

**REVIEW OF INFORMATION SOURCES  
ON THE COST OF LIVING IN RURAL AREAS:**

JUNE 2009

**CONTENTS**

SUMMARY .....	2
INTRODUCTION.....	1
SOURCES OF INFORMATION.....	1
<i>The main UK price indicators</i> .....	2
<i>Price indices by location</i> .....	2
<i>Other price information by location</i> .....	3
<i>Surveys of expenditure</i> .....	3
SUMMARY OF FINDINGS FROM PAST STUDIES.....	9
<i>Local differences in prices</i> .....	9
<i>Differences in the basket of goods by location</i> .....	11
CONCLUDING COMMENTS .....	15

## SUMMARY

### Purpose

1. The purpose of this paper is to review information sources on how prices and the cost of living vary between locations – specifically between urban and rural areas. It follows a seminar in June 2008 for users of official statistics on the subject of measuring poverty in Scotland, after which the Scottish Government undertook to map the availability of data on prices and the cost of living in rural areas<sup>1</sup>. As well as discussing availability of data, the paper examines gaps in information and possibilities for filling those gaps.

### Challenges

2. The paper is concerned with both prices and spending patterns because in order to consider the cost of living one needs information about **prices** of different goods and the relative importance (or weight) of the goods people buy (**the ‘basket of goods’**). Both the prices and the content of the basket can vary between locations. Making comparisons of “the cost of living” in different locations raises several challenges:
  - There is no definitive measure of the “cost of living”. Instead, what is most commonly measured is the change in prices using an index.
  - Price comparisons depend on like-for-like comparison (keeping quality constant), but the choices and opportunities for spending are not the same in each location
  - The change in the cost of living varies by household type as each household type purchases different baskets of goods. So, for example, the cost of living could rise faster for low income families if food prices rise fastest, and if food accounts for a bigger share of their basket.
  - Differences in the average basket in each location may be the result of differences in household characteristics that may be correlated with location, including, for example, levels of income and age, rather than the result of living in those locations.
  - People do not always buy goods locally (especially the more expensive goods).
  - People’s perceptions of inflation are heavily influenced by changes in the price of items (such as food) that are bought most frequently. This may not reflect what measures of inflation are actually recording.

### Sources of Information

3. The most important measures of **prices** are the regular indices of price changes published by the Office for National Statistics (ONS), such as the RPI and CPI (Retail Price Index and Consumer Price Index). It is possible to make comparisons of the inflation experienced by different household types, but these do not have a regional dimension. In order to complement the ONS sources, Highlands and Islands Enterprise with the Scottish Executive and Scottish Enterprise carried out a series of studies of prices in rural Scotland in 2001 to 2003. In addition, some regularly updated local information is available on prices of some high price items – such as houses or insurance - from a small number of public or commercial sources.

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<sup>1</sup> The official response to the seminar can be found at <http://www.scotland.gov.uk/Resource/Doc/1034/0063571.pdf>

4. The primary source of information on household **spending** on the basket of goods is the Expenditure and Food Survey (EFS). This is a UK-wide survey and includes some information on how spending patterns differ between urban and rural areas of Great Britain, though the sample is not big enough to provide data on rural Scotland specifically. Within Scotland, the regular Scottish Household Survey gathers information on spending on fuel for travel and the Scottish House Condition Survey gathers information on spending on fuel for homes. The latter provides regularly updated information on the extent on fuel poverty, and the characteristics of households considered as being fuel poor.
5. A perceived gap in **expenditure** data in relation to rural Scotland was addressed in 2001 by work commissioned by the Scottish Executive and the enterprise agencies (Highlands and Islands Enterprise and Scottish Enterprise) to examine expenditure in rural areas, but the survey has not been repeated.

#### Findings from these data sources

6. The only surveys specifically relating to **prices** in rural Scotland are those carried out in 2001 to 2003. These found consistent evidence that for several categories of goods prices are higher in rural Scotland, particularly for food (8% higher in the 2003 survey)<sup>2</sup> and fuel (6% higher in the 2003 survey). There was also consistent evidence that for some categories of goods prices are lower in rural Scotland. These were motoring (higher fuel costs were offset by savings on, for example, insurance premiums which were 27% lower in rural areas) and housing. Putting all the goods together the studies suggest that the overall differences in prices between urban and rural areas were small. The 2003 survey found that overall prices were 2% lower in rural areas. Prices in remote areas were higher than in accessible rural areas but lower than in urban areas. The important qualification to this finding is that the calculation of the overall prices was based on the basket of goods used in the Retail Price Index, so does not take account of geographic differences in spending patterns.
7. The Expenditure and Food Survey (EFS) shows that for households in rural areas of Great Britain a higher proportion of **spending** was on transport with a corresponding smaller proportion spent on housing. The 2001 Rural Scotland Expenditure Survey also found that rural households spend more on transport and on domestic fuel than the Scotland average. This evidence is reinforced by the findings from the regular Scottish House Condition Survey which finds that fuel poverty is more widespread in rural areas, especially the remote rural areas. Figures for 2007 showed 37% of households in rural areas classed as being in fuel poverty, compared with 23% in the rest of Scotland. The Scottish House Condition Survey analysis also shows that the average cost of domestic energy in April 2008 (when fuel prices were near their peak) was estimated to be £1,830 in rural areas compared with a Scotland average of £1,269. Information on fuel for transport from the regular Scottish Household Survey shows that average monthly spending on fuel for transport is 22% higher in rural area than the Scottish average. The important qualification to these findings is that it is

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<sup>2</sup> [http://www.hie.co.uk/Rural\\_Scotland\\_Price\\_Survey\\_2003](http://www.hie.co.uk/Rural_Scotland_Price_Survey_2003)

not possible to say how much of the difference in spending is explained specifically by location, as opposed to other household characteristics, such as income.

