

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

Research Briefing

March 2023



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1. Introduction

On 24 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

2.1. Energy prices and government support

Energy prices have increased significantly during 2022 both in the UK and globally. The price of gas has jumped to an all-time high, taking electricity prices with it. Ofgem, the energy regulator, limited the rates suppliers can charge domestic customers by putting a '**price cap**' on the cost of energy, which is re-evaluated every three months. As wholesale prices increased, Ofgem increased the level of the price cap.

Responding to the rising **price cap**, the **UK Government announced the Energy Price Guarantee as a temporary additional measure from September 2022**, reducing energy prices below the price cap. Under the guarantee, a typical household will pay £2,500 per year until the end of June 2023, and will then pay £3,000 per year until the end of March 2024.

Further support from the UK Government in 2022-23 included:

- The **Energy Bills Support Scheme** which provides £400 non-repayable discount to eligible households over winter 2022 to 2023. The **final discount will be applied in March 2023**;
- **Cost of living payments** to households on certain benefits, pensioners and people with disabilities – these will continue into **2023-24**; and
- The **Alternative Fuel Payment**, which provides £200 support for households dependent on alternative fuels, like heating oil, liquefied petroleum gas (LPG), coal or biomass.

In 2022-23, the Welsh Government has supported households through a number of initiatives, including the £200 **Wales Fuel Support Scheme**; the £150 **Cost of Living Support Scheme** for households living in council tax bands A-D and those receiving support under the Council Tax Reduction Scheme; the **Discretionary Assistance Fund (DAF)**; and the **Fuel Voucher Scheme**.

In 2023-24, the Welsh Government has allocated additional funding to the DAF. It has also prioritised the Basic Income Pilot, Pupil Deprivation Grant and homelessness support in making wider cost-of-living allocations.

The Welsh Government is not continuing the Wales Fuel Support Scheme beyond 2022-23. The Minister for Finance and Local Government **told the Finance Committee** that “the winter fuel scheme, that cost £90 million, so that was a very, very large investment, and it’s not something that we are able to afford to do next year”.

Responding to this decision, Luke Young from Citizens Advice Cymru **said** he anticipates there will need to be discussions on emergency support for households that received this support within the next few months. Citizens Advice Cymru has also **said that** cost of living support is a “sticking plaster for a much bigger issue”. It says that preventative approaches such as improved energy efficiency measures are needed to prevent people from falling into debt and financial hardship.

On 28 February, the Minister for Social Justice published a **written statement** on changes to how the DAF will operate from April 2023. She stated:

...from 1st April 2023, I can announce a move to one set of rules for all Emergency Assistance Payments (EAP), allowing equity of access to the DAF. We will also be uplifting each EAP award by 11%. This will mean that all individuals can apply for an EAP up to three times in a rolling twelve-month period, with just a seven day gap between applications.

The Minister noted that the maximum EAP award will increase to £111. **Since 2020**, people affected by the pandemic or the loss of the £20 Universal Credit uplift have been able to access 5 DAF payments in a 12-month rolling period, but this will no longer be the case.

2.2. Fuel poverty

Rising energy prices are pushing more Welsh people into fuel poverty (defined as spending over 10% of household income to keep their house warm). **Rural households are being hit particularly hard**. Energy cost rises are compounded by Welsh housing being **some of the least energy efficient in Europe**.

Welsh Government action to help tackle fuel poverty is delivered through the Warm Homes Programme (WHP), which comprises the **Nest scheme** and the now finished Arbed programme. Between December 2021 and April 2022, the Welsh Government **consulted on the next iteration of the WHP**. The Welsh Government hasn't yet published a response to this consultation.. The Minister for Climate

Change said she expects to procure a new, demand-led programme by the end of 2023, and that there will be no gap between the current programme and the new one.

The Senedd's Equality and Social Justice Committee **reported on the Warm Homes Programme** in May 2022. It made several recommendations on the next iteration of the WHP.

