Renfrewshire Council

To: Fairer Renfrewshire Sub-Committee

On: 6th September 2023

Report by: Chief Executive

Heading: Cost-of-living Update

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1. Summary

1.1 This paper provides an overview of key context and evidence around current pressures on household finances, both in terms of household income and expenditure. These regular updates are provided to the Fairer Renfrewshire Sub-Committee to provide a snapshot of recent changes in economic factors, policy and supports, which have a significant effect on the pockets of Renfrewshire residents.

1.2 Since the Fairer Renfrewshire Sub-Committee last met in May 2023, key updates include:

- The rate of inflation is falling, but remains high at 6.8% (July 23), from 7.9% in June.
- The inflation rate for food has reduced, however remains high at 14.9% for the year to July, down from 17.3% in the year to June.
- To help slow price rises, on 3 August the Bank of England increased interest rates to 5.25%, the highest in 15 years and the 14th rise in a row. This has impacted mortgage holders and private renters as well as businesses.
- The Bank of England estimates that around half of mortgages held by owners who live in their properties (4 million) will be exposed to higher rates in 2023 (this includes those on variable rate mortgages as well as those whose fixed rates expire).
- Ofgem announced on 25 August 2023 that the Energy Price Cap, originally introduced by Ofgem in January 2019 to set limits on the underlying rates energy suppliers, will be reduced to £1923 from 1 October 2023. This announcement brings down the typical dual fuel bill to less than £2,000 for the first time since April 2022, however in the winter of 2021, households typically paid £1,277 a year so prices are still much higher.

1.3 In addition, the Trussell Trust has published its ‘Hunger in Scotland’ report and Fair4All Finance published their ‘As one door closes’ report on illegal money lending in June 23 and the Joseph Rowntree Foundation updated their ‘Poverty in Scotland’ survey for Spring 2023 in May. These

reports offer evidence to the reality of the cost-of-living crisis for those with low incomes in Scotland.

2. Recommendations

2.1 It is recommended that members of the Fairer Renfrewshire Sub-Committee:

- Note the content of the report.

3. Background

3.1. At the Fairer Renfrewshire Sub-Committee meeting on 31 May 2023 an overview of key context and evidence around current pressures on household finances, both in terms of household income and expenditure was examined.

3.2. Although since then some pressures have eased slightly, such as the fall in inflation and in fuel costs both for home energy and motor fuels, the management of household finances is still challenging, and increasingly for those with variable rate mortgages. The long-term nature of the crisis means issues around money and debt are enduring, and indications are that more families who have been managing previously may be struggling. This paper gives an update on the current cost of living challenges and impacts for households.

4. Impacts of cost-of-living crisis

Joseph Rowntree Foundation cost of living update May 2023

4.1. On 3 May the Joseph Rowntree Foundation (JRF) published research around Costs of Living in Scotland for Spring 2023, an update to their Summer 2022 survey. This showed that low-income families were feeling less financially secure than they were last year.

4.2. They report that 7 in 10 people in Scotland reported that they had cut back on one or more essential over the last six months. This means that they were cutting back spending on food, heating and for some, skipping meals. This has increased from 65% since they last ran this survey in summer 2022. The proportion of families cutting back was higher, at 8 in 10, in certain types of households: single parents, large families and low-income households.

4.3. The research found that the number of low-income families in arrears had also grown, increasing from just over one in four to nearly 2 in five being behind on one or more bills. In spring 2023, 3 in 20 low-income families were behind on an electric or gas bill, even though their research found nearly two in three of these families were not heating their home as much as needed to try and make ends meet.

4.4. When looking at savings, between summer 2022 and spring 2023, decreasing numbers of low-income families had savings to fall back on. The proportion of low-income households with no savings at all has risen from four in six to over four in five. Low-income families were also without a safety net to cover rising or unexpected bills. Only one in three low-income families (36%) would be able to cover an unexpected bill of £200 with their own money without cutting back on essentials, and nearly one in four (23%) would be unable to pay.

4.5. The report also found that many low-income families have tried to increase their income by applying for benefits or crisis grants. Anecdotal evidence from advice services in Renfrewshire echoes this. Clients are coming forward for benefit checks or claiming benefits to which they have no entitlement in a bid to boost their income.

