
To: Fairer Renfrewshire Sub-Committee

On: 31 January 2024

Report by: Chief Executive

Heading: Cost-of-living Update

1. Summary

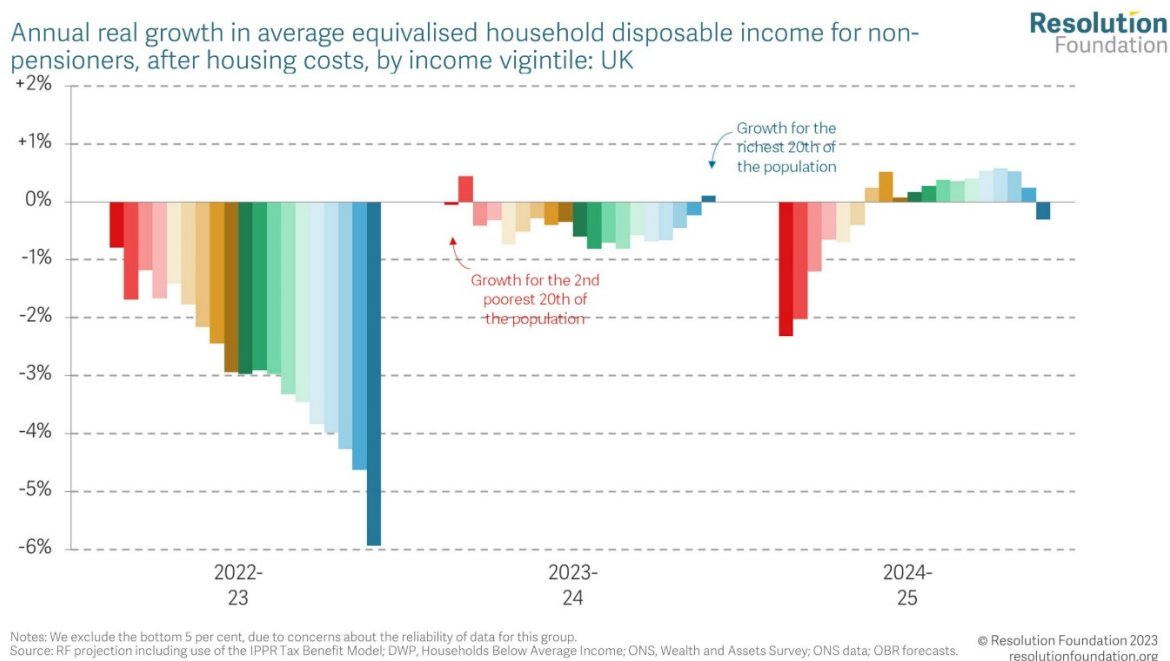
- 1.1 At each of the Fairer Renfrewshire Sub-Committee meetings, an overview of key context and evidence around current pressures on household finances, both in terms of household income and expenditure has been provided to members.
- 1.2 Since the last meeting of the Sub-Committee on 15 November 2023, there have been a number of changes in economic factors including an increase in the Energy Price Cap from 1 January 2024, meaning households will pay more for their energy use. Inflation and interest rates remain high. Elected members are asked to note that:
- The rate of inflation is now 4% (Dec 23), rising unexpectedly from November's 3.9% rate and is still above the 2% target set by the Bank of England.
 - The inflation rate for food has fallen again; now 8%. This is the lowest rate since May 2022.
 - The Bank of England has kept the interest rate unchanged at 5.25% as of 13 December 2023, which is the highest rate in 15 years. The next review will be on the 1st February 2024.
 - The Energy Price Cap, originally introduced by Ofgem in January 2019 to set limits on the underlying rates energy suppliers, is now set at £1,928 from the 1 January until 31 March 2024. This means households who use gas and electricity and pay by direct debit will pay on average, £1,928, which is an increase from £1,834 the previous quarter.
- 1.3 This paper provides an overview of information collated by officers at both a national and local level where available.

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 15 November 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 there have been some reductions in financial pressures, such as the recent fall in inflation and improvements in real wage growth, stubbornly high food and energy costs are continuing to significantly affect living standards with those on lower incomes disproportionately affected.
- 3.3 The Resolution Foundation is projecting zero real growth for the median non-pensioner household income over the next 3 years. For low-income households, it is projected that an extra 300,000 people will face absolute poverty next year across the UK, an overall rise of 3%. This analysis also shows that proportion of children living in absolute poverty is projected to rise the highest.



