

# Scrutinising the Welsh Government's response to cost of living pressures

## Research Briefing

March 2022



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## 1. Introduction

On 31 March, the Senedd's **Committee for the Scrutiny of the First Minister** will scrutinise the First Minister, Mark Drakeford MS, on cost of living pressures. This briefing sets out some of the key issues that may be discussed during the evidence session.

## 2. Energy prices and fuel costs

### Energy prices

In February, the energy regulator Ofgem, **announced** the energy “price cap” would increase by 54% from 1 April. On typical use, bills are set to increase from £1,277 per year to £1,971 per year for those paying by direct debit – adding around £693 per year to the average household bill. The **impact on Welsh households will vary**, with Ceredigion likely to see the greatest increase, and Cardiff the smallest. The price cap is due to be reviewed again in October 2022.

Following the announcement, the UK Government outlined an **Energy Bills Rebate** of £200, aiming to mitigate price increases. Energy suppliers will apply this to domestic electricity customers' bills from October, with the rebate automatically recovered in five £40 instalments from 2023. **National Energy Action** and **Citizens Advice Cymru** expressed concern that this support would not be sufficient for low-income households.

On 23 March, the Chancellor of the Exchequer **announced** VAT for households installing solar panels, heat pumps or insulation would be cut from 5% to zero for five years. He also announced that funding for the Household Support Fund for England would double. The UK Government **states** there will be a Barnett consequential for Wales from this measure.

In addition, the UK Government **announced that** the National Insurance threshold would rise to £12,570 from July 2022, and set out its intention to cut the basic rate of income tax from 20p to 19p in April 2024.

The Welsh Government has also **outlined** support for households, including:

- Increasing the **Winter Fuel Support Scheme** payment to £200, **widening eligibility criteria**, and introducing a further £200 payment to be made later this year;

- Providing a **council tax rebate** of £150 for households living in homes in council tax bands A-D, and all households receiving support through the Council Tax Reduction Scheme; and
- Providing further support through allocations to the **Final Budget 2022-23**.

**ONS data** from March 2021 shows that annual energy costs are highest in rural parts of Wales. The Welsh Government's **Welsh Housing Conditions Survey 2017-18** shows that 28% of rural dwellings used oil, which is much higher than the overall proportion for Wales (10%).

Media reports draw attention to **rapidly increasing heating oil prices (BBC Wales)**, and **ESJ Committee Members recently questioned the Minister for Social Justice** on this issue, including anecdotal evidence of people in rural areas having to order in oil 'blind' because suppliers are unable to give them a price at the time of ordering. The Minister assured the Committee that fuel poverty in rural households is being "closely addressed". Her official added that the Warm Homes Programme has higher financial caps for housing retrofit in rural off-grid areas - "it can make the difference between a maximum grant of £5,000 or £8,000 to £12,000". However, the official also stated that older properties in rural areas don't lend themselves to some of the retrofitting techniques that would normally be deployed to transition people to low-carbon heating.

## Fuel costs

Energy costs are a key factor leading to rising transport costs. The RAC Foundation reports **daily UK pump prices**. As of 22 March petrol and diesel prices are £1.67 per litre for petrol, and £1.79 for diesel. The Foundation **separately charts changes in pump prices over time** which shows how prices have grown steeply from a low in May 2020. Although a **range of factors** contribute to the rise, the war in Ukraine is a key issue. In the Spring Statement on 23 March, the Chancellor of the Exchequer announced a **temporary cut to fuel duty** on petrol and diesel by 5p for 12 months.

**The RAC Foundation has plotted** an index of the cost of travel (motoring, rail, bus and coach) along with wages and the cost of living over the last ten years using ONS data. This shows how historically UK public transport costs have risen faster than motoring costs, and that **bus fares in particular have risen faster than both the cost of living and wages**. While there are a range of factors affecting bus travel, including the impact of increasing traffic congestion, energy costs will continue exert upward pressure on bus fares. For rail, fare increase caps for regulated fares (such as commuter fares) are set by the Welsh, Scottish and UK Governments for Wales, Scotland and England. In February this was set **at 3.8% across Great Britain**.