### Concluding comments

8. This review of sources of information identifies several that can be of use in developing a broad brush picture of ways in which the cost of living in rural areas is different from urban areas. The Rural Scotland Price Surveys over three years identified some goods that were more expensive in rural areas, and some that were cheaper. The surveys do not provide evidence that **prices** are in total higher in either urban or rural areas.
9. Surveys of **expenditure** patterns show that on average a higher proportion of spending by rural households is on fuel for transport and heating. However, these surveys are not large enough to provide detail by household type and the surveys in Scotland are a few years out of date, and the economic downturn is likely to have some effect on spending patterns and on the differences between urban and rural households. Up to date information on some of the major categories of expenditure (house prices, council tax, fuel for transport, fuel for housing) is available from specialised sources.
10. This review has demonstrated that there are relevant data available, and it might be possible to investigate existing sources in more detail to see if they can better inform our understanding of specific rural issues. However, it is important that any further analyses of existing sources recognise the limitations of the various relevant datasets.
11. The review has noted areas where further targeted research could provide useful insights, for example in relation to lower income households in rural areas, and the difference between remote and accessible areas. Possibilities to consider could be boosting the sample sizes of existing surveys once areas of interest have been agreed, or commissioning a major new survey of prices and expenditure in rural areas of Scotland. Both these options would be expensive and the value of the additional information provided would need to be assessed against the potential costs.
12. The Scottish Government will continue to report on individual components of the basket of goods such as house prices, fuel poverty and fuel for transport, while further exploring the possibilities highlighted above.

## INTRODUCTION

1. The purpose of this paper is to review information sources on how prices and the “cost of living” vary between locations – specifically between urban and rural areas – and to identify gaps in our knowledge. The impetus came from a seminar on Measuring Poverty in Scotland organised for users of income statistics by the Scottish Government in June 2008. At the same time, there was a growing interest in local variations in price, partly as a result of higher general inflation but also because of rising fuel prices. More recently, there has been increasing interest in food prices, given the extent to which food price inflation has outstripped general inflation.

2. Making comparisons of “the cost of living” in different locations raises several challenges:

- There is no definitive measure of the ‘cost of living’. Instead, what is most commonly measured is the change in prices (inflation) using an index. This requires information on prices across the whole range of goods bought (the ‘basket’ of goods purchased) and identification of weights to indicate the relative importance of each good within the ‘basket’. These weights are usually derived from surveys of expenditure.
- Price comparisons depend on like-for-like comparison (keeping quality constant), but the choices and opportunities for spending are not the same in each location (for example, in some locations there may be a limited amount of rented accommodation).
- The change in the cost of living varies by household type as each household type purchases different baskets of good. So, for example, the cost of living could rise faster for low income families if food prices rise fastest, and if food accounts for a bigger share of their basket.
- Differences in the average basket in each location may be the result of differences in household characteristics that may be correlated with location, including, for example, levels of income and age.
- People do not always buy goods locally (especially the more expensive goods).
- People’s perceptions of price inflation are heavily influenced by changes in the price of items (such as food) that are bought most frequently, and that may not reflect what measures of inflation are recording.

3. Beyond the difficulties of measuring and interpreting price differences by location, there is a need to define rural and urban areas in order to make meaningful comparisons. The Scottish Government Urban-Rural Classification is a useful tool for analysing rural and urban differences within Scotland<sup>3</sup>. About a sixth of the population of Scotland lives in rural areas: 12% in accessible rural areas and 6% in remote rural. Rural areas are settlements of fewer than 3,000 people, that are ‘remote’ if more than thirty minutes’ drive to a settlement of 10,000 or more, and ‘accessible rural’ if less than thirty minutes’ drive-time away.

4. This paper is concerned with both prices and spending patterns because, in order to consider cost of living, one needs information about prices and about the composition of the basket of goods that people buy in order to give weights to the various goods. Both the prices and content of the baskets can vary between locations. The next section of this paper presents tables describing the main sources of information on prices and on spending patterns and

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<sup>3</sup> <http://www.scotland.gov.uk/Publications/2008/07/29152642/0>

describes some key features of the sources, including the level of geographic detail that they can provide. The following section presents some key relevant findings from past studies. The final section considers where there may be gaps in the data, and how these might be addressed but also notes the difficulties in interpreting data even with larger datasets.

## SOURCES OF INFORMATION

### *The main UK price indicators*

5. Each month the Office for National Statistics (ONS) produces several measures of inflation, the most familiar of which are the RPI (Retail Prices Index) and the Consumer Price Index (CPI). The other indices are mostly variants on the RPI that differ in what they exclude from the basket of goods (excluding, for example, mortgage interest, all housing costs, or indirect taxes) in order to estimate the ‘underlying’ inflation rate. These indices are listed in **Table 1.1**. The table also shows the sources used to inform the weights, and comments on the uses of each index along with their strengths and weaknesses.

6. The ONS does produce an index for pensioner households but does not produce indicators for other household types. However, the ONS price data has been used by others applying alternative weights to construct indices for different household types. For example, the Alliance Trust<sup>4</sup> produces indices for different age groups with a special interest in pensioners, based on the differing baskets they consume (with differing weights attached to entertainment, household goods, heating, etc).

7. A relatively recent innovation by ONS is the Personal Inflation Calculator to enable individual households to calculate how they have been affected by inflation. This was launched on the ONS website in January 2008 [www.statistics.gov.uk/PIC](http://www.statistics.gov.uk/PIC). Any individual can enter details of their pattern of expenditure and the calculator shows how the price of that basket has changed each month over the past two years and how that compares with the overall inflation rate. In principle, this might be used for any discrete group about which there is sufficient information about their expenditure.

### *Price indices by location*

8. ONS does not produce indices on regional variations in inflation or in price levels. There are problems in collecting the data that would be required for such regular indicators on prices and spending by location. **Table 1.2** presents some current or past sources that have provided indices for Scotland. The British Retail Consortium’s Shop Price Index monitors prices paid in shops, and produces a separate index for changes in the sub-group of shops in Scotland. Some independent bodies monitor individual high-price items such as house sales, providing comparisons between regions/nations of the UK and indices for change over time, notably the Nationwide and HBOS house price indicators. For a few years some one-off surveys were carried out by Highlands and Island Enterprise (with, in later years, the Scottish Executive and Scottish Enterprise). The Rural Scotland Price Survey carried out in 2003 is the most recent survey to compare prices within Scotland.

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<sup>4</sup> [http://www.alliancetrust.co.uk/press\\_releases/0052.htm](http://www.alliancetrust.co.uk/press_releases/0052.htm).

9. Table 1.2 indicates the main characteristics of the price indices. It highlights that the indices do not always include the full range of goods and services and that the samples on which the indices are based are often limited in size. As such, the indices in Table 1.2 are not as statistically robust as, say, the RPI.

### *Other price information by location*

10. **Table 1.3** lists a selection of sources, mostly unofficial, that monitor prices of high value items to show local differences. These are produced mostly to help inform consumers, rather than to produce statistics. They do not produce an index to measure changes over time. Some of them can be used to provide information on prices by rural and urban areas, for example, Scottish Neighbourhood Statistics can provide information on house prices in rural and urban Scotland.

