

Agenda – Economy, Trade, and Rural Affairs Committee

Meeting Venue:	For further information contact:
Hybrid – Committee room 5 Ty Hywel and video Conference via Zoom	Robert Donovan Committee Clerk
Meeting date: 26 May 2022	0300 200 6565
Meeting time: 10.05	SeneddEconomy@senedd.wales

Private pre-meeting (10.00–10.05)

Public Meeting (10.05–14.20)

1 Introductions, apologies, substitutions and declarations of interest

(10.05)

2 Paper(s) to note

(10.05)

2.1 Letter from Minister for Economy

(Pages 1 – 5)

Attached Documents:

EU Imports and Border Controls

2.2 Letter from the Counsel General and Minister for the Constitution re: UK Government’s proposed legislation for the new session

(Pages 6 – 7)

Attached Documents:

Letter to the Chair Legislation, Justice and Constitution Committee



2.3 Letter from the Minister for Rural Affairs and North Wales, and Trefnydd

(Page 8)

Attached Documents:

Common Agricultural Policy (Cross Compliance Exemptions and Transitional Regulation) (Amendment) (EU Exit) Regulations 2022

2.4 Letter from the Chair to The Rt Hon Grant Shapps MP Secretary of State for Transport

(Page 9)

Attached Documents:

HGV drivers shortage and associated supply chain issues

2.5 Letter from the Minister for Rural Affairs, North Wales & Trefnydd

(Pages 10 – 11)

Attached Documents:

Sea Fisheries (Amendment) Regulations 2022

3 Cost of Living – Workforce

(10.05–10.55)

(Pages 12 – 31)

Dr Steffan Evans, Head of Policy (Poverty), The Bevan Foundation

Shavanah Taj, General Secretary, Wales Trades Union Congress

Dr Deborah Hann, Citizens Cymru Wales

Attached Documents:

Research brief

Evidence from The Bevan Foundation

Break (10.55–11.00)

4 Cost of Living – Businesses

(11.00–11.50)

(Pages 32 – 37)

Leighton Jenkins, Assistant Director, CBI Wales

Dr Llŷr ap Gareth, Senior Policy Adviser, Federation of Small Businesses

Chris Noice, Communications Director, Association of Convenience Stores

Attached Documents:

Evidence from Federation of Small Businesses

Break (11.50–12.30)

5 Cost of Living – Rural communities

(12.30–13.20)

Professor Mark Shucksmith OBE, School of Architecture, Planning &

Landscape, Newcastle University

Ceri Cunnington, Cwmni Bro Ffestiniog

Jackie Blackwell, Ynys Mon Citizens Advice

Break (13.20–13.30)

6 UK–New Zealand Free Trade Agreement

(13.30–14:20)

(Pages 38 – 49)

Sam Lowe, Director Trade, Flint–Global

Emily Rees, Senior Fellow at European Centre for International Political
Economy

Professor Michael Gasiorek, University of Sussex

Attached Documents:

Research brief

7 Motion under Standing Order 17.42(ix) to resolve to exclude the public for the remainder of the meeting

(14.20)

8 Private

(14.20–14.30)

Consideration of evidence following the meeting



Paul Davies MS
Chair of the Economy, Trade and Rural Affairs Committee
Welsh Parliament
Cardiff Bay
Cardiff
CF99 1SN

9 May 2022

Dear Paul

Border Controls

Further to my oral statement on 3 May, the Minister for Rural Affairs, North Wales and Trefnydd has written to Rt Hon George Eustice MP, Secretary of State for Environment, Food and Rural Affairs, and I have written to Rt Hon Jacob Rees-Mogg MP, Minister for Brexit Opportunities.

I attach copies of both letters for the attention of the Committee.

Yours sincerely,

Vaughan Gething AS/MS
Gweinidog yr Economi
Minister for Economy

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We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.



The Rt Hon George Eustice MP
Secretary of State for Environment, Food and Rural Affairs

Secretary.State@defra.gov.uk

4 May 2022

Dear George,

I was extremely disappointed with the announcement by the UK Government on 28 April of yet another delay to the introduction of border checks and personal imports restrictions for EU imports, due to commence in July.

This repeated lack of engagement by the UK Government, is completely contrary to the ways of working envisaged in the Inter-Governmental Relations Review and the Common Frameworks and is incredibly disrespectful to our responsibilities as a Devolved Government and to devolution itself. This also undermines our work together, over many years, through the Inter-Ministerial Group (IMG).

I note my colleague, Vaughan Gething, MS, Minister for Economy, wrote to you on 24 March regarding Defra's plans for the implementation of further sanitary and phytosanitary (SPS) controls on imports from July-November 2022 to which you not yet responded.

I am sure you agree with me maintaining robust biosecurity is a critically important. When we were Members of the EU, we applied higher levels of assurance on EU imports where permitted. Our exit from the EU does not mean our biosecurity should decrease in any way. The UK Government's recent announcement has caused continued uncertainty about the level and type of checks for which Devolved Governments and industry will need to plan.

