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# CHANGES IN HOUSEHOLD INCOME AND EXPENDITURE IN SCOTLAND 2008-2014

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The Scotland Institute

80 Berkeley Street, Glasgow, G3 7DS, United Kingdom

T: 0141 354 1602 | F: 0141 354 1603 | [www.scotlandinstitute.com](http://www.scotlandinstitute.com)

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## About the Scotland Institute

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The Scotland Institute is a progressive and independent think tank set up to deal with the changing face of Scotland. It aims to investigate the implications of devolution while finding innovative solutions to the old problems of social exclusion, and to encourage Scotland's competitiveness in the global market. Through high-quality comprehensive research and policy making it hopes to put Scotland on a path towards a more competitive, progressive, and optimistic future.

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‘We look to Scotland for all  
our ideas of civilisation.’

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Voltaire

# Introduction

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This short paper explores the impact of the recession on household income and expenditure in Scotland<sup>1</sup>. It is part of a series being prepared by the Scotland Institute that tracks household income and costs from the start of the recession in 2008 to the claimed recovery in recent years.

The main findings are:

- All households (across all income groups) in Scotland have seen a drop in their median income since 2008 and the recovery since 2012 is marginal. In particular there has been a significant drop in the proportion of income received as wages;
- Families with children have seen the largest drop in income with this still 15% below the value in 2008 (mainly due to the impact of the Coalition and now Conservative Government's welfare policies);
- Median household debt in Scotland has risen by 65% since 2008;
- Property and financial wealth (reflecting assets rather than income) has increasingly become concentrated in the 20% richest of households;
- The proportion of income spent on housing, fuel and food has risen most quickly among the poorest households.

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<sup>1</sup> Unless otherwise noted, all tables and figures in this report are extracted from the UK wide Labour Force Survey and the Living Costs and Food Survey obtained from the ESDS under licence 95076

## Context

Since the start of the recession, average weekly household incomes for all income groups in Scotland have declined. Median income (after taking into account housing costs) was £437pw in 2008 and dropped to £402 in 2012 before the recent, relative, recovery back to £411<sup>2</sup>

Table 1: Weekly Household Income 2007-2014<sup>3</sup>

	Scottish 1st income decile	Scottish 2nd income decile	Scottish 3rd income decile	Scottish 4th income decile	Scottish 5th income decile	Scottish 6th income decile	Scottish 7th income decile	Scottish 8th income decile	Scottish 9th income decile
2007/08	237	303	357	412	474	542	621	740	933
2008/09	239	306	361	416	481	555	635	747	944
2009/10	247	309	368	432	489	557	640	743	946
2010/11	250	309	362	413	464	530	606	707	882
2011/12	248	308	354	404	462	522	599	692	849
2012/13	227	293	344	399	454	511	587	696	875
2013/14	243	301	350	399	460	523	599	695	849

Since then, there have been some claims of further recovery<sup>4</sup> but this is marginal and has failed to keep pace with inflation. However, concentrating on either just the median income or on relative income group presents only part of the story. Household composition is also important and families with children have seen the largest loss in median weekly income after housing costs are taken into account:

Table 2: Median income by household type<sup>5</sup>

	<b>Children, working age adults and pensioners</b>					
	<b>Children</b>		<b>Working Age Adults</b>		<b>Pensioners</b>	
	Before Housing Costs	After Housing Costs	Before Housing Costs	After Housing Costs	Before Housing Costs	After Housing Costs
2007/08	437	390	520	475	394	399
2008/09	429	372	529	476	414	415
2009/10	452	397	534	482	425	410
2010/11	424	372	503	444	414	400
2011/12	413	360	494	432	408	390
2012/13	407	350	485	418	416	400
2013/14	403	348	501	439	402	392

2 Scottish Government. 2015a. *Poverty and Income Inequality In Scotland: 2013/14* [Online]. Edinburgh: The Scottish Government. Available: <http://www.gov.scot/Publications/2015/06/7453> [Accessed 1 November 2015]. Table A8

3 Derived from Table A10 of *ibid*. All values are converted to 2013/14 prices.

4 D'Arcy, C. & Kelly, G. 2016. *State of working Scotland: living standards, jobs and pay*. London: Resolution Foundation.

5 Derived from table A9 Scottish Government. 2015a. *Poverty and Income Inequality In Scotland: 2013/14* [Online]. Edinburgh: The Scottish Government. Available: <http://www.gov.scot/Publications/2015/06/7453> [Accessed 1 November 2015].

