



Economy, Trade and Rural Affairs Committee

WLGA Evidence: Cost of living inquiry

Welsh Local Government Association - the Voice of Welsh Councils

The Welsh Local Government Association (WLGA) is a politically led cross-party organisation that gives local government a strong voice at a national level.

The 22 councils in Wales are our members and the 3 fire and rescue authorities and 3 national park authorities are associate members.

The WLGA represents the interests of local government and promotes local democracy, putting forward the case for sustainable funding, for greater local flexibility, fewer burdens and less prescription so councils can better deliver and respond to the needs of local communities.

Communities are at their best when they feel connected to their council through local democracy. By championing, facilitating, and strengthening these connections, we can build a vibrant local democracy that allows communities to thrive.

The WLGA's main aim is to promote, protect, support and develop democratic local government and the interests of councils in Wales.

This means:

- Promoting the role and prominence of councillors and council leaders
- Ensuring maximum local discretion in legislation or statutory guidance
- Championing and securing long-term and sustainable funding for councils

“Mae'r ddogfen yma ar gael yn Gymraeg. This document is available in Welsh.”



- Promoting and supporting sector-led improvement
- Encouraging a vibrant local democracy, promoting greater diversity
- Supporting councils to effectively manage their workforce

Introduction

1. The WLGA welcomes the opportunity to submit views in response to the Economy, Trade and Rural Affairs committee's call for evidence for its inquiry into the cost of living in Wales. Given the timing of the Inquiry, it is an officer response drawing on discussions with Members prior to the recent local government elections. The WLGA's political spokespersons will not be confirmed until the WLGA Annual General Meeting on 24th June. Therefore, the views expressed in this submission may be subject to change.
2. Whilst the inquiry is focused on the economic impact of the increasing cost of living there is, of course, a social impact on individuals, families and their communities and in terms of the overall level of poverty. From a local government perspective, those impacts have to be addressed alongside the economic ones.
3. Comments are provided below on each of the main lines of inquiry.

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

4. The economy is shaped by the amount and nature of spending that takes place. There are 'winners and losers' whenever spending patterns change. When costs of goods and services increase, that can be the result of an increase in the cost of inputs. Alternatively, it can reflect a market position where suppliers can raise prices and demand is 'inelastic', so people have little choice other than to continue to buy. Unless income levels are rising too, then an increase in expenditure in one area will result in a decrease in other areas.
5. One of the main contributors to the current cost of living crisis is the price of energy. Household energy bills are set to rise by a further 40% in October on top of April's record 54% increase. In this case, input costs are rising and demand is relatively inelastic. As a result, an increasing percentage of individuals' disposable income is tied up in paying their energy bills, leaving less money for other types of spending. The impacts of Brexit are still working their way through the system. Even though a trade deal was agreed between the UK and the EU, non-tariff barriers cause delivery delays and add to costs. The impact of Covid-19 and the situation in Ukraine have added to the cocktail of factors impacting on supply chains, making many goods and services more expensive.
6. Choices for some may involve not taking an overseas holiday or taking fewer, less expensive ones or eating out less. For others it may mean deferring expenditure and not buying now in the hope the situation will improve. For many, on low



incomes, energy costs are accounting for a disproportionate and growing share of their household budget. For these individuals and families, the cost of living crisis is having a significant impact and it can mean having to choose between cutting back on heating and eating, or other essentials. Many thousands of people and families will be forced into poverty as a result.