Continued delays to the introduction of EU import checks are a risk to our collective biosecurity, a risk which grows with time. The lack of access to EU traceability, disease notification and emergency response systems further compounds this risk.

I am very concerned the farming sector in Wales will be disadvantaged and there will not be a level playing field for Welsh producers, who are subject to costly and time-consuming EU export checks and regulatory requirements, whilst their EU competitors continue to benefit from the lack of any such regulatory checks.

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I also share concerns voiced by the British Veterinary Association in relation to risks of incursion of exotic diseases to this country. I am very worried by diseases such as foot and mouth disease, african swine fever or indeed rabies, all of which can have a devastating impact.

There is general consensus between the Chief Veterinary Officers and Chief Plant Health Officers these are biosecurity risks we should be collectively addressing to consider how to protect animal and plant health on a GB-wide basis.

There is a foundation of good collaboration between all UK governments through the IMG, Common UK Animal Health and Welfare Framework and the Common UK Plant Health Framework. This is where we maintain common policies and approaches to ensure protection of the UK's biosecurity status and to facilitate trade within and beyond the UK on SPS goods.

Given the uncertainty following the UK Government's announcement, we need our officials to urgently work together to collectively agree a risk-based approach to managing biosecurity risks and take policy decisions on public, animal and plant health issues affecting the UK as a whole,

My preference is to have a GB-wide approach to import checks. However; as I have stated before, I do not exclude taking a Wales-only approach even if this means setting up a higher standard than England. Unless we are properly involved in determining the future approach, we may have no option but to develop a regime of our own, in order to protect devolved matters including animal and plant health.

I am copying this letter to Vaughan Gething MS, Minister for the Economy, Mairi Gougeon MSP, Cabinet Secretary for Rural Affairs and Islands, and Simon Hart MP, Secretary of State for Wales.

Yours sincerely,

A handwritten signature in black ink that reads "Lesley Griffiths". The signature is written in a cursive, flowing style.

Lesley Griffiths AS/MS

Y Gweinidog Materion Gwledig a Gogledd Cymru, a'r Trefnydd
Minister for Rural Affairs and North Wales, and Trefnydd



Ein cyf/Our ref IM/VG/00696/22

Rt Hon Jacob Rees-Mogg MP
Minister for Brexit Opportunities
and Government Efficiency
Cabinet office
70 Whitehall
London
SW1A 2AS
ministerial.correspondence@cabinetoffice.gov.uk

10 May 2022

Dear Jacob

Thank you for your letter of 28 April, which reaffirmed the UK Government's decision to further delay the introduction of customs checks and SPS checks on the importation of goods from the EU.

I will repeat here the point I made at GB(O) on 27 April regarding the importance of adhering to the ways of working envisaged in the Inter-Governmental Relations Review and the Common Frameworks.

The Welsh Government now needs to consider the full implications of your announcement and its impact for Wales. We also need to understand the UK Government's detailed proposals on how to treat goods from the island of Ireland. I hope you will endorse the need for Welsh Ministers to be fully involved in GB(O) discussions on import controls in relation to the Irish Sea ports and can help ensure that we are participate in the appropriate discussion in order to agree a collective way forward. Not being able to do so would hinder a coherent approach for Britain and the choices we will need to consider in the exercise of our devolved responsibilities.

No one can argue with your wish to deploy technology to make our borders more efficient and support trade with our nearest neighbours, provided we have confidence that it is robust and resilient. If a safe, secure and efficient import system can be achieved through harnessing innovative new technologies to streamline processes and reduce frictions, then this is something the Welsh Government can support.

But equally we will want to be assured that our long-term strategic responsibilities to protect the health of people, animals and plants in this country are given sufficient weight. We know the dreadful consequences of an outbreak of animal or plant disease. I am less than confident that technology can yet address these concerns.

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I'm sure you would agree that we should limit risk to biosecurity and food safety, while securing the food supply chain and trade. We enjoy the natural advantage of a sea border around the island of Great Britain, so we are able to limit the impact of diseases, such as foot and mouth and rabies.

Although biosecurity is devolved, we need a coherent approach for imports into Great Britain, given there are no hard borders between our countries. My colleague Lesley Griffiths has already written to George Eustice to propose that we should invite the Chief Veterinary Officers and experts on high-risk plants, to advise Ministers collectively on how to minimise these risks. I emphasise that we need to work better together going forward if we are to devise a joined up approach that we can all recommend to our respective governments.

My other immediate concern is the legislative requirement. We need legislation to come into force before the end of June to put off SPS checks. As Lesley Griffiths set out at IMG as far back as 21 March, and I reiterated in my letter to George Eustice a few days later, we urgently need to see DEFRA's legislation so we can plan how to legislate in concert with you. It may be possible for the legislation you are making to apply on an England and Wales basis but, depending on its exact content, we may have to mirror your legislation in parallel Welsh legislation. Until we see the text of your proposed legislation, we won't be able to make that legal determination. The time to legislate is now very short indeed, we risk running out of time to make the required Welsh legislation before July unless Defra can confirm the position within the next few weeks. All this is potentially affected by your intentions for trade with the island of Ireland, so I look forward to next week's GB(O) discussions.