Not surprising this prolonged squeeze on household incomes has been matched by a steady build up of household debt. In 2006, median household debt in Scotland was £2,200, even in 2010 it was only £2,300 but in 2012 it reached £3,500<sup>6</sup>. In consequence 52% of Scottish households described the level of personal debt as a burden<sup>7</sup>. Even so, household debts in Scotland remain below the UK average. However, since housing costs in Scotland remain below those of the rest of the UK this indicates a build up of debt not for asset purchase but to cover the regular costs of living. In effect, the current Conservative Government is continuing with New Labour<sup>8</sup>'s reliance on debt to offset drops in income so as to maintain consumption levels. At the moment, while incomes drop, debt is steadily increasing which is unsustainable<sup>9</sup> both for individual households and the wider economy.

However, income is only part of the problem of inequality and mounting household debts. Assets matter as much. As in the rest of the UK, assets are distributed very unevenly. In 2014 the poorest 25% of households in Scotland had assets of £47,300 compared to a median value of £186,600 while the richest 25% had average assets well over £470,600. In comparison, in 2008, the richest 25% had average assets of over £364,000<sup>10</sup> (reflecting around 7% of all households in Scotland). So while almost all Scottish households have seen their income decline as a result of the recession and UK Government policies, those who were already well off have become richer in terms of assets. In consequence, only those earning above median incomes have any property wealth at all:

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6 Office for National Statistics 2015a. *The Burden of Financial and Property Debt, Great Britain, 2010 to 2012*. London: ONS.

7 Ibid., figure 4

8 Deacon, A. 2000. Learning from the US? The influence of American ideas upon 'new labour' thinking on welfare reform. *Policy & Politics*, 28:1, 5-18, Rajan, R. 2010. *Fault Lines: How Hidden Fractures Still Threaten the World Economy*, Princeton, Princeton University Press

9 The Herald. 2015. *Household debt 'to outpace wages'* [Online]. Glasgow: The Herald. Available: [http://www.heraldsotland.com/news/13201247.Household\\_debt\\_\\_to\\_outpace\\_wages\\_/](http://www.heraldsotland.com/news/13201247.Household_debt__to_outpace_wages_/) [Accessed 20 January 2016].

10 Office for National Statistics. 2015c. *Wealth in Great Britain Wave 4, 2012 to 2014* [Online]. London: ONS. Available: <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcn%3A77-425263> [Accessed 20 January 2016]., tables 2.11 and 2.12



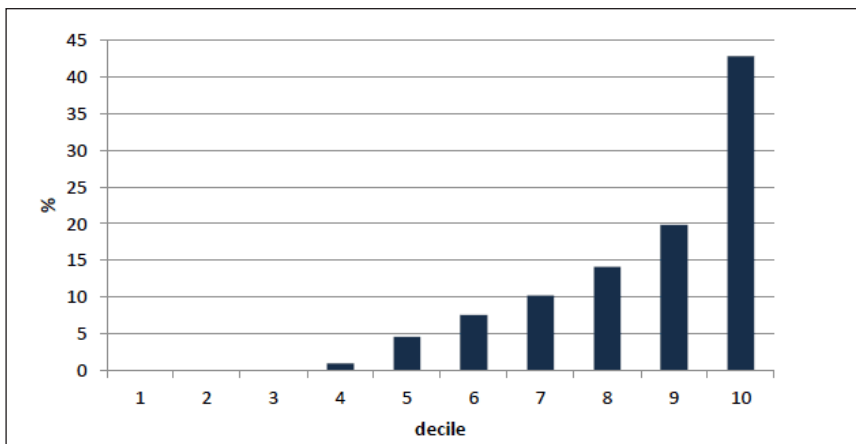


Figure 1: Property Wealth in Scotland 2012, by income decile<sup>11</sup>

The two core reasons for this are unearned asset inflation due to increasing house values and the corrosive effect of growing debt on the household asset values of the poorest (as more of their income is used to service debt rather than replace or extend the value of their assets). In addition, for many people the potential asset value of their home is something they cannot easily access, so it is useful to look simply at financial wealth (in effect net savings that can be readily converted to cash);