### *Surveys of expenditure*

11. The primary source of information on spending is the annual Expenditure and Food Survey (EFS), a survey of 6,000 households across the UK. The survey uses diaries kept by households across the year in great detail (in order to capture seasonal variations eg school uniforms, Christmas presents, holidays). The survey includes around 500 cases in Scotland. That is too few to allow any detail within Scotland. For some analyses of smaller groups it is possible to combine the sample from two or three years in order to get a big enough sample but to get a big enough sample from rural Scotland would take several years.

12. **Table 1.4** lists other surveys that have collected data on spending. The most significant of these, for our purpose, is the Rural Expenditure Survey carried out in 2001 for Highlands & Islands Enterprise, the Scottish Executive and Scottish Enterprise. However, the sample was not big enough to allow detailed analysis, for example of household type or detailed geography.

13. There are several regular surveys in Scotland that gather information on incomes (eg. Labour Force Survey, Family Resources Survey, Annual Survey of Hours and Earnings) but very few examine expenditure. An exception is the Scottish Household Survey which does collect information on spending on fuel for motor vehicles (though not every year). The Scottish House Condition Survey collects information on the costs of heating homes. Some surveys, eg the UK-wide General Household Survey (GHS), ask respondents about what they buy (household goods, pensions, holidays, motoring, smoking) but not about how much they spend.

14. Although not a survey, the Retail Footprints data developed by CACI (a firm providing intelligence for marketing) can provide some information on expenditure and can be used to investigate where rural residents are likely to spend their money. Retail Footprints is a modelled data set which shows retail at postcode sector level in the UK. Work was designed to address the fact that the EFS sample in Scotland is too small to provide separate rural figures, and this provided an alternative way to investigate the spending by rural households. A drawback in using this source is that the methodology and underlying data sources used by CACI are confidential which makes it difficult to assess the quality of the results.

15. For all the sources mentioned here, there are limitations to how far they can be used to answer the questions about costs of living in rural areas, either because that is not the purpose

for which they were designed, or because sample size does not allow such detailed geographic analysis. Nonetheless several of them do provide useful information, that presents a broad picture of differences between urban and rural areas. The next section summarises the key relevant findings from past studies.

**TABLE 1:1 Price Indices in the UK Produced by the Office for National Statistics** <sup>5, 6</sup>

	<b>Goods and services included</b>	<b>Source of Weights used to construct index</b>	<b>Frequency</b>	<b>Uses</b>	<b>Comments – Strengths and weaknesses</b>
Retail Price Index (RPI).	Representative basket of goods & services. Includes mortgage interest payments and housing depreciation.	Taking an average of all household spending in the Expenditure & Food Survey	Monthly	To uprate many social security benefits and as a benchmark for wages	Uses weights of an average basket of goods that no actual household would consume
RPIX	As RPI but excludes mortgage repayments	As RPI	Monthly		Examines underlying inflation
RPIY	As RPIX but also excludes indirect taxes	As RPI	Monthly Seasonally adjusted		Examines underlying inflation – excludes affects of tax changes
Rossi Index	As RPI but excludes all housing (housing costs are covered by housing benefits)	As RPI	Annual	To uprate means tested benefits (housing costs are covered by housing benefits).	Used for up-rating benefits
Consumer Price Index	Excludes housing	Wider than RPI. Derived from National Accounts, so include spending by residents of communal establishments (eg students) and foreign visitors	Monthly	Bank of England inflation target	Measures underlying price change but does not reflect what is happening to household budgets.
Index for Pensioner Households	As RPI Also estimated excluding housing	Pensioner households in Expenditure and Food Survey	Monthly	To inform debate on pensions.	Acknowledgment by ONS that experienced inflation can vary by household type. But it is not used for uprating pensions. Also separate indices for one person and two person households

<sup>5</sup> See [http://www.statistics.gov.uk/downloads/theme\\_economy/Focus\\_on\\_CPI\\_July\\_2008.pdf](http://www.statistics.gov.uk/downloads/theme_economy/Focus_on_CPI_July_2008.pdf)

<sup>6</sup> See [http://www.statistics.gov.uk/downloads/theme\\_economy/CP\\_Brief\\_Guide\\_2004.pdf](http://www.statistics.gov.uk/downloads/theme_economy/CP_Brief_Guide_2004.pdf)

**TABLE 1.2 Price Indices in Scotland and their Characteristics**

	<b>Goods and Services included</b>	<b>Source of weights used to construct index</b>	<b>Dates Frequency</b>	<b>Sample Size</b>	<b>Sponsoring organisations</b>	<b>Geographic detail</b>	<b>Comment - Strengths and weaknesses</b>
Rural Scotland Price Survey	Broad range of goods & services – Became closer to RPI over time	As in RPI But 2003 survey excludes 35.5% of the basket in the RPI because representative comparable prices could not be found	1999, 2000, 2001, 2002, 2003	2003 : 77 items from 60 rural and 24 urban points	HIE + (from 2001) Scottish Executive and Scottish Enterprise	Distinguishes HIE and rural Scottish Enterprise  Used Scottish urban rural classification in 2003	Small number of sampling points  Excludes over a third of expenditure.
Shop Price Index & Scottish Shop Price Index	500 items most commonly bought in shops. So excludes irregular purchase and all services	All households expenditure as measured by Family Expenditure Survey (i.e. as RPI)	Monthly  Began December 2005	7,000-7,500 price points across the UK each period	British Retail Consortium / Scottish Retail Consortium (carried out by Nielsen)	UK  Scotland	Indicator of daily experience of inflation. UK index (but not the Scottish) is split for food & non-food.
Nationwide House Price Index	All house sales		Monthly since 1991. Current method began in 1995		<a href="http://www.nationwide.co.uk/hpi/historical.htm">http://www.nationwide.co.uk/hpi/historical.htm</a>	UK and individual region/nations	Seasonally adjusted
HBOS House Price Index	All sales involving Halifax  Has detail on; New home, all homes existing houses. First-time buyers, former owners	Standardised for house type	1983 Monthly (three month average)	15,000 per month	HBOS	UK and individual region/nation  Detail by post code is available for recent prices but no index at that level.	Seasonally adjusted