Finally, I have been clear that any expenditure on border controls following exit from the European Union should be funded by the UK Treasury. If anything, this new announcement adds to our argument. UK Government decisions have determined the form of our departure from the European Union, and UK Government decisions continue to directly affect devolved responsibilities with cost consequences. I would be grateful for assurances that this latest policy shift will not affect the UK Government's existing commitment to fund the building costs for any necessary border controls in Wales.

I am copying this letter to my colleagues, Lesley Griffiths MS, Minister for Rural Affairs, North Wales and Trefnydd, to Mairi Gougeon MSP, Cabinet Secretary for Rural Affairs and Islands in the Scottish Government and to the Rt. Hon George Eustice MP, Secretary of State for Environment, Food and Rural Affairs, Rt. Hon Michael Ellis QC MP, Minister for the Cabinet Office and the Rt. Hon Simon Hart MP, Secretary of State for Wales.

Yours sincerely,



Vaughan Gething AS/MS
Gweinidog yr Economi
Minister for Economy

Agenda Item 2.2

Y Cwnsler Cyffredinol a Gweinidog y Cyfansoddiad
Counsel General and Minister for the Constitution



Llywodraeth Cymru
Welsh Government

Huw Irranca-Davies MS
Chair
Legislation, Justice and Constitution Committee
Senedd Cymru

13 May 2022

Dear Huw,

Thank you for your letter of 12 May. As you are aware, on 10 May 2022 His Royal Highness the Prince of Wales formally opened the new session of the UK Parliament on behalf of Her Majesty the Queen, and in doing so outlining the UK Government's proposed legislation for the new session.

I have today published a written statement regarding the anticipated implications of the proposed legislative programme for the Senedd, as well as to provide updates on our engagement with the UK Government.

I am keen to ensure we continue to work collaboratively with the Senedd on legislative consent matters, and I hope you will welcome this early letter and the associated Written Statement in that spirit. I can confirm I will attend the Legislation, Justice and Constitution Committee on 20 June. I hope to have more information on the bills referred to in the Written Statement by then and I look forward to discussing further at that meeting.

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I am copying this letter to the Llywydd and other Committee Chairs.

A handwritten signature in blue ink that reads "Mick Antoniw". The signature is written in a cursive style with a horizontal line underneath the name.

Mick Antoniw AS/MS

Y Cwnsler Cyffredinol a Gweinidog y Cyfansoddiad
Counsel General and Minister for the Constitution



Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref: LG/0237/22

Paul Davies MS
Chair
Economy, Trade and Rural Affairs Committee

Paul.davies@senedd.wales

16 May 2022

Dear Paul,

Following my letter of 27 April, I wish to inform you the Common Agricultural Policy (Cross Compliance Exemptions and Transitional Regulation) (Amendment) (EU Exit) Regulations 2022 have now been laid in the UK Parliament. A [Written Statement by the Welsh Government](#) was laid before the Senedd in accordance with Standing Order 30C on 13 May.

The regulations amend Regulation (EU) 1308/2013 to alter changes made by Regulation (EU) 2020/2220, insofar as they concern Article 55 on apiculture programmes and Article 167a on olive oil marketing rules.

I have agreed, in this case, to give consent to Victoria Prentis MP, Minister for Farming, Fisheries and Food, to make provision to remedy the failure of retained EU law to operate effectively in Wales. This is through the powers granted in section 8 of the European Union (Withdrawal) Act 2018.

Regards,

Lesley Griffiths AS/MS
Y Gweinidog Materion Gwledig a Gogledd Cymru, a'r Trefnydd
Minister for Rural Affairs and North Wales, and Trefnydd

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Agenda Item 2.4

**Pwyllgor yr Economi,
Masnach a Materion Gwledig**

**Economy, Trade and
Rural Affairs Committee**

Senedd Cymru

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The Rt Hon Grant Shapps MP
Secretary of State for Transport

18 May 2022

Dear Grant,

Recently, the Senedd's Economy, Trade and Rural Affairs Committee held a short inquiry into the HGV drivers shortage and associated supply chain issues. During a debate on the Committee's report the Welsh Government expressed disappointment that £32.5 million of new funding to improve lorry parking facilities will only be made available for England and asserted that provision of road side facilities for drivers (namely rest stops) were a reserved matter. I have subsequently corresponded with the Welsh Government who have made some clarifications.

However, I would be keen to understand the UK Government's view on the matter. Do you believe that road side conditions for HGV drivers, including rest stops, are reserved, or devolved to the Senedd, including the statutory basis for your view?

I have also included a copy of the report the on HGV driver shortages and related supply chain issues. Although the Inquiry looked at the subject though a Welsh lens many of the issues we covered relate to the whole of the UK so I thought you may find it interesting.

Kind regards,



Paul Davies MS

Chair: Economy, Trade and Rural Affairs Committee, Senedd Cymru

Croesewir gohebiaeth yn Gymraeg neu Saesneg | We welcome correspondence in Welsh or English.