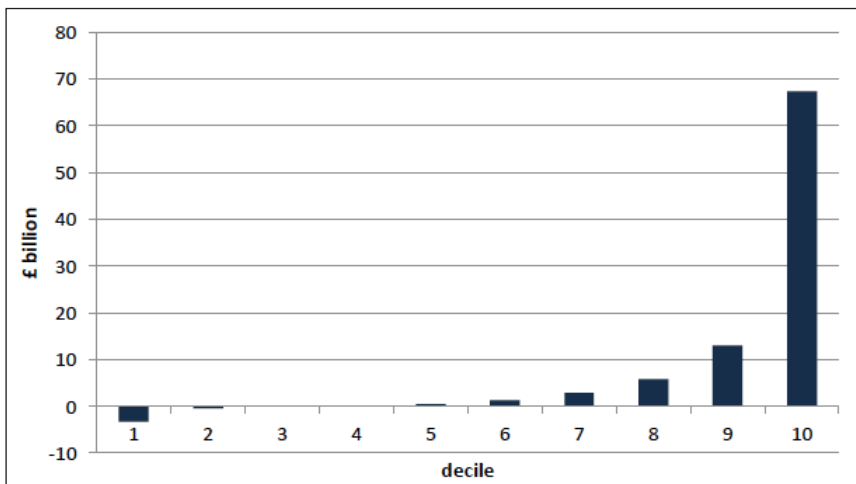


Figure 2: Financial Wealth in Scotland by income decile<sup>12</sup>

In effect, Scottish households below the median income have no financial wealth and are reliant on balancing current income with current expenditure. Those in the lowest two deciles actually have negative financial wealth. In turn the 7% of households in the wealthiest decile have £68bn.

11 Scottish Government. 2015b. *Wealth and Assets in Scotland 2006 - 2012* [Online]. Edinburgh: Scottish Government. Available: <http://www.gov.scot/Publications/2015/03/2333/5> [Accessed 15 January 2016].

12 Ibid.

# Patterns of Household Income and Expenditure

These findings are indicative of both the underlying income and asset distribution in Scotland and how UK Government policy since 2008 has made this worse. However, it is also informative to understand how differences in income have come about and the different sources of income and expenditure. To do this it is necessary to access data that is not easily available in official publications<sup>13</sup>

## Income

As we have seen, income for all groups has declined over the last 8 years. However the composition of that household income has also varied.

Table 3: Income sources 2008-2013<sup>14</sup>

Income Decile	% wages		% self-employment		% Social Security	
	2008	2013	2008	2013	2008	2013
10	29.98%	20.41%	2.86%	9.66%	65.56%	69.11%
20	37.35%	23.36%	6.16%	8.02%	55.71%	68.43%
30	53.14%	21.91%	9.27%	10.21%	36.25%	66.12%
40	69.74%	48.56%	6.17%	9.44%	23.02%	40.88%
50	73.97%	56.42%	8.64%	9.64%	16.92%	33.30%
60	80.72%	54.81%	7.58%	14.02%	9.53%	30.02%
70	84.50%	75.52%	4.78%	5.43%	7.63%	18.00%
80	81.43%	75.94%	10.65%	13.07%	3.84%	9.22%
90	81.66%	79.09%	11.20%	16.09%	2.88%	4.43%
100	56.79%	61.65%	35.27%	34.36%	2.55%	1.41%

Table 3 shows the relative source of income for each income decile and the change between 2008 and 2013. Of particular note is the decline in wages as a share of household income and the relative increase in social security benefits. Some of this can be explained by the relative gains of those in retirement but it also reflects the extent that in-work benefits have increasingly supplemented wages. Also, reflecting the wider trend towards people working on a self-employed basis, the proportion of earnings from self-employment has increased for most income groups.

13 All tables and figures in this section are extracted from the UK wide Labour Force Survey and the Living Costs and Food Survey obtained from the ESDS under licence 95076

14 Note the rows do not add to 100% as table 3 ignores income from savings, received as rent etc

**Expenditure**

Average weekly household expenditure in Scotland is lower than that of the rest of the UK at £474.40 per week compared to £512.60 for the entire UK<sup>15</sup>. In particular rental expenditure is lower (£30.60 compared to £42.30) as are mortgage costs (£35.50 compared to £46.30) reflecting lower house prices in Scotland. On the other hand, utility costs (electricity and gas) are higher at £23.20 (compared to £22.20) as is public transport costs (£13.60 compared to £10.90). Worryingly, household expenditure on alcohol is the highest in the UK (£8.10)<sup>16</sup>.

Again, it is informative to break these broad figures down by income decile.

