found to be a particular concern. Almost half of islanders (45%) said that their home sometimes feels uncomfortably cold in the winter, an increase from 35% in 2020⁴⁰.

³² The research is based on an online survey of 3,007 adults including 232 in Scotland from the YouGov UK panel of 2.5 million individuals (fieldwork 11 – 24 August 2023) and an online survey by YouGov of 2,017 adults currently claiming UC, including 176 in Scotland (fieldwork 11 August – 5 September 2023).

³³ According to Census Data

³⁴ Scottish Government (2020). [Poverty and income inequality in Scotland 2016-19 and Additional Poverty Analysis 2018](#)

³⁵ JRF (2024) [Poverty in Scotland](#)

³⁶ Food Foundation (2024) [Food Insecurity Tracking | Food Foundation](#)

³⁷ JRF (2023) [Destitution in the UK 2023](#)

³⁸ National Centre for Social Research (2023) [The Price We Pay: the social impact of the cost-of-living crisis](#)

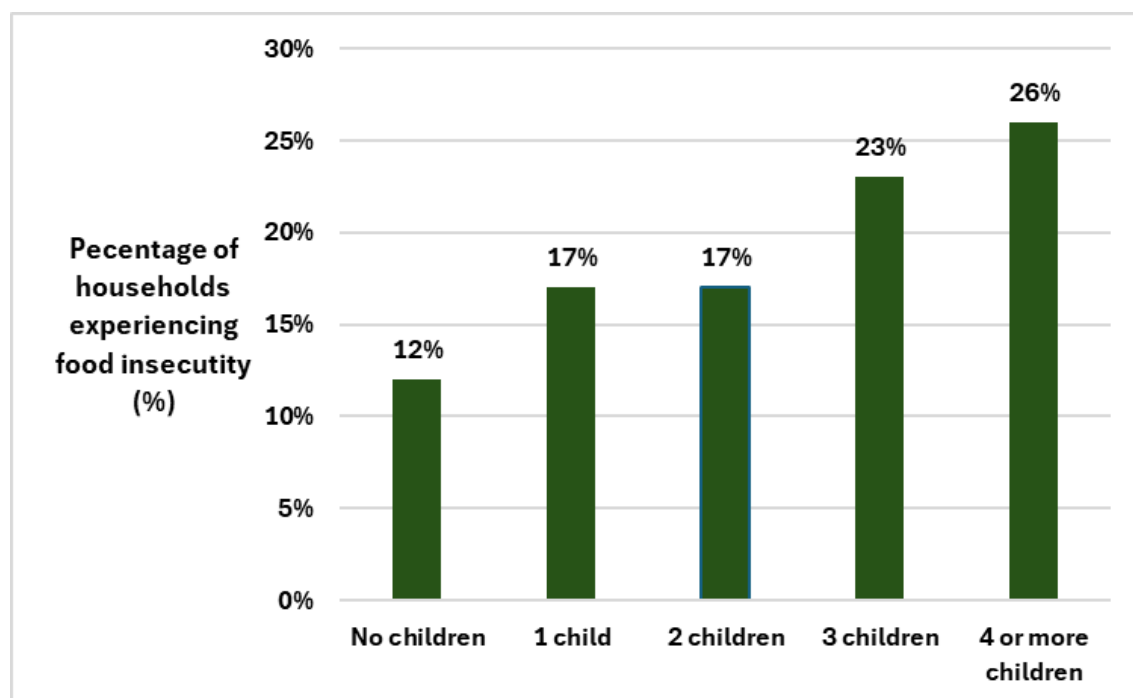
³⁹ Ruth Wilson, Jonathan Hopkins, Fiona Bender, Lauren Manson, Margaret Currie, Graciela Martínez Sánchez and Jackie Potts (2024) [Scottish Islands Survey 2023](#)

⁴⁰ It is not possible to compare results from the Scottish Islands Survey with the rest of Scotland.

3.5 Larger households

Larger households spend a higher proportion of their income on essentials and therefore have been more exposed to the increases in energy and food prices. Resolution Foundation research shows that larger families have frequently had to cut down on meals and resort to using food banks in response to the cost of living crisis⁴¹. Figure 6 below shows that 23% of families with 3 children experienced food insecurity, rising to 26% of families with 4 or more children⁴².

Figure 6: Percentage of households experiencing food insecurity



Source: Food Foundation (2024)

The challenges associated with the additional costs experienced by larger households during the cost of living crisis are likely to have been compounded as a result of the UK Government's two-child benefit limit.

3.6 Young people, students and young carers

There is increasing evidence to suggest that young people may have been adversely affected by the cost of living crisis. Older people (65+) in Scotland are less likely to say that they are managing less well financially (8% compared to 19% overall in December 2024).⁴³ Younger people are more likely to have reported that they ate less or skipped a meal⁴⁴.

⁴¹ Resolution Foundation (2023) [Hoping and coping: How families were faring in March 2023](#)

⁴² Food Foundation (2024) [Food Insecurity Tracker: Round 15](#)

⁴³ YouGov (2024) [Public attitudes to cost of living and other topics: tracker - data tables](#)

⁴⁴ Resolution Foundation (2023) [Hoping and coping: How families were faring in March 2023](#)

There is emerging evidence that financial pressures are significantly affecting younger peoples health and wellbeing. The latest YouGov data from December 2024 shows that more than half (56%) of 18-34 year olds state that the cost of living situation has negatively impacted on their mental health compared to 24% of those aged 65+.⁴⁵ This finding is also supported by recent evidence from the 2024 Understanding Scotland Economy Tracker.⁴⁶

Research commissioned by the Higher Education Policy Institute found seven in ten students had considered dropping out of higher education since starting their degree and nearly two-fifths of those gave rising living costs as the main reason⁴⁷. Research commissioned by the Russell Group of Universities⁴⁸ in 2023 found that 94% of students were concerned about the cost of living crisis, 72% of students felt that their mental health had suffered due to the cost of living and one in four students were regularly going without food or necessities because they could not afford them.

Caring comes with additional costs that can significantly affect a carer's financial situation. Research carried out with young carers in 2023 found that two thirds (66%) said the cost of living had affected them and their family.⁴⁹

3.7 Lone parent and single person 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 housing⁵⁰. Single adult households with children were nearly twice as likely to be food insecure (31%) than multi adult households with children (16%)⁵¹

Single person households are most at risk of destitution⁵² and working-age adults are much more likely to need to turn to a food bank than pensioners. This is particularly the case for single adults living alone and those not currently in paid work⁵³.

