To: Fairer Renfrewshire Sub-Committee

On: 5 June 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 27 March 2024, there have been a number of changes in economic factors including a decrease in the Energy Price Cap from 1 April 24, meaning households will pay less for their energy use, while inflation has decreased to 2.3% since the last Sub-Committee meeting and interest rates have remained the same. Elected members are asked to note that:

- The rate of inflation has reduced to 2.3% (April 24), still above the 2% target set by the Bank of England
- The inflation rate for food has continued to reduce; now 4%.
- The Bank of England has kept the interest rate unchanged at 5.25%. The rate has been at this level since August 2023.The next review will be 20 June 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 £1,690 from the 1 April until 30 June. This is the lowest rate for 2 years, with the cap for July-September 2024 now set at £1,568 per year before being forecast to rise again in October.

1.3 This paper provides an overview of information collated by officers in relation 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 27 March 2024 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 food inflation, costs for households are still high. In March 24, in a revised forecast, the OBR stated it expected living standards to recover more quickly than in their November 2023 forecast which was reported to Sub-Committee, and grow by around 1% a year on average. It now expects real household disposable income per person to recover its pre-pandemic peak by 2025/26, two years earlier than in the November forecast.

3.3. The Office for National Statistics April '*Public opinions and social trends, Great Britain bulletin'* reported that 87% of adults see the cost of living as an important issue facing the UK.

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 April found:

- Around 4 in 10 (40%) reported it was very or somewhat difficult to afford their rent or mortgage payments. in the latest period. This figure was 30% in March 2022.

- Around 1 in 25 adults reported that their household had run out of food in April and couldn't afford to buy more, remaining at a stable figure from that reported in the last Sub-Committee report.

4.2. In a poll carried out by the Mental Health Foundation in November 2023:

- 32% of Scottish adults felt anxious about their financial situation in the last month .

- 12% of Scottish adults accumulated debt of £3000 paying essential bills in the previous 12 months. adults in Great Britain reported using less fuel, such as gas or electricity, in their homes because of the rising cost of living.

- 34% said that in the last 12 months the increased cost of living (paying bills, rent/mortgage, buying food etc) caused them to begin or increase unsecured debt (e.g. credit cards, bank loans, payday lenders, loan from family or friends)

5. Employment and Wages

5.1. According to the ONS, the Claimant Count, which is taken from JobcentrePlus administration systems, for those claiming unemployment-related benefits in Renfrewshire fell slightly in March 2024 to 3.1% compared with the December figure which was revised to 3.2%. This equates to 3,590 people aged between 16 and 64 and is down from March 2023, when there were 3,825 claimants.

5.2. Around 25,100 people or 22.4% of the population aged 16 to 64 years in Renfrewshire were "economically inactive" in the year ending December 2023. This is a reduction when compared with around 29,400 people (25.9%) in the year ending December 2022. People are classed as "economically inactive" if they are not in employment but don't meet the criteria for being "unemployed". This means they have not been seeking work within the previous four weeks or were unable to start work within the next two weeks. Common reasons include being retired, looking after the home or family or being temporarily or long-term sick and disabled.

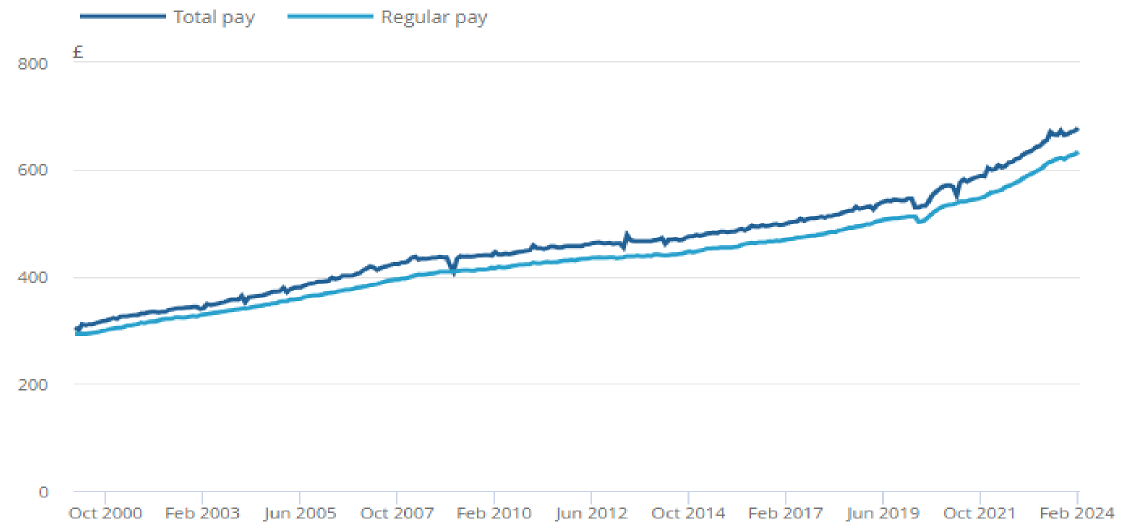
5.3. The April 24 Glasgow City Region economic briefing highlights that the biggest contributor to economic inactivity in the area is now due to those looking after family, with economic inactivity due to ill-health decreasing.