Trussell Trust 'Hunger in Scotland' Report

4.6. In June 2023, the Trussell Trust published their 'Hunger in Scotland' Report, which indicates that 17% of all Scottish adults or their households had experienced food insecurity in the 12 months to mid-2022, which is approximately 1.2m people.

4.7. Their findings show that certain groups are significantly over-represented in the proportions experiencing food insecurity and using food banks, with two thirds of people referred to Trussell Trust foodbanks being disabled and families with children being over-represented in referrals. Working age adults, especially those who live alone and who aren't working are also more likely to be referred.

Renfrewshire Foodbank

4.8. The number of people using the Renfrewshire Foodbank has increased over the last year, with an almost 18% increase in vouchers being issued in 22/23 compared with the previous year at 5,288 compared to 4,486. 'Low income' was the number one reason for voucher issue, with 3,839 vouchers issued this year, as compared to 3,033 last, which is an increase of over 25%. In 2022/23 6,672 adults received assistance and 2,909 children in comparison with 5,469 and 2,264 last year.

4.9. In 2023/24, the Foodbank changed its reporting system, with one of the changes being they are now collecting information on repeat vouchers. In the first quarter, where 3 vouchers had been given over the last 6 months, 'low income' was cited in 168 cases, again the category under which most vouchers were issued, with 'debt' being the reason in 50 cases.

4.10. This most recent data also showed 488 vouchers issued due to 'Rising costs of essentials'. In terms of Foodbank vouchers by ward, 'Houston, Crosslee and Linwood' and 'Erskine and Inchinnan' areas showed an increase in vouchers issued in Q1 2023/24 in comparison to the same quarter last year. All other wards showed a reduction. Whilst this is too early to define as a definitive trend it could suggest people in less deprived areas may be increasingly needing support to combat cost-of-living pressures.

Fair4All Finance, 'As One Door Closes' Report

4.11. Citing the Joseph Rowntree Foundation which recently reported 2.8 million low income households having been declined lending between May 2021 and May 2023, Fair4AllFinance highlight the lack of available credit for lower income households with their research suggesting that illegal lenders are flourishing in the credit vacuum left by the departure of high cost yet regulated lenders. The unintended consequence is that millions of people who can afford to repay a fair loan are left with fewer safe options and are turning to illegal lenders, or ‘Loan Sharks’.

4.12. In their ‘As One Door Closes’ report, Fair4All Finance report that new research by IPSOS suggests more than 3 million people have borrowed from an unlicensed or unauthorised money lender in the last three years. As subprime, but legal lenders, such as Provident and Wonga have left the market, those with low incomes have fewer options to borrow legally and the opportunities for illegal lending have grown. The survey also indicates that those who have been turned down for credit are more likely to borrow from illegal lenders.

4.13. The research also indicates a change in the client demographic of those being lent to by illegal money lenders. It now appears that illegal lenders increasingly don’t need to target people such as those with income exclusively from benefits as instead employed, waged clients may be seeking them out to meet their credit needs. Research found in the current client group higher income levels above £20,000 and a greater likelihood of being employed (full time or part time).

Debt

4.14. For those who can borrow legally, JRF reports that that millions of families are borrowing to cover basic bills and expenses with 2.3 million low-income families having reported taking out loans or using credit to pay essential bills during the cost-of-living crisis. Nearly 6 million low-income families have unsecured debt, such as credit cards, overdrafts and personal loans from banks, credit unions and payday lenders. In May this year, they owed £14.2bn in total. Interest on this debt was £3.9bn, equivalent to about £675 a year per family.

4.15. JRF report that using credit to pay bills, however, is not preventing households from falling behind with payments. Three-quarters reported arrears with at least one household bill or lending commitment, with 44% in arrears with three or more bills and StepChange report that in Q1 of 23/24, nearly a third of their new clients attributed their debt problems to the cost-of-living crisis.

4.16. The ONS have reported that the Direct Debit failure rate has increased by 22% in July 23 when compared with July 22. Electricity and Gas payments are most defaulted, having increased fivefold since its lowest point in February 2019, with the mortgage Direct Debit failure rate now almost tripled since June 2020.