3.8 Households in receipt of income related benefits, people narrowly ineligible for benefits and people with no recourse to public funds

The Cost of Living Crisis in Scotland Analytical Report⁵⁴ published in November 2022 had an extensive section on how households in receipt of income-related benefits

⁴⁵ YouGov (2024) [Public attitudes to cost of living and other topics: tracker - data tables](#)

⁴⁶ Diffley Partnership (2024) [Understanding Scotland, November 2024](#)

⁴⁷ Article (March 2023) [Seven in ten students consider dropping out – How can universities fix this gloomy statistic?](#)

⁴⁸ Students' Union UCL (2023) [Student Cost of Living Report](#)

⁴⁹ Carers Trust Scotland (2023) [Being a Young Carer is not a Choice: It's just what we do](#)

⁵⁰ Scottish Government (2021) [Additional poverty analysis 2021](#)

⁵¹ Food Foundation (2024) [Food Insecurity Tracking](#)

⁵² JRF (2023) [Destitution in the UK 2023](#)

⁵³ Trussell Trust (2023) [Hunger in Scotland](#)

⁵⁴ Scottish Government (2022) [Cost of Living Crisis – Analytical Report](#)

were more likely to be disproportionately affected by the cost of living crisis. Much of that analysis rested on the fact that benefits had not been updated to reflect current rates of inflation. To some extent that was addressed when the UK Government updated working-age benefits in April 2023 in line with CPI inflation of 10.1%, and in April 2024 by the previous September's CPI inflation figure of 6.7%. The UK Government also provided additional cost of living support payments to low income households in receipt of income related benefits and the Scottish Government increased the Scottish Child Payment (these interventions are discussed further in Chapter 4). Whilst these interventions have lessened the impact of the cost of living crisis they are unlikely to have fully compensated for the additional costs associated with high inflation and won't have addressed the legacy of austerity which meant that many households entered the cost of living crisis from a starting point of financial hardship, with working-age benefits frozen or restricted for a number of years.

Over recent years there has also been increasing concern about the challenges faced by people during the cost of living crisis who have no recourse to public funds and who are unable to work.

4. The impacts of the cost of living crisis on businesses and the delivery of public and third sector services

The cost of living crisis has had wide ranging impacts on business, the public and third sector. In introducing the 2022 Emergency Budget in September 2022 the Deputy First Minister stated: “the crisis is not just a cost of living crisis, as some characterise it. The costs of doing business, of third sector support and of public services are all rising as well. Indeed, in all my experience, now and during my previous tenure as finance secretary, there has never been a time of greater pressure on the public finances”⁵⁵.

4.1 Impact of the cost of living crisis on businesses

The sharp increase in energy and materials prices presented significant challenges for businesses, following on almost directly from the Covid-19 pandemic. Businesses responded to increased costs in a number of ways - by adjusting their prices, absorbing costs through reduced profits, and / or seeking to improve efficiency or reduce other operational costs.

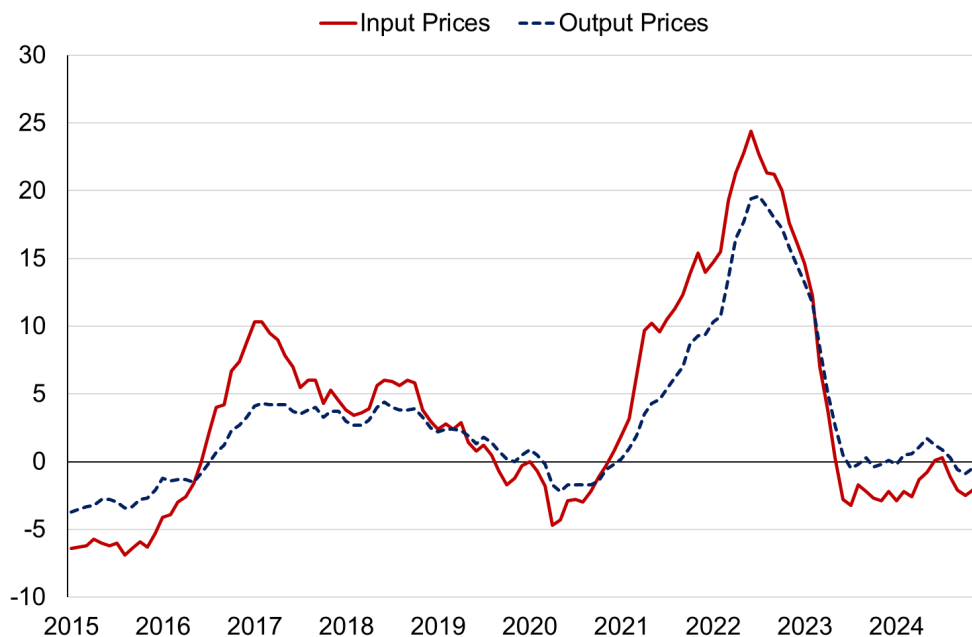
Initial challenges related to maintaining business viability in the face of rapidly increasing energy costs. This was particularly the case for those businesses that use energy more intensively.

Chapter 5 of this report discusses energy support policy responses introduced by the UK and Scottish Government with the Energy Bill Relief Scheme and Energy Bills Discount Schemes providing support to businesses.

Figure 7 below shows how producers’ input costs rose rapidly in 2022 hitting a peak of 24.1% in June 2022. The latest figures show that producer input prices fell by 1.5% in the year to December 2024.

⁵⁵ Scottish Parliament (2022) [Meeting of the Parliament, 7 September 2022](#)

Figure 7: UK Producer Price Inflation (%)



Source: ONS⁵⁶

Small businesses were particularly affected by increases in gas and electricity costs. Research by Cornwall Insight in 2024 found that small businesses are on average paying over £5,000 extra a year on energy bills than before energy crisis in 2021.⁵⁷ They also forecast that small industrial businesses are predicted to be paying £550,000 annually for electricity per year in 2026/2027. This marks a 57% increase compared to pre-crisis costs⁵⁸.

4.2 The current economic picture

The latest Scottish business survey data indicate that cost challenges for businesses have evolved, but remain challenging. RBS Growth Tracker data for December 2024 indicate input and output cost pressures for businesses remain with recent pressures driven by staffing costs, supplier prices, and material costs.⁵⁹

These factors have also been identified in the Business Insights and Conditions Survey (BICS) data for January 2025, showing a recent rise in the share of businesses considering price increases because of labour costs (42.5%), energy prices (21.2%), raw material costs (18%) and the cost of finance (13.6%). However, 39.3% of businesses responded that they did not plan to increase prices, the lowest figure since May 2024 (see figure 8 below).

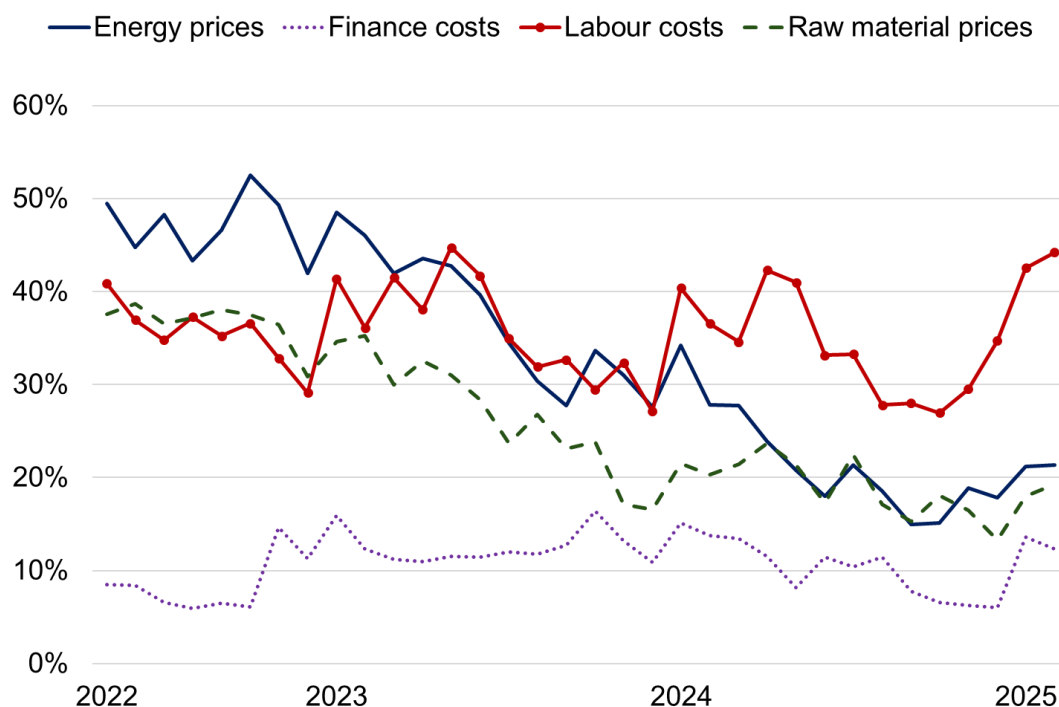
⁵⁶ ONS (2024) [Producer price inflation, UK: November 2024](#)