Llywodraeth Cymru
Welsh Government

Our ref MA-LG-0750-22

Paul Davies MS
Chair of Economy, Trade and Rural Affairs Committee

Cc: Counsel General and Minister for the Constitution

18 May 2022

Dear Paul

The Sea Fisheries (Amendment) Regulations 2022

The above named regulations (the “2022 Regulations”) relate to measures which apply to the seabass fishery which extends beyond the Welsh Zone. In order for them to be effective, they need to apply on a UK basis and apply to all vessels operating in UK waters. In particular the 2022 Regulations make amendments to the quantities of seabass that can be retained as bycatch during the operation of fishing gears being used to target other species. The measures will extend the avoidance of the wasteful discarding of seabass.

These measures were agreed with the European Commission during the consultations on shared fishing opportunities for 2022 which concluded in December 2021.

I have given my consent to the Secretary of State for Environment, Food and Rural Affairs to make the 2022 Regulations, so the provisions therein apply in Wales. The 2022 Regulations were laid before the Houses of Parliament on 29 April and the SI is subject to the negative procedure.

When there is a need to maintain regulatory fisheries frameworks across the UK, it is appropriate I consent to the UK Government legislating on our behalf on the seabass fishery which is shared with other Administrations in the UK.

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I am copying this letter to the Counsel General and Minister for the Constitution and writing in similar terms to the Chair of the Legislation, Justice and Constitution Committee.

Cofion

A handwritten signature in black ink that reads "Lesley Griffiths". The signature is written in a cursive style with a large, sweeping flourish at the end of the name.

Lesley Griffiths AS/MS
Y Gweinidog Materion Gwledig a Gogledd Cymru, a'r Trefnydd
Minister for Rural Affairs and North Wales, and Trefnydd

Agenda Item 3

Document is Restricted

Economy, Trade and Rural Affairs Committee inquiry into the cost-of-living crisis

The Bevan Foundation is Wales' most influential think-tank. We aim to end poverty and inequality by working with people to find effective solutions and by inspiring governments, organisations and communities to take action. We are grateful for the opportunity to submit written evidence to the Economy, Trade and Rural Affairs Committee's inquiry into the cost-of-living crisis. Our extensive work on poverty and inequality provides us with some insights into the difficulties caused by rising costs. Our response draws on this experience, and addresses each of the questions set out in the consultation document in turn.

Summary of key points:

- Whilst the cost-of-living crisis is affecting everyone in Wales, it is low-income households that are the hardest hit. Low-income households are far more likely to have to cut back on essentials or fall into debt because of rising costs than middle and high income households.
- In November 2021, 39 per cent of Welsh households reported that they struggled to afford anything beyond essential items. This is likely to have increased over recent months. A significant proportion of the Welsh population are therefore likely to have minimal discretionary spending over the coming months. This will have an impact on sectors such as tourism, hospitality and entertainment, sectors that were hit especially hard by the pandemic
- Rural households are likely to be more negatively affected by rising costs than urban households.
- The actions taken by the UK Government in response to the crisis have been grossly inadequate and are failing to protect those who are most likely to be affected by rising costs.
- The response of the Welsh Government has demonstrated a greater understanding of the scale of the challenge facing Welsh households. There is further action that could be taken however, to provide greater support to households and to improve delivery.

What are the likely economic impacts of the cost-of-living crunch?

The cost-of-living crunch is likely to have a negative effect on the Welsh economy. The Bank of England's latest forecast projects that the UK economy will shrink in the final quarter of 2022.¹ This is projected to be a direct result of high inflation, with households having less money to spend on non-essential items.² It is likely that the Welsh economy is already feeling the impact of rising costs restricting household spending.

Since December 2020 the Bevan Foundation has commissioned three polls from YouGov as part of its "snapshot of poverty" series. Our most recent poll, undertaken in November 2021 found that 39 per cent of Welsh households did not have enough money to buy anything beyond essential items.³ This marked a significant deterioration from the position in May 2021 when 33 per cent of

¹ Bank of England, *Monetary Policy Report, May 2022* (May 2022) available at - <https://www.bankofengland.co.uk/monetary-policy-report/2022/may-2022>

² *ibid*

³ Bevan Foundation, *A snapshot of poverty in winter 2021* (December 2021) available at - <https://www.bevanfoundation.org/resources/poverty-in-winter-2021/>

households reported that they did not have enough money to spend on anything other than essentials.⁴

More recent increases in living costs are likely to have seen the position of many Welsh households deteriorate further. A significant proportion of the Welsh population are therefore likely to have minimal discretionary spending over the coming months. This will have an impact on sectors such as tourism, hospitality and entertainment, sectors that were hit especially hard by the pandemic. In turn, this could have an impact on unemployment, with the Bank of England forecasting that unemployment will increase past 5 per cent over the coming months.⁵

Even businesses that provide essential services are likely to feel the impact of the cost-of-living crunch over the coming months. In November 2021, a staggering 165,000 Welsh households either sometimes or always struggled to afford all their essentials.⁶ Households trapped in such a position face an impossible choice, cut back on essentials, borrow money, or fall into arrears on a bill. Businesses are therefore likely to have to manage higher rates of arrears and debt from their customers.