Age Scotland Housing Survey 2023

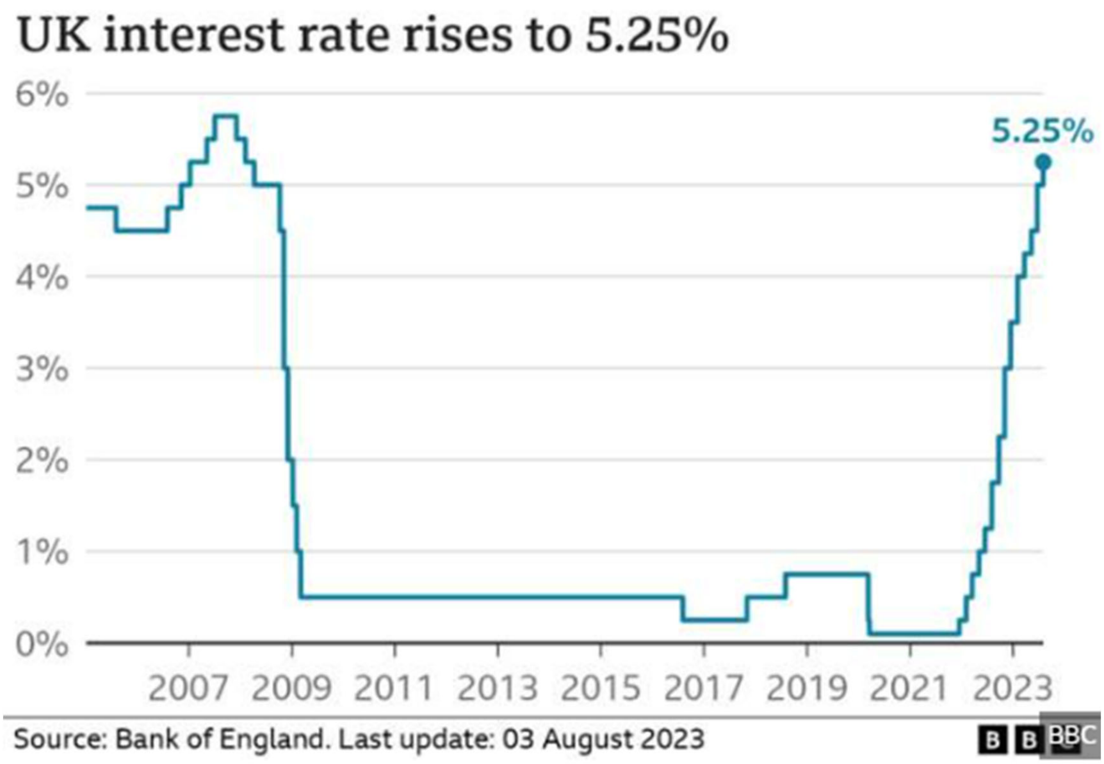
4.17. Age Scotland carried out a survey of over 1,100 residents of Scotland aged 50+ on their views on their current housing situation. The survey identified that 39% of over 65s are living in fuel poverty in 2023, compared to the last available set of Scottish Government figures for 2021 (19%).

4.18. The research also highlighted that more than 4 in 10 people over the age of 50 (43%) live in fuel poverty, but it is most prevalent among those of people between the age of 55 and 64 with 50% of these households affected.

4.19. The survey found that although awareness of energy efficiency programmes had risen in the past 12 months, the numbers of older people accessing the support remains low, with just 10% of older households using Home Energy Scotland or Warmer Homes Scotland and only 3% had used a local authority-based scheme.

5. Housing costs

5.1. On 3 August 2023, mortgage interest rates increased for the 14th time in a row since December 2021 and reached 5.25%, the highest rate in 15 years. The Bank of England is increasing interest rates in a bid to curb inflation, and the Bank's Governor has indicated that rates may rise again to get inflation back to the 2% target. Financial markets now predict that UK interest rates will reach 6% by the end of 2023.



5.2. The Bank of England estimates that around half of mortgages held by owners who live in their properties (4 million) will be exposed to higher rates in 2023 (this includes those on variable rate mortgages as well as those whose fixed rates expire).