⁵⁷ Cornwall Insights (2024) Article [Business energy bills forecast to stay 70% above pre-crisis rates](#)

⁵⁸ Cornwall Insights (2024) Article [Energy bills for large retail and leisure units to soar £200,000 above pre-crisis levels](#)

⁵⁹ Royal Bank of Scotland (2025) [News Release: Royal Bank of Scotland Growth Tracker](#)

Figure 8: Factors Causing Businesses to Consider Raising Prices (Feb 2025)

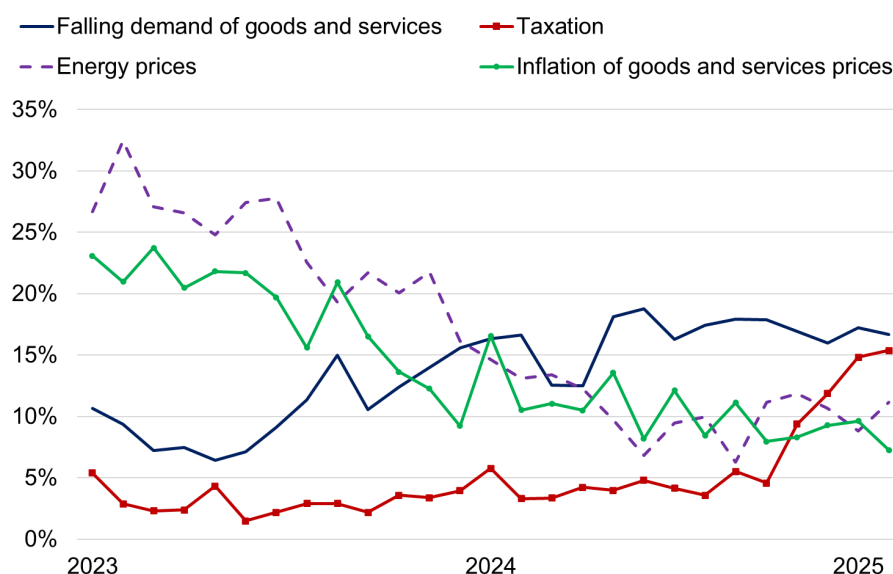


Source: Scottish Government analysis of ONS BICS data

Overall, at the start of 2025, BICS data indicates that falling demand for goods and services was the leading cause for concern among businesses for January, cited by 17.2% of businesses, up slightly from December and in line with data from the middle of 2024. Taxation is the second most commonly cited concern for businesses in January, with the proportion of businesses flagging this issue rising from 11.9% in December to 14.8% in January, and has been on an upward trend since October.

Concerns around some other issues, related to the cost of living remain lower than in recent years, with energy prices being cited by 8.8% of businesses (down from 14.6% in January 2024), and inflation also becoming less of a concern, falling to 9.6% from 16.6% January 2024. Figure 9, below illustrates how business concerns have changed from the beginning of 2023.

Figure 9: Main Business Concerns (2023- 2025)



Source: SG analysis of ONS BICS data

4.3 Impact of the cost of living crisis on public services

The cost of living crisis has raised significant challenges for public services. These are described below in relation to demand for services and the cost of delivering them.

4.3.1 Demand for services

The cost of living crisis has led to increased demand for some public services. This is perhaps most evident in relation to health and social care services, as well as informal and formal care and support.

There is evidence from a wide variety of sources including the Scottish Government’s YouGov survey and the Understanding Scotland survey⁶⁰ that the cost of living crisis is affecting the wellbeing of people living in Scotland. The latest YouGov findings (December 2024) show, just under one third of respondents (31%) believe their physical health has been negatively affected by the crisis and 43% believe their mental health has been negatively affected.

Ofgem has highlighted the health harms associated with households who self-ration their energy when they cannot afford to heat their homes, with pre-payment meter consumers more likely to self-disconnect.^{61 62} Restricting energy consumption,

⁶⁰ Diffley Partnership (2024) [Understanding Scotland](#)

⁶¹ Self-disconnection is when a PPM customer cannot afford to top-up their meter and so it ‘cuts out’, or when they do not realise that credit on the PPM is running out. (Adcock, A., Bolton, P., Mawhood, B., Sutherland, N. (2022) [Self-Disconnection of pre-payment meters](#). House of Commons Library.

⁶² Scottish Government (2024) [A review of emerging evidence on the effects of the cost of living crisis on debt in Scotland](#).

especially over winter periods can elevate the risk of health harms as a result of living in a cold, damp home,⁶³ with some groups like children and elderly people being particularly negatively affected.⁶⁴

There have also been increased demands in relation to policing, in 2023 Police Scotland's Chief Constable spoke about the impact of the cost of living crisis on 'driving vulnerability' and 'pressure on other services' when discussing policing budgets for 2024-25. The Chief Constable said:

"Although I welcome the important uplift in our budget, a changing, ageing population; a cost-of-living crisis driving vulnerability and pressure on other services; civil unrest; new laws and increasingly complex investigations all contribute to growing community need and increasing contacts to policing from the public".⁶⁵

4.3.2 Cost of Delivering Services

High inflation during the cost of living crisis had the effect of quickly eroding the value of resource and capital budgets. This led to the Scottish Government publishing an emergency budget review in September 2022, when the Finance Minister estimated the Scottish Budget 'was worth around £1.7 billion less than it was worth in December 2021'⁶⁶.

Public sector pay makes up over half of the Scottish Government's resource budget⁶⁷. The cost of living crisis led the Scottish Government to introduce public sector pay offers that were significantly higher than the 2-3% set out in the Public Sector Pay Policy. The Emergency Budget Review in September 2022 set out the intention to make enhanced pay offers to public sector workers worth over an additional £700m. These larger public sector pay increases have significantly added to the cost of delivering public services in Scotland.