5.4. Economic inactivity in Renfrewshire is lower than across Scotland, where 22.5% of people aged 16 to 64 years were economically inactive during the year ending December 2023. Economic inactivity in Great Britain is 21.2%.

5.5. The ONS has reported that on average regular pay excluding bonuses rose by 6.0% in the three months to February 24, compared with the same period a year earlier. That was a slight fall from the 6.2% increase seen in the previous quarter. Annual growth in real terms (adjusted for inflation using the Consumer Prices Index including owner occupiers' housing costs (CPIH)) for regular pay was 1.9%, and for total pay was 1.6%.

5.6. Annual growth in both total pay and regular pay (excluding bonuses) remains strong and shows a steady increase over the long term. Average weekly earnings were estimated at £677 for total earnings and £633 for regular earnings in February 2024. The median annual earnings for Scotland in 2023 were £35,518, higher than the UK average of £34,963.

Average weekly earnings in Great Britain, seasonally adjusted, January 2000 to February 2024



5.7. For those earning the National Minimum wage, this increased from 1 April, however the rate is dependent on age. For apprentices, or those aged 16-17 the hourly rate is £6.40, for those aged 18-20 the rate is £8.60, and for those 21+ the rate is £11.44.

Tax and National Insurance

5.8. In April 2024, there were no changes to the Starter, Basic, Intermediate and Higher Rates of tax in Scotland. Additionally, for Higher Rate taxpayers, the threshold will stay the same at £43,663. For those earning between £75,001 and £125,140, a new 'Advanced Rate' band was introduced. Those in this band will pay 45% tax, up from 42% in 2023/24. The top rate of tax for those earning more than £125,140 will also go up from 47% to 48%.

5.9. Income Tax isn't paid at the same rate on all an individual's income. It's paid at the rate of Income Tax on the income in the particular bracket only. For example, for someone earning £52,000 a year, the Income Tax paid works out like this:

Income	Income Tax band	Tax you pay
Up to £12,570	Zero rate	No Income Tax on first £12,570
£12,571 to £14,876	Starter rate	19% Income Tax on next £2,305 (£14,876 - £12,571 = £2,305)
£14,733 to £25,688	Basic rate	20% Income Tax on next £11,684 (£26,561 - £14,877 = £11,684)
£25,689 to £43,662	Intermediate rate	21% Income Tax on next £17,100 (£43,662 - £26,562 = £17,100)
£43,663 to £125,140	Higher rate	42% Income Tax on next £8,337 (£52,000 - £43,663 = £8,337)

5.10. The main rate of employee National Insurance was cut by 2p, from 10% to 8% from April 2024 for earnings between £12,570 and £50,270. 3p was also cut from the main rate of self employed

National Insurance, down from 9% to 6%. There was no change to the 2% national Insurance rate for those who earn more that £50,270 and those earning below £12,570 pay no National Insurance.

5.11. Those earning the most, will save the most in National Insurance, as the table below from Money Saving Expert illustrates.