5.3. For those on a Fixed-Rate Mortgage, the mortgage rate and monthly repayments will stay the same until the fixed term ends, and then the mortgage lender's standard variable rate (SVR), which is guided by the Bank of England base rate, will apply. Due to the increase in interest rates, most people at the end of their fixed term deal have had to pay a substantially increased monthly amount and this will continue to happen until interest rates reduce. In June, the banking industry trade body, UK Finance, reported that 2.4 million fixed-rate homeowner deals in the UK will expire between then and the end of 2024, with 800,000 of these deals ending in 2023.

5.4. For those already paying the SVR on their mortgage or who have a tracked mortgage directly linked to the Bank of England base rate, mortgage payments have risen as the base rate has risen. Compare the Market estimate a rise from 2% to 6% for someone with a £100,000 mortgage equates to an increase of £220 per month.

Mortgage balance	2% mortgage rate	4% mortgage rate	6% mortgage rate
	Monthly repayment on a 25-year mortgage term		
£100,000	£424	£528	£644
£200,000	£848	£1,055	£1,289
£300,000	£1,272	£1,583	£1,933
£400,000	£1,696	£2,110	£2,578

5.5. In the survey carried out by the ONS 12 to 23 July 2023, among those paying rent or a mortgage, 45% reported that their payments had gone up in the last 6 months and 40% reported finding it very or somewhat difficult affording these payments; this has increased from around 3 in 10 (31%) in July 2022. The ONS have also reported that the UK average monthly transaction amount for mortgages has increased by £148 – from £718 in December 2021 to £866 in July 2023. This is an increase of 21% since the first Bank of England interest rate increase.

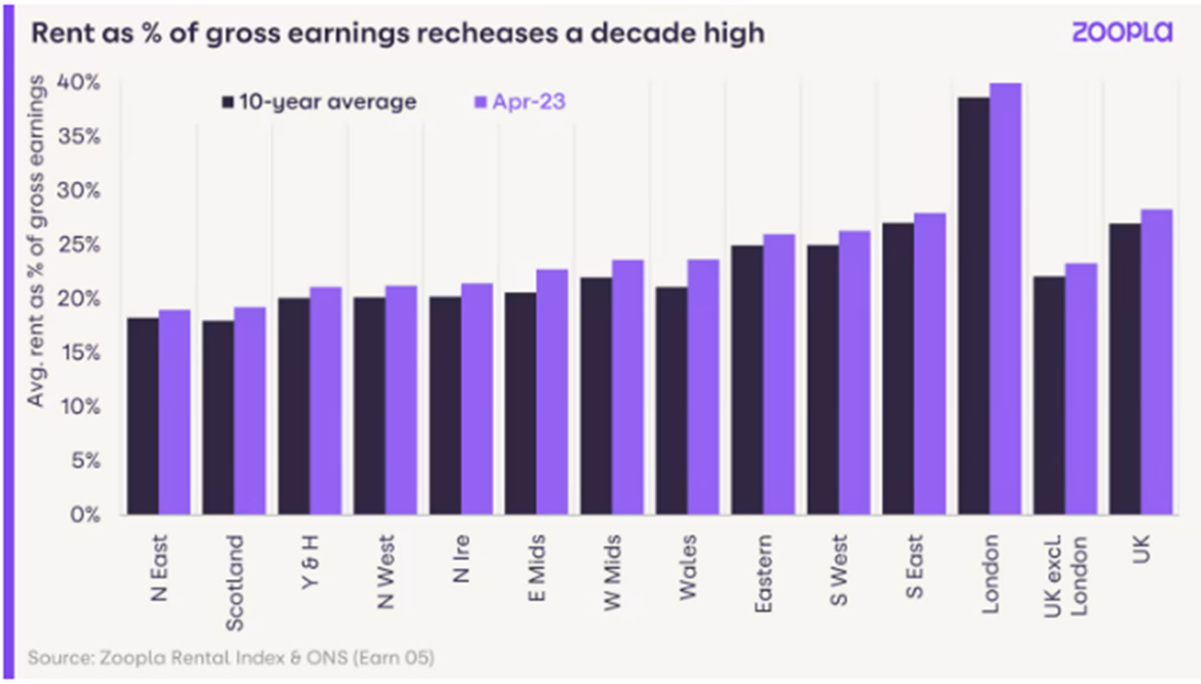
5.6. The Resolution Foundation predicts that the average rate for a two-year fixed rate mortgage will rise to 6.25% this year and will not decrease below 4.5% until the end of 2027. Research by Citizens Advice indicates that more than a quarter of current mortgage holders wouldn't be able to afford their monthly repayments if they increased by £100 a month and nearly half (45%) would be unable to make their payments if they rose by £250 a month.