**TABLE 1.3 Selected Other Location Specific Price Information Available**

<b>Item</b>	<b>Sources</b>	<b>Comment</b>
<b>GOVERNMENT</b>		
<b>Houses</b>	Registers of Scotland <a href="http://www.ros.gov.uk/citizen/shp.html">http://www.ros.gov.uk/citizen/shp.html</a> -	Charge for information
<b>Houses</b>	Scottish Neighbourhood Statistics <a href="http://www.sns.gov.uk/Downloads/DownloadHome.aspx">http://www.sns.gov.uk/Downloads/DownloadHome.aspx</a>	Median, average by post code & variety of geographies
<b>Council tax</b>	<a href="http://www.scotland.gov.uk/Topics/Statistics/Browse/Local-Government-Finance/DatasetsCouncilTax">http://www.scotland.gov.uk/Topics/Statistics/Browse/Local-Government-Finance/DatasetsCouncilTax</a>	Level for each band, number of dwellings, and overall average tax for local authorities and for small areas
<b>NON- GOVERNMENT</b>		
<b>Houses</b>	<a href="http://www.myhouseprice.com/default.cfm">http://www.myhouseprice.com/default.cfm</a> <a href="http://www.houseprices.co.uk/">http://www.houseprices.co.uk/</a> (England & Wales only)	Prices paid for recent house purchases by postcode
<b>Houses</b>	<a href="http://www.nethouseprices.com/index.php?con=Search-Sold-House-Prices">http://www.nethouseprices.com/index.php?con=Search-Sold-House-Prices</a>	Same but also average for towns
<b>Petrol and diesel</b>	link <a href="http://www.petrolprices.com/">http://www.petrolprices.com/</a>	Prices by postcode
<b>Petrol and diesel</b>	Experian Catalist	Commercial service
<b>Car insurance</b>	<a href="http://www.carinsuranceexplained.com/car_insurance_explained/insurance_postcode_risk.htm">http://www.carinsuranceexplained.com/car_insurance_explained/insurance_postcode_risk.htm</a>	
<b>Home insurance</b>	<a href="http://www.thisismoney.co.uk/codebreaker">http://www.thisismoney.co.uk/codebreaker</a>	Average for each postcode
<b>Rented accommodation:</b>	<a href="https://lha-direct.therenterservice.gov.uk/Secure/LHARateSearch.aspx">https://lha-direct.therenterservice.gov.uk/Secure/LHARateSearch.aspx</a>	For different house types by town

**TABLE 1.4: Surveys of Expenditure Patterns by Location**

	<b>Frequency</b>	<b>Geographic coverage &amp; detail</b>	<b>Sample size</b>	<b>Sponsoring organisation</b>	<b>Goods and services included</b>	<b>Comment</b>
Expenditure and Food Survey	Annual  April 2001 Replacing the Family Expenditure Survey & National Food Survey	UK  Uses U-R classification	UK c. 6,000 Scotland 580	ONS	All expenditure and income uses UN Statistical Commission's classification of Income & Expenditure by purpose	<a href="http://www.statistics.gov.uk/ssd/surveys/expenditure_food_survey.asp">http://www.statistics.gov.uk/ssd/surveys/expenditure_food_survey.asp</a> >  < <a href="http://www.statistics.gov.uk/downloads/theme_social/Family_Spending_2006/FamilySpending2007_web.pdf">http://www.statistics.gov.uk/downloads/theme_social/Family_Spending_2006/FamilySpending2007_web.pdf</a> >
Rural Scotland Expenditure Survey	1997 & 2001 Feb – April	Rural Scotland only	2001: 254 Rural households In 60 rural location	Highlands & Islands Enterprise + Scottish Enterprise & Scottish Executive	All expenditure	Matched against “all Scotland” figure from the Family Expenditure Survey  Predates the Scottish Executive Urban Rural Classification, so used uses population density definition of rurality based on local authorities.
Scottish Household Survey	Continuous survey Quarterly & annual data  Began Feb 1999 Fuel question not included in 2007	Scotland  Uses U-R classification	13,000 pa	Scottish Govt	Expenditure on fuel for motoring	<a href="http://www.scotland.gov.uk/Topics/Statistics/16002/SurveyOverview/">http://www.scotland.gov.uk/Topics/Statistics/16002/SurveyOverview/</a> >  The question was not asked in the 2007.survey  Scottish Government Urban- Rural classification can be applied (8 fold)
Scottish House Condition Survey	1996 2002 Continuous since 2003	Scotland LA and uses Urban-Rural classification  (There is also a separate English survey)	3,000 pa  Stratified by local authority The LA analysis combines three years	Scottish Govt	Domestic heating	Not actual expenditure - a calculation of what would be necessary based on information dwelling type and heating efficiency Scottish Government Urban- Rural classification n can be applied (3 fold) Used to measure the extent of fuel poverty . <a href="http://www.scotland.gov.uk/Topics/Statistics/SHCS">http://www.scotland.gov.uk/Topics/Statistics/SHCS</a>

## SUMMARY OF FINDINGS FROM PAST STUDIES

### *Local differences in prices*

16. The most wide ranging examination of urban-rural price differentials in Scotland was the *2003 Rural Scotland Price Survey* carried out by Snedden Economics for Highlands & Islands Enterprise (HIE) with the Scottish Executive and Scottish Enterprise. This built on surveys carried out in the preceding years by HIE. The earlier surveys defined rural as local authorities with low population density but the 2003 survey also used a definition that was related to the Scottish Executive urban-rural classification, but was restricted to locations more than 20 minutes from a town with a population of 10,000 or more. Of the sixty rural locations at which prices were sampled the vast majority were in remote rural areas.

17. Table 2.1 presents summary results for prices in broad categories of goods – which are not of equal weight. Although the results are not directly comparable with one another because of changes to the method used, the pattern of prices across the categories shown by each survey is similar.

**Table 2.1 – Rural Prices relative to Urban Prices, from the Rural Scotland Price Survey**

Category	2001	2002	2003
Food & catering	+7.9%	+6.4%	+8.2%
Alcohol drink & tobacco	+1.5%	+2.1%	+0.6%
Housing <sup>1</sup>	-7.5%	-8.0%	-13.8%
Household goods & services <sup>2</sup>	+3.9%	+1.8%	-0.6%
Personal Goods & services	+5.3%	+1.4%	+1.3%
Motoring - including road fuel	-1.9%	-1.4%	- 5.7%
<i>Road fuel only</i>	(+7.3%)	(+5.3%)	(+6.3%)
<b>OVERALL<sup>3</sup></b>	+2.1%	+0.7%	-2.3%

Notes:

1 Includes rent, council tax, water & insurance - and in 2003 depreciation - but not mortgage interest payments.

2 .Includes fuel for heating

3. This excludes items where comparable prices could not be found in rural locations. In 2003 the items included covered 64.5% of the overall basket.