How much you'll pay in NICs if you're employed

Annual salary	Annual cost at rates between 6 April 2023 and 5 January 2024	Annual cost at rates from 6 January 2024 to 5 April 2024	Annual cost at rates from 6 April 2024 to 5 April 2025	Annual saving from 6 April 2024 compared to now
£25,000	£1,491.60	£1,243	£994.40	**£248.60**
£35,000	£2,691.60	£2,243	£1,794.40	**£448.60**
£50,000	£4,491.60	£3,743	£2,994.40	**£748.60**
£75,000	£5,018.60	£4,264.60	£3,510.60	**£754**
£85,000	£5,218.60	£4,464.60	£3,710.60	**£754**
£100,000	£5,518.60	£4,764.60	£4,010.60	**£754**

6. Benefits

6.1. From April 2024, Department for Work and Pensions benefits that are linked to inflation were uprated by 6.7%, as were those administered by the Scottish Government and inflation-linked tax credits elements and benefits administered by HM Revenue and Customs. For 2024/25 the basic State Pension and new State Pension were increased by 8.5% in line with earnings growth.

6.2. There was also a change to Child Benefit for high earners, with the threshold for the High Income Child Benefit Charge, under which a percentage of Child benefit is lost, increasing to £60,000, with no benefit payable when earnings reach £80,000. The previous threshold was £50,000, with the benefit being extinguished when earnings reached £60,000. Child benefit is currently £25.60 per week for an eldest or only child and £16.95 for additional children.

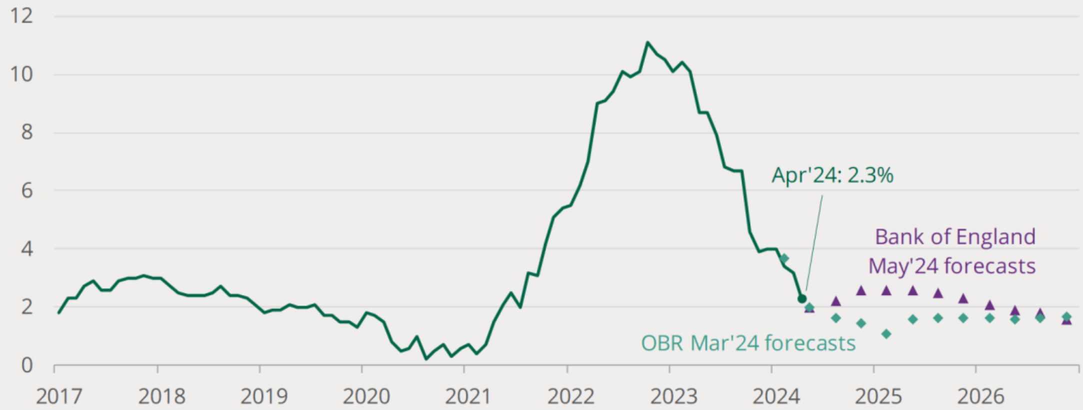
7. Inflation and the Impact on Households

7.1. UK consumer prices, as measured by the Consumer Prices Index (CPI) were 2.3% higher in April 2024 than a year before, down from 3.2% in March 2024. This fall was largely driven by the fall in energy prices, although a slightly smaller fall than forecast due to inflation rates within the services sector remaining higher than expected. The UK's annual inflation rate is expected to continue falling in 2024, though more gradually than in 2023, due to lower energy prices and reduced inflation in consumer goods and food. The average forecast among economists surveyed by the Treasury in the first half of April 2024 was for inflation to be 2.2% in the fourth quarter (Q4) of 2024.

7.2. As previously reported, a falling inflation rate does not mean that price levels are falling. It means that prices are rising, but more slowly than they were before. For example, if the annual inflation rate is 3%, this means prices are rising by 3% compared with a year before. The independent Office for Budget Responsibility (OBR) published new forecasts for the economy and public finances on 6 March 2024. As shown in the chart below, the OBR now forecasts inflation to fall further and faster than it previously forecast in November, largely because of falling energy prices. Inflation is forecast to decline to 2.0% in Q2 2024, thereby hitting the Bank of England's 2% target one year earlier than the OBR forecast in November. Inflation is then forecast to remain below 2% until Q3 2027.

