

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