In **evidence to the Climate Change, Environment and Infrastructure (CCEI) Committee on 1 March**, the Minister for Climate Change, said:

I have to say, I don't think the Warm Homes programme is going to make any difference at all to the 0.5 million households currently in fuel poverty. Without a significant shift in the energy pricing mechanism, there's absolutely no way we're going to make a very big dent there, but it's very important to do it and it does do very good things, but there is an enormous problem with the energy market at the moment.

2.3. Prepayment meters

Prepayment meters ('PPM') are **domestic energy meters** that require users to pay for energy before using them. In January 2023, **the Welsh Government** said approximately 200,000 Welsh households use PPM for mains gas and electricity, representing:

... approximately 15% of all households and 24% of tenants in the private rented sector. Almost half of social housing tenants (45%) also use pre-payment meters.

A recent Citizens Advice Cymru survey **found that** 32% of PPM users in Wales have been disconnected from their energy supply over the last year as they can't afford to top-up. **Research by the Resolution Foundation** shows those on PPM are disproportionately on the lowest incomes.

The then **UK Secretary of State for Business, Energy and Industrial Strategy, Grant Shapps MP, wrote to energy suppliers** calling on them to stop forcibly installing PPM in households with energy debts, without taking every step to support consumers in difficulty. **Ofgem set out its intentions** to conduct a further **Market Compliance Review (MCR)** focused on suppliers' practices on PPM.

It was **reported that 32,790 warrants were issued in January** to forcibly install PPM. In February **Ofgem asked suppliers to pause forcible installation** and to conduct a thorough review of processes. Magistrates have **since been ordered to stop issuing warrants** for this practice in England and Wales. Ofgem has also

called on all suppliers to use the pause in installations (lasting until 31 March 2023) to consider if any need to be reversed. Compensation will be offered where the rules have not been followed.

Following a meeting with energy suppliers in January 2023, the **Minister for Social Justice, Jane Hutt MS said** energy suppliers had agreed to share data on the number of households being supported with their energy bills and/or being transferred onto PPM, and the reason for doing so.

The Senedd's Petitions Committee **has agreed to undertake a short inquiry to scrutinise what the petitioner describes as the PPM 'scandal'** in Wales.

3. Poverty and equality

3.1. Poverty

The Institute for Fiscal Studies has **found that low-income households have been particularly affected by inflation**. This is due to energy and food inflation, which make up a greater proportion of their expenditure than other households. In January 2023, the poorest 10% of UK households experienced 14% inflation, compared to 10% for all households and 9% for the richest 10% of households.

The Equality and Social Justice Committee has heard from a number of witnesses of a **"new poverty" emerging over recent months**, where households that have never previously needed support now require it. Robbie Davison from Well-Fed **told the Committee:**

What's been interesting, and almost alarming at the same time, is that there are people now coming through the system who have never been in need of food aid or, if you like, poverty services at all... The issue for them, when you're talking to them and you're meeting them for the first time, is that there's a panic—there's a real panic—that they don't know what to do next because they've never been in the situation before.

Dr Victoria Winckler from the Bevan Foundation has **stated that rural areas have been particularly impacted by cost of living pressures** as they "face a triple squeeze from high costs, low incomes and limited support". She notes that rural households typically spend more on transport and food than urban ones, and that rural workers earn less than urban workers. Dr Winckler also highlights that support offered through Welsh Government schemes has been insufficient to enable households to purchase a minimum delivery of heating oil.

3.2. Food insecurity and poverty

The Office for National Statistics published data on 14 March showing:

- When asked between 22 February and 5 March 2023, 49% of adults reported buying less food in the previous two weeks.
- Over this period, 42% of adults said they had spent more than usual when food shopping.
- **Between 18 and 29 January 2023**, around 9% of adults said they had been worried about running out of food before they had money to buy more in the past month.

Trussell Trust food banks in Wales distributed 77,000 emergency food parcels between April and September 2022. This is the highest level ever seen, and is a 38% increase compared to the same period in 2021-22 and a 96% increase since 2017-18.