OBR and Bank of England forecasts differ on inflation path in 2024

%, annual change in UK consumer prices (CPI)



Note: Quarterly forecasts based on market expectations of interest rates

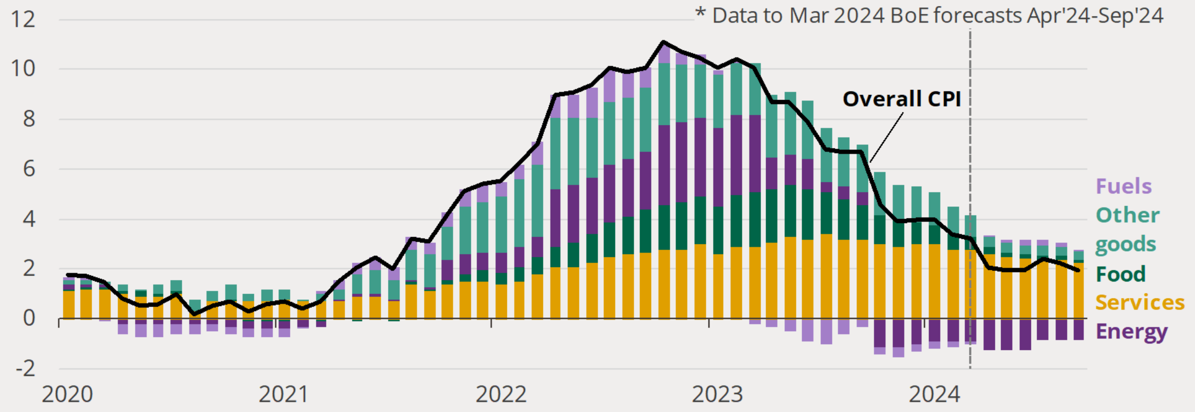
Sources: ONS monthly outturn data up to April 2024, then quarterly forecasts from Bank of England, Monetary Policy Report, May 2024 and OBR, Economic and fiscal outlook, Mar 2024

7.3. Also important to the inflation outlook is the ability and willingness of firms to pass on higher costs by raising their prices; if firms increase their prices, it is less likely that inflation will fall. This depends on several factors, including the strength of consumer demand, the degree of competition, current input costs and future expectations of costs. Reports received by Bank of England officials from businesses suggest that profits "remain squeezed" and there is scepticism among firms that normal profit margins can be restored in 2024 given the weak economic outlook, meaning they may be less likely to increase prices as much as they want.

7.4. While global factors were the original drivers of high inflation, price rises in many areas of the domestic economy have also accelerated. This is partly due to strong pay growth, with labour costs making up a large share of costs for many firms, particularly in the services sectors.

Services now the main contributor to inflation

Percentage point contributions to annual CPI inflation rate



Note: Food includes non-alcoholic drinks; Fuels includes lubricants

Source: Reproduced from Bank of England, Monetary Policy Report – May 2024, Chart 2.16

7.5. A regular survey of business conducted by ONS in early April 2024 reported that 16% of firms expect to raise the prices of goods and services they sell in the month ahead (May 2024 in this case), up somewhat from late 2023 (approximately 13%). A survey of UK business leaders conducted in January 2024 by the Boston Consulting Group's Centre for Growth found that 77% of them expected to raise prices in 2024, with over half (52%) saying they will increase them by more than 6%.

7.6. According to an Office for National Statistics (ONS) survey carried out in April 2024, 57% of adults in Great Britain reported an increase in their cost of living compared to the previous month. This is an increase from the 46% reported to the last Sub-Committee in figures from January and February 2024.

7.7. Of those adults, 90% reported an increase in food shopping, with those affected shopping around more and cutting back on spending on non-essentials. 56% had noticed an increase in gas and electricity bills, with 41% of those using less fuel. In addition, 28% of those who had noticed an increase were using their savings and 16% were using credit more than usual.

7.8. When asked in the same survey whether they would be able to pay an unexpected cost of £850, 25% would not. This rose to 29% in the 30 – 49 age group and fell to 14% in the over 70 age group. Women were less likely than men to be able to find this amount. In addition, women were slightly more likely to have used more credit than usual.