Capital funding is around 10 per cent of the Scottish Budget and covers investment in infrastructure such as roads and hospitals, and schools. Inflation has had the effect of eroding the value of capital budgets with significant cost increases on the common materials used on construction projects. In December 2023 the Scottish Fiscal Commission forecast that capital funding is forecast to fall over the next five years by 12 per cent in nominal terms. After accounting for inflation, capital funding is predicted to fall by 20 per cent by 2028 -29. These pressures continue to persist, and whilst there has been a recovery in resource funding, capital funding remains lower in real terms than in 2021-22.

4.4 Impact of the cost of living crisis on the third sector

The Third Sector covers every policy area of the Scottish Government. It is composed of charities, community groups, social enterprises, community interest

⁶³ [Ofgem \(2024\) Affordability and debt in the domestic retail market – a Call for Input](#)

⁶⁴ [Ofgem \(2020\) Self-disconnection and self-rationing: decision.](#)

⁶⁵ [Police Scotland Chief Constable Jo Farrell outlined her response to the Scottish Government Budget 2024-25 during an evidence session at the Scottish Parliament's Criminal Justice Committee. - Police Scotland](#)

⁶⁶ Scottish Government (2022) [Emergency Budget Review: 2022 to 2023](#)

⁶⁷ Fraser of Allander (2024) [Scotland's Budget Report 2024](#)

companies and a variety of organisational forms constituting over 46,500 organisations (more than 24,000 of which are registered charities⁶⁸) and employs 136,000 paid staff. Many are voluntary organisations ranging from grassroots community groups, arts and cultural organisations and sports clubs to large social care and housing providers⁶⁹.

The main areas where these organisations are active are: health and social care; culture and arts; sport; equality and rights; community development and the environment. The sector plays a vital role in supporting communities at a local level. It delivers essential services, helps to improve people's wellbeing and contributes to economic growth. The sector is of particular importance in tackling poverty through relational and person-centred approaches though is a key delivery partner across most policies⁷⁰.

There are more than 24,000 charities in Scotland, (including community groups, religious charities, schools, universities, grant giving charities and major care providers) run by approximately 160,000 charity trustees, on an almost entirely voluntary basis⁷¹.

4.4.1 Increased demand for services

The third (voluntary) sector has seen increased demand for services⁷². Trend data from the Scottish Third Sector Tracker survey indicates that third sector organisations' ability to meet this increased demand has been relatively stable since the survey began in 2021. However, in the spring 2024 wave, the proportion of organisations reporting that they were able to meet 'only some' or 'none' of this demand rose to 23% the highest level reported since the survey began⁷³. This figure decreased to 14% in the latest wave of the survey (autumn 2024)⁷⁴. The most recent wave of the survey, also highlighted that while 66% of organisations reported that all, or nearly all, of this demand was for their core services, 24% reported that some of the demand related to services that sat outside their core remit. Significant needs or issues that organisations reported they had observed in the individuals and communities they work with included poor mental health and wellbeing (60% of respondents); financial hardship and vulnerability (57% of respondents); and poor physical health and wellbeing (36% of respondents)⁷⁵

Increased demand for food banks is one example of where the cost of living crisis has led to higher levels of demand for services provided by the third sector. Trussell data for Scotland show significant increases in need over the last few years, with 2023/24 statistics similar to the record levels of 2022/23 in terms of the numbers of emergency food parcels distributed in Scotland (262,400). Trussell link this to the 'soaring cost of living for people across Scotland' and the fact that people's incomes

⁶⁸ OSCR (2024) [OSCR | Sector Overview](#)

⁶⁹ SCVO (2025) [About the sector - SCVO](#)

⁷⁰ SCVO (2025) [About the sector - SCVO](#)

⁷¹ OSCR (2024) [OSCR | Sector Overview](#)

⁷² SCVO (2023) [Scottish Third Sector Tracker Waves one to six report](#)

⁷³ SCVO (2024) [Scottish Third Sector Tracker Waves one to eight report](#)

⁷⁴ SCVO (2024) [Scottish third sector tracker: Wave nine report](#)

⁷⁵ SCVO (2024) [Scottish third sector tracker: Wave nine report](#)

(especially from social security) have failed to keep up with these costs.⁷⁶ They are also seeing changes in the types of people they are helping, as the quote from their report below illustrates:

“We’re certainly seeing a change in those that are coming through the door... As well as demand rising, I’ve seen the needs of people becoming more complex and the deprivation seems much more apparent.” Elaine, Food bank Manager at East Lothian Foodbank, in the Trussell network.

4.4.2 Reduced levels of volunteering and donations

The sustainability of third sector services has been affected by reductions in volunteering. Volunteer numbers fell during the pandemic (continuing a gradual downward trend since 2010) and haven’t since recovered (although it is unclear whether this is connected to the cost of living). This fall in volunteering has increased demand on public sources of formal support. A recent report on social capital and community wellbeing in Scotland outlines how volunteering in Scotland has been decreasing over recent years⁷⁷. The latest data from the Scottish Household Survey shows that the proportion of people taking part in formal volunteering, has decreased from 26% in 2019 to 18% in 2022⁷⁸.

The Scottish third sector tracker shows that volunteer shortages is one of the top issues faced by third sector organisations. Recruitment of volunteers has been more challenging than retention, with 62% of organisations reporting a moderate-significant challenge when attempting to recruit volunteers, compared to 38% who reported retention of volunteers as a moderate moderate-significant challenge.⁷⁹

There is also some evidence that there has been a decrease in food and financial donations to food banks over the course of the cost of living crisis which has coincided with a period of increased demand for food banks.^{80,81}

4.4.3 Pressure on third sector budgets

The Scottish third sector tracker shows that organisations’ top two most frequently reported challenges were: rising costs and inflation (49%) and difficulty fundraising (42%). The proportion of third sector organisations reporting financial challenges in their top three challenges has risen steadily. In December 2024, 76% of organisations included at least one financial challenge in their top three challenges, compared with 47% in August 2021 (see figure 10 below). However, the latest third sector tracker report states that “Despite these pressures, many organisations continue to meet the growing demand for their services by adapting services; collaborating with other organisations; and applying for additional funding and fundraising. However, the sector’s reliance on limited financial reserves and the

⁷⁶ Trussell (2024) [Emergency food parcel distribution in Scotland 1 April 2023 to 31 March 2024](#)

⁷⁷ Scottish Government (2024) [Social capital and community wellbeing in Scotland](#).