There have been recent media reports of a **shortage of fresh fruit and vegetables, supermarkets limiting the sale of certain products** and **rising food prices** in the UK in recent weeks.

The **Minister for Rural Affairs, Lesley Griffiths MS**, was recently asked about **research from the Food Foundation** showing 18% of households in Wales were food insecure in September 2022. She responded saying the two main areas of influence – fiscal policy and the benefits system – rest with the UK Government and that it should use its 15 March budget to do more on the cost of living.

3.3. Equality

Some groups within society are more likely to belong to households which have below average incomes, **are more likely to experience poverty** and have therefore been shown to be **more at risk from rises to the cost of living**.

The **impact of cost of living pressures on people with disabilities** has been described as “seismic” **by Leonard Cheshire**. Many disabled people rely on taxis or adapted vehicles for transport, and **often face higher costs for gas and electricity**. **Leonard Cheshire argue** the £150 payment announced to help disabled people with energy costs is too low, and doesn't take into account those with higher energy needs.

In response to the **Finance Committee's consultation on the draft budget**, Chwarae Teg highlighted the **disproportionate impact that cost of living**.

pressures are having on women. They say this is because of persistent inequalities and the unequal position of women in the labour market. They report that particular groups of women such as single mothers, women with disabilities and women from ethnic minority communities are particularly affected. Their annual **'State of the Nation' report** calls for short-term action to support those most affected by the crisis and to "ensure that support schemes are designed with women's needs in mind".

The Runnymede Trust **found that people from ethnic minority communities** in Wales are 3.5 times as likely to be in poverty as white people, and that the economic gap that ethnic minority communities face has widened since the 2008 financial crisis. Across the UK, the Runnymede Trust calculated that 66% of people with Pakistani or Bangladeshi ethnicity are likely to be in fuel poverty this winter, compared to 32% of white people.

Inflated energy costs have been an ongoing issue for Gypsy, Roma and Travellers living in caravans whose arrangements for energy use are often different to those living in bricks and mortar. A **report by Friends Families and Travellers** covering local authorities in England found that most households use gas bottles, and estimate they could be paying anywhere from £184 up to £589 a month on gas alone in winter 2022.

The **Minister for Social Justice's response** to the Equality and Social Justice Committee's report on the draft budget noted that the First Minister has established an independent Expert Group on the Cost of Living. It is anticipated that their advice will be focussed on those "disproportionately impacted by the rises in the cost of living".

4. Transport

Sustrans Cymru found that people across all parts of Wales are experiencing transport poverty, which disproportionately affects certain groups including young people and those in rural areas.

Evidence from Transport for Wales suggests approximately 13% of Welsh households don't have access to a car, and 25% of bus users have a disability or long-term illness. **University of South Wales research** found the most deprived areas saw the greatest decline in access to services due to the pandemic.

The **Campaign for Better Transport** told the CCEI Committee that **messaging to avoid public transport at the beginning of the pandemic is having an ongoing**

impact. The bus industry in Wales has been **receiving support to recover from these impacts of the pandemic**. However, **the Welsh Government has announced** help may be coming to an end in June. The bus industry has warned this could **lead to a “cliff edge” with some smaller firms leaving** the market.

The CCEI Committee **recommended the Welsh Government bring forward proposals to address transport poverty** including subsidised fares. In response, the Deputy Minister for Climate Change, Lee Waters MS, **recently told the CCEI Committee** that that the Welsh Government has:

... been working really hard to try and get a flat £1 bus fare, which I think would have been a significant intervention to have been able to have done, both to encourage modal shift and tackle social injustice ... We haven't been able to do that, not because we don't want to do that.

Regulated rail fares (**around 45% of all fares**) are set to increase for the coming year. The Deputy Minister says that instead of fares increasing in line with inflation, **the increase has been capped at 5.9% from 5 March**, in line with the **increase introduced in England**.