Food Inflation

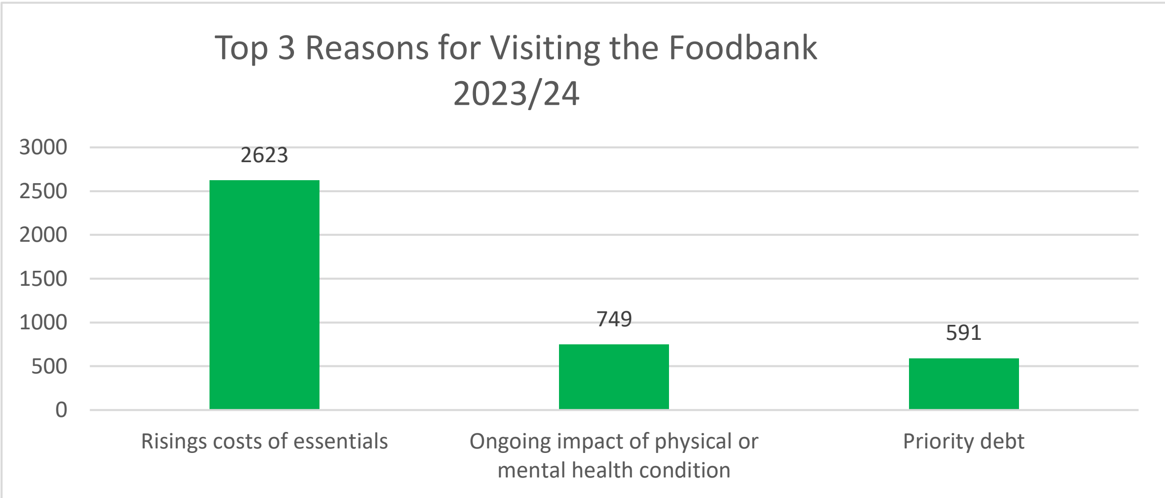
7.9. UK food and non-alcoholic drink prices were 2.9% higher in April 2024 compared with the previous year, based on the CPI measure of inflation. This continued the decline from the recent peak of 19.1% in March 2023, which was the highest rate of increase in food prices since 1977 according to the Office for National Statistics (ONS).

7.10. Over the two years from March 2022 to March 2024 food prices rose by 23.9%. It previously took over 12 years, from September 2009 to March 2022, for average food prices to rise by the same amount. Analysis by the ONS in April 2022 noted supply chain challenges, rising costs like energy costs and increased transport costs, and labour shortages led to rising food and drink prices as well as global supply disruptions and the weather in Europe and North Africa leading to higher imported food prices.

7.11. In the Bank of England's February Monetary report, the Bank of England's network of agents, who gather information from businesses across the UK, reported "clear evidence" that food price inflation would continue to ease.

7.12. Renfrewshire Foodbank issued 5,267 vouchers in total in 2023/24, in comparison with 5288 the previous year, a slight decrease of 0.4%. The vouchers covered 6724 adults and 2891 children this year, which was an increase in total number receiving assistance with 9615 compared to 9581 last year (6672 adults and 2909 children).

7.13. In 2023/24, the rising costs of essentials was cited as the number one reason for voucher issue in Renfrewshire, at 2,673 times. The ongoing impact of a physical or mental health condition was the second most cited reason for voucher issue, at 749 times, closely followed by debt cited nearly 600 times.