Sources :

<http://www.hie.co.uk/HIE-HIE-economic-reports/HIE-pricesexpenditure2001.pdf>

<http://www.hie.co.uk/HIE-economic-reports-2005/rural-scotland-price-survey-2002.pdf>

[http://www.hie.co.uk/Rural\\_Scotland\\_Price\\_Survey\\_2003](http://www.hie.co.uk/Rural_Scotland_Price_Survey_2003)

18. The table shows consistent evidence that for several categories of goods prices are higher in rural Scotland, particularly for food (8.2% higher in the 2003 survey)<sup>7</sup> and fuel (6.3% higher in rural areas). There was also consistent evidence that for several categories of goods prices are lower in rural Scotland. These were motoring (higher fuel costs were offset by savings on, for example, insurance premiums which were 27% lower in rural areas) and housing.

<sup>7</sup> [http://www.hie.co.uk/Rural\\_Scotland\\_Price\\_Survey\\_2003](http://www.hie.co.uk/Rural_Scotland_Price_Survey_2003)

19. Housing (on a like-for-like comparison) was found to be less expensive in rural areas. The Housing category includes rents, council tax, water, and maintenance, but not mortgage interest payments. In 2003, housing depreciation was also included in the housing costs category by using modelled house price data by location sourced from CACI (a marketing consultancy).

20. Putting together all the categories of goods in Table 2.1, the earlier surveys found that the overall the price of the basket of goods rural Scotland was slightly higher: by 2.1% according to the 2001 study, and by 0.7% according to the 2002 study<sup>8</sup>. However, the 2003 study reversed this finding and found that the prices of the basket in rural areas was, overall, 2.3% lower than in urban areas.

21. As noted in Table 1.2, the Rural Scotland Price Surveys do not cover all categories in the RPI. Although the 2003 study was more thorough than the earlier studies it still covered just two thirds of the basket of goods in the RPI. The items not included were generally those less likely to be bought locally. Among the missing RPI items were mortgage interest, purchase of motor vehicles and leisure activities (such as holidays). This omissions limit the extent to which conclusions can be drawn on differences in the price of the overall basket by location.

22. The report examined the estimates for sensitivity and concluded that they were not very sensitive to the method used, for example choice of sampling points. The biggest methodological issue was the approach to modelling housing costs. Since 2003, while overall inflation in the UK has been very low, there have been several factors bearing on relative prices that could influence urban-rural differences such as more use of supermarkets or internet shopping.

23. The 2003 survey provided further details within rural Scotland:

- (a) In rural areas covered by Highlands & Islands Enterprise prices were 1.5% lower than in urban areas and in the rural areas in the south of Scotland they were 3.3% lower.
- (b) In remote rural areas (i.e. more than thirty minutes away from settlements of 10,000 people), based on 51 locations, it found that prices overall were higher than in accessible areas but still lower than in the rest of Scotland.
- (c) Looking only at the (14) island locations it found that overall the island prices were only 0.6% lower than in urban areas. The islands faced higher prices than in mainland rural areas for fuel, food and personal services but housing costs were lower.

24. In using these results it should be noted that the aim of these studies was to compare prices for a given basket of goods, the basket used in the RPI. They do not make a comparison of the cost of living which would have to take into account the different baskets purchased in urban and rural areas reflecting different needs, resources, preferences and availability of goods. The next section reports surveys showing that the basket of goods do differ.

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<sup>8</sup> The surveys before 2001 used different categories from those in the table and compared rural HIE to Aberdeen. The pattern was similar with food and goods more expensive in rural area while housing and services, were lower. However transport was more expensive. The overall figures were 3.6% higher in rural areas in 1999 and 4.3% in 2000. <http://www.hie.co.uk/HIE-HIE-economic-reports/HIE-rspssum00fs.pdf>

25. Among the regularly monitored prices (listed in Table 1.3) are house sales and council tax:

- Information from Scottish Neighbourhood Statistics shows variations in house prices. In 2007 the median price in accessible and remote rural areas were respectively a third and a fifth higher than in the rest of Scotland. This is not inconsistent with the findings of the price studies because these house prices are not standardised to compare like-with-like, and rural properties are on average larger. (The Scottish House Condition Survey of 2007 showed that 43% of rural homes had 6 or more habitable rooms compared with only 23% of urban homes).
- Comparison of council tax paid in each local authority (taking account of benefits and variations in the mix of council tax bands) show that the average paid in the predominantly rural local authorities is generally below that in the other local authorities<sup>9</sup>.

### *Differences in the basket of goods by location*

26. Before exploring rural urban differences in spending, it is useful to set out spending patterns in Scotland and the UK. The main official source of information on expenditure is the Expenditure & Food Survey (EFS). **Table 2.2** comparing Scotland and the UK average shows that the differences between Scotland and the UK as a whole are very small. Spending per person per week in Scotland is only 70p below the UK average. The only substantial differences in spending patterns are that households in Scotland, on average, spend a smaller share of their total on “Housing”, or on “Other expenditure” (a category that covers spending that is not on consumption of goods and service and which is mostly mortgage interest). More detailed categories are given in Table A2 in the Annex, and even greater detail is available in *Family Spending* Table A37.

**Table 2.2 Differences in Spending Patterns between Scotland and UK as a whole, 2006-2007**

	Category	Expenditure as a percentage of total household expenditure		
		Scotland	United Kingdom	Difference: Scotland - UK average Percentage points
1	Food & non-alcoholic drinks	10.8%	10.4%	0.4
2	Alcoholic drinks, tobacco	3.0%	2.5%	0.6
3	Clothing & footwear	5.9%	5.0%	0.9
4	Housing(net) <sup>1</sup> , fuel & power	9.3%	10.9%	-1.7
5	Household goods & services	7.0%	6.7%	0.3
6	Health	1.0%	1.3%	-0.3
7	Transport <sup>2</sup>	13.7%	13.5%	0.2
8	Communication	2.6%	2.6%	0.0
9	Recreation & culture <sup>3</sup>	13.6%	12.7%	0.9
10	Education	0.8%	1.5%	-0.7
11	Restaurants & hotels	8.6%	8.2%	0.4
12	Miscellaneous goods and services	7.6%	7.8%	-0.2
13	Other expenditure items <sup>4</sup>	16.2%	17.0%	-0.8