Table 4: Patterns of Expenditure by income decile<sup>17</sup>

HH Income decile	Rent, Rates, Council Tax		Other Housing Costs		Fuel		Food		Fares	
	2008	2013	2008	2013	2008	2013	2008	2013	2008	2013
10	13.52%	15.67%	7.94%	24.28%	4.77%	9.75%	13.95%	19.54%	2.01%	2.14%
20	14.61%	21.51%	5.81%	16.50%	4.69%	10.24%	16.27%	21.81%	2.15%	1.83%
30	17.21%	18.38%	3.01%	11.92%	4.96%	9.66%	16.44%	20.11%	1.62%	2.61%
40	14.17%	13.78%	6.49%	5.28%	3.99%	6.97%	15.92%	19.71%	2.50%	2.53%
50	14.15%	19.84%	5.66%	3.55%	3.74%	6.34%	15.46%	17.02%	1.20%	2.05%
60	17.41%	11.21%	5.80%	21.65%	3.28%	5.26%	14.92%	18.27%	2.34%	1.96%
70	15.96%	15.26%	2.85%	13.97%	3.18%	5.38%	14.51%	18.78%	2.42%	1.96%
80	16.86%	13.40%	2.06%	20.30%	2.99%	5.68%	13.34%	17.74%	3.46%	4.52%
90	15.18%	10.90%	2.70%	11.04%	2.60%	4.19%	13.14%	15.16%	9.62%	4.30%
100	15.47%	9.89%	2.72%	10.91%	2.64%	3.83%	11.59%	16.13%	3.83%	3.98%

Table 4 concentrates on what could be described as involuntary expenditure. In effect, everyone has housing, heating, food and transport costs. However, the poorest groups have seen both changes in the proportion of their income spent on such items as well as a drop in their overall expenditure (mirroring the drop in their real incomes).

What this means is that the poorest households in Scotland, the proportion of their income spent on absolute essentials has increased over the last five years.

15 Office for National Statistics. 2015b. *Family Spending* [Online]. London: ONS. Available: <http://www.ons.gov.uk/ons/rel/family-spending/family-spending/2015-edition/index.html> [Accessed 23 January 2016]. Table A33

16 Ibid. Table A35

17 This table shows the expenditure on a particular item as % of all expenditure, again the rows do not add to 100 as this does not cover the full range of items that are purchased or consumed

This not only makes it much harder for them to build up any savings, it means that any adverse shocks means they run the risk of homelessness, having to cut back on food or heating or taking on even more debt. In terms of expenditure on fuel and lighting, this has remained roughly static (in absolute terms) over the last 6 years but reflects a greater share of many household budgets due to the loss of income.

Table 5: Average Expenditure on fuel, lighting and power

Average expenditure on fuel, lighting and power	Date		
	2008	2010	2013
HH Income decile			
10	£17.40	£15.05	£20.82
20	£18.43	£18.29	£21.11
30	£19.69	£18.22	£27.82
40	£19.47	£20.68	£26.81
50	£21.64	£25.23	£24.86
60	£19.74	£29.63	£28.16
70	£22.94	£20.46	£26.20
80	£24.09	£23.11	£31.43
90	£25.07	£28.49	£32.66
100	£37.26	£29.92	£38.36
<b>Total Result</b>	<b>£22.44</b>	<b>£22.94</b>	<b>£27.89</b>

### ■ Differences within Scotland

While basic differences within household income are common across Scotland, for two important groups there are additional differences that cannot just be explained by household income and wealth. Asian households have 88.4% of the average income of all households in Scotland and this is related to lower pay. In remote and rural areas, there is substantial income variation but the average income is above the average (109.7%) but this is more than offset by much higher costs (121.1%). Thus those on lower incomes in remote areas face additional pressures in terms of far higher living costs.

## Conclusions

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This short report stresses that any discussion of the impact of the recession on households in Scotland needs to take account of both income (primarily wages and benefits) and the accrual of assets (mostly in the form of house inflation). The average income for every type of household in Scotland from earnings (and benefits) has fallen since 2008 and any recovery in recent years is marginal. However, ownership of assets has become increasingly skewed. Those who own houses have benefitted from the increase in the value of land over this period (even if for many the notional value of their asset is hard to access) and this, combined with stagnant incomes, has locked more and more people out of home ownership.

Financial wealth (best defined as the difference between owned assets and debts) has become even more skewed. The poorest 20% now have negative wealth (ie they owe more than they own) and it is only the richest 20% who now have any significant financial wealth. For many in Scotland, debt has become normal, being used not just for long term purchases but also to offset short term income fluctuations. As with the rest of the UK, Scottish households have become more burdened with debt as a result of falling real wages.

Again, much of this state of affairs can be directly traced to the policies adopted by a succession of UK Governments. However, there are some specifically Scottish aspects that can be addressed by the Scottish Government;

- The funding of local government is essentially devolved. The current approach of the Council Tax is fundamentally flawed as it takes no account of land values and fails to adequately tax land usage. Some form of land value taxation will help stop house price inflation and improve the funding basis of local councils in Scotland;
- Utility and transport costs are higher in Scotland than in the UK. Some of this reflects the older housing stock common in urban Scotland and the relatively dispersed communities outside the Central Belt. However, there is a need to review the prices charged by energy companies and public transport providers to ensure that costs in Scotland are not being artificially inflated due to weak regulation.

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