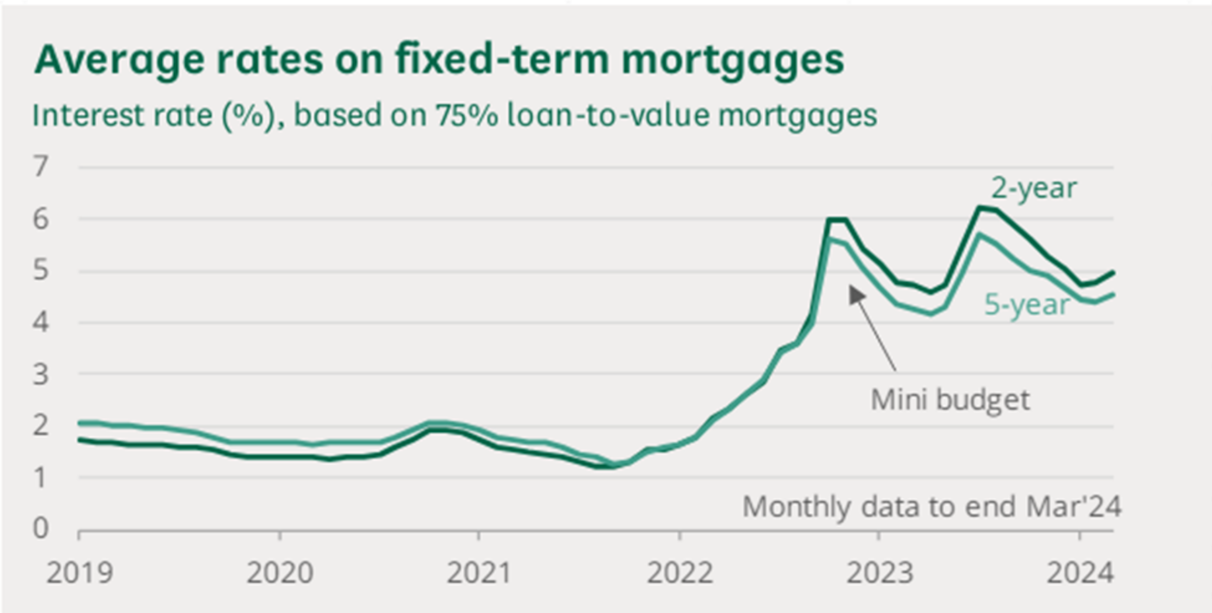
7.14. Renfrewshire Foodbank has recently opened an extended their Paisley distribution on a Wednesday afternoon to 18.45 to ensure people who are employed can access. They report that numbers of employed service users had risen. For 23/24 almost 400 people who were employed, 196 of these with wages as their sole income, used the Foodbank. We do not have figures for 22/23 year for a comparison, however will continue to collect these figures going forward.

8. Interest Rates

8.1. The Bank of England has a target to keep inflation at 2%, but the current rate remains higher than this. The Bank of England has increased interest rates at 14 consecutive policy meetings from 0.1% in December 2021 to 5.25% in August 2023 to try to reduce interest rates. At its subsequent meetings the Bank of England's Monetary Policy Committee (MPC) left interest rates unchanged at 5.25%. The next announcement on interest rates will be 20 June.

8.2. As reported in the last Sub-Committee report financial markets and the vast majority of economists don't expect any further interest rate increases from the Bank of England. The view held by most is that with the inflation rate expected to fall and economic growth weak, there is less need to continue to raise rates further. Financial markets, as of 23 April, were expecting between two and three quarter-point reductions in interest rates in 2024, taking rates from 5.25% down to 4.75% or 4.50%. A survey of economists by Bloomberg, the financial news and data provider, in mid-April found that most expected the first rate cut in June, with rates cut to 4.25% by year end.

8.3. Continued high rates have led to higher borrowing costs for households, notably mortgage interest rates which rose sharply from the very low rates seen previously. Around 1.6 million households whose fixed rate mortgages end in 2024 face higher mortgage costs, although the likelihood that the Bank of England had completed its cycle of interest rate increases led leading banks to offer lower mortgage rates. Since February 2024, some mortgage providers started to raise the interest rates on their fixed-rate mortgages, reflecting that fact that financial markets are not expecting as many rate reductions from the Bank of England in 2024 as previously thought. At the end of March 2024, the average interest rate on a two-year fixed rate mortgage was 4.97% and for a five-year fixed rate mortgage it was 4.53%.



Source: Monthly data to March 2024, Bank of England, Quoted household interest rates (accessed 22 April 2024), at 75% LTV