<sup>9</sup> <http://www.scotland.gov.uk/Topics/Statistics/Browse/Local-Government-Finance/DataasetsCouncilTax>

Total	100%	100%	
<b>Average weekly household expenditure</b>	<b>£429.10</b>	<b>£454.10</b>	
Average number of persons per household	2.2	2.3	
Average expenditure per person per week	£192.70	£193.40	
Sample size	1,080	12,790	
Average Weekly Household Income – gross	£602	£647	
Average Weekly Household Income – disposable	£490	£525	

Source: *Family Spending* 2008 Table A 35, and A44 for income

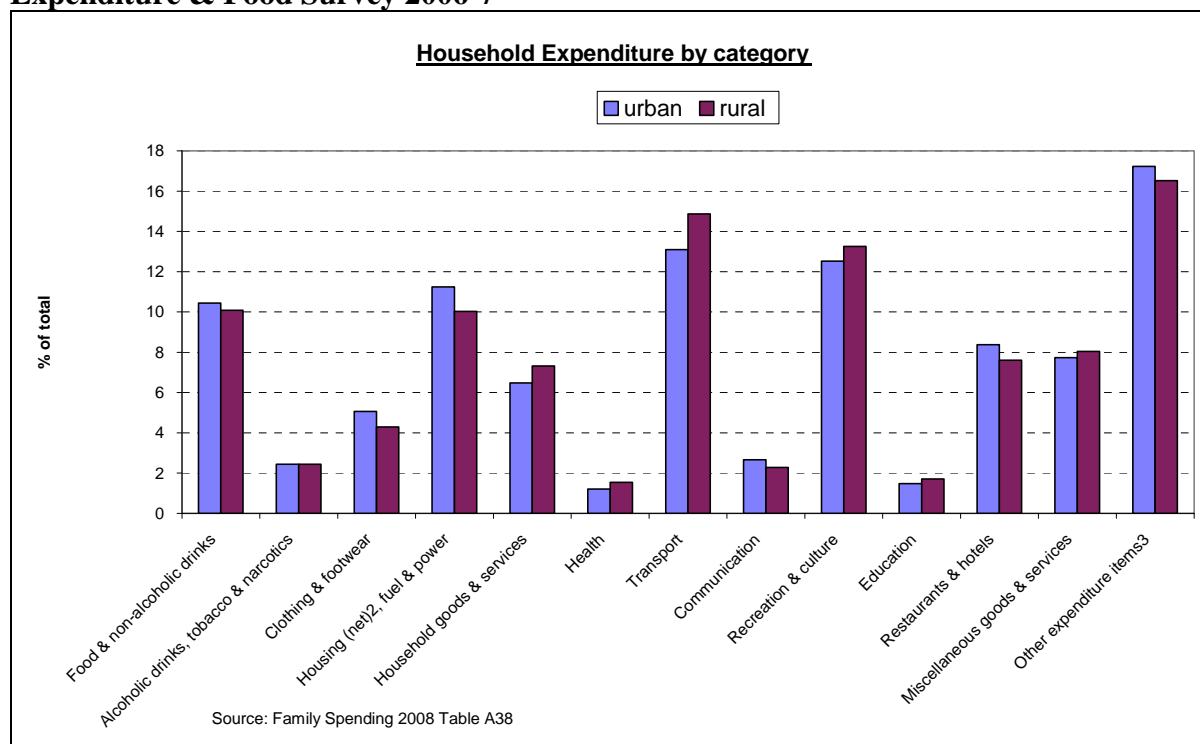
1. Includes rent (net of rebates), maintenance and repair, water supply, household insurance, but excludes mortgage payments and council tax (see line 11).
2. Includes purchase and operation of vehicles, transport services.
3. Includes audio equipment, computers, TV, sports admissions, TV licence, gambling newspapers, books, package holidays.
4. Includes expenditure that is not consumption: mortgage interest payments (but not deposits or repayments), council tax.

27. The EFS sample is not large enough to provide a comparison of rural and urban households within Scotland, but, given that the Scotland figure is very close to the UK average, it is possible to examine the differences between urban and rural households for Great Britain as a whole, shown in **Figure 1**. It makes use of the rural & urban classification for England for Wales in England and Wales and the Scottish Executive Urban-Rural Classification in Scotland. Although used by the ONS in *Family Spending* this is an approach that is not encouraged: the two classifications differ significantly, so much of the rural areas in England & Wales would not be classified as rural using the Scotland definition.

28. Keeping in mind the strong caveats associated with the classifications used, some differences can be identified. The EFS reports that average expenditure per household was 12% higher in rural areas (£496 compared with £442) and this is partly related to the higher household income (£695 per week gross compared with £636) (*Family Spending* 2008 Table A45). Within these budgets, the differences in the share of expenditure allocated to each expenditure category are very small. Only two categories of spending stand out as displaying a substantial difference between urban and rural households:

- The lower proportion spent on Housing in rural areas; the gap is even wider if mortgage interest (in the “Other expenditure” category here) is taken into account);
- On average Transport accounted for 15% of spending by rural households compared with 13% by urban households. (This was £15 more per week.)

**Figure 1 Differences in spending patterns between urban & rural areas<sup>1</sup>, GB, Expenditure & Food Survey 2006-7**



Source Family Spending 2008 Table A 38

1 Applies the Scotland definition in Scotland and the England & Wales definition in England and Wales

2. See notes to Table 2.2

29. The EFS sample in Scotland is too small to allow any analysis of rural areas, but there are alternative sources. In 2001 HIE and the Scottish Executive carried out a survey of expenditure by 254 rural households to complement the Rural Scotland Price Survey<sup>10</sup>. The results from this sample were compared with the EFS data for all Scotland. This sample is large enough to provide a contrast between urban and rural but does not allow disaggregation by household characteristics within the rural sample. This survey predated the Scottish Executive Urban–Rural Classification and used a slightly wider definition of rural areas that is close to the England and Wales definition<sup>11</sup>.

30. The 2001 study found that average weekly expenditure in the rural households was 6.5% higher than the average for Scotland. The pattern of expenditure was similar to that for rural Great Britain as a whole, i.e. more on fuel for heating and for transport than in urban areas, and less on housing - but with a slightly wider difference in Scotland.