- 3.4 It is anticipated that housing costs will represent one of the most significant pressures on the cost-of-living in 2024. As 1.5 million mortgagors see increases to their mortgage bills of an average of £1,800 it will be mortgagors who will feel the biggest hits, but there will be significant associated impacts for many renters too.

4 Impacts of cost-of-living crisis

Living costs

4.1 The latest insights into the cost of living from the Office of National Statistics in December found:

- Around 3 in 10 (28%) adults reported being worried (very or somewhat) about being able to afford the things they planned to do this Christmas period
- the most reported actions were spending less on Christmas food or presents (46%), buying Christmas food or presents earlier to spread the cost (39%), and using personal savings to buy Christmas food or presents (29%).
- Around 1 in 5 (20%) adults reported being occasionally, hardly ever or never able to keep comfortably warm in their home (13% occasionally, 5% hardly ever and 2% never)
- Around half (48%) of adults reported using less fuel such as gas or electricity in their home because of increases in the cost of living
- Around 2 in 5 (41%) adults reported finding it very or somewhat difficult to afford their energy bills; this has decreased from 47% in a similar period a year ago (7 to 18 December 2022).
- Over half (52%) reported their costs of living had increased compared to a month ago, with food and energy costs being the most cited source of the increase.

Christmas Debt

4.2 Debt charity StepChange estimated that 2.6 million UK adults used credit to pay for essential household bills in the three months to December 2023. Nearly half of those with existing debt faced difficulty keeping up with household bills and credit commitments. The Joseph Rowntree Foundation, said a third of those it surveyed still had loans to pay off, prior to the Christmas period, which had originally been taken out to cover the costs of food, housing costs, energy bills or council tax.

4.3 A YouGov poll of more than 2,000 adults also found that an estimated 8% of the population - around four million people - will be relying on credit to cover their costs over the festive period. Typically, money advice providers have more queries in at the start of the year when Christmas bills for those who have used credit need to be paid. The period January – March 2023 was the busiest quarter ever for customer enquiries for Renfrewshire Citizens Advice Bureau and was also the busiest of the year for advice provision by Advice Works.

Buy Now Pay Later

4.4 Concerns have been raised about Buy Now Pay Later (BNPL) options such as Klarna. Research by Citizens Advice found that 28% of adults in the UK were likely to use BNPL to pay for festive spending. The figure rose to 56% of parents with primary school aged children. They also found that those unable to cover the costs of their essentials, such as groceries and bills, are more likely to have been a regular user of BNPL in the last 12 months. In the context of the ongoing cost-of-living crisis, the charity's analysis found 11%

of BNPL users used the product to pay for groceries. This figure jumps to 35% for people who regularly use BNPL.