5. Children and young people

5.1. Childcare

The UK Government announced in its **Spring Budget 2023** that it will phase in expanded childcare provision from April 2024. This will provide 30 hours a week of free childcare for 38 weeks a year, for eligible working parents of children aged 9 months to 3 years, with the expansion completed by September 2025.

The **Co-operation Agreement** between the Welsh Government and Plaid Cymru commits the government to expand free childcare to 2-year-olds. A Welsh Government **press release** from February 2023 stated that over 4,500 more 2-year-olds will access Flying Start childcare in 2023-24 and 5,200 in 2024-25.

5.2. Free school meals

The Welsh Government has provided free school meals for eligible pupils during the school holidays **since the start of the pandemic**. While this has been due to end on several occasions, it has received extensions each time.

The Welsh Government **announced on 9 March** that school holiday FSM provision would continue for the Easter holiday and Whitsun half term break. With £9 million allocated for purpose. However, it is not clear how this is being funded(it was not documented in the **Final Budget 2023-24**).

Under the **Co-operation Agreement** with Plaid Cymru, the Welsh Government is rolling out FSM to all primary school children over a three-year period.

5.3. Young people in education, employment and training

The Welsh Government's **annual report on the Young Person's Guarantee** (YPG) says "the younger generation have faced an extraordinary set of circumstances over the last few years". The report notes research indicating that over 60% of young people are "scared about their generation's future", and a third of them worry that their job prospects will "never recover from the pandemic and cost of living crisis".

The **YPG** is the range of support available to help young people (aged 16 to 24 years old) into education, employment or training, aiming to "ensure there's no lost generation in Wales".

The Children, Young People and Education (CYPE) and Economy, Trade and Rural Affairs (ETRA) Committees made a joint recommendation in their **scrutiny of the 2023-24 draft budget** that:

... the Welsh Government should supply both committees with details of how the Ministers for Economy and Education and Welsh Language are working together on incentives for young people to remain in education, employment or training. This should include any work being undertaken as a result of the increased cost of living.

The **Welsh Government's response** outlines changes to the Jobs Growth Wales+ programme, including a doubling of the training allowance to £60 a week, and a new free meal allowance among other things. In response to a separate recommendation, the Government commits to reviewing the level of support available under the Education Maintenance Allowance, which has remained static at £30 a week for eligible learners for over a decade.

6. Economy and public sector pay

6.1. The cost of doing business

As with households, **businesses have experienced increasing energy costs over recent months**. Prior to the **Energy Bill Relief Scheme**, there was not a cap on non-domestic energy prices in the same way there has been for households since 2019. The Federation of Small Businesses Wales **told the Economy, Trade and Rural Affairs Committee** in December that 1 in 7 small businesses are "considering closing, shutting down, selling, or completely restructuring their business in order to stay afloat, just because of the rising costs".

In January 2023, the UK Government announced details of the **Energy Bills Discount Scheme** for non-domestic customers such as businesses, public sector bodies and voluntary sector organisations. This scheme will run from 1 April 2023 to 31 March 2024, and will replace the **Energy Bill Relief Scheme** that is currently in place.

Under the new scheme, eligible non-domestic consumers will now receive a per-unit discount to their energy bills during the 12-month period from April 2023 to March 2024, subject to a maximum discount. There will be enhanced support for energy-intensive industries, and businesses will need to apply for this support.

The Welsh Government has **expressed concern** about the level of support provided under the new scheme.

The Welsh Government is providing retail, tourism and hospitality businesses with **75% business rate relief in 2023-24**, up to a maximum of £110,000 relief across all premises that a business occupies.

The Development Bank of Wales (DBW) has recently launched the £10 million **Green Business Loan Scheme** to support businesses to decarbonise and lower their energy costs. The fund will offer loans of between £1,000 and £1.5 million. DBW officials expect to support around 170 businesses through the scheme over the next three years.

6.2. Public sector pay

In July 2022, the Minister for Health and Social Services **announced a 2022-23 pay rise** of £1,400 for NHS staff covered by Agenda for Change terms and conditions. This is an average increase of 7.5% for the lowest-paid staff and 4% for higher-paid staff.