⁷⁸ Scottish Government (2024) [Volunteering - Scottish Household Survey Statistics, 2023](#)

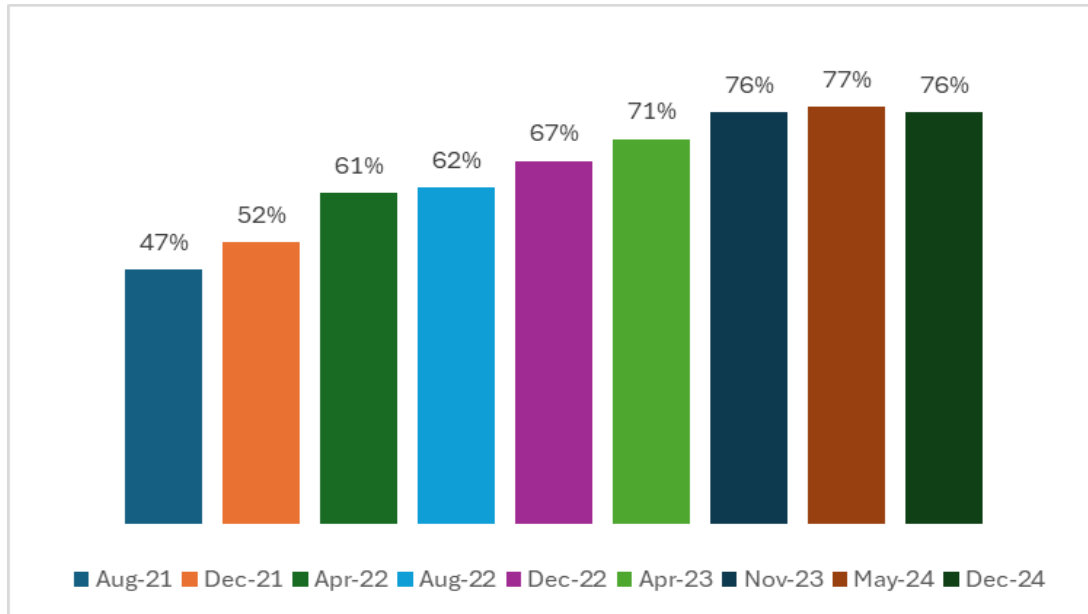
⁷⁹ SCVO (2024) [Scottish third sector tracker: Wave nine report](#)

⁸⁰ IFAN data, in Francis-Devine, B. (2024) [Food Banks in the UK](#). House of Commons Library.

⁸¹ [Trussell](#), end of year statistics (2024), in Francis-Devine, B. (2024) [Food Banks in the UK](#). House of Commons Library.

unsustainable use of those reserves raises concerns about long-term sustainability.”⁸²

Figure 10: Percentage of third sector organisations in Scotland ranking financial challenges among their top three current challenges



Source: SCVO (2024)

⁸² SCVO (2024) [Scottish third sector tracker: Wave nine report](#)

5. Policy responses to the cost of living crisis

5.1 International policy responses

Internationally, governments put a range of different measures and interventions in place to support businesses and households. This section of the report sets out some of these, including energy, food and housing interventions.

5.1.1 Energy interventions

Since the start of the energy crisis in 2021, the majority of European countries have introduced some form of energy regulation, with the exception of Ireland.⁸³ Table 1 below sets out the range of interventions introduced by governments (at a national level) to help households with energy bills. For example, measures such as direct cash transfers to people to support them with energy bills and the broader costs of living. Most of the measures to provide support had been phased out by winter 2023/24.⁸⁴ The UK is included in this table as a point of comparison. See the later section (UK Government policy responses) for further detail.

Table 1: International Energy Bill Support

Country	Intervention					
	Reduced energy tax/VAT	Price regulation -Retail	Price regulation-Wholesale	Transfer to vulnerable groups	Windfall tax	Business support
Germany	✓	✓		✓	✓	✓
Great Britain	✓	✓		✓	✓	✓
Italy	✓	✓		✓	✓	✓
France	✓	✓	✓	✓	✓	✓
Spain	✓	✓	✓	✓	✓	✓
Netherlands	✓	✓		✓	✓	✓
Belgium	✓	✓		✓	✓	✓
Sweden	✓	✓		✓	✓	✓
Ireland	✓			✓	✓	✓
Denmark	✓	✓		✓	✓	✓

Source: National fiscal policy responses to the energy crisis⁸⁵

⁸³ It should be noted that the price of energy in the EU depends on a range of different supply and demand conditions, including the geopolitical situation, the national energy mix, import diversification, network costs, weather conditions or levels of taxation.

⁸⁴ Further analysis on electricity price statistics in the Euro area can be found here: [Electricity price statistics - Statistics Explained](#)

⁸⁵ Bruegel (2023) [National fiscal policy responses to the energy crisis](#)

5.1.2 Food interventions

As the crisis progressed, some governments brought forward measures in response to rapidly rising food prices. Interventions included reducing VAT on staple foods (Spain), negotiating agreements with food manufacturers to reduce prices (France) and distributing debit cards to low income households with credit on them for groceries (Italy).

5.1.3 Housing interventions

Many countries implemented interventions in response to rising rents and mortgage costs. For example, in France rent increases were limited to 3.5% per year for existing tenants, in Luxembourg a temporary rent freeze was introduced and in Poland changes were introduced to allow borrowers to suspend mortgage payments for up to eight months.

5.1.4 UK Government policy responses

The UK Government introduced a series of policies designed to support households with the cost of living. Table 2 summarises the key interventions introduced. The table does not include changes to tax and national insurance or the windfall tax on the profits of energy companies. It also does not include some of the broader support provided to businesses such as the Energy Bill Relief Scheme.

Table 2: UK Government Cost of Living Support for Households

Date	Intervention	Description	Estimated cost
September 2021 to March 2025	Household Support Fund (applied to England but resulted in consequential funding for Scotland).	To help vulnerable households meet daily needs such as food, clothing and utilities. Fund distributed by councils in England. In Scotland the funding was used primarily to support the overall Budget which included specific support for low income households.	£3bn
March 2022 to present	Fuel Duty Cut	A temporary 5p cut to fuel duty was introduced.	N/A
October 2022 to March 2024	Energy Bill Support Scheme	The Scheme provided a £400 grant for all households taken off their energy bills over 6 months, from October 2022.	£12bn
May 2022 to March 2024	Cost of Living Payments	The Payments consisted of a £650 payment (in two instalments) for over 8 million households on means tested benefits (increased to £900 in 2023/4). An additional £300 payment to over 8 million pensioner households who received the Winter Fuel Payment in winters 2022-23 and 2023-24. An additional £150 payment to around 6 million people receiving disability benefits in winters 2022-23 and 2023-24.	£20bn
October 2022 to March 2024	Energy Price Guarantee (EPG)	The EPG capped the unit cost of energy for households. Initially (between October and June 2023) the cap was set at a level equivalent to an annual bill of £2,500. This was then increased to £3,000 between July 2023 and March 2024.	£25bn
April 2023	DWP Benefits updated	Department for Work and Pensions benefits that are linked to inflation were updated by 10.1%	N/A
June 2023 to present	UK Government and lenders agree a Mortgage Charter	The Mortgage Charter is designed to offer some consistent and clear options to people who are struggling with their mortgage repayments.	N/A
April 2024	DWP Benefits updated	Department for Work and Pensions benefits that are linked to inflation were updated by 6.7%	N/A
April 2024	Local Housing Allowance updated	DWP updated Local Housing Allowance to be set it at the 30 th percentile of local rents (following a freeze since April 2020)	N/A

Source: Adapted from House of Commons Library Briefings⁸⁶

⁸⁶ House of Commons Library (2024) [Rising cost of Living in the UK](#) & House of Commons Library (2024) [Cost of Living Payments: Overview and FAQs](#)

5.2 Scottish Government policy responses

The Scottish Government recognised the serious implications of the cost of living crisis. On 11 August 2022 the First Minister convened the Scottish Government Resilience Committee to discuss urgent steps to mitigate the cost of living crisis.

Key actions taken forward by the Scottish Government in response to the cost of living crisis were primarily set out in the 2022/23 Programme for Government and the Emergency Budget Review, and included both funding and legislation. These are summarised below.

