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Welsh Government

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Cabinet Sub-Committee on Cost of Living meeting: 3 October 2022

Minutes of the Cabinet Sub-Committee on Cost of Living meeting on 3 October 2022.

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Present

- Rt. Hon. Mark Drakeford MS (Chair)
 - Rebecca Evans MS
 - Lesley Griffiths MS
 - Jane Hutt MS
 - Mick Antoniw MS
 - Vaughan Gething MS
 - Julie Morgan MS
 - Lee Waters MS
-
- Professor Huw Dixon, Cardiff University (item 1)

Officials

- Andrew Goodall, Permanent Secretary
- Des Clifford, Director Office of the First Minister
- Will Whiteley, Deputy Director Cabinet Division
- Jane Runeckles, Special Adviser
- Alex Bevan, Special Adviser
- Kate Edmonds, Special Adviser
- Jo-Anne Daniels, Director General Education, Social Justice and Welsh Language
- Reg Kilpatrick, Director General, COVID-19 recovery and Local Government
- Jo Salway, Director Social Partnership and Fair Work
- Claire Bennett, Director Communities and Tackling Poverty
- Toby Mason, Head of Strategic Communications
- Andrew Jeffreys, Director Treasury
- Emma Watkins, Deputy Director, Budget and Government Business
- Catrin Sully, Cabinet Office

- Liz Lalley, Director, Recovery & Re-start division
- Tom Smithson, Deputy Director COVID recovery and Local Government Group
- Christopher W Morgan, Head of Cabinet Secretariat
- Damian Roche, Cabinet Secretariat (Minutes)

Item 1: Expert update – Professor Huw Dixon, Cardiff University

1.1 Croesawodd y Prif Weinidog yr Athro Dixon i'r cyfarfod a'i wahodd i gyflwyno i'r grŵp. The First Minister welcomed Professor Dixon to the meeting and invited him to present to the group.

1.2 This was the first in a series of expert updates that would be provided to the Committee, alongside updates from social partners and evidence and analysis from across portfolios.

1.3 The presentation focused on 4 key themes: inflation and GDP; energy and food; macroeconomic turbulence; and the impact on housing.

Inflation and GDP

1.4 Research from the National Institute of Economic and Social Research (NIESR), pointed towards inflation being lower due to the UK government's Energy Price Guarantee (EPG). However, the costs of doing so would be substantial, potentially £70bn or more over the first 6 months, which was a bigger fiscal intervention than the furlough scheme during the pandemic.

1.5 The UK government's hope was that the EPG, combined with the tax cuts

announced in the recent statement by the Chancellor, would boost demand and increase the growth rate. NIESR's analysis suggested growth could increase from 0% to 2% in 2023, which would be a £40 billion impact.

1.6 However, as the bank rate was increasing to combat inflation, this could counter some of the predicted growth. The UK government's recent U-turn on the top rate of tax would only have a minor saving of £2-3bn in the wider context of reversing the increase to National Insurance contributions and other measures.

1.7 The impact of these interventions on Wales would be significant, and there were reports of potential cuts or freezes to the benefits to follow, which would have a disproportionate impact on Wales, given that more households were on the lower socio-economic end of the scale.

Energy and food

1.8 It was clear from the NIESR evidence that food and energy prices were particularly volatile markets, with food subject to sharp rises since November 2021. The reduction in gas from Russia had led to a huge rise in global prices, a situation which was unlikely to improve in the short term, as new sources of energy supply would take several years to come onstream.

1.9 Whilst the Energy Price Guarantee would reduce inflation directly, it was not targeted at the poorest end of the income scale, as the richest, who consumed the most energy on average, would see the greatest levels of subsidy. However, it was assessed that the EPG would help poorer households more than richer households as a proportion of their household budget.

1.10 However, it was clear the impact in Wales of these price rises would be severe, as food and energy were essentials that made up a larger proportion of household budgets.

1.11 The EPG would not solve the issues of supply, and there was the possibility of power cuts over the winter. There may be a need for households and businesses to reduce consumption.

1.12 Support for the vulnerable would be key, with warm places and potentially emergency over-night accommodation becoming necessary.

Macroeconomic turbulence

1.13 It was noted that macroeconomic turbulence would exist for the near future whilst the energy crisis continued. The increase in energy costs would make everyone worse off across the UK and that could not be avoided in Wales. When Russian energy was eventually replaced, it would be with more expensive alternatives such as LNG. Renewables would also take a long time to be sufficiently scaled up.

1.14 Real wages would fall as inflation increased and wages failed to keep pace, although there would be a mixture of winners and losers.

1.15 Rising interest rates would have a big impact in Wales, these rises would be partly policy driven by the Bank of England raising rates and partly driven by the rest of the world, as central banks raised rates globally, and partly through a loss of investor confidence across the UK, as evidenced by the Bank of England's emergency intervention to prop up pension funds.

1.16 There was no doubt the cumulative impact of this turbulence would be felt more keenly in Wales, due to its larger public sector and socio-economic profile.

Housing

1.17 The rise in interest rates was likely to lead to a fall in house prices, or at the

very least stop them rising in line with inflation. Whilst that might be welcomed by some sections of society, such as younger first-time buyers struggling to get a foothold on the ladder, there would be wider consequences.

1.18 There was early evidence that a mortgage crunch was on the horizon, with rates increasing significantly for those re-mortgaging and this could lead to negative equity for recent buyers with large mortgages.

1.19 The rental market was also a concern, given that landlords facing rising mortgage costs could lead to unsustainable rises in rents, or landlords being forced to sell up and leave the market, increasing pressure on the number of available properties for rent, thus driving rents up further.

1.20 There could potentially be a need for the government to intervene to stabilise the rental market.

1.21 The committee thanked Professor Dixon for his presentation and noted help would be targeted at the most vulnerable in Wales, in stark contrast to the approach taken by the UK government.

Item 2: Update report on cost of living measures

2.1 The First Minister introduced the paper, which asked the committee to agree a reporting approach for future meetings and to note progress to date.

2.2 The committee welcomed the intention to invite social partners. It was noted the faith community and others had excellent networks and an effective presence on the ground in helping the vulnerable through food banks and other means of advice and support.

2.3 The committee agreed the agenda for the next meeting.

Item 3: Communication and the ‘Claim What’s Yours’ campaign

3.1 The First Minister asked the Head of Strategic Communications, Toby Mason to provide an update on the latest campaign work.

3.2 It was reported that the ‘Claim What’s Yours’ campaign, which would seek to ensure people claimed what they were entitled to under the various schemes to support people through the cost-of-living crisis.

3.3 The campaign would focus on the support provided by the Welsh Government, and testing with focus groups was currently taking place. Early indications showed a positive response to the winter fuel campaign, with over 18,000 direct hits on the Welsh Government website.

3.4 LA delivery partners were also reporting strong interest and they would be key in disseminating information at a local level to those most in need of accessing the available support.

Item 4: Terms of reference – CAB-CoL(22-23)04

4.1 The committee noted the Terms of Reference and that they would be published shortly.

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