Also in July 2022, the Minister for Education and Welsh Language **said that** he had accepted the Independent Welsh Pay Review Body's recommendations that teachers would receive a pay increase of 5% for the 2022/23 academic year, and 3.5% for 2023/24.

The Welsh Government made additional pay offers to **NHS staff** and **teachers** in February 2023. Both of these pay offers proposed an additional 3% increase on previous offers, of which 1.5% would be carried forward into 2023-24 and 1.5% would be a one-off award.

In the Welsh Government's **Second Supplementary Budget 2022-23**, it allocated £120 million to the Health and Social Services portfolio and £32 million to the Education and Welsh Language portfolio to fund potential settlements with NHS staff and teachers for 2022-23.

On 28 February, the Minister for Health and Social Services **published a written statement** announcing that the unions in the Welsh Partnership Forum had narrowly voted to accept the pay offer for NHS workers, although the Royal College of Nursing Wales was one of the unions that **rejected the pay offer**. In answer to a topical question on 1 March, the Minister **stated** that the Welsh Government will be "renegotiating with the unions about how we will undertake the implementation of this money".

On 10 March, the National Education Union (NEU) **suspended its proposed strike action** to consider **an offer from the Welsh Government** for an 8% pay increase for 2022-23 (of which 6.5% is consolidated and 1.5% is a one-off payment), and a fully funded 5% pay increase in 2023-24. There is also a no-detriment principle in the offer, so that if a higher pay settlement is reached in England it will be matched in Wales. The Welsh Government has **said** an agreement must be reached by 17 March for teachers to benefit from a pay increase this financial year.

7. Public services

7.1. Health

The **current cost of living is a public health emergency**, potentially on the same scale as the Covid-19 pandemic, according to a report by Public Health Wales (PHW). This leads to a fall in living standards that affect people's physical and mental health, and exacerbate existing conditions.

PHW found **30% of excess winter deaths in Wales are due to cold housing conditions**, with 10% directly linked to fuel poverty. Excess winter deaths are likely to increase as fewer people are able to adequately heat their homes.

The latest evidence from PHW confirms that **cold homes (18°C or below) are linked to worse health outcomes**, including increased blood pressure (a risk factor for cardiovascular disease), respiratory effects, decreased physical performance (a risk factor for falls and fall-related injuries), and **arthritic and rheumatic conditions**. Older people, children and those with underlying conditions and disabilities are **more vulnerable to the health impacts of cold homes**, and also spend more time at home.

7.2. Mental health

Worrying about debt is linked to **anxiety, depression and suicidal thoughts**. People experiencing poor mental health are **more likely to have reduced income** as a result, leading to further financial strain and health issues.

According to recent media reports, charities are hearing that more people with chronic conditions are contemplating suicide as they cannot cope with rising costs, and the stress often affects their conditions and exacerbates symptoms.

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. For example, where debilitating symptoms and stigma around mental illness have an impact on a person's income and ability to work.

7.3. Local Government pressures and impacts on households

Local government finances are stretched, with significant pressures expected over the next two years. The Welsh Local Government Association **highlights that** services, from waste collection to environmental health have and will continue to be impacted, with authorities struggling to retain and recruit staff and maintain services due to high costs. Local authority social care was particularly negatively impacted as a result of the pandemic. Attracting new care workers and retaining current staff is a significant challenge for local authorities.

All 22 local authorities have recently determined to increase the level of council tax to be paid by householders. Despite an increase in **funding via the local government settlement**, and the additional income that will be raised via council tax increases, it does not negate the need for further cuts and changes to local service provision.

Local authorities, like householders, have been faced with sharp increases in the cost of energy, interest rates and the impact of inflation on wages. The council tax bill for an average Band D property in Wales **will increase by** an average of **5.5 per cent**. Conwy Council voted to increase its council tax by 9.9 per cent, the highest increase in Wales. Torfaen has the lowest increase at 1.9 per cent.