



Llywodraeth Cymru
Welsh Government

PUBLICATION

Cabinet Sub-Committee on Cost of Living meeting: 6 February 2023

Minutes of the Cabinet Sub-Committee on Cost of Living
meeting on 6 February 2023.

First published: 28 March 2023

Last updated: 28 March 2023

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Present

- Jane Hutt MS (Chair)
- Rebecca Evans MS
- Vaughan Gething MS
- Lesley Griffiths MS
- Julie James MS
- Jeremy Miles MS
- Mick Antoniw MS
- Dawn Bowden MS
- Julie Morgan MS

Officials

- Andrew Goodall, Permanent Secretary
- Des Clifford, Director Office of the First Minister
- Rebecca Dunn, Head of Cabinet Division
- Jane Runeckles, Special Adviser
- Ian Butler, Special Adviser
- Alex Bevan, Special Adviser,
- Kate Edmunds, Special Adviser
- Philippa Marsden, Special Adviser
- Jo-Anne Daniels, Director General Education, Social Justice and Welsh Language
- Reg Kilpatrick, Director General, COVID-19 recovery and Local Government
- Judith Paget, Director General, H&SS
- Jo Salway, Director Social Partnership and Fair Work
- Andrew Jeffreys, Director Welsh Treasury
- Emma Watkins, Deputy Director Budget and Government Business
- Jonathan Price, Chief Economist

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- Toby Mason, Head of Strategic Communications
- Catrin Sully, Cabinet Office
- Liz Lalley, Director, Recovery & Re-start
- Maureen Howell, Deputy Director, Tackling Poverty and Supporting Families
- Christopher W Morgan, Head of Cabinet Secretariat
- Damian Roche, Cabinet Secretariat (Minutes)
- James Burgess, Acting Deputy Director, Cost of Living
- Heather O'Sullivan, Cost of Living Team
- Christopher Morgan, Cost of Living team

Item 1: Minutes of the previous meetings

1.1 The Sub-Committee agreed the minutes of the 23 January / Cytunodd y Pwyllgor cofnodion o 23 Ionawr.

Item 2: Update on the economic impacts and longer-term implications of the cost-of-living crisis

2.1 Croesawodd y Gweinidog Cyfiawnder Cymdeithasol pawb i'r cyfarfod a gwahodd Jonathan Price, y Prif Economydd i gyflwyno i'r grŵp. The Minister for Social Justice welcomed everyone to the meeting and invited Jonathan Price, Chief Economist to present to the group.

2.2 In terms of CPI inflation, this was projected to fall sharply to just under 4% by the end of 2023, which reflected the rapid decline in global price pressures and the fall in the contribution of household energy prices to CPI inflation. However, Cornwall Insight, an independent energy research, analytics and consulting

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company, forecast that energy prices would remain at a high level over the medium term, around double the cost to households prior to the war in Ukraine.

2.3 In addition, there continued to be a high degree of uncertainty in terms of inflationary pressures and the fact remained that higher energy costs disproportionately impacted those on low incomes and various disadvantaged groups.

2.4 Annual private-sector regular pay growth was expected to decline from the spring, to around 5% by the end of this year.

2.5 CPI inflation was forecast to decline to well below the 2% target in the medium term, as a weakening of the labour market reduced domestic inflationary pay pressures and energy prices fell back, albeit remaining at elevated levels.

2.6 The Labour market was reported still to be relatively strong, but there were increased levels of inactivity due to a number of factors, including ill health and early retirement.

2.7 The UK was expected to have the worst GDP outcome in 2023 of all the G7 Nations, as predicted by the IMF and BoE. Despite this, the labour market had been more resilient than expected during recent crises. However, with the forecast recession, albeit shallower than first predicted, central estimates pointed to an increase in unemployment of between 15 – 20,000 in Wales during 2024-25, although again this was difficult to accurately predict.

2.8 On living standards, median income had dropped by 0.6% over the last financial year, 2021-22. It was clear the poor had become poorer whilst the wealthiest had become wealthier. This was evidenced by instances of food insecurity having more than tripled from pre-pandemic levels.

2.9 Median incomes were set to continue falling over this and the next financial

year, before growth returned during 2024-25. Longer term prospects for living standards remained poor, with annual productivity growth remaining stubbornly low.

2.10 In terms of borrowing and debt, mortgage rate increases had abated prior to the latest interest rate rise but were likely to increase again. In Wales, the latest Bevan Foundation report showed the groups most likely to be in debt were people in receipt of benefits, particularly Universal Credit, disabled people whose condition limited them a lot, people living in households with children, younger working-age adults, carers and social housing tenants.

2.11 Housing costs would rise for all, and it was private rented tenants who were more likely to face significant difficulty meeting housing costs during the crisis. Households were cutting back on spending, utilising savings or borrowing money to meet basic housing needs, and Wales had the highest proportion of households struggling with housing costs in the UK.

