



Llywodraeth Cymru
Welsh Government

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Cabinet Sub-Committee on Cost of Living meeting: 19 June 2023

Minutes of the Cabinet Sub-Committee on Cost of Living
meeting on 19 June 2023.

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Present

- Mark Drakeford MS
- Jane Hutt MS (Chair)
- Rebecca Evans MS
- Jeremy Miles MS
- Hannah Blythyn 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
- David Hooson, Special Adviser
- Jo-Anne Daniels, Director General Education, Social Justice and Welsh Language
- Reg Kilpatrick, Director General, COVID-19 recovery and Local Government
- Nick Wood, Deputy Chief Executive NHS Wales
- Amelia John, Interim Director Communities and Tackling Poverty
- Claire Germain, Deputy Director Tackling Poverty and Supporting Families
- 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
- Neil Buffin, Legal Services
- Liz Lalley, Director, Recovery & Re-start
- Emma Spear, Deputy Director, H&SS
- Christopher W Morgan, Head of Cabinet Secretariat
- Damian Roche, Cabinet Secretariat (Minutes)
- James Burgess, Acting Deputy Director, Cost of Living
- David Willis, Head of Tackling Poverty

Apologies

- Vaughan Gething MS
- Julie James MS
- Eluned Morgan MS
- Lynne Neagle MS

Item 1: Introduction and minutes of previous meeting

1.1 Croesawodd y Gweinidog Cyfiawnder Cymdeithasol Gweinidogion i'r cyfarfod. The Minister for Social Justice welcomed ministers to the meeting.

1.2 The sub-committee agreed the minutes of 15 May / Cytunodd y Pwyllgor cofnodion o 15 Mai.

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Item 2: Update on energy

2.1 The Minister for Social Justice and Chief Whip introduced the paper on behalf of the Minister for Climate Change, who was not available, providing an update on energy and how work in this area was supporting people through the cost-of-living crisis, in addition to setting out next steps for action.

2.2 The sub-committee noted that energy costs would continue to be challenging through to next spring, with credible forecasts pointing to the energy price cap settling at or around the £1,900 to £2,000 mark. However, this compared unfavourably with an average annual household cost of approximately £1,200 in Spring 2021.

2.3 Forecasts beyond next Spring were not possible with any credible level of accuracy, therefore, it was suggested the UK government should focus on reviewing and reforming retail energy prices through measures such as removing environmental and policy costs from bills, decoupling electricity prices from the global price of gas and incentivising the roll-out of a range of renewable sources of electricity.

2.4 These policy interventions would take time to develop and implement, but they represented long-term solutions which would reduce the likelihood of future energy crises.

2.5 In the meantime, the Welsh Government had several initiatives in place to support the most vulnerable. The first of which was the Discretionary Assistance Fund, which had received an additional £18.8 million in the Budget, bringing the Fund to £38.5 million for 2023-2024, a 95% uplift from last year.

2.6 In addition, the Welsh Government's partnership with the Fuel Bank Foundation supported energy customers who were struggling to pre-pay their fuel through the provision of fuel vouchers and off-grid support.

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2.7 There was also the support offered through the existing Nest scheme and, with Cabinet agreement recently secured, progress on a new Warm Homes Programme to ensure continuity of support.

2.8 Finally, the Optimised Retrofit Programme provided energy efficiency for social homes.

2.9 In addition to all these support schemes, the sub-committee acknowledged the wider support Cabinet colleagues had provided to households including through the Council Tax Reduction Scheme and commitments on free school meals, which provided a lifeline to families across Wales who were struggling.

2.10 Notwithstanding the above, the sub-committee recognised that the reality for many people around Wales was that, even with the reduced cap from July, household budgets would remain under considerable pressure and families would not feel any better off.

2.11 This was mitigated to some degree over the summer, but another cold winter could see the situation deteriorate considerably once again.

2.12 The Welsh Government had to date been able to mitigate some of the winter pressures through the Winter Fuel Support Scheme, but given inadequate funding from the UK government, that would not be an option this year.

2.13 The sub-committee noted the possibility that should the situation deteriorate, there would be pressure to provide further targeted cash-based support from partners and the public.

2.14 The sub-committee welcomed the work ongoing to continue pressing the UK government and Ofgem to reverse the forced installation of prepayment meters, and to avoid this happening again by ensuring energy suppliers were appropriately regulated.