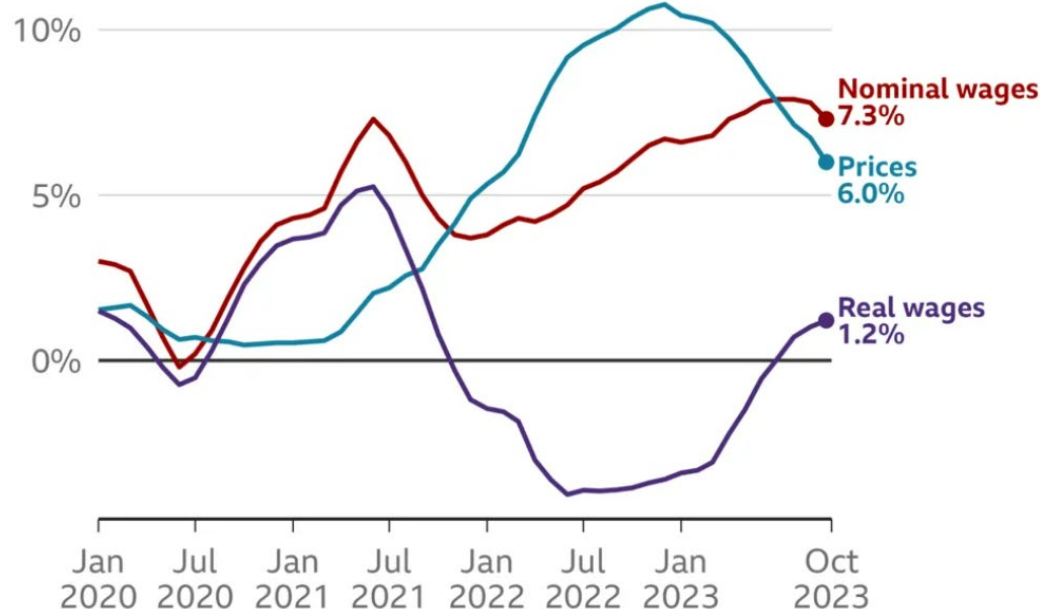
- 4.5 Citizens Advice has raised concerns as one in five (21%) BNPL users have missed or made a late BNPL payment in the last twelve months, and almost a third (29%) of BNPL users who were due to make a payment in the last month borrowed money to repay their instalments, meaning their initial debt is only leading to more debt.
- 4.6 Currently BNPL products and services are not regulated under the Financial Conduct Authority, who state that *'while BNPL products can provide a useful way to spread the cost of a purchase for some people, it's important that consumers are aware that many BNPL products remain unregulated. This means that firms, even if they are regulated by us for some of the products and services they offer, are not required to ensure that exempt BNPL products meet our rules, such as checking that a customer can afford to repay the loan.'* These customers also have fewer rights and protections, for example, they are unable to bring a complaint to the Financial Ombudsman Service if something goes wrong.

5 Employment and Wages

- 5.1 The ONS has reported that on average regular pay excluding bonuses rose by 7.3% in the three months to October, compared with the same period a year earlier. That was a slight fall from the 7.7% increase seen in the previous quarter. Although earnings were not rising as quickly as they had been before, they were outpacing inflation, so wages were growing in real terms.