More importantly than the impact on business, however, is the impact of such pressures on the thousands of Welsh households that are struggling to afford all the essentials they require. Over recent months the Bevan Foundation have been working in partnership with Action in Caerau and Ely to understand people's lived experience of poverty. Through this work we have heard first-hand about the difficult decisions Welsh households are having to make on a daily basis as a result of rising costs. The insights shared by Action and Caerau and Ely in response to this committee's inquiry captures vividly the real-life impact of these pressures.

How are cost of living pressures affecting the workforce, and how are different groups within the workforce being affected?

For thousands of people across Wales, being in work was no guarantee of good quality living standards long before the more recent pressure on costs. In 2017/18 to 2019/20 250,000 adults and 140,000 children were living in poverty in households where at least one adult was in work.⁷ Of these, 120,000 adults and 70,000 children were living in poverty where all adults living in the household were in work.⁸

Low pay, irregular working hours and unfair terms and conditions are all factors that have contributed to high numbers of people living in poverty despite being in work. When these factors combine with an inadequate social security system and high housing and childcare costs, it is little wonder that so many households were already finding life difficult. It is these workers that are being hardest hit by cost-of-living pressures.

⁴ ibid

⁵ Bank of England n(1)

⁶ Bevan Foundation n(3)

⁷ Stats Wales, *Working age adults in relative income poverty by economic status of household* available at - <https://statswales.gov.wales/Catalogue/Community-Safety-and-Social-Inclusion/Poverty/workingageadultsinrelativeincomepoverty-by-economicstatusofhousehold>; and Stats Wales, *Children in relative income poverty by economic status of household* available at - <https://statswales.gov.wales/Catalogue/Community-Safety-and-Social-Inclusion/Poverty/childreninrelativeincomepoverty-by-economicstatusofhousehold>

⁸ ibid

There is a body of evidence that demonstrates that workers in low-income households are being harder hit by rising costs than workers in high-income households. For example, the Bevan Foundation's most recent *Snapshot of poverty* report showed that lower income households were more likely to cut back on essentials and were more likely to have fallen into debt in November 2021 than higher income households.⁹

Low-income households spend a higher proportion of their household expenditure on essential items such as food and fuel.¹⁰ As a result, when costs rise low-income households have far less wiggle room within their budget, forcing households to cut back or fall into debt. Given that there were 250,000 working age adults living in poverty in working households even before the current crisis, it is clear that the number of workers that are set to be pushed into real hardship will be significant.

Not only are low-paid workers more likely to be directly affected by increases in costs, but they could also be at greater risk of the broader economic effects of the crisis. As set out in our response to question 1, increasing costs are likely to lead to people cutting back on discretionary spending as they try and ensure they have enough money to spend on essentials. This in turn is likely to have an impact on unemployment rates.

Some of the sectors that are most likely to be negatively affected by households cutting back on non-essential spending are sectors that were shut completely during Covid-19 lockdowns. The sectors that were locked down, were, by default, providing non-essential services and goods. The fact that low paid workers were more likely to work in locked down sectors therefore raises the concern that low paid workers could bear the brunt of any increase in unemployment.¹¹

It is not just low-income workers that are likely to be more negatively affected by rising living costs. Households with children, disabled people and minority ethnic groups are all likely to be more significantly affected by rising costs than the general workforce.¹² This is in part the result of such households being more likely to live in poverty prior to the current crisis.

How are cost of living challenges impacting upon businesses and economic sectors, and how are businesses responding to these?

As set out in response to the previous two questions cost of living challenges are set to have a significant impact on Welsh businesses. Rising costs are already squeezing household incomes, meaning that households have less disposable income. This is likely to have a negative effect on sectors such as hospitality and tourism as households reduce their spending on non-essential items. Even those businesses that offer essential services are likely to be affected, with more and more households set to fall behind on their bills as they try and make ends meet.

The challenge facing businesses are compounded by the fact that the same factors that are affecting consumer behaviour is also affecting the ability of businesses to respond to changing demand. Rising

⁹ Bevan Foundation, n(3)

¹⁰ Bevan Foundation, *State of Wales briefing: Cost of living* (February 2022) available at <https://www.bevanfoundation.org/resources/state-of-wales-briefing-cost-of-living/> (member only)

¹¹ Wales Fiscal Analysis, Cardiff University, *Covid-19 and the Welsh economy: shutdown sectors and key workers* (June 2020) available at - https://www.cardiff.ac.uk/_data/assets/pdf_file/0009/2409921/Covid_economy_report_1_Final_rep.pdf

¹² Bevan Foundation n(3)

food and energy costs, for example, are already eating into the margins of many restaurants. Dropping prices to entice more customers is therefore unlikely to be a viable option for many.