5.2.1 2022-23 Programme for Government

The 2022-23 Programme for Government⁸⁷ (PfG) set out a range of additional spend to address the cost of living crisis.

Specific policies announced in the PfG included raising the Scottish Child Payment to £25 per week for eligible children, uprating Social Security Scotland benefits by 6%, doubling the Fuel Insecurity Fund to £20m to help households at risk of self-disconnection or self-rationing of energy, freezing rail fares until March 2023 and widening the Warmer Homes Fuel Poverty Programme.

5.2.2 Cost of Living (Tenant Protection) (Scotland) Act 2022

The Programme for Government also included a commitment to bring in emergency legislation to give tenants increased protection from rent increases and evictions during the cost of living crisis. The Cost of Living (Tenant Protection) (Scotland) Act 2022, passed by the Scottish Parliament in early October 2022, imposed a temporary in-tenancy rent cap and moratorium on the enforcement of evictions (except in a number of specified circumstances), and increased the level of damages for unlawful evictions. Following the expiry of measures on 31 March 2024, the rent adjudication process in the private rented sector has been modified for a period of one year to protect tenants from steep rent increases which may result from a sudden return to open market rent levels.

5.2.3 Emergency Budget Review

On 2 November 2022 the Scottish Government published an Emergency Budget Review⁸⁸ (EBR). The EBR identified funding of around £35 million for a range of initiatives to support people with the increased cost of living including doubling the Scottish Child Bridging Payment to £260 and a new £1.4 million Island Cost Crisis Emergency Fund to help island households manage higher energy costs. The EBR also set out additional savings of £615m to enable enhanced public sector pay offers.

⁸⁷ Scottish Government (2022) [Programme for Government 2022 to 2023](#)

⁸⁸ Scottish Government (2022) [Emergency Budget Review: 2022 to 2023](#)

5.3 Responses to government interventions

The speed at which the cost of living crisis developed meant that Governments were under considerable pressure to introduce significant financial interventions at pace to ease financial stresses on households quickly. These interventions were typically funded through increased government borrowing.

On the whole interventions introduced by the UK Government were broadly progressive (with the possible exception of the Energy Price Guarantee) and welcomed. However, they were also criticised by organisations such as the Resolution Foundation⁸⁹, IPPR⁹⁰ and the Institute for Fiscal Studies (IFS)⁹¹ for failing to take into account individual household circumstances and being insufficiently targeted (e.g. providing support to better off households and not differentiating between households with larger costs).

The House of Commons Work and Pensions Committee, in its November 2023 report, raised concerns about the cliff edge nature of the Cost of Living payments, which creates a “fundamentally unfair” income gap where a person is financially penalised for earning just over the qualifying threshold⁹². In 2022 it was estimated by the Scottish Government that there could be around 10,000 households in Scotland who earn just too much to qualify for Universal Credit⁹³.

Interventions such as the Energy Price Guarantee were also criticised for failing to support longer term measures to reduce energy consumption or support more sustainable sources of energy. Citizens Advice data for England and Wales clearly shows the positive impact of the Cost of Living payments on their clients, particularly with regards to the numbers referred to food banks. However, the impact of these payments was always short-lived, with a temporary drop in numbers followed by a rise the following month.⁹⁴

⁸⁹ Resolution Foundation (2022) [Back on Target: Analysis of the Government's additional cost of living support](#)

⁹⁰ IPPR Scotland (2022) [IPPR Scotland Responds to UK Chancellor's Cost of Living Announcement](#)

⁹¹ IFS (2022) [Response to the Energy Price Guarantee](#)

⁹² House of Commons Work and Pensions Committee (2023) [Cost of living support payments](#)

⁹³ Based on internal Scottish Government analysis

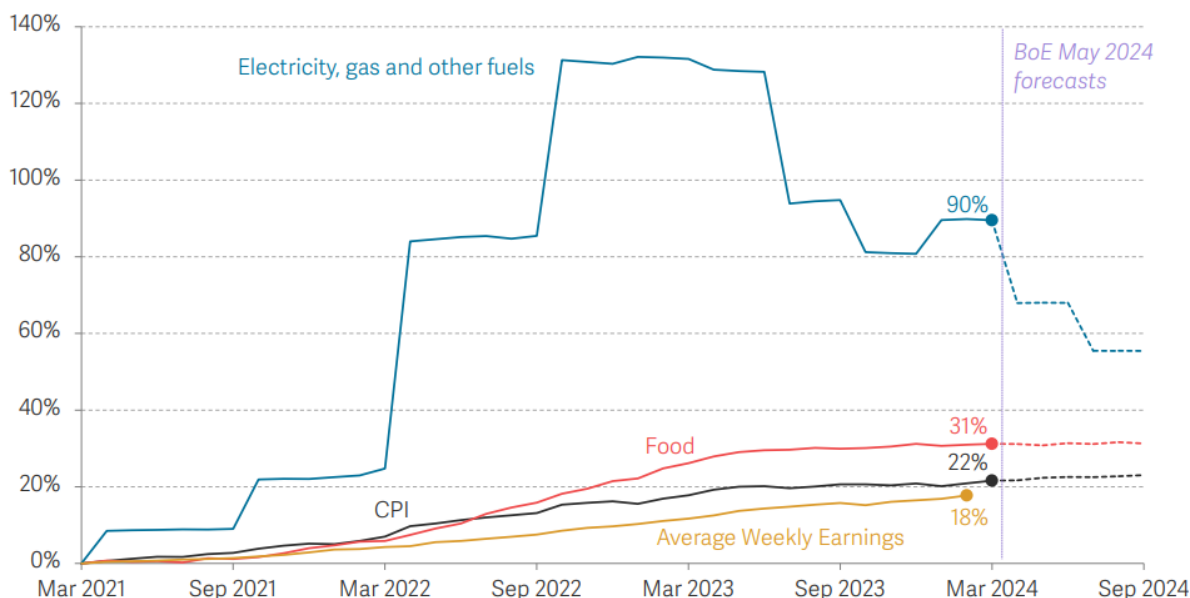
⁹⁴ Citizens Advice (2023) [The November Cost of Living payments gave some relief — but can't fix a deeper problem](#)

6. The enduring legacy of the cost of living crisis in Scotland

While over recent months the rate of inflation has fallen to a level which is closer to the Bank of England’s target rate of 2%, the large increases in inflation over the last three years have effectively been ‘locked in’.

Figure 11 below shows that between March 2021 and March 2024 the cost of electricity, gas and other fuels had increased by 90% (although the energy price cap has subsequently been reduced) and the cost of food had increased by 31%, compared to an average increase in weekly earnings of 18%. As set out in Chapter 3 large rises in these essential components of CPI disproportionately affected certain low income household types.

Figure 11: Change in CPI price level by spending category: UK, March 2021 to March 2024



Source: Resolution Foundation Analysis of ONS Consumer prices and Labour Market statistics; and Bank of England Monetary Policy Report, May 2024⁹⁵

Data from ONS shows that the proportion of adults reporting increases to their cost of living (compared to the previous month) has gradually declined from 80% in October 2022, to 53% in October 2024⁹⁶. Within Scotland, average pay growth has outpaced inflation for the last 18 months meaning that many households will have seen real terms improvements in living standards⁹⁷.