Wage growth outpaces inflation

Annual pay and price rates, August-October average



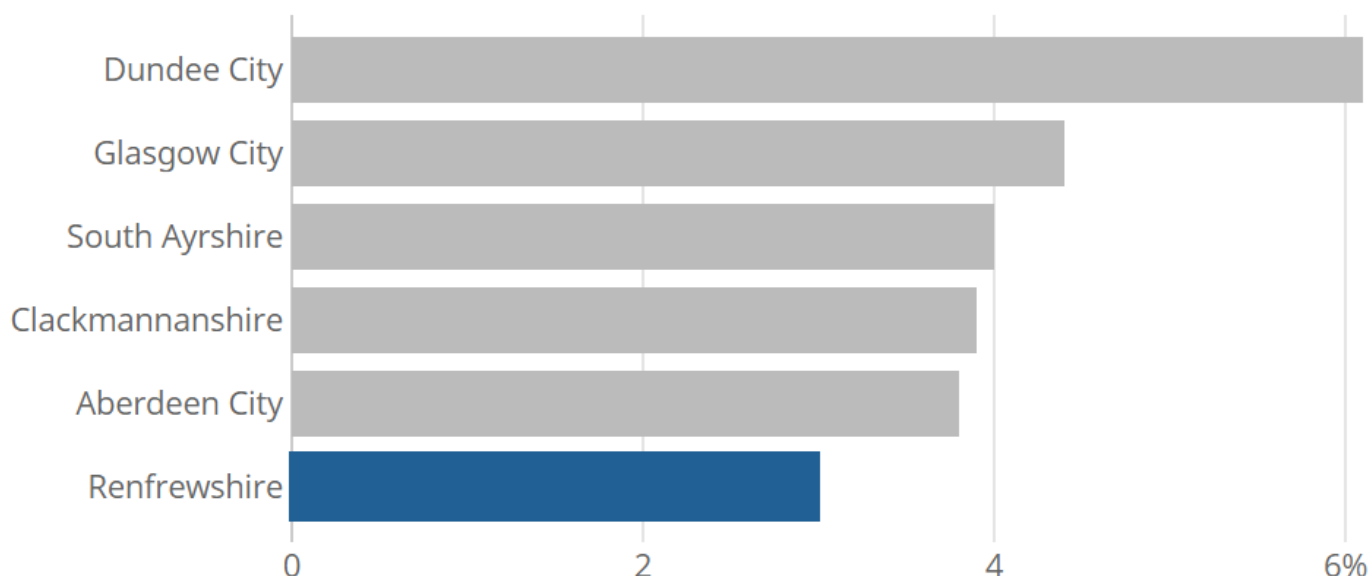
Source: Office for National Statistics

BBC

- 5.2 According to the ONS, the Claimant Count for those claiming unemployment-related benefits remained similar in September 23 compared with the previous year at 3.1%. This equates to 3550 people aged between 16 and 64. This is a slight reduction in the previous figure reported for July 2023, which was 3.3%.
- 5.3 Around 2,700 people aged 16 and over in Renfrewshire were unemployed in the year ending June 2023. This is a rate of 3.0%. This was a decrease compared with the year ending June 2022 when the unemployment rate was 3.3%. Unemployed people are those without jobs who are actively seeking work and available to take up a job.
- 5.4 Across Scotland, from the year ending June 2022 to the year ending June 2023, there was a slight decrease in the unemployment rate from 3.4% to 3.2%.

Highest unemployment rates (%) of areas in Scotland, with Renfrewshire for comparison

Among those aged 16 and over and active in the labour market, year ending June 2023



Source: Model-based estimates of unemployment from the Office for National Statistics

6 Benefits

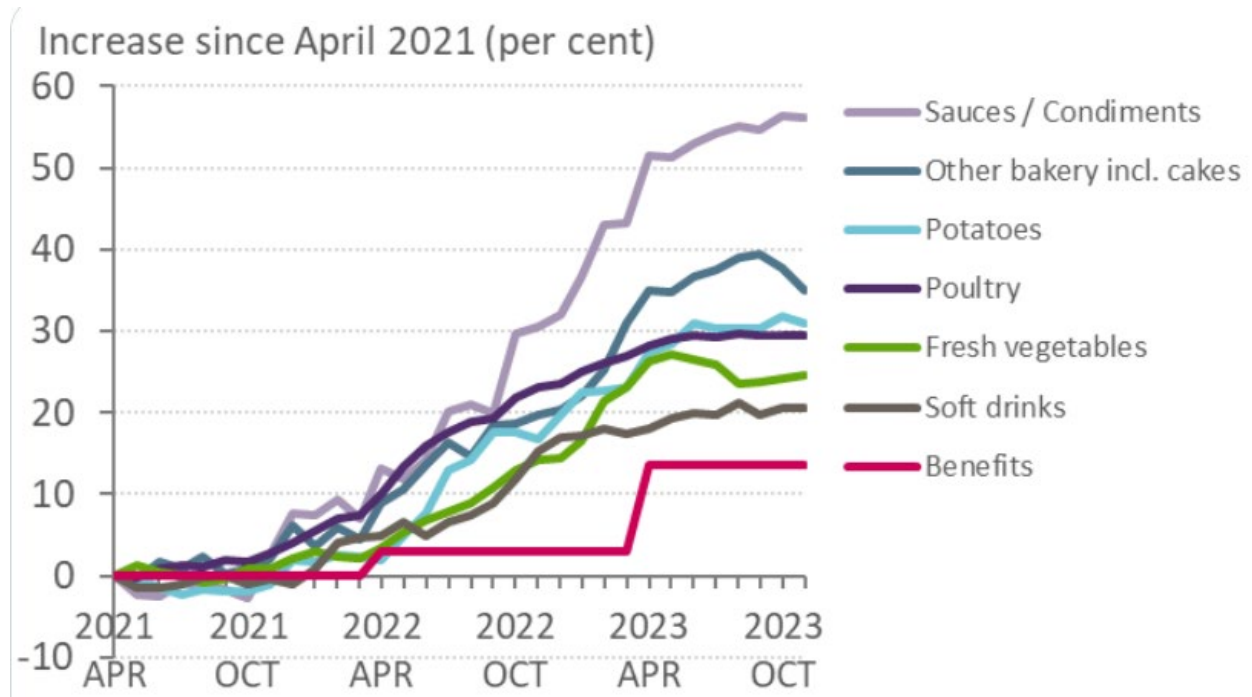
- 6.1 On 19 December 2023, the Deputy First Minister announced that all Scottish benefits would be uprated by the rate of inflation at September 23, an increase of 6.7%. This increase takes place in April, and includes the Scottish Child Payment which will rise from £25 to £26.70 per eligible child.
- 6.2 UK benefits will also rise by 6.7% from April 2024 excluding the basic and new State Pension which will be uprated in line with earnings and rise by 8.5%. Some examples of benefit rate increases are:

Benefit	Current rate	April 24 rate	Increase
Child Benefit (2 Children) (weekly)	£39.90	£42.55	£2.65
Full Basic State Pension (weekly)	£156.20	£169.50	£13.30
Universal credit (single aged 25+) (monthly)	£368.74	£393.45	£24.71
Universal credit (couple, one aged 25+, 2 children) (monthly)	£1117.98	£1193.44	£75.46
Scottish Child Payment (weekly)	£25	£26.70	£1.70

7 Inflation

- 7.1 UK inflation as measured by the Consumer Prices Index (CPI) is currently standing at 4%, having risen slightly in December from the November 2023 figure and the first time it has risen since February 2023. The largest upward contribution was from alcohol and tobacco, and the largest downward contribution was from food and non-alcoholic beverages.
- 7.2 In November 2023 it was 3.9% which was the lowest annual rate of price rises in more than two years. A major factor in the reduction was a fall in average prices for both petrol and diesel. The ONS states in November 2023, the average price of petrol stood at 151p per litre, down from 163.6p per litre in the same month last year. Diesel prices have also reduced with the November 23 average price at 159p per litre, down from 187.9p in November 2022.
- 7.3 Inflation is now well below its peak in 2022, but it is still almost double the Bank of England's 2% target. The OBR forecasts that inflation will remain higher for longer, not easing to the Bank of England's target of 2% until 2025 – a year later than forecast in 2023.
- 7.4 The reduction is not consistent across all categories. The inflation rate for food and non-alcoholic drink has reduced to 8% from a recent high of 19.2% in March 2023, the highest annual rate seen for over 45 years. The December 2023 rate is the lowest since May 2022.
- 7.5 Although the rate at which food prices are rising has slowed, they remain high. The overall price of food and non-alcoholic beverages rose around 27% between November 2021 and November 2023. In the 10 years prior to this, overall food and non-alcoholic beverage prices rose by 9%. Prices in restaurants and cafes rose by 8.2% in the year to November 2023, down from 8.8% in October.
- 7.6 Despite easing inflation, more than 4 in 10 (41%) adults in Great Britain say they have spent more than usual to get what they normally buy when food shopping in an ONS survey which took place between 29 November and 10 December 2023. The survey also revealed that around half (46%) of adults said they were buying less food when shopping in the last two weeks.
- 7.7 Rising food costs was the most commonly reported reason among the 52% of adults who said their cost of living had risen compared with a month ago. Of those, 91% said one of the reasons for their rising costs was higher food shopping prices.

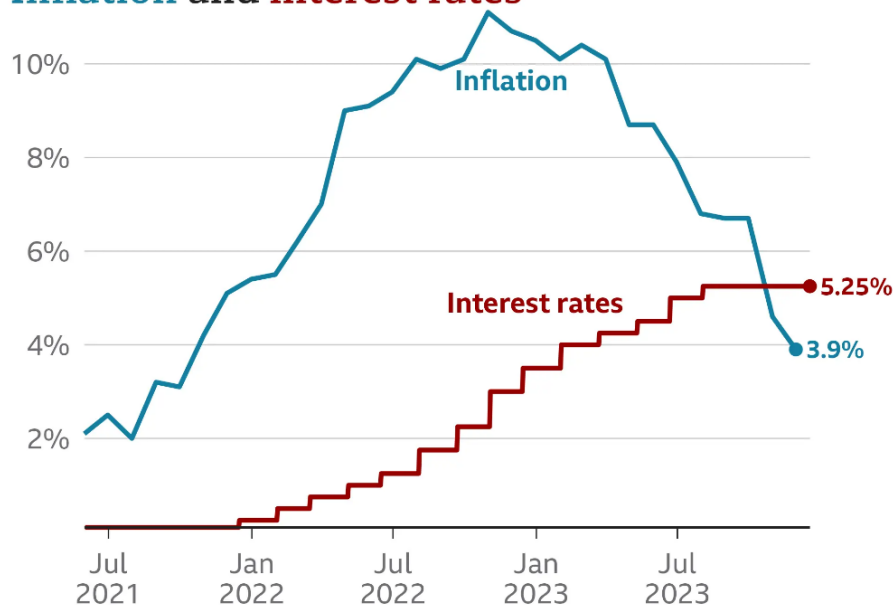
- 7.8 Analysis of the food inflation rate by the Joseph Rowntree Foundation shows inflation on the components of a Christmas dinner against benefit increases.