How are rural communities being affected by the cost-of-living crunch, and to what extent are the pressures they face different to urban areas?

Rural communities are likely to be more severely affected by the cost-of-living crunch than urban communities. There are two primary reasons why rural communities are likely to be more severely affected.

First, household expenditure is higher in rural areas than in urban areas. The average rural household at GB level spends £641.10 per week on essentials compared with £572.90 for the average urban household.¹³ Rural households therefore have less room within their budgets to manage any increases in living costs, with this being especially true for low-income households in rural areas.

A second reason why rural households are more likely to be negatively affected by rising living costs is that public services and charitable support are harder to access in rural areas. The difficulty in accessing public services is one reason why rural households face higher living costs than urban households. A lack of public transport, for example, means that rural households are more reliant on private vehicles. As a result, the average rural household spends £105 per week on transport compared to £76.40 a week for the average urban household.¹⁴ It is also likely to mean, that emergency support, such as that provided by foodbanks will be harder to access in rural areas, with people having to travel to local towns or larger villages to access support. Low-income households living in rural areas could therefore face a double challenge as they seek to manage rising living costs.

How effective are the support measures that the Welsh and UK governments have put in place, and what further support might be needed over the coming months?

The measures put in place by the UK Government to manage the cost-of-living crisis have been grossly inadequate. To date the UK Government has taken very little action to provide targeted support to low-income households, the households that will be most seriously affected by rising costs. Action such as increasing benefits in line with inflation and ending the freeze on the Local Housing Allowance will put more money in the pockets of the households that need it the most, reducing the risk of households having to choose between heating and eating. Such measures would not only benefit people that are out of work but will also benefit many workers that are in low paid roles.

The response of the Welsh Government has demonstrated a greater understanding of the scale of the challenge facing Welsh households. Analysis undertaken by Wales Fiscal Analysis at Cardiff University shows that the nearly £340m package of measures announced by the Welsh Government in February 2022 to support families is significantly more generous than the measures taken in other parts of the UK.¹⁵ There is no doubt that measures such as the creation of the Winter Fuel Support

¹³ Bevan Foundation n(10)

¹⁴ *ibid*

¹⁵ Wales Fiscal Analysis, Cardiff University, *When ends don't meet, a cost of living update* (March 2022) available at -

https://www.cardiff.ac.uk/data/assets/pdf_file/0005/2612237/cost_of_living_report_08Mar2022.pdf

Payment and extending the provision of support in lieu of Free School Meals until the end of the summer will make a significant difference. There are further steps that could be taken, however, to further ease the pressure faced by Welsh households.

In February 2022 the Bevan Foundation published its *Welsh action plan* for responding to the cost-of-living crisis.¹⁶ We are pleased that a number of the recommendations made by the Bevan Foundation have since been taken forward by the Welsh Government. Some of our recommendations are still to be actioned, however. Perhaps the most significant of these was our recommendation for the Welsh Government to top up local authorities' Discretionary Housing Payments allocations to the maximum permitted in 2022/23.¹⁷ Doing so could significantly boost the ability of local authorities to provide additional support to households struggling with rising living costs.

Just as important as increasing the level of support that is available to Welsh households is improving the way that support is delivered. Even before the pandemic the Welsh Government and Welsh local authorities provided significant levels of means-tested support to people on low incomes. From Free School Meals to the Council Tax Reduction Scheme to the Discretionary Assistance Fund, these grants and allowances acted as a vital additional lifeline to Welsh families. In 2019 there were 12 different grants and allowances that provided support to low-income families.¹⁸ Each of these were administered separately. This meant that eligibility criteria could differ, or even where the eligibility criteria were identical, people were still having to submit multiple applications to access all the support they were entitled to. As a result, thousands of people across Wales were missing out on support they were entitled to.¹⁹

The extra schemes introduced by the Welsh Government in response to the pandemic and the cost-of-living crisis has exacerbated this challenge. As a result, a low-income family with two children aged 2 and 7 could potentially have to submit six different application forms to access all the support they are entitled to from the Welsh Government and Welsh local authorities. This could grow to eight if they need to access further discretionary support through the Discretionary Assistance Fund or Discretionary Housing Payments. This complicated process is likely to explain, at least in part, why fewer than half of eligible households had made an application for the Winter Fuel Scheme as of February 9th.²⁰

Pulling these grants and allowances together into a coherent Welsh Benefits system could provide an opportunity to address these challenges. Doing so would provide an opportunity to improve the support provided by each scheme and allow people to apply for all the support they are entitled to in one place. This could boost take-up, putting money into the pockets of families that need it the most. It could also ease some of the pressures faced by local authorities, freeing staff to work to promote benefits, rather than processing multiple application forms from the same households

¹⁶ Bevan Foundation, *The cost of living crisis: a Welsh action plan* (February 2022) available at - <https://www.bevanfoundation.org/resources/the-cost-of-living-crisis-welsh-action-plan/>

¹⁷ *ibid*

¹⁸ Bevan Foundation, *A Welsh Benefits System, how it can help solve poverty* (September 2020) available at - <https://www.bevanfoundation.org/wp-content/uploads/2020/09/Welsh-Benefits-System-Final-Report-1.pdf>

¹⁹ *ibid*

²⁰ Comments made by the Minister for Equality and Social Justice, Jane Hutt in plenary on February 9 2022

Agenda Item 4

FSB Wales' response Economy, Trade and Rural Affairs Committee inquiry

Cost of Living

May 2022

About FSB Wales

FSB Wales is the authoritative voice of businesses in Wales. It campaigns for a better social, political, and economic environment in which to work and do business.