31. Identifying how much of the overall difference in expenditure can be explained by location is complicated because there will be other contributory factors such as household size, income and age. The EFS shows that spending patterns differ considerably according to these characteristics, but we do not have enough information to compare urban and rural households with the same level of income. To disentangle the rural effect would therefore

<sup>10</sup> <http://www.hie.co.uk/HIE-HIE-economic-reports/HIE-pricesexpenditure2001.pdf>

<sup>11</sup> The England and Wales rural category includes towns with fewer than 10,000 residents and more than half an hour away from a settlement of over 10,000. The Scottish Government Urban-Rural Classification includes as rural only settlements with a population below 3,000 and more than half an hour away from a settlement of over 10,000 people.

require multivariate analysis, which could be done on the Great Britain data (but not Scotland).

32. Two further sources provide information on selected areas of expenditure. The Scottish Household Survey includes in some years questions on spending on fuel for transport. Results are shown in **Table 2.3**. It is one of the few sources that is able to show how spending is influenced by both location and income. Two patterns can be seen: spending on fuel for transport rises significantly with income whatever the location; and spending is higher in rural households at all income levels, but what is more, the percentage difference between urban and rural spending is greater at the higher income bands. The distribution of households across the bands differs, with more of the rural households in the higher income bands. The average rural household spent £29 more per month (that is 31%) than the average urban household. However, for households around the median income the monthly spending was about £15 (20%) more in rural areas than in urban households.

**Table 2.3: Average amount spent on fuel for transport in the past month by annual net household income<sup>1</sup>, and by urban-rural classification, Scotland, 2006 (excludes business costs)**

	Urban/ rural classification				Rural as % of All	Rural as % of Urban
	Urban	Small Town	Rural	All		
<b>Up to £10,000 p.a.</b>	£52	£65	£62	£56	111%	119%
<b>£10,000 - £15,000</b>	£61	£64	£78	£66	118%	128%
<b>£15,000 - £20,000</b>	£72	£78	£87	£76	114%	121%
<b>£20,000 - £25,000</b>	£81	£96	£106	£89	119%	131%
<b>£25,000 - £30,000</b>	£92	£107	£125	£102	123%	136%
<b>£30,000 - £40,000</b>	£103	£130	£146	£117	125%	142%
<b>Over £40,000 p.a.</b>	£119	£151	£171	£138	124%	144%
<b>All</b>	£82	£99	£111	£91	122%	135%
<b>Sample size</b>	5725	1492	2621	9839	27%	
<b>Median Income pa</b>	£15,900	£17,700	£19,800	£16,900	117%	125%

Source: Scottish Household Survey

1. Household income is net income after tax for the head of household and partner.

33. Another survey that examines a single area of spending is the Scottish House Condition Survey. Information from the survey informs a model of fuel costs required to heat the home to a defined standard. The average cost of domestic energy in April 2008 (near the peak for oil prices) was estimated to be £1,830 in rural areas compared with a Scotland average of £1,269, the difference being influenced by house type, size and age, the presence of elderly or infirm people in the household, and by the fuel used. These costs are compared with income, and from that comes an estimate of the degree of fuel poverty, defined as a household being required to spend more than ten percent of its income to maintain heating to the defined standard. Figures for 2007 showed 37% of households in rural areas classed as being in fuel poverty, compared with 23% in the rest of Scotland<sup>12</sup>.

<sup>12</sup> <http://www.scotland.gov.uk/Publications/2008/11/26094921/0>

## CONCLUDING COMMENTS

34. This review of sources of information identifies several that can be of use in developing a broad brush picture of ways in which the cost of living in rural areas is different from urban areas. The Rural Scotland Price Surveys over three years identified some goods that were more expensive in rural areas, and some that were cheaper. The surveys do not provide evidence that **prices** are in total higher in either urban or rural areas.

35. Surveys of **expenditure** patterns show that on average a higher proportion of spending by rural households is on fuel for transport and heating. However, these surveys are not large enough to provide detail by household type and the surveys in Scotland are a few years out of date, and the economic downturn is likely to have some effect on spending patterns and on the differences between urban and rural households. Up to date information on some of the major categories of expenditure (house prices, council tax, fuel for transport, fuel for housing) is available from specialised sources.

36. This review has demonstrated that there are relevant data available, and it might be possible to investigate existing sources in more detail to see if they can better inform our understanding of specific rural issues. However, it is important that any further analyses of existing sources recognise the limitations of the various relevant datasets.

37. The review has noted areas where further targeted research could provide useful insights, for example in relation to lower income households in rural areas, and the difference between remote and accessible areas. Possibility to consider could be boosting the sample sizes of existing surveys once areas of interest have been agreed, or . commissioning a major new survey of prices and expenditure in rural areas of Scotland. Both these options would be expensive and the value of the additional information provided would need to be assessed against the potential costs.

38. The Scottish Government will continue to report on individual components of the basket of goods such as house prices, fuel poverty and fuel for transport, while further exploring the possibilities highlighted above.