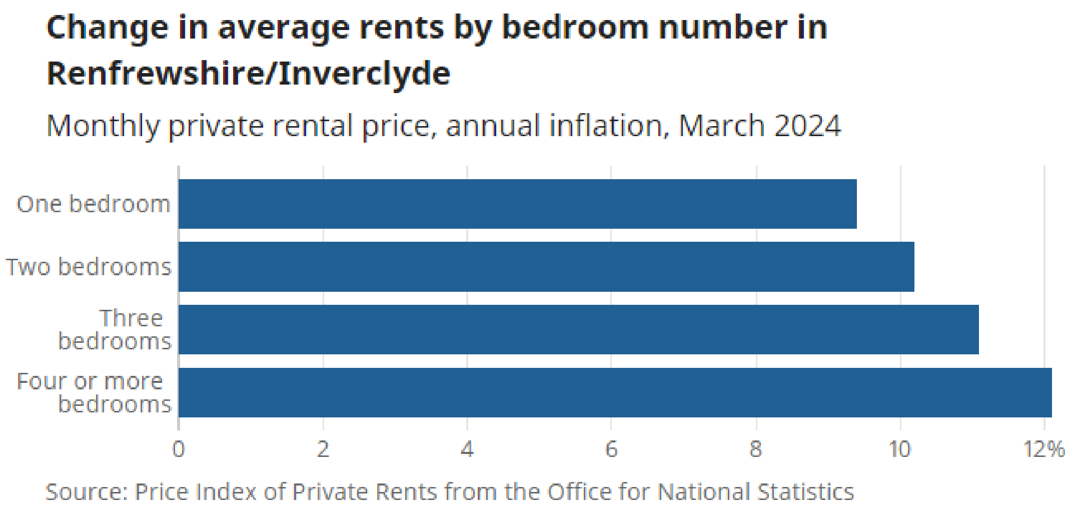
8.4. The impact of the increase in interest rates is reflected in measures of mortgage affordability. The share of borrower income taken up by principal and interest payments for new mortgages had reached a low in 2020 due to the fall in interest rates in response to the Covid pandemic. However, since then there has been a significant increase in mortgage payments as a share of income due to interest rate rises. From a low of 15.7% in Q3 2020, for home movers the share has increased to 18.7% in Q4 2023, while for first-time buyers the share has increased from a low of 15.3% in Q2 2020 to 20.5% in Q4 2023.

9. Housing costs

Rental Costs

9.1. According to the ONS, private rental prices in the UK increased by 9.2% over the year to March 2024 (this is a provisional estimate). This is the highest increase recorded in the ONS' series, which goes back to January 2015. The ONS now publishes a monthly Private Index of Private Rents (PIPR) which measures how private rents have changed for new and existing tenants in the UK.

9.2. According to the PIRP, in Scotland the rate rose at a higher level than the UK, second only to London, at 10.5%, with the average private rent in Scotland now £947 per month. In Renfrewshire Private rent prices rose to an average of £742 in March 2024, an annual increase of 10.9% from £669 in March 2023 and £73 more per month.



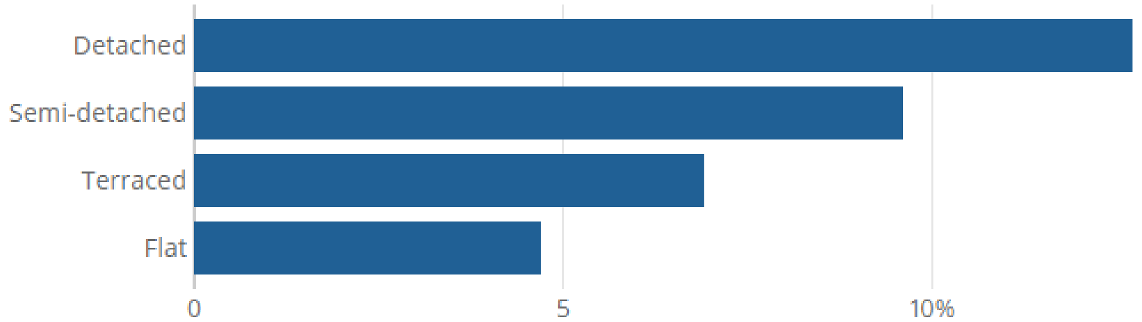
Home owners

9.3. For those buying a home, ONS figures indicate the average price paid by first-time buyers was £127,000 in February 2024 (provisional). This was 6.3% higher than the average of £120,000 in February 2023. The average house price was £157,000 up 7.3% from February 2023 where the average price was £146,000. This was higher than the rise in Scotland (5.6%) over the same period.

9.4. For homes bought with a mortgage, the average house price was £168,000 in February 2024 (provisional). This was 8.2% higher than the average of £155,000 in February 2023. The increase is dependant on house type, with the average price for detached houses rising 12.7%, while the average price for flats rose by 4.7%.