With a strong grassroots structure, a Wales Policy Unit and dedicated Welsh staff to deal with Welsh institutions, media and politicians, FSB Wales makes its members' voices heard at the heart of the decision-making process.

FSB Wales welcomes the opportunity to respond on the current cost of living crisis, and would urge that the committee take into account that a cost of living crisis is also a cost of business crisis. Given that many SMEs remain vulnerable following the Covid-19 pandemic, it is vital that we develop an economic strategic vision and ensure that all governments ensure that a post-Covid recovery is not thwarted at this critical time.

- **What are the likely economic impacts of the cost of living crunch?**
- **How are cost of living challenges impacting upon businesses and economic sectors, and how are businesses responding to these?**

SMEs form the overwhelming bulk of businesses in Wales. They are grounded and embedded in our communities and provide vital services and amenities, as well as jobs and prosperity. They form the foundation for local economic development and create value within our communities. It is vital that policy is shaped to respond to the current challenges in a way that places them at the centre of economic development.

April was a particularly difficult month for small businesses, as a host of costs kicked in:

- 100% business rates relief for retail, leisure and hospitality has been reduced to 50%
- VAT has increased from reduced rate of 12.5% to 20%
- Increase in the National Minimum Wage
- National Insurance contributions for employers have risen by 1.5%
- Soaring energy and fuel prices – with another rise expected in October
- Ongoing supply chain issues because of Brexit, the pandemic, and war in Ukraine

Cost of living is holding back growth, with a 0.1% GDP increase for February presenting a challenging economic horizon, particularly with inflation and rising costs. Rising inflation has left small businesses with little option but to increase prices: the rising cost of living starts with a cost of doing business crisis, and so it is imperative to take all measures to address the financial barriers of doing business and support our SMEs.

Many small businesses rely on discretionary spending. If households have constrained income, it will be these businesses that are likely to suffer first and may be less able to pass the price increases on. The cost of doing business is rising, which in turn will continue to have an impact on the cost of living.

While this restraint in spending will be felt across the economy, some sectors which were most impacted by the pandemic such as hospitality and retail may be particularly exposed in the months ahead.

Our research suggests increased fuel costs add over £1,000 per year onto SME's energy bills, with some sectors facing far higher bills.

For a typical commercial van, the increase is approximately £1139, with an average of 2648 litres of fuel used annually, at currently an additional £0.43 cost per litre.

SMEs have faced an average gas bill hike of more than 250 per cent in the last year with gas prices paid by some in the first three months of 2022 soaring by this amount when compared with the same period in 2021.¹ However, unlike domestic customers, firms have yet to see any dedicated Government support and with insecure contracts, the unstable energy market is also seeing suppliers withdraw tariff propositions at short notice.

Our latest Small Business Index suggests 80.4% of small businesses in Wales reported increased costs over this last quarter. This is likely to have an instant impact on small businesses, who may now see new and immediate salary expectations rising, along with inflation. This is a cost that will ultimately be passed on to consumers.

FSB are calling for banks to be supportive towards small businesses during this testing period, as the access to finance is likely to continue to be squeezed.

National Insurance is set to add to the costs of the 55,385 SMEs affected in Wales by £173m (at a median cost of £3,115 per business), as can be seen in the table below:

	Number of SMEs with employees	Total Employers NICs cost increase	Total Employers NICs cost increase, £m
United Kingdom	1,408,325	£4,386,778,300	£4,387
North East	40,900	£127,399,025	£127
North West	141,255	£439,993,871	£440
Yorkshire and the Humber	104,220	£324,633,898	£325
East Midlands	100,325	£312,501,399	£313
West Midlands	118,725	£369,815,386	£370
East of England	139,010	£433,000,942	£433
London	245,090	£763,428,536	£763
South East	208,105	£648,224,308	£648
South West	124,075	£386,480,051	£386
England	1,221,705	£3,805,477,417	£3,805
Wales	55,385	£172,518,216	£173
Scotland	94,770	£295,198,182	£295
Northern Ireland	36,460	£113,568,911	£114

¹ <https://www.cornwall-insight.com/businesses-facing-a-250-increase-in-gas-bills/>

Businesses remain in a vulnerable position after the Covid-19 pandemic. In February, corporate insolvencies in England and Wales more than doubled over the past year (+121%). Businesses are struggling already, and any recovery will require a resilient small business sector to be able to weather the continuing storms from the cost-of-living crisis as outlined.