8 Interest Rates

- 8.1 The Bank of England has a target to keep inflation at 2%, but the current rate remains almost double that. The traditional response to rising inflation is to put up interest rates, and in August, the Bank increased interest rates for the 14th time in a row, taking the main rate to 5.25%.
- 8.2 It has held rates at that level at its three subsequent meetings in September, November and December, with the next review due in January 2024. The Bank of England has warned that interest rates will need to remain high in order to bring inflation down.

Inflation and interest rates



Source: ONS, Bank of England. Last update: 20 Dec 2023.

BBC

- 8.3 Announcing its December decision, the Bank said there was "still some way to go" to bring inflation down "all the way back to 2%", and suggested rates were likely to remain at 5.25% for an extended period. However, the larger than expected fall in the November inflation figure has raised hopes that the Bank of England could cut interest rates sooner than expected.

9 Housing costs

- 9.1 According to the ONS, private rental prices have continued to grow across the whole of the UK. Overall rental prices have increased 6.2% in the year to November 2023. This is the largest annual percentage change since this UK data series began in January 2016.
- 9.2 A report from the estate agent, Hamptons¹, stated that tenants have paid more than £85 billion in rent across the UK over the past year. This is more than double the figure of £40 billion in 2010. They point to the increase in numbers of households who are renting as well as the rise in rents caused by higher landlord mortgage costs. The average rent on a newly let property increased to £923 per month, £87 more than the same month last year and a 10.4% uplift.
- 9.3 For those buying or remortgaging, figures from the Building Society Association show the current average interest rates for various common mortgage products. The table shows the notable increase in mortgage interest rates since October 2021.

Mortgage Product	Loan to Value	Average Mortgage Interest Rate - September 2023	Average Mortgage Interest Rate - October 2022	Average Mortgage Interest Rate - October 2021
Two-year fixed-rate mortgage	95%	6.75%	6.44%	2.98%
Two-year fixed-rate mortgage	75%	5.94%	6.01%	1.29%
Three-year fixed-rate mortgage	75%	5.78%	5.90%	1.12%
Standard Variable Rate mortgage	N/A	7.93%	5.42%	3.6%

- 9.4 As previously reported to Elected Members, the comparatively high interest rates mean homebuyers and those remortgaging will have to pay a lot more than if they had taken out the same mortgage a year or more ago.

¹ [Record rental growth pushes annual rent bill to £85.6bn in 2023 | Estate Agents London | Letting Agents | South East England | Hamptons](#)