The remaining unregulated fares are set at the operator's discretion.

**The impact of public transport fare increases will be felt particularly by lower income households**, which tend to be those without access to a car. The **National Survey for Wales indicates** that 13% of Welsh households do not have access to a car, while **research by Transport for Wales in 2019** found that 25% of bus users are disabled or have a long-term illness.

The **Road Haulage Association** has also recently drawn attention to the impact of the Ukrainian war on haulage and supply chains, describing it as 'devasting'.

## 3. Economic impacts

### Impacts on businesses

The Welsh Government's analysis of the impacts of inflation in the **explanatory note** to its Final Budget 2022-23, published earlier this month, states that:

1. Higher prices for energy and other inputs will of course also increase business costs. While an individual business may report feeling disadvantaged by such an increase, the disadvantage is likely to be limited because the business's competitors will be subject to the same increase in costs. In these circumstances economic theory indicates that the higher costs will generally be passed on to consumers, adding further to the direct effects of energy price increases on living standards.
2. Energy price inflation could, however, have a substantial adverse impact on energy intensive industries, including steel, which of course has a significant presence in Wales.

**Sectors such as tourism and hospitality that have been hit hard by the pandemic told the Economy, Trade and Rural Affairs Committee** earlier this month about how cost of living issues have impacted upon businesses in their sectors. Suzy Davies from the Wales Tourism Alliance stated that:

3. The cost-of-living issue, of course, we're talking about that from the perspective of businesses, but we've got to remember that those cost-of-living pressures are affecting customers as well, and it's Welsh Government's own research that's shown that it's the family budget that primarily dictates if the family goes on holiday at all, or, if they do, what kind of holiday they're going to go on. So, the industry in the round has been affected by the cost-of-living crisis, both in terms of supply and in terms of demand.

## Impacts on wages and the workforce

**Real wages are falling** due to rising inflation, and the Bank of England **expects them to continue falling** throughout 2022 before the picture starts to improve next year. The Resolution Foundation **highlights** this would be **the third squeeze on real wages in a decade**.

**Tourism, retail and hospitality sector businesses told the Economy, Trade and Rural Affairs Committee** that wages have increased considerably in their sectors with wider changes to working practices also happening, and that “it’s an employee’s market at the moment”. However, trade unions **told the Committee** that low pay, insecure work and poor terms and conditions remain a “massive problem for many workers in these sectors”. They stated that cost of living pressures may lead to workers in low-paid sectors working “dangerously long hours” to increase their take home pay or needing to take on multiple jobs.

The Office for National Statistics (ONS) **highlights that** UK average weekly pay in November 2021-January 2022 was **1% lower in real terms than in November 2020-January 2021**. ONS data also **shows that** over the year to January 2022, **the top 10% of earners saw annual wage increases before inflation of at least 5% compared to 1% for low earners** (the 10th percentile of earners, who earn more than 10% of workers but less than 90%).

In April 2022, the **National Living Wage** (the legal UK minimum wage for workers aged 23 and above) will increase to £9.50 per hour, an increase of 6.6%. There will also be increases in the National Minimum Wage for workers aged 22 and under.

Polling by the Living Wage Foundation **found**:

- 46% of workers in Wales who earn below the Real Living Wage had fallen behind with household bills over the past year.
- 37% of workers in Wales who earn below the Real Living Wage were unable to keep their homes warm over the winter.



## 4. Equalities, poverty and debt

### Impacts on different groups of the population

Estimates from the National Institute of Economic and Social Research **show that the poorest households in Wales are likely to be hit hardest. These households spend over a quarter of their income on energy and food, more than twice as much as the richest households.** Households receiving benefits will also **receive an uplift** that is less than the amount they would need to cover rising prices.