- **How are cost of living pressures affecting the workforce, and how are different groups within the workforce being affected?**

Clearly, cost of living pressures will impact on the standard of living of the workforce, small business owners and the self-employed.

The trauma of Covid-19 will likely have a continued impact on mental health. FSB's recent survey of 1,000 business owners finds that a third (34%) of all small business owners state that their mental health declined over the course of the pandemic. Latest [Government figures](#) show that there are 5.5 million small businesses across the UK, indicating that 1,800,000 have suffered a mental wellbeing hit due to Covid. Across all respondents, one in four (24%) report that they currently have a mental health condition such as anxiety, depression or post-traumatic stress. Among disabled entrepreneurs, the figure rises to four in ten (43%).

As such, following two years of accumulating debt, care responsibilities for staff, as well as personal pressure, cost of living will add to mental health vulnerabilities and to these pressures.

The rise in cost of living will understandably lead to rising pressures on wages, with SMEs being in a difficult position of financial insecurity following the pandemic and disruption to business, and where SMEs are already reporting a rising cost of labour and skills shortages.

Our 'What we Value' report notes the leadership and pastoral care SME owners have, and the close relationships they have with their staff. They will feel responsibility to help where they can, but SMEs may themselves need support to weather the current storms themselves.

Where SMEs struggle on wages, they tend to look to provide better and more flexible terms and conditions and we will continue to encourage exploring such options as well as flexible or remote working where that may save money also and where they fit the company.

- **How are rural communities being affected by the cost of living crunch, and to what extent are the pressures they face different to urban areas?**

Rural areas already face greater costs in terms of fuel costs, and so the impact will be felt disproportionate in these areas.

Less disposable income could have an impact on the drive toward better local food systems, with advice to 'buy value brands' for example being at the expense and against a strategy to point to the value of quality local products. It also raises the costs of bringing perishable products to market and in terms of export.

Rural areas in Wales are more dependent on tourism and so less disposable income is likely to lead to issues in terms of the amount visitors can spend locally and fewer holidays taken. It is also likely to force business to raise prices for their services, pushing this into a vicious economic cycle whereby business costs go up, leading to pressures to raise prices, potentially leading to fewer visitors leading to less revenue.

We know that rural and coastal town high streets are already vulnerable due to factors outlined in our recent report 'A Vision for Welsh Towns'. With less 'strength in depth' of economic activity, low retail and hospitality spending may well have a disproportionate effect on these economies and Welsh and UK governments will need to look to measures to maintain the viability of operating businesses within these settings and supporting Welsh high streets.

It's also the case that where businesses may look to adapt to lower costs that this may be more difficult in rural areas. For example, there would be less by way of EV charging points if this was a way to lower costs either in personal car use, or in terms of freight and deliveries. Broadband and 5G infrastructure may make it more difficult to lower travel costs through tools such as remote working for example.

The discussions around mitigations for rural areas are therefore linked to infrastructure and economic development strategy that places value on rurality, on local supply systems and in terms of ensuring a level playing field for SMEs whatever their location in Wales.

- **How effective are the support measures that the Welsh and UK governments have put in place, and what further support might be needed over the coming months?**

FSB have encouraged firms to check what support is out there, such as the Employment Allowance, and to also check with local authorities where there may be unspent funds available. We would encourage local, Welsh and UK governments to proactively seek to provide support, ensuring information is widely disseminated or that support is provided automatically where possible.

We are calling for banks to be supportive towards small businesses during this testing period and would urge governments to apply pressure to ensure this too.

During the Spring Statement, FSB were pleased to see our calls for an increase in the Employment Allowance – a tax cut worth up to £1,000 for eligible businesses and a measure for which FSB campaigned, was included by the Chancellor. This measure, along with the fuel duty cut, may help some SMEs keep their head above the water.

While we are pleased the Chancellor is listening to our calls, government must go further to support small businesses with soaring energy costs. The rising energy costs are concerning, and while government was right to focus on domestic consumers, actions to support small businesses also need to be taken, otherwise we will start seeing the serious impact of the cost of doing business.

Any remaining funding, allocated by Welsh Government to be utilised in reaction to supporting businesses through earlier phases of the pandemic, should be reconsidered for redeployment within the context of the energy price crisis. It may yet be the case that Welsh and UK Governments will need to come up with further targeted support to help cushion the blow of higher costs for businesses to ensure that we don't stifle the recovery.

The business rates holiday in Wales was extremely helpful to our members in 2020-21 and 2021-22, and we welcome the continued relief of 50% this year for SMEs. However, this policy was put in

place ahead of the Omicron crisis, prior to the worst rises in inflation, fuel and energy costs, and ahead of the impact from the war in Ukraine. As such we would urge Welsh Government to revisit whether there is a means to lower the cost of business.

In general, we would urge governments to lower the cost of doing business where possible, and to ensure we secure the SME sector as the foundation to our economy and communities in Wales. Where possible, the support on cost of living to individuals should also apply to small businesses, to continue to mitigate the pressures to raise costs.

Agenda Item 6

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