⁹⁵ Resolution Foundation (2024) [Paying the Price: How the inflation surge has reshaped the British Economy](#)

⁹⁶ ONS (2024) [Public opinions and social trends, Great Britain: October 2024](#)

⁹⁷ ONS (2024) [Earnings and employment from Pay As You Earn Real Time Information, UK: December 2024](#)

However, for many people it doesn't feel like things are getting better and there is still a large proportion of the population who are managing less well financially. In Scotland the proportion of people 'managing less well financially' increased from 13% in November 2021 to 18% in January 2022 to 24% in March 2023 and has since reduced to 19% in December 2024⁹⁸. The latest data from the Scottish Government Consumer Sentiment Indicator shows that at the end of 2024 consumer sentiment was weakening reflecting the financial and spending concerns and challenges that continue to face households⁹⁹.

People in Scotland are still concerned about the cost of living. Polling continues to show that the cost of living crisis remains high in the public consciousness and is an issue of significant and continued concern^{100 101}. The Office for National Statistics reported in November 2024 that people felt that the NHS (86%) and the Cost of Living (85%) were the most important issues facing the UK¹⁰². The cost of living was more likely to be reported as important by younger adults, women and those living in most deprived areas.

The crisis has resulted in some potentially longer term effects on people living in Scotland and these changes are discussed in the section below.

6.1 Changing profile of debt

While it is too early to understand the full impact of the cost of living crisis on levels and types of debt in Scotland, steep rises in the cost of living (not matched by rising incomes) have increased the scale of the debt problem by reducing financial resilience and negatively affecting household debt affordability.

In 2024 the Scottish Government published a review summarising evidence on the effects of the cost of living crisis on debt in Scotland¹⁰³. It showed that an increasing proportion of households are struggling to pay bills and pay off debts as a result of cost of living increases. The review drew on evidence from a number of reports published since 2022 which showed increases in the average amount of unsecured debts and arrears owed by Scottish households. Furthermore, the review set out evidence from multiple sources to show that energy debt has increased during the cost of living crisis, as has council tax debt, types of consumer credit and borrowing from friends and family.

Demand for debt advice has increased since the start of the cost of living crisis. For example, data from StepChange shows a 30% rise in the number of clients completing a first full debt advice session between 2021 and 2023.¹⁰⁴ There is data to show that debt advice services, are dealing with increased numbers of clients and

⁹⁸ YouGov (2024) [Public attitudes to cost of living and other topics: tracker - data tables](#)

⁹⁹ Scottish Government (2024) [Scottish Consumer Sentiment Indicator: Monthly Data](#)

¹⁰⁰ YouGov (2024) [Public attitudes to cost of living and other topics: tracker - data tables](#)

¹⁰¹ Diffley Partnership and David Hume Institute (2024) [Understanding Scotland – Economy 2024](#)

¹⁰² ONS (2024) [Public opinions and social trends, Great Britain: November 2024](#)

¹⁰³ Scottish Government (2024) [A review of emerging evidence on the effects of the cost of living crisis on debt in Scotland.](#)

¹⁰⁴ Scottish Government (2024) [A review of emerging evidence on the effects of the cost of living crisis on debt in Scotland.](#)

increasingly complex cases, both of which are adding to pressure on services, creating a backlog of cases and having a detrimental impact on debt advisers.¹⁰⁵ In 2023, the Poverty and Inequality Commission highlighted that:

“Episodes of acute crisis being experienced by clients of advice services is taking its toll on advisers, who, for some clients, are running out of support options to offer. As a consequence the negative impact on staff wellbeing is a huge issue for services”.¹⁰⁶

6.2 Rising levels of food insecurity

The rising cost of food, and the wider effects of the cost of living crisis is likely to have led to higher levels of food insecurity. The Scottish Government tracks food insecurity through the Scottish Health Survey. Results from 2023¹⁰⁷ found that 14% of adults reported experiencing food insecurity, an increase from 9% in 2021 and the highest level since the time series began in 2017. Scottish Health Survey data shows that younger adults were more likely to experience food insecurity than older adults. The results also show that adults who experience food insecurity have below average life satisfaction and much lower mental wellbeing.

The latest polling data for the Scottish Government, from December 2024, found that 15% of Scottish households had cut back on essentials such as food in the last six months to help manage their household finances, rising to 45% of households who were managing less well financially. Although both of these figures have dropped in recent months from highs of 24% in February 2023 (for all households) and 62% (for those managing less well) there is evidence that people are struggling to afford enough food for their household as the quote below illustrates:

“My doctor has told me I need to eat more to put on weight, but I’ve got kids to feed so they have to come first.” (participant on the 2023 Scottish People’s Panel¹⁰⁸)

6.3 Widening inequality and high levels of poverty

Recent research in 2024 by Loughborough University on a Minimum Income Standard¹⁰⁹ for the UK found that for many people in the UK, including many people who are working, there continues to be a gap between what they have and what they need for a decent standard of living.¹¹⁰ The latest report set out that more people are falling well short of a Minimum Income Standard.

¹⁰⁵ Scottish Government (2024) [A review of emerging evidence on the effects of the cost of living crisis on debt in Scotland](#).

¹⁰⁶ Poverty and Inequality Commission (2023) [Cost of Living Briefing](#)

¹⁰⁷ Scottish Government (2024) [The Scottish Health Survey 2023 - volume 1: main report](#)

¹⁰⁸ Scottish Government (2023) [People’s Panel – Cost of Living Research Findings](#)

¹⁰⁹ The Minimum Income Standard (MIS) is the income that people need to reach a minimum socially acceptable standard of living in the UK today, based on what members of the public think.

¹¹⁰ Davis, A. Blackwell, C. Ellis, E. Padley, M. Stone, J. and Balchin, E. (2024) [A Minimum Income Standard for the United Kingdom in 2024](#), York: Joseph Rowntree Foundation. Available at: A Minimum Income Standard for the United Kingdom in 2024 | Joseph Rowntree Foundation (jrf.org.uk)

Analysis conducted by the Joseph Rowntree Foundation as part of their Poverty in Scotland 2023 report¹¹¹ found that just over 10% of workers in Scotland are locked in persistent low-pay (i.e. they are paid below the real Living Wage) and 72% of people within this group are women.

“There has been a shameful increase in the level of destitution in the UK, with a growing number of people struggling to afford to meet their most basic physical needs to stay warm, dry, clean and fed. This has deep and profound impacts on health, mental health and people’s prospects; it also puts strain on already overstretched services”¹¹².

Looking ahead, the 2024 Living Standards Outlook report¹¹³ concludes that the outlook for poverty at the UK level is “bad” based on current policy assumptions and economic forecasts - low-incomes would be likely to fall in real terms and relative poverty would rise, especially for children, over the next UK Parliament.

“Incomes at the bottom of the distribution are projected to fall in each year of the Parliament, as things stand... households at the 10th and 20th income percentiles are set to be poorer in 2029-30 than in 2023-24”.