2.15 In addition, the continuation of warm hubs as community centres, despite

no additional funding being available was welcomed by the Committee as an example of where early Welsh Government intervention had led to long-term community benefits.

2.16 The issue of mortgage difficulties for many over the coming months and years due to interest rate increases was raised, and it was agreed that careful monitoring of the situation would be required during the summer and autumn.

2.17 The sub-committee noted the update.

Item 3: Update on Economic Issues, Jonathan Price, Chief Economist

3.1 The Minister for Social Justice and Chief Whip referred to some key economic data being released this week and asked the Chief Economist to provide the sub-committee with the latest analysis.

3.2 It was reported that headline CPI inflation had peaked at over 10%, and was now falling, but remained higher in the UK than in the euro area or the US. New inflation data would be published later that week, and whilst CPI inflation was down to 8.7% in April, core inflation had increased.

3.3 It was noted that whilst nominal pay growth was high, real pay continued to decline and although CPI inflation was poised to decelerate sharply over the next few months, as last year's rapid energy price increases dropped out of the calculations and gas and electricity prices fell, but there was still debate over how fast and by how much it would fall.

3.4 There was much uncertainty due to inflation in April being above the bank's forecast and it was noted that most of the difference in inflation between UK and USA/Europe was accounted for by energy prices, and the July data, due to be

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published in August, would be crucial for assessing inflation prospects.

3.5 It was true that much of the impact of previous interest rate increases were still to be felt, and some were predicting that further interest rate rises could risk sparking a recession.

3.6 In terms of the Labour market, there were currently conflicting signals in Wales, as the survey data from the Labour Force Survey (LFS) showed a widening gap in employment rates between Wales and the UK. According to the latest data, the gap was being driven by both unemployment and inactivity, whereas this was previously just inactivity.

3.7 There were some surprising movements between men and women, and inconsistencies between the quarterly and annual surveys produced by the LFS and Annual Population Survey.

3.8 However, it was noted the survey data was volatile and information from PAYE systems suggested Wales was doing better, excluding self-employment. In addition, the benefits claimant count and job adverts data was also consistent with the PAYE data, rather than that of the LFS.

3.9 There was a significant issue with long term sickness in the UK labour market data, although inactivity had reduced from its peak. Mental health and musculoskeletal problems seemed to be the primary cause, with smaller numbers of long-Covid.

3.10 On GDP, there was growth of 0.2% in April, but recent growth was essentially flatlining. More worryingly, business investment had not yet returned to pre-Brexit referendum levels, which was concerning for growth prospects.

3.11 Longer-term growth prospects had been revised upwards, albeit from a low starting point.

3.12 The sub-committee noted one of the most worrying trends was that food

bills were set to overtake energy as the greatest hit to family finances, which would have a big impact on the poorest households.

3.13 In addition, interest rate rises were increasing mortgage repayment pressures and the majority of the impact of those rises were yet to be felt by those on fixed rate mortgages.

3.14 Market expectations were that Bank rate would peak at 6%, with some economists predicting a lower figure of 5%. It was noted that most mortgaged households were towards the wealthier and would benefit from inflation eroding the value of their mortgages over time. In addition, less than 30% of households were currently mortgaged.

3.15 The sub-committee noted there was little evidence of recent inflation being driven by higher profits more generally, not including the energy production industry which was subject to a windfall tax.

3.16 In summary, there would be weak growth over the short term, but this would not be as bad as originally expected due mainly to the easing of energy prices.

3.17 Future developments would very much depend on how global energy and commodity markets performed and whilst immediate Ukraine issues might be passing the global political context remained highly uncertain.

3.18 There would be continuing pressure on living standards from high price levels, even as inflation abated and people on low incomes would be the worst affected.

3.19 Over the longer term there were also uncertainties around the implications of developments within Artificial Intelligence and the effects of remote economic activity, including working from home. There was some evidence the latter had benefited those with caring responsibilities, which had helped some women to

re-engage with the workplace.

3.20 The sub-committee noted it would be likely that growth in real wages would continue to be sluggish, along with flatlining living standards, and therefore the tax base would also remain flat.

3.21 The sub-committee thanked the Chief Economist for the detailed presentation and analysis.

Cabinet Secretariat
June 2023

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