5.7. StepChange Scotland has reported an increase in the number of its clients who are behind on their mortgage payments, with one in five (19%) mortgaged clients in mortgage arrears in the second quarter of this year, up from almost one in seven (15%) in the second quarter of 2022. The charity also reported a year-on-year rise in the proportion of its clients with mortgages, up from 13% to 15%.

5.8. Another issue caused by higher interest rates is that some landlords are leaving the market as they are paying more for their mortgages, and therefore making less profit from their tenants. For others, they are seeking to pass their increases in mortgage costs to their tenants. In Scotland, as reported to the Sub-Committee previously, the Cost of Living (Tenant Protection) (Scotland) Act 2022 sets a 'permitted rate' of increase to 3% for private rented sector tenancies. This applies from 1 April 2023 until at least 30 September 2023 and the Scottish Government intends to extend the rent cap until 31 March 2024. While mortgages may be going up, the landlord cannot pass this increase onto existing tenants.

5.9. The cap, however, does not apply to new tenancies, or changes in joint tenancies, and for new tenants renting a property for the first time, the ONS found that private rental prices in Scotland had increased on average 5.1% for the year to March 2023. Living Rent have reported hearing from members who have been hit with huge rent hikes due to the cap not applying to changes in joint tenancies. They have found that when one tenant leaves a tenancy, landlords hike up rents for the remaining tenants due to it being a new tenancy agreement.

5.10. Zoopla data on private rents shows these have been growing faster than wages for nearly two years with affordability of renting at its worst for a decade. This includes in data for Scotland, with rents in Glasgow (as the nearest example given to Renfrewshire) over the last year growing faster than the UK average. The pressure of rising mortgage rates faced by landlords, as well as higher demand for properties than the number made available, have combined to raise the costs for tenants. According to Zoopla, there are 20% to 40% fewer properties to rent in most regions than there were before the pandemic. In addition, rent as a percentage of earnings has risen across the country. It is likely that the higher interest rates will continue to feed into higher rents, disproportionately impacting low-income families and young people.



5.11. According to the Institute for Fiscal Studies, private rents will become increasingly unaffordable for those on low incomes if benefit freezes are maintained. The Local Housing Allowance (LHA) rates, which determine the maximum housing benefit available, were last raised in March 2020. At that time, around 23% of rental properties listed on Zoopla were affordable (ie. fully covered by housing benefits) for individuals receiving housing benefits. However, since then, the LHA rates have remained unchanged in monetary terms, while the rents for new rental properties have increased by more than 20% on average. The UK Government has confirmed that LHA would remain frozen for 2023/24.