Largely driven by high energy prices the fuel poverty rate for Scotland has also increased, with an estimated 34% of households (861,000) in fuel poverty in 2023, of which 491,000 (19.4% of all households) are in extreme fuel poverty¹¹⁴. Both these figures reflect an increase from the 2019 estimated rates of 24.6% of households (613,000) in fuel poverty and 12.4% (311,000) in extreme fuel poverty.

6.4 Rises in acquisitive crimes and domestic abuse

Precisely disentangling the impact of the cost of living crisis on crime rates from other factors such as wider economic conditions, the Covid-19 pandemic, changes in population demographics and advances in technology is challenging.

However, there is some emerging evidence in Scotland to suggest that recent growth in overall recorded crime and Crimes of Dishonesty may be the result of cost of living pressures.¹¹⁵ These increases are being driven by a large rise in shoplifting, up by 25% in the year ending September 2024, when compared to the previous year (from 33,789 to 42,271 crimes)¹¹⁶.

Research also suggests that relative falls in the wages of low wage workers increases rates of property crime and violent crime. This finding has present-day relevance given recent real-term falls in wages as a result of the cost crisis. The academic evidence also tells us that increases in inequality and rates of poverty increase the rates of property crime and violent crime. However, it is not yet clear

¹¹¹ JRF(2023) [Poverty in Scotland 2023](#)

¹¹² RF (2023) [Destitution in the UK 2023](#)

¹¹³ Resolution Foundation (2024) [The Living Standards Outlook 2024](#)

¹¹⁴ [Scottish House Condition Survey: 2023 Key Findings - gov.scot](#)

¹¹⁵ Scottish Government (2023) [Cost crisis and crime in Scotland](#)

¹¹⁶ Scottish Government (2024) [Recorded Crime in Scotland: year ending September 2024](#)

how these two economic variables are being affected by the cost crisis and therefore if, and how, they may impact upon crime.¹¹⁷

The cost of living crisis may result in higher instances of domestic abuse with Citizens Advice Scotland reporting in 2023 that demand for advice relating to domestic abuse has increased since the onset of the cost of living crisis¹¹⁸.

6.5 Worsening mental and physical health

The extent to which changes in mental and physical health are directly attributable to the cost of living crisis is difficult to establish. However, polling data¹¹⁹ from Scotland from December 2024 shows that 43% respondents have said that the cost of living has negatively affected their mental health and around a third of respondents have said it has negatively affected their physical health. These figures are considerably higher for people managing less well financially.

At points between May 2023 and March 2024 (May, August, December and March), survey data shows that around 40% of people agreed that food prices are limiting their ability to buy healthy foods for their household and one in seven are sometimes having to skip meals.

Among those managing less well financially, when last asked in March 2024, around seven in ten (71%) agreed that the price of food limits the extent to which they can buy healthy foods for their household currently and two fifths (39%) agreed that the price of food means that they can't buy enough food for the household and they sometimes have to skip meals.

The cost of living crisis has increased the scale of the debt problem in Scotland. Studies on the impacts of different debt types all demonstrate the harmful health effects of problem debt, with evidence of multiple harms associated with consumer credit debt. However, recent evidence shows a particularly strong association between public and priority debt and poor mental health and as set out above both of these debt types have increased over the course of the cost of living crisis¹²⁰.

In September 2024 the Scottish Health Equity Research Unit published a report examining the state of Scotland's health. It described the fact (as had been reported elsewhere) that life expectancy is no longer rising and average living standards have fallen since 2019. Compared to before the pandemic, more people in Scotland are in relative poverty; food insecurity, homelessness and fuel poverty; and the proportion of young adults not participating in work, education or training are all higher¹²¹.

¹¹⁷ Scottish Government (2023) [Cost crisis and crime in Scotland](#)

¹¹⁸ Citizens Advice Scotland (2023) [Monthly data report on advice sought from the Citizens Advice network – September 2023](#)

¹¹⁹ YouGov (2024) [Public attitudes to cost of living and other topics: tracker - data tables](#)

¹²⁰ Scottish Government (2024) [A review of emerging evidence on the effects of the cost of living crisis on debt in Scotland](#).

¹²¹ Scottish Health Equity Research Unit (2024) [2024 Inequality Landscape Health and Socioeconomic Divides in Scotland](#)

6.6 Worn down resilience and pessimism regarding the future

The cost of living crisis follows austerity-related cuts to welfare benefits and public services and the Covid-19 pandemic. These events have all affected the same groups of people and have also reduced the resilience and capacity of public services to respond to people's needs¹²². In December 2024, only 23% of people living in Scotland were confident that there was financial help and support available for people who need it¹²³.

Despite a return to lower levels of inflation, there is ongoing pessimism in Scotland regarding the future. The latest Scottish Government polling showed that in December 2024 just 38% of people felt optimistic about the year ahead. Levels of optimism that things will get better soon have fluctuated over the course of the cost of living crisis (from a low of 27% in June 2022 to a high of 46% in January 2024). However, the figure has remained considerably lower (19% in December 2024) amongst those households saying they are managing less well financially.¹²⁴

¹²² Public Health Scotland (2023) [Mitigating long term impacts of the cost of living crisis](#)

¹²³ YouGov (2024) [Public attitudes to cost of living and other topics: tracker - data tables](#)

¹²⁴ YouGov (2024) [Public attitudes to cost of living and other topics: tracker - data tables](#)

7. Conclusion

Over the course of 2024 inflation has stabilised around the Bank of England's 2% target. The Bank's latest forecast¹²⁵ is for the inflation rate to rise to 2.8% in 2025 before gradually easing back towards 2% in 2027.

Many low income households are likely to continue to struggle as we progress into 2025. Anecdotal evidence from debt advice services suggests that they typically see their highest levels of demand in the first quarter of the calendar year.

Looking ahead, it will be important to continue to monitor the costs of living for different groups. There are significant global geo-political risks that could generate further inflationary pressures, while there also remains uncertainty around the UK fiscal outlook.

Polling shows that the cost of living crisis remains high in the public consciousness and is an issue of significant and continued concern. For many people (particularly low income households) it doesn't feel like things are getting better.

The longer term effects of the cost of living crisis continue to present serious economic and social challenges for Scotland. The crisis has left a legacy of higher household debt, public and third sector services under significant strain, increased inequality and poorer mental and physical health.

The cost of living crisis has affected particular households, services and sectors of the economy very differently and further action will be required to support those people and sectors most negatively affected.

Many of the interventions prioritised during the crisis focused on providing short term and immediate support to households and businesses. It is unlikely that this will be the last cost of living crisis Scotland faces. There is strong evidence regarding how a range of groups have been differentially affected, and this evidence should inform the design and delivery of any future policy responses. Improving Scotland's future resilience should build on existing action to include longer term measures to reduce energy consumption, support more sustainable sources of energy and improve households' financial ability to withstand future economic shocks.

¹²⁵ Bank of England December 2024

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



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This document is also available from our website at www.gov.scot.
ISBN: 978-1-83691-313-9

The Scottish Government
St Andrew's House
Edinburgh
EH1 3DG

Produced for
the Scottish Government
by APS Group Scotland
PPDAS1557894 (02/25)
Published by
the Scottish Government,
February 2025



Social Research series
ISSN 2045-6964
ISBN 978-1-83691-313-9

Web Publication
www.gov.scot/socialresearch

PPDAS1557894 (02/25)