- 9.5 As people exit cheaper fixed rate deals on to products with much higher rates, monthly repayments can soar by hundreds of pounds. Banking trade body UK Finance says there are about 1.6 million deals expiring in 2024. The Institute for Fiscal Studies has warned that the higher interest rates could mean 1.4 million mortgage holders see their disposable income fall by more than 20%.
- 9.6 A number of lenders have cut mortgage rates in early 2024, including the UK's biggest lender, Halifax reducing its rate on a two-year fixed deal by 0.83 of a percentage point from 5.64% to 4.81%. HSBC have also announced cuts to mortgage rates across the board, including one five-year mortgage deal below 4%. It is expected that other lenders will follow suit and reduce their rates. While borrowers will likely still face a rise in payments, price increases may be mitigated by the availability of more competitive mortgage deals.
- 9.7 According to data from Pay.UK and Vocalink, average monthly mortgage payments made by Direct Debit have been rising steadily, from £880 in September 2023, £885 in October and £891 in November. The proportion of mortgage payments made by Direct Debit which failed because of insufficient funds in November remained high.
- 9.8 On 16th January 2024, an update report on homelessness in Renfrewshire was taken to the Council's Communities and Housing Policy Board which highlighted an upward trend in homeless applications over the last 3 years - a total of 935 applications were recorded in 2022/23, compared against 909 in 2021/22 and 834 in 2020/21. The more recent emerging housing pressures which are believed to largely stem from the impacts during the COVID recovery years, pressures arising from the cost-of-living crisis, and since December 2022 from the suspension of the 'local connection' criteria for homeless applicants.
- 9.9 The Tenant's Support fund has since October been part of the range of assistance considered for local residents, a prerequisite for the fund is for officers to check tenants are in receipt of all the benefits that they may be entitled to in the first instance. In addition to income maximisation assessments and budgeting advice, officers support tenants to meet their long-term rent payment responsibilities. Since commencement of the fund in October to the end of November, there have been 96 Tenants referred for Tenant Support Fund assessments, which will have the added value of full income assessment and advice provision.

10 Fuel – Energy Costs for Households

- 10.1 Support with energy bills will continue until at least March 2024, albeit at a reduced or scaled back level. The price cap applies to most households, and sets the maximum amount that suppliers can charge for a unit of energy. From 1 January 24, a typical dual-fuel household will pay £1,928 per annum. This is an increase in price per unit for both gas and electricity from the previous quarter, however standing charges for both have reduced very slightly.

	Energy price per unit 1 October to 31 December 2023	Energy price per unit 1 January to 31 March 2024
Electricity	27.35 pence per kWh 53.37 pence daily standing charge	28.62 pence per kWh 53.35 pence daily standing charge
Gas	6.89 pence per kWh 29.62 pence daily standing charge	7.42 pence per kWh 29.60 pence daily standing charge

- 10.2 Current predictions from Cornwall Insight indicate that the price cap rate may fall by around 16% to £1,620 a year for the period 1 April 2024 to 30th June 2024.
- 10.3 The cap is applied to customers on a default energy tariff including those who pay by Direct Debit, standard credit, prepayment meter, or who have an Economy 7 meter. It should be noted that the cap does not limit the total bill, which depends on energy consumption, only the amount charged per unit.
- 10.4 Ofgem is proposing lifting the energy price cap by £16 between April 2024 and March 2025 to cover customers' bad debts. Although under the proposals, households using prepayment meters would not be charged the extra sum, which works out at £1.33 per month. These consumers pay as they go, meaning they cannot build up debt in the same way as households that are billed monthly.
- 10.5 The amount of debt and arrears faced by gas and electricity customers increased to £2.9bn between July and September 2023, up from £1.9bn in the same period in 2022. Households in arrears - where a customer owes a supplier but has not worked out a payment plan - make up the vast majority of the overall figure, at more than £2bn. Customers in debt, who have a repayment agreement with their energy company, totalled £830m.
- 10.6 The direct debit failure rates for Electricity and Gas over the last 2 months have been the highest since records have been kept at 1.30% and 1.21% in October and November. The rate in October 2021, roughly when the cost of living crisis began, was 0.52% and the rate has steadily risen since then.
- 10.7 Despite the government providing help for all households, including a £400 payment through the Energy Bill Support Scheme last winter, Ofgem said: "We have nevertheless seen debt levels rise as people struggle to meet the costs of higher bills." In recent YouGov polling commissioned by Citizens Advice Scotland, and reported in November 2023, 31% of

respondents said they were worried or anxious about heating their homes adequately in the coming months. Likewise, 48% of respondents identified energy bills as their most significant financial concern this winter.

11 Wider research

- 11.1 In December 2023, the Centre for Social Justice published the following report : - State of Poverty in the UK. The thinktank noted some of the progress that has been made in terms of addressing poverty in past two decades in terms of aspects such as employability, however noted that those experiencing more significant levels of poverty are further from benefiting from these improvements, with entrenched and enduring poverty becoming much more complex for households across the UK.
-

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

Author: Diane Dunn, Fairer Renfrewshire Lead Officer, diane.dunn@renfrewshire.gov.uk