Earlier this month, the Welsh Government published **distributional analysis** of the support it has provided, which suggests that **the poorest 20% of households will receive almost three times as much support as the richest 20%. The analysis also shows that the Winter Fuel Support Scheme and Discretionary Assistance Fund** payments make the package more progressive than the council tax rebate.

The Bevan Foundation has **welcomed** the cost-of-living support provided by the Welsh Government. However, it has **also highlighted** that **low-income households could be required to submit multiple applications for different support measures that they are eligible for.** It notes that the Welsh Government has been working with local authorities on a 'Welsh benefits system' where people could apply for all the support they are eligible for more easily, but would like to see this work progressed more rapidly.

**The Welsh Government has set out** the groups it expects to be most affected by cost of living pressures, stating that:

4. Disabled people will be disproportionately impacted by the rising costs of living as they are more likely to be unemployed and to have low incomes. Minority ethnic children are also more likely to be in relative income poverty, so are likely to be impacted by rising costs of living - although there are large differences between different ethnic minorities.

The Living Wage Foundation has **found that women are disproportionately impacted by low pay and cost of living pressures.** It outlined earlier this month that:

- 42% of women in the UK earning below the Real Living Wage had fallen behind on household bills, compared to 35% of men.
- 35% of women in the UK earning below the Real Living Wage had skipped meals regularly for financial reasons, compared to 29% of men.

## Debt

The Bevan Foundation **highlights that** between May and November 2021, **a quarter of Welsh households borrowed money, while 12% fell behind on a household bill by at least a month.**

The Equality and Social Justice Committee published its report on **debt and the pandemic** in November 2021. The Committee heard evidence that **the pandemic had exacerbated the risk of problem debt for those already likely to have debt-related issues.** It made recommendations around promoting debt advice services, affordable credit, and around tackling fuel poverty caused by energy price rises.

**Recent analysis from Citizens Advice Cymru found that demand for debt advice now exceeds pre-pandemic levels,** with figures for November 2021 showing a 17% increase in debt clients compared to November 2019. In January 2022, it **published analysis** stating that in the last three months **“frontline staff at Citizens Advice have helped one person every 40 seconds with a fuel debt issue.** This is 40% more than compared to the same period in 2020”.

**StepChange, Citizens Advice Cymru** and the **Bevan Foundation** all found that **some groups are more likely to be in problem debt than others.** These include households on lower incomes; single parents; families with young children; renters; people from some ethnic minority communities; and people with disabilities.

## 5. Children and young people

### The impact cost of living has on the poorest children

Wales has the **highest child poverty rates** of all UK nations, with **31% of children living below the defined poverty line.** Child poverty rates increased in 20 of Wales' 22 local authorities over five years from 2014-15 to 2019-20. Campaign groups argue that as a result of low-pay and a 'freeze' in benefits, **75% of children living in poverty were in households with at least one working adult.**

The **New Economics Foundation** has estimated that the rising cost of living and inflation will **push more children into poverty.** It states that more people will have a lower income than the **Minimum Income Standard (MIS);** the amount required for a minimum acceptable standard of living in the UK.

The **Child Poverty Action Group** has documented the **detrimental effects that**

**poverty has on the education, health and development of children living in poverty.** The Welsh Government launched the **Child Poverty Strategy for Wales** in 2015. In 2020, the **Child Poverty: Income Maximisation Action Plan** (IMAP) was launched for one year to redirect existing funds towards alleviating child poverty.

The IMAP final report highlighted progress made across **four key objectives**. The overall aim is to maximise the incomes of families living in poverty in Wales and support them to build their financial resilience. The Minister for Social Justice has **committed to refreshing the Child Poverty Strategy** to “better reflect the issues Wales is currently facing and the options available to us”.