**Rural and Environment Analytical Services**

May 2009

## ANNEX

**TABLE A1. DETAILED HOUSEHOLD EXPENDITURE 2006-2007**From Table A37 of *Family Spending 2008*

		Scotland	United Kingdom			
	Average weighted number of households (thousands)	2,260	25,400			
	Total number of households in sample (over 2 years)	1,080	12,790			
	Total number of persons in sample (over 2 years)	2,470	30,500			
	Total number of adults in sample (over 2 years)	1,910	23,230			
	Weighted average number of persons per household	2.2	2.3			
		<b>Average weekly household expenditure</b>				
	Commodity or service	Scotland	UK	Scotland	UK	Difference
		£	£	% of total expenditure		Scotland – UK av .
<b>1</b>	<b>Food &amp; non-alcoholic drinks</b>	<b>46.30</b>	<b>47.20</b>	<b>10.8%</b>	<b>10.4%</b>	<b>0.4</b>
1.1	Food	41.80	43.20	9.7%	9.5%	0.2
1.2	Non-alcoholic drinks	4.50	4.00	1.0%	0.9%	0.2
<b>2</b>	<b>Alcoholic drink, tobacco &amp; narcotics</b>	<b>12.90</b>	<b>11.10</b>	<b>3.0%</b>	<b>2.5%</b>	<b>0.6</b>
2.1	Alcoholic drinks	6.70	6.50	1.6%	1.4%	0.1
2.2	Tobacco and narcotics	6.30	4.60	1.5%	1.0%	0.4
<b>3</b>	<b>Clothing &amp; footwear</b>	<b>25.20</b>	<b>22.50</b>	<b>5.9%</b>	<b>5.0%</b>	<b>0.9</b>
3.1	Clothing	20.70	18.20	4.8%	4.0%	0.8
3.2	Footwear	4.50	4.30	1.0%	1.0%	0.1
<b>4</b>	<b>Housing (net), fuel &amp; power</b>	<b>39.80</b>	<b>49.70</b>	<b>9.3%</b>	<b>10.9%</b>	<b>-1.7</b>
4.1	Actual rentals for housing	20.20	29.80	4.7%	6.6%	-1.9
4.2	Maintenance and repair of dwelling	5.90	7.90	1.4%	1.7%	-0.4
4.3	Water supply and miscellaneous services relating to the dwelling	6.40	7.10	1.5%	1.6%	-0.1
4.4	Electricity, gas and other fuels	17.50	16.50	4.1%	3.6%	0.5
<b>5</b>	<b>Household goods &amp; services</b>	<b>30.10</b>	<b>30.30</b>	<b>7.0%</b>	<b>6.7%</b>	<b>0.3</b>
5.1	Furniture and furnishings, carpets and other floor coverings	17.60	16.70	4.1%	3.7%	0.4
5.2	Household textiles	1.60	1.70	0.4%	0.4%	-0.0
5.3	Household appliances	2.60	3.20	0.6%	0.7%	-0.1
5.4	Glassware, tableware and household utensils	1.60	1.50	0.4%	0.3%	0.0
5.5	Tools and equipment for house and garden	2.10	2.10	0.5%	0.5%	0.0
5.6	Goods and services for routine household maintenance	4.60	5.00	1.1%	1.1%	-0.0
<b>6</b>	<b>Health</b>	<b>4.10</b>	<b>5.80</b>	<b>1.0%</b>	<b>1.3%</b>	<b>-0.3</b>
6.1	Medical products, appliances and equipment	2.10	3.10	0.5%	0.7%	-0.2
6.2	Hospital services	2.00	2.70	0.5%	0.6%	-0.1
<b>7</b>	<b>Transport</b>	<b>58.80</b>	<b>61.30</b>	<b>13.7%</b>	<b>13.5%</b>	<b>0.2</b>
7.1	Purchase of vehicles	24.00	22.80	5.6%	5.0%	0.6
7.2	Operation of personal transport	26.50	28.40	6.2%	6.3%	-0.1
7.3	Transport services	8.40	10.00	1.9%	2.2%	-0.3

<b>8</b>	<b>Communication</b>	<b>11.20</b>	<b>11.80</b>	<b>2.6%</b>	<b>2.6%</b>	<b>0.0</b>
8.1	Postal services	0.50	0.50	0.1%	0.1%	0.0
8.2	Telephone and telefax equipment	0.80	0.70	0.2%	0.2%	0.0
8.3	Telephone and telefax services	9.80	10.60	2.3%	2.3%	-0.0
<b>9</b>	<b>Recreation &amp; culture</b>	<b>58.20</b>	<b>57.50</b>	<b>13.6%</b>	<b>12.7%</b>	<b>0.9</b>
9.1	Audio-visual, photographic and information processing equipment	8.40	7.40	1.9%	1.6%	0.3
9.2	Other major durables for recreation and culture	1.50	1.90	0.3%	0.4%	-0.1
9.3	Other recreational items and equipment, gardens and pets	9.80	10.30	2.3%	2.3%	0.0
9.4	Recreational and cultural services	18.20	17.80	4.2%	3.9%	0.3
9.5	Newspapers, books and stationery	6.80	6.50	1.6%	1.4%	0.2
9.6	Package holidays	13.60	13.60	3.2%	3.0%	0.2
<b>10</b>	<b>Education</b>	<b>3.50</b>	<b>6.90</b>	<b>0.8%</b>	<b>1.5%</b>	<b>-0.7</b>
10.1	Education fees	3.30	6.50	0.8%	1.4%	-0.7
10.2	Payments for school trips, other ad-hoc expenditure	0.20	0.30	0.1%	0.1%	-0.0
<b>11</b>	<b>Restaurants &amp; hotels</b>	<b>36.90</b>	<b>37.40</b>	<b>8.6%</b>	<b>8.2%</b>	<b>0.4</b>
11.1	Catering services	32.10	31.50	7.5%	6.9%	0.6
11.2	Accommodation services	4.70	5.90	1.1%	1.3%	-0.2
<b>12</b>	<b>Miscellaneous goods &amp; services</b>	<b>32.70</b>	<b>35.50</b>	<b>7.6%</b>	<b>7.8%</b>	<b>-0.2</b>
12.1	Personal care	9.90	9.80	2.3%	2.2%	0.2
12.3	Personal effects	3.60	3.30	0.8%	0.7%	0.1
12.3	Social protection	2.70	2.60	0.6%	0.6%	0.0
12.4	Insurance	12.20	14.70	2.8%	3.2%	-0.4
12.5	Other services n.e.c (eg house move, bank charges)	4.20	5.10	1.0%	1.1%	-0.1
<b>1-12</b>	<b>All expenditure groups</b>	<b>359.70</b>	<b>376.80</b>	<b>83.8%</b>	<b>83.0%</b>	<b>0.8</b>
<b>13</b>	<b>Other expenditure items</b>	<b>69.50</b>	<b>77.20</b>	<b>16.2%</b>	<b>17.0%</b>	<b>-0.8</b>
13.1	Housing: mortgage interest payments, council tax etc.	48.60	52.80	11.3%	11.6%	-0.3
13.2	Licences, fines and transfers	2.40	3.00	0.6%	0.7%	-0.1
13.3	Holiday spending	9.00	11.10	2.1%	2.4%	-0.3
13.4	Money transfers and credit	9.40	10.30	2.2%	2.3%	-0.1
<b>Total expenditure</b>		<b>429.10</b>	<b>454.10</b>	<b>100%</b>	<b>100%</b>	
<b>14</b>	<b>Other items recorded</b>					
14.1	Life assurance, contributions to pension funds	21.10	20.80			
14.2	Other insurance inc. friendly societies	1.20	1.30			
14.3	Income tax, payments <i>less</i> refunds	81.70	91.70			
14.4	National insurance contributions	24.80	25.90			
14.5	Purchase or alteration of dwellings, mortgages <sup>3</sup>	56.50	46.60			
14.6	Savings and investments	5.50	6.70			
14.7	Pay off loan to clear other debt	2.10	2.60			
14.8	Windfall receipts from gambling etc.	2.20	1.90			

