

Annex B: Social and Economic Context

The unequal impact of the cost of living crisis

Scotland is currently enduring a 'cost of living crisis' due to the cost of essential goods and services, such as food, transport and housing, rising at a faster rate than household incomes. The high rate of inflation underlying this crisis, at 11.1% in October (Office for National Statistics, 2022a), is driven by both domestic and global issues, including prolonged austerity, Brexit, COVID-19, and the war in Ukraine. Although the Bank of England forecasts a drop in inflation in the middle of 2023, the Bank expects inflation to remain above the 2% target level for the next two years (Bank of England, 2022a) and for the UK economy to remain in recession throughout 2023 and the first half of 2024 (Bank of England, 2022b).

The crisis is already having severe and practical impacts on people's lives. As evidenced by organisations such as the Joseph Rowntree Foundation, nearly one in five households on low incomes had gone cold or hungry, even before the winter months (Joseph Rowntree Foundation, 2022a).

The Scottish Government recently published its own [analysis of the Cost of Living Crisis](#). This reviewed recent evidence on the consequences of the crisis for businesses, the third sector and public services, and different households in Scotland (Scottish Government, 2022a).

Of particular relevance to the Equality and Fairer Scotland Budget Statement is the analysis of the impacts on different types of households indicating that the crisis will disproportionately impact low income households, and have an increased impact on groups of people who share particular protected characteristics. For some of these protected characteristics groups additional factors multiply this impact.

These households spend a higher proportion of their income on essential goods and services impacted by inflation than the average household, leaving them far less able to deal with increased costs. According to the Institute for Fiscal Studies for example, the lowest income households spent 69.6% of their budget on food, transport (including vehicle fuel), and housing (including gas and electricity) compared to the highest income households who spent 49.2% (Institute for Fiscal Studies 2021).

This spending disparity also means that that rate of inflation is experienced differently. The Institute for Fiscal Studies calculates that the current 11.1% inflation rate will be higher in real terms for the lowest compared to the highest income households (Institute for Fiscal Studies, 2022a). More generally, income inequality has been increasing in the UK since the 1980s (Institute for Fiscal Studies, 2022b) and events such as the cost crisis will likely exacerbate this (Blundell et al., 2022).

Inequality is also experienced in wealth as well as income. As the Fraser of Allander Institute points out, 45% of Scotland's wealth is held by 10% of households (Fraser of Allander Institute (2022).

Geographically, there are stark health inequalities in Scotland and (with the exception of the healthy birthweight indicator) significant health inequalities persist for each indicator covered in the Scottish Government's health inequalities report (Scottish Government, 2022b).

Impact on inequality

The Scottish Government's analysis of the cost of living crisis pointed to evidence demonstrating that certain groups with protected characteristics are over-represented in low income households and simultaneously may face other forms of disadvantage which have been increased by the cost of living. For example:

Minority ethnic people are more likely to live in poverty (Scottish Government, 2018). They are also more likely to live in larger households and therefore are more acutely affected by the crisis as larger households tend to have lower incomes (Office for National Statistics, 2011) (Joseph Rowntree Foundation, 2022b). In Great Britain, 44% of White adults report finding it difficult to afford their energy bills, compared to 69% for Black or Black British adults and 59% Asian or Asian British adults (Office for National Statistics, 2022b).

Among **Gypsy/Traveller communities**, low incomes, poorly insulated accommodation and the way some members of the community pay for their energy, mean that fuel poverty can be a particular issue. Feedback from the community suggests that some existing accommodation is cold, difficult to heat and prone to condensation (Scottish Government, 2022a).

Refugee and Asylum Seeker communities already faced hardships due to being on very low fixed incomes and having no right to work (Scottish Refugee Council, 2017). These hardships will worsen due to the cost crisis. For example, recent research by the Scottish Women's Budget Group demonstrated that asylum seeking women are experiencing increasing food insecurity due to the crisis (Scottish Women's Budget Group, 2022).

Women are more likely to live in lone parent households, which are the least wealthy household type in Scotland. The 2022 Poverty in Scotland report showed 70% of lone parent households have either no savings or savings of less than £250, and they are less able to cope with unexpected bills (Joseph Rowntree Foundation, 2022a). Lone parent households make up 25% of all households in Scotland and women head 92% of these.