The Welsh Government **announced a one year increase in the Pupil Development Grant Access (14 March 2022)** scheme of £100 per learner eligible for free school meals. During a debate on the **cost of living crisis and the effect on schools and children** on 16 March 2022, Sioned Williams MS highlighted **research from the Child Poverty Action group**, which estimates that 55,000 children in poverty are not eligible for free school meals or, subsequently, PDGA mainly due to parents or carers being in low paid work.

As part of the **Co-operation Agreement** between the Welsh Government and Plaid Cymru, a commitment was made to **expand childcare to all 2-year olds in Wales. The Welsh Government announced that** the first stage of childcare expansion would start in September 2022, with all children between 2-3 receiving 12.5 hours of free childcare per week once the expansion is fully rolled out through Flying Start. The Flying Start programme as a whole will also be extended, by increasing target areas where the scheme operates.

## Free school meals

The **Bevan Foundation** reported that along with the increase in food costs of 4.5% from 2021-2022. A **quarter of households have also reported to have cut back on food between May and November 2021; with one in ten households with two children cutting back on children's food.**

The **Co-operation Agreement** included a commitment to **extend free school meal** entitlement to all primary school children, with £200 million committed towards this goal as part of the **final budget**, over the next three years. An **extra £21.4 million** was included in the final budget to extend free school meals through the **Easter holiday until the end of the summer holidays, this year.**

A **survey** by the **Child Poverty Action Group** and **Parentkind** found that families

in Wales that live on a lower income **were almost twice as likely as the wider sample surveyed to say that using breakfast clubs helped to reduce the cost of living.**

The Welsh Government introduced its **Free Breakfast Initiative** in primary school in 2004. However, **1 in 7 primary school parents have reported they could not access a breakfast club due to lack of capacity or provision.**

## 6. Housing

For many households, especially those on low incomes, housing costs **are likely to be** one of their largest financial commitments.

While social housing tenants have some protection from rising costs through the Welsh Government's **rent standard** and a **3.1% cap** on increases for most tenants in 2022-23, landlords in the private rented sector (PRS) can set market rents.

Although **Office for National Statistics (ONS) data shows a relatively modest annual increase in private rents, property portal Zoopla has said rents in Wales rose by 9.8% in the year to December 2021.**

For low income households living in the PRS, Local Housing Allowance (LHA) rates are used to calculate how much help they get with their rent through the benefits system. The Bevan Foundation **highlights that** LHA rates are being frozen at March 2020 levels. They say this decision risks causing financial hardship for low-income renters and could put households at risk of homelessness. The Bevan Foundation are also **calling** for the Welsh Government to top up local authority allocations for **Discretionary Housing Payments** (which provide extra support for housing costs), for the **Tenancy Hardship Grant** to be extended and for more help for council tax payers through the **Council Tax Reduction Scheme.**

In its recent report, '**The Benefits System in Wales**', the Welsh Affairs Committee cited **evidence** from the National Residential Landlords Association (NRLA) who represent private landlords. It highlights the shortfall between LHA rates and rents in the PRS. The Committee said the decision to freeze LHA rates at March 2020 levels required "urgent review."

The **Co-operation Agreement** contains a commitment to publish a White Paper addressing a number of housing issues, including "...the role a system of fair rents (rent control) could have in making the private rental market affordable for local people on local incomes and new approaches to making homes affordable."

### **The proposal for rent controls has met with some opposition from landlords.**

In its recent '**Shadow Wales White Paper**', the NRLA highlighted comments made by the **Resolution Foundation** in 2019 that "...holding down the true market price of private housing via enduring rent controls rather than increasing housing supply and reducing demand is unlikely to succeed."