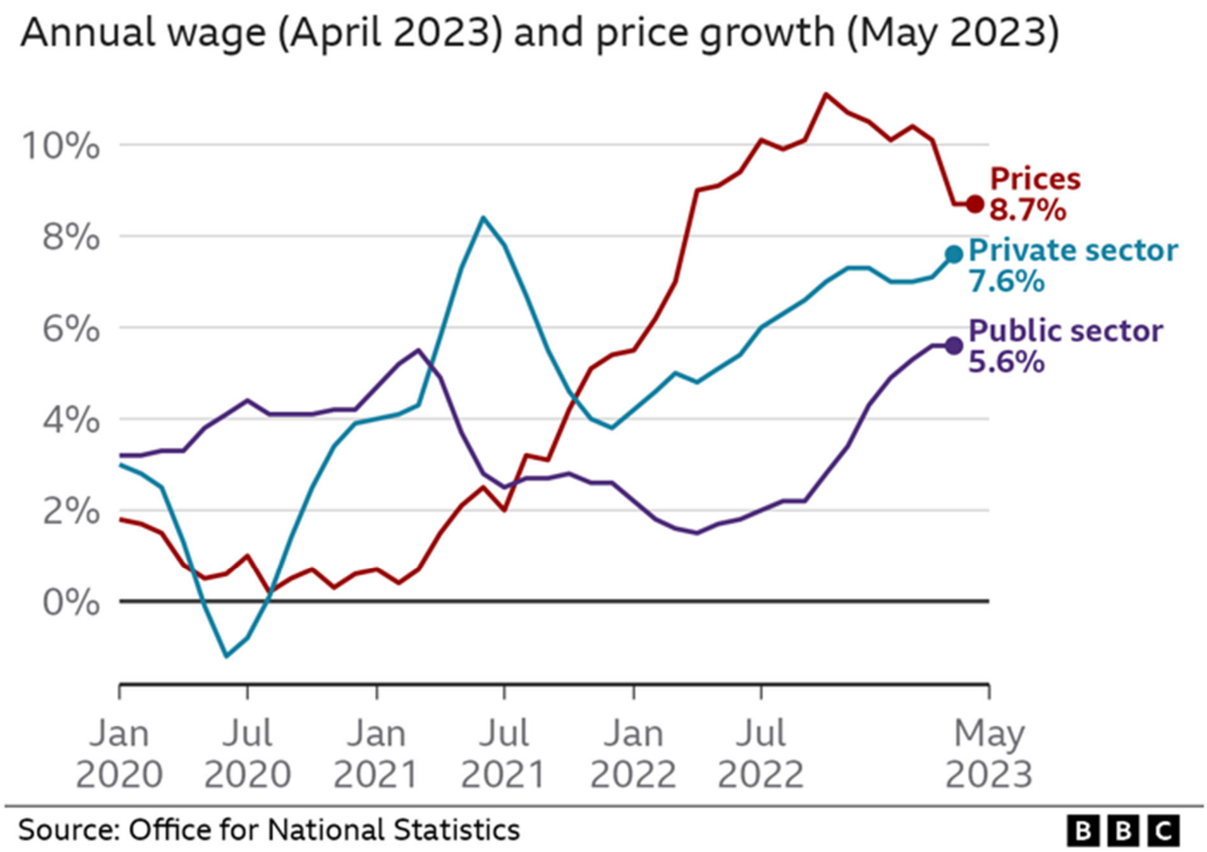
5.12. Consequently, in the first quarter of 2023, only 5% of private rental properties were affordable for individuals relying on housing benefits. This decline in affordability has been observed throughout the country.

6. Employment and Wages

6.1. The latest labour force survey indicates that the estimated employment rate in Scotland was 74.6%, down 1.8% over the quarter to April 2023, and slightly (0.7%) below pre-pandemic levels. The estimated economic inactivity rate (the proportion of people aged 16 to 64 years who were not working and not seeking or available to work) was in Scotland was 22.9 per cent, up 1.3 percentage points since pre-pandemic and up 1.9 percentage points over the quarter.

6.2. PAYE information from HM Revenue and Customs shows that the percentage of payrolled employees in the Renfrewshire, East Renfrewshire and Inverclyde areas is 1% higher than the same time last year. The 35 to 49 age group has seen the greatest increase in payrolled employees within the last year and also receiving the highest pay, with the median pay for this age group at £2,616 per month, median pay is £414 for those under 18 and £1,605 for those aged 18 to 24.

6.3. For many people, pay isn't keeping up with rising prices. The average weekly salary in the UK excluding bonuses, was £603 in April, up from £598 in March, according to the ONS, however when you take inflation into account, regular pay actually fell by 1.3% in the three months to April, compared with the same period the year before.



7. Inflation

7.1. UK inflation as measured by the Consumer Prices Index (CPI) is currently standing at 6.8%, down from 7.9% in June. The ONS have found it's not a consistent picture across the board, for example, motor fuel is reducing in price and second-hand cars rising in price, food and non-alcoholic beverage inflation rates are remaining high.

7.2. Food prices rose by 14.9% in the year to July, down from 17.3% in the year to June. The fall was driven by falls in the price of gas and electricity, as well as an easing in food price inflation. Analysts predict, however, that the increase in service sector inflation coupled with strong wage growth means that the Bank of England are likely to increase the interest rates by another 0.25 percentage points in September.