2.12 There had been a doubling in the number of new disability benefit claimants, which was in line with the increased inactivity figures seen across the UK. The increase in disability claims was for both physical and mental ailments and self-reported ill health had increased across a wide range of conditions.

2.13 The Minister for Social Justice thanked the Chief Economist for the presentation, difficult as the messages were to hear, and noted the slides would be shared with Members.

Item 3: Update on how the impacts of debt were showing themselves through Welsh Government interventions

3.1 The Minister for Social Justice provided an update on the latest evidence

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around the impacts the cost-of-living crisis was having on debt levels, particularly for the most vulnerable in society.

3.2 There was a concerning trend in the number of people living in a deficit budget situation, whereby their income did not meet essential expenditure. StepChange Debt Charity had reported that one in three new clients had a deficit budget.

3.3 Citizens Advice Cymru's Cost of Living Review for last year also highlighted that the proportion of people seeking advice with deficit budgets had grown from 39% during 2019-20 to nearly 50% in 2022.

3.4 Those more likely to have a deficit budget included single people, single parents, private renters, disabled people, and people with a long-term health condition.

3.5 Whilst half of debt clients on Universal Credit were reported to be living with deficit budgets, the largest proportional increase over the previous 3 years had been amongst debt clients not in receipt of any benefits, an increase of 13 percentage points. The evidence also showed that increasing numbers of debt clients living with deficit budgets were in employment.

3.6 The Single Advice Fund providers had reported that a growing number of people did not have enough money to meet their essential expenditure, even after income maximisation efforts.

3.7 The only debt solutions available to people with a deficit budget were those that involved a debt being written-off with a Debt Relief Order (DRO). Whilst resolving a person's immediate debt problems, a DRO would not address underlying issues, therefore new debts could accrue, and people awarded a DRO would struggle to access affordable credit.

3.8 The committee noted that it was in the UK government's gift to take

immediate action to ease some pressure on households with deficit budgets and the Welsh Government had called for automatic deductions from Universal Credit payments to be limited to 5% and cumulative deductions reduced from 25% to 15%.

3.9 Despite the UK government declining to ease pressure on people in this way, work was ongoing with the Child Poverty Action Group to collect more evidence of the hardship caused by the deductions policy.

3.10 The committee recognised that Advicelink Cymru was the best route for people to access quality assured resources and support, as highlighted by the 'Claim What's Yours' and 'Here to Help With the Cost of Living' campaigns.

3.11 It was reported that the Single Advice Fund had helped nearly 10,000 people deal with over 25,000 social welfare issues in the first half of the current financial year, and concerns were raised about disadvantaged groups being disproportionately impacted by the crisis.

3.12 The committee welcomed the almost 250% increase in Credit Unions of Wales webpage usage, following the campaigns and Ministerial visits to increase their profile.

3.13 Credit Unions had raised valid concerns about Debt Relief Orders and Individual Voluntary Agreements being used to deal with smaller debt issues, which could adversely impact future credit worthiness and work was being taken forward with the sector about providing the right solutions for every situation. This would be fed back to Citizens Advice Cymru.

3.14 In addition, a no-interest loan scheme was being piloted by Fair for All Finance, with £1 million funding from the Welsh Government. The Social Credit consortium was providing interest free loans to those referred to it via the online lender, Plend.

3.15 The committee noted the update.

Item 4: Update on impact the cost-of-living crisis was having on mortgage and rent arrears

4.1 The Minister for Climate Change provided an update on the effect the crisis was having on mortgage and rent arrears.

4.2 Mortgage arrears were anticipated to increase during 2023 and 2024 as interest rates were still rising but were predicted to peak during this year.

4.3 All options were being considered to widen mortgage rescue support, including through supporting people at an earlier stage than repossession. In addition, it was noted there were difficulties with designating local authorities as providers, due to the more stringent lending criteria introduced since the financial crisis.

4.4 In terms of rent arrears, there was already support available to tenants through the Homelessness Prevention Fund, Leasing Scheme Wales, funding for Citizens Advice Cymru to establish a Private Rented Sector debt helpline, and the Fuel Support Scheme.

4.5 In relation to homelessness, there were nearly 9,000 people in temporary accommodation, with 3,000 of those children, and approximately 1,400 new presentations per month. The Welsh Government had invested heavily in homelessness prevention and housing support services, as well as the Housing Support Grant.

4.6 The fact remained that the cost of homelessness amounted to approximately £1,300 per week for local authorities, whereas supporting people to stay in their homes was much more financially efficient.

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4.7 It was recognised that further protections set out in The Renting Homes (Wales) Act 2016, including an increased notice period for rent increases and an increase in the no-fault eviction period would also help tenants.

4.8 The committee noted the update.

Cabinet Secretariat
February 2023

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