Reports from the Women's Budget Group and Engender highlight that women in general are more likely to be impacted by the financial pressures brought on by the cost of living crisis (Engender, 2022; Women's Budget Group, 2022). Women are more likely to have lower income and savings and research from the Scottish Women's Budget Group highlight that these women are likely to go without essentials such as food in order to cope with cost crisis (Scottish Women's Budget Group, 2022). Additionally, Women's Aid has argued that the crisis has been exacerbating issues for women in domestic abuse situations. 66% of survivors of abuse reported that their abusers were using the cost crisis as a means of restricting their access to money (Women's Aid, 2022).

Women are also more likely to experience cost pressures that are not captured in routine data. For example, women are more likely to undertake unpaid care, reducing their capacity to work to earn money. Carers are more likely to work in lower paid jobs or stop working entirely to facilitate caring responsibilities.

For **unpaid carers**, caring comes with additional costs that can significantly affect a carer's financial situation. For example, having to spend a larger proportion of their income on energy costs to keep the person they care for warm and manage their condition, having higher food bills due to the nutritional requirements to support the person they are caring for, and having higher transport costs because the person they care for needs support to travel or the carer has to travel to provide care (Alliance, 2022; Carers UK, 2022).

Disabled People are more likely to be financially vulnerable and have unmanageable debt. In the UK, 55% of disabled adults report finding it difficult to pay their energy bills compared to 40% of non-disabled people (Office for National Statistics, 2022b). Disabled people often use more energy, as many need to keep heating on for medical reasons, or use electricity to charge essential equipment such as mobility aids (Scottish Government 2021) Many disabled people have needs which mean that economising on energy can bring severe hardship (Hirsch 2022).

In Scotland, 29% of children in households with a disabled person live in relative poverty (Scottish Government, 2021a). And households with a disabled person are likely to face higher costs of living and have less savings (Scottish Government, 2021b, and Alliance 2022).

Socio-economic disadvantage

The Cost of Living Crisis Analysis highlighted the impact of the cost crisis for those experiencing socioeconomic disadvantages including:

- households in receipt of income related benefits who are likely to be disproportionality affected due to sustained periods of austerity and budget cuts.
- households narrowly ineligible for means tested benefits
- households who rent their homes, as renters are more likely to live in relative poverty
- rural and Island households, who have a fuel poverty rate of 34 per cent, which is above the national average of 25 per cent.

All of these groups are likely to experience further hardships due to the cost of living crisis and face a greater impact than other households

Intersectionality

The Scottish Government has developed its approach to intersectional policy making and analysis this year including publishing revised approaches (Scottish Government 2022c). This identifies the principles underlying an intersectional approach and aligns with the [National Advisory Council on Women and Girls'](#) definition of intersectionality:

“a framework for understanding how multiple categories of identity (such as gender, race and class) interact in ways that create complex systems of oppression and power.”

For example, a person could have a number of protected characteristics and experiences, and be, for example, a minority ethnic disabled renter on income-related benefits, an asylum seeking women, or a rural low income, lone parent family headed by a mother with caring responsibilities. In turn, the Scottish Government will work towards understanding the impacts collectively.

The evidence above shows clearly for groups of individuals the intersection of disadvantage is compounding structural inequality and this is especially evident in this cost of living crisis. It is critical that Scottish Government continues to take an intersectional approach.

Demands for public services

As well as reducing incomes, the cost crisis is increasing the demands on many public services (Scottish Government, 2022a).

As one example, there is a risk of increased mental distress for a person no longer able to heat their home. If they had no prior mental ill health, the risk of severe mental distress doubles. The risk triples for those previously on the borderline of severe mental distress. This can lead to increased demand on mental healthcare services (Clair & Baker, 2022). The cost of living crisis has also led to large proportions of people reporting impacts on their mental health related to financial stress, with women (The British Psychological Society, 2022) and low income households being disproportionately impacted Joseph Rowntree Foundation (2022a).

Demands on third sector services are increasing, for example as seen in the increased demand for food banks, as 90% of foodbanks across the UK reported higher demand from April to August this year (UK Parliament, 2022).

Additionally, the number of people donating to charities has significantly decreased, with 4.9 million fewer people in the UK donating (SCVO, 2022). This makes mitigating the impact of increased demand for these services harder.

Third sector and public sector services are also directly negatively impacted by the cost crisis through increased operational costs. For example, 93% of respondents in Wave 4 of the Scottish Third Sector Tracker said they experienced rising operational costs. 43% of respondents reported that this had significantly or moderately impacted their ability to deliver core services (SCVO, no date).

The pressure of increased demand for services combined with increased operational costs mean that third sector and public services are having to provide support for people in a very challenging landscape.

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