7.3. Over the two years from June 2021 to June 2023, food prices rose by 28.8%. It previously took over 13 years, from March 2008 to June 2021, for average food prices to rise by the same amount. The ONS reports that according to their latest opinion and lifestyle survey collected between 12 and 23 July 2023, close to half of adults (47%) in Great Britain are buying less food when shopping. This survey also showed that of those who said their cost of living had risen in the previous month, 97% said a rise in the cost of food shopping was the reason.

7.4. The Bank of England has warned that food inflation is unlikely to fall below 10% by the end of the year as farmers, distributors and food manufacturers costs are continuing to rise at a fast pace. The cool, wet summer has also affected UK crops such as wheat and potatoes, which may affect prices.

8. Fuel

Energy support for households

8.1. Although support with energy bills will continue until at least March 2024, this has been scaled back. The price cap applies to most households, and sets the maximum amount that suppliers can charge for a unit of energy. Ofgem announced on 25 August 2023 that the Energy Price Cap, originally introduced by Ofgem in January 2019 to set limits on the underlying rates energy suppliers, will be reduced to £1923 from 1 October 2023. This announcement brings down the typical dual fuel bill to less than £2,000 for the first time since April 2022, however in the winter of 2021, households typically paid £1,277 a year so prices are still much higher.

8.2. As previously reported to the Committee, the UK Government has also announced that they will not be extending the £400 payment paid to all homes in winter 2022/23. Instead, support will be provided only for those in particular circumstances:

- £900 to households in receipt of means tested benefits, such as Universal Credit and Child Tax Credits. This will be paid in three instalments: £301 was paid in April/May 2023, £300 in autumn 2023 and £299 in spring 2024.

- A one-off payment of £300 for pensioner households in winter 2023/24.
- An additional £150 for those on disability benefits, such as Attendance Allowance and Scottish Disability Benefits which was paid at the end of June 2023. This can be paid on top of either of the other payments where appropriate.

8.3. This means that those who have low incomes, but are not in any of the categories above will receive no extra support to pay fuel bills on top of the Energy Cap and National Energy Action have estimated that around 6.5m households will remain in fuel poverty, despite the lower energy rates.

8.4. The number of fixed energy tariffs available to consumers is increasing, throughout the first few months of the year there were only five fixed tariffs available to small sections of the market, but in July alone that number doubled.

Motoring costs

8.5. The ONS have found that overall, motor fuel prices fell by 13.1% in the year to May 2023, compared with a fall of 8.9% in April. Average petrol and diesel prices stood at 144.4 and 154.6 pence per litre respectively in May 2023, compared with 165.9 and 179.7 pence per litre in May 2022. Petrol prices fell by 1.4 pence per litre between April and May 2023, compared with a rise of 4.1 pence per litre between the same two months a year ago. Similarly, diesel prices fell by 7.8 pence per litre this year, compared with a rise of 3.6 pence per litre a year ago. This reduction in motor fuel prices has been one of the largest contributors to the falling inflation rate.

8.6. Car insurance costs have risen, with an analysis of 28 million policies showing the average premium in the three months to the end of June was £511, 21% higher than this time last year. The Association of British Insurers have pointed to higher costs for repairs and replacement parts as driving the increase.

Implications of the Report

1. **Financial** – There are no financial implications associated with this report, which provides an overview of the position and is for noting.

2. **HR & Organisational Development** – none

3. **Community/Council Planning –** This report provides a detailed summary of the current evidence relating to household income and expenditure. Wider poverty related issues are a key element of both the Council and Community Plan and the information included within this report is part of the wider Strategic Needs Assessment for these plans.

4. **Legal** - none

5. **Property/Assets** - none

6. **Information Technology** - none

7. **Equality and Human Rights –** The report provides an overview of the position around household income and expenditure, and is for noting. As such there are no impacts arising from the recommendation of this paper. It is however important to note that impacts on households explored within this paper are likely to be disproportionately felt by equality groups.

8. **Health and Safety -** none

9. **Procurement** – none

10. **Risk** – none

11. **Privacy Impact** – none

12. **COSLA Policy Position** – none

13. **Climate Risk** – none

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