The Welsh Government has committed to deliver 20,000 new **social homes for rent by the end of the current Senedd term**. **Giving evidence** to the Local Government and Housing Committee in January 2022, the Minister for Climate Change described that target as "pretty ambitious", given issues with the **supply-chain, increased material costs and the cost and availability of labour**. **She told the Committee earlier that it was now costing "around 30 per cent more to build each social home."**

**It is not just renters that have been affected by rising costs.** In the owner occupied sector, many borrowers have felt the impact of the Bank of England **raising interest rates** three times in three months. People buying a home have also faced **record house prices**, up 13.9% in the year to January 2022. Office for National Statistics (ONS) **data** released last week showed in Wales in 2021, full-time employees could typically expect to spend around 6.4 times their workplace-based annual earnings on purchasing a home. The Senedd's Local Government and Housing Committee's **inquiry into second homes** has recently heard that affordability and supply issues are particularly acute in many rural and coastal parts of Wales.

## 7. Mental health

The **rising cost of living pressures are adding to fears of a mental health crisis** in the UK.

Mental health is, to a great extent, **shaped by the social, economic, and physical environments** in which people live. Inequalities in society are associated with a significant increased risk of mental ill health. **Poverty is a key player.**

**People in poverty can face constant, high levels of stress**, for example due to struggling to make ends meet, overcrowded or unsafe housing, fear of crime, and comparatively poor physical health. Poverty is **clearly linked with a number of mental health problems**, including schizophrenia, depression and anxiety, and substance misuse.

**Poverty can be both a cause and a consequence of mental ill health**, e.g. where debilitating symptoms and stigma around mental illness have an impact on a person's income and ability to work. Key points include:

- In Wales, **20% of adults in the most deprived areas** report being treated for a mental health condition, compared to 8% in the least deprived.
- Children from the poorest 20% of households are **four times as likely** to have serious mental health difficulties by the age of 11 as those from the wealthiest 20%.
- **Suicide rates are two to three times higher** in the most deprived neighbourhoods compared to the most affluent.
- The more **debt** people have, the more likely they are to have a mental health problem. One in four people experiencing a mental health problem is in problem debt. People with mental health problems are three times more likely to be in financial difficulty.

A number of stakeholders contributing to the Health and Social Care Committee's current **inquiry on mental health inequalities** highlight that the costs of living crisis is already likely to be impacting on mental health and well-being of people in Wales. **Public Health Wales** says:

5. The impacts of increased energy prices, and the knock-on effects of this as well as inflation, is making it harder for people to keep their homes warm or purchase enough, healthy food for themselves and their families, among other impacts. These factors on their own would have negative impacts on mental health and well-being but will be further exacerbated by the stress and anxiety that comes with financial uncertainty.

As well as increasing people's vulnerability to mental health problems, rising costs are also a **barrier to people accessing the help they need** (e.g. due to transport costs).

## 8. Food

The UN **defines** food insecurity as when people "lack regular access to enough safe and nutritious food for normal growth and development and an active and healthy life".

The war in Ukraine has led to **widespread concern about the global food system**. Both Ukraine and Russia are large producers and exporters of food, such as wheat and other crops. Russia is also a leading producer of key nutrients used in European food production. Prices for these products **have risen on financial markets**

sparking fears the war will **affect global food supply and further drive up the cost of food.**

The **Minister for Rural Affairs told the ETRA Committee on 17 March** that there's "no immediate risk to food supplies and food security" in the UK, and she's meeting regularly with the UK Government, devolved administrations, retailers and farming unions.

The Minister said supply of sunflower oil is one potential concern, but there are many months' worth of product in storage. She also noted that some Welsh farmers were adjusting their planting plans to help address supply chain issues should they materialise.

Even before Russia invaded Ukraine, there were concerns about increasing food insecurity in Wales. **Public Health Wales warned in October 2021** that the "triple challenge" of Brexit, the pandemic and climate change will "potentially impact all of us through the food that we are able to buy", and:

... vulnerable population groups will be particularly impacted negatively including those on low incomes, women, families with children, farmers, fishers and those who live in areas of deprivation.

The Trussell Trust **saw** "signs of an acceleration of need" for food banks towards the end of 2021. The Welsh Government has **allocated almost £3 million** to support access to food and tackle food poverty.