Change in house price by type of property in Renfrewshire

Provisional figure for 12-month change in house price, by property type, February 2024



Source: Registers of Scotland and UK House Price Index from HM Land Registry

Tenant Protection

9.5. The Cost of Living (Tenant Protection) (Scotland) Act 2022 came into force in October 2022 as an emergency temporary response to the Cost-of-Living Crisis. The legislation when introduced, implemented a rent cap for private, social and student rented accommodation effectively freezing rents, and provided protection against eviction. The protection provided by this legislation ended on 30 March 2024.

9.6. This means landlords will once again have the authority to enforce eviction orders that were previously placed on hold for a period of up to six months under the Act. There were some exceptions to the ban depending on the reason that the eviction order was sought, including some new temporary 'hardship' grounds which were also introduced under the Act. Landlords who have obtained an order for eviction during this period but have not yet been able to enforce it due to the ban, this can be enforced by Sheriff Officers on or after 1st April, even if the order was obtained less than 6 months ago. Notices served during this period will remain valid, and pending eviction applications will be processed as usual by the First-tier Tribunal for Scotland.

9.7. From 1st April 2024, the rent cap brought in under the legislation will also be lifted. This means landlords will have more flexibility in setting rental rates for their properties. However, this is not an end to restrictions on rent increases altogether. As reported to the last Sub-Committee, instead of a fixed cap on rent hikes, a new transition process will be introduced with the aim of achieving fairness and transparency for both landlords and tenants.

9.8. It is too early to say what effect the ending of the temporary legislation has had on tenancies in Renfrewshire. The main issue emerging in housing is that there has been a 10% increase in homeless application compared to last year. Local trends do not currently show the expected number of homeless applications from the private rented sector but anticipate this will begin to emerge now that the eviction ban is lifted.

10. Fuel – Energy Costs for Households

10.1. Every three months, Ofgem reviews and sets a level on how much an energy supplier can charge for each unit of energy. This is known as the price cap. From 1 April to 30 June 2024, the price cap fell 12.3%. Therefore, an average household on typical usage, paying by Direct Debit for dual fuel is paying £1,690 a year, down £238 from the previous cap. Between 1 July to 30 September 2024, the energy price cap is set at £1,568 per year for a typical household who use electricity and gas and pay by Direct Debit. The current predictions from Cornwall Insight are that the typical bill will rise to £1,762 from October and remain at this level until the end of March.

10.2. Recent high costs of energy, as well as high costs of living more generally, have affected families with low incomes, with debt more common on priority bills. According to the Resolution Foundation, in October 2023, roughly one-in-eight families (12 per cent) in the bottom fifth by income owed money on priority bills like utilities and Council Tax, nearly three times the proportion of families in the top two-fifths (4 per cent). Ofgem data indicates that the number of accounts behind on their gas and electricity bills has reached the highest level since records began in 2012.

10.3. On top of this growing number of households falling into energy-bill debt, the size of the problem for those who find themselves in debt is getting worse. The most recent quarter of data revealed that the average amount owed by those in arrears on their gas or electricity bill has increased by half in a little over a year (up or 51 per cent between Q2 2022 and Q3 2023). This is changing the nature of financial hardship for many of the most vulnerable families. Data from Citizens Advice reveals that, compared to before the pandemic, the average person seeking debt advice today has, on average, over £500 (£539) more debt on priority bills like energy, rent arears and Council Tax.

10.4. In November 2023, Consumer Scotland found that 30% of households in Scotland were finding it difficult to keep up with their bills, equivalent to around 750,000 households. This is a slight reduction from the previous year's figures which were 35%. Although the Price Cap has reduced, energy bills are still more than 50% higher than before the cost of living crisis, with the January to March price cap 59% higher.

10.5. Some groups are particularly likely to face affordability challenges including disabled people, those with long-term health conditions, those with low income, and those living off the gas grid. Other key findings from the Consumer Scotland autumn 2023 tracker include:

- Almost one fifth (19%) of households have borrowed money or missed rent or mortgage payments in the last six months as a result of the high cost of energy
- Nearly one third of households are cutting back on food shopping to afford their energy bills
- One third (34%) of respondents say energy bills are negatively affecting their mental health either 'a lot' or 'a fair amount'

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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