7. As consumers reduce their spending, it has knock-on effects. So, travel operators/agents may see reduced bookings, hotels and restaurants may have lower levels of demand, sales of a range of products from cars to household goods may dip. Businesses involved in these areas will suffer reduced income and may therefore make lower profits or even a loss. That can force them to consider raising prices and/or take cost-cutting measures. With labour often the main cost for businesses, it could result in staff being made redundant or losing overtime opportunities and so on. That, in turn, reduces the wages available to households to make purchases, leading to a further round of reduced spending. Even if other jobs are available (and vacancies are high at present) many require relatively low skills and offer lower rates of pay, resulting overall in a net loss of available disposable income.
8. In some cases, businesses will fail as they see their demand drop to the point where costs are no longer covered. This is a major issue in some town centres, already affected by increased use of online shopping and the growth of home working during the pandemic. For large energy intensive business in Wales which are particularly vulnerable to the increasing cost of inputs, their extensive service and supply chains will suffer should any major closures occur. Although unemployment is currently relatively low, if the current economic conditions continue the possibility of rising unemployment cannot be ruled out – a point recognised recently by the Bank of England.
9. With inflation already rising and forecast to go higher still, the combination of reduced incomes and higher prices is creating the cost-of-living squeeze. Inevitably, that will exert upward pressure on wage demands. Unless there is an increase in productivity, any increase in wages will add to cost pressures in the economy, further feeding inflation in an upward spiral and exacerbating the situation of those on the lowest incomes already struggling to make ends meet. The worst-case scenario would be a return to stagflation – a combination of high unemployment and high inflation.
10. For councils, there are direct economic impacts, not only in terms of wage pressures (see below) but also for services that are heavy users of fuel – such as waste/recycling collection services and winter maintenance. Councils are also under pressure in relation to home to school transport contracts, with some operators are handing contracts back because rising fuel costs have made their operations unprofitable.
11. Whilst the economic impacts are covered above, there are also the implications for individuals, families and communities. Increased demands on a range of social services inevitably follow, with issues of homelessness, mental health, substance misuse and child and family pressures. The Trussell Trust reported that its food



banks across Wales saw an 8% increase in emergency food parcels delivered to people in crisis in the year to March 2021. More recent reports suggest that the numbers having to use food banks, including many people in work, are continuing to rise. In such cases, the extended provision of free school meals can play an important part in helping to maintain nutrition amongst children. The emergence, and planned growth of reuse and repair facilities can play a role in helping families to tackle rising costs, whilst also helping to encourage a more circular, sustainable economy.

12. Meanwhile, though, there are risks of exploitation of those most impacted by the rise in the cost of living as they look for ways to ease their own economic situations. This could lead to increased 'cuckooing' or other criminal exploitation such as county lines, or people being coerced into trading their bodies to cover rent or access essential goods or food. Whilst this may provide some temporary relief from the *economic* pressure on individuals it comes at a *social* cost in terms of their own personal safety and that of their families and potentially communities.

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

13. Many of the comments above apply in relation to the impact on the workforce. In particular, rising energy costs affect not only those who have to travel to and whilst in work (incurring higher fuel prices) but also those who are now working partly or fully from home (experiencing increasing heating and electricity costs).
14. As well as pushing for higher wages, unions are making the case that the current HMRC mileage rate of 45 pence per mile for cars and goods vehicles on the first 10,000 miles travelled (25 pence over 10,000 miles) is not enough to recompense staff for the use of their vehicles. That rate has not changed since April 2011 while, they argue, petrol prices have increased by 14.6% and insurance prices by 27.7%.
15. They believe that this, on top of the wider cost-of-living crisis, is becoming untenable for ordinary workers. Staff who use their car for work often have no choice in the matter and the increase in fuel costs is impacting on their disposable income – especially in rural areas. This includes workers who need to drive between clients, such as domiciliary care workers, district nurses and mental health, substance misuse and homelessness services who reach some of the most chaotic and vulnerable in communities.
16. Groups of workers on lower incomes are disproportionately affected by cost of living pressures as their essential and unavoidable costs make up a larger percentage of their total income. Many jobs in the tourism and hospitality sector could be at risk if 'belt-tightening' results in reduced demand. However, at present the sector is actually struggling to fill posts which are often part-time and seasonal, with many filled by European workers who are not returning in the



same numbers number since Brexit and Covid. A similar shortage is affecting some parts of the agricultural sector. The social care sector and many organisations involved in community safety are also struggling with recruitment.

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

17. Businesses are being impacted from a number of directions simultaneously, with many facing pressures of rising material and energy costs, rising wage and other remuneration demands and reducing sales and incomes. In some cases, as noted above, and compounding the cost of living situation, they have lost access to sources of labour they have relied upon previously and are having to raise wages to attract workers.
18. As inflationary pressure mounts, we have seen interest rates rising, the fourth and most recent rise from 0.75 to 1.0%, which is the highest level for 13 years. If businesses put prices up to protect their profit margins, and workers demand wage increases due to rising process, the Office of Budget Responsibility has said that UK interest rates could rise as high as 3.5%.
19. The low cost of borrowing up until now has enabled businesses to invest but if it starts to rise it could deter or postpone planned investments, suggesting that the impact could have long term implications for economic activity.

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?

20. The cost of living crisis is exacerbated in rural areas for a number of reasons, First, there is already a 'rural premium' due to the additional distances goods have to travel to get to remote locations and/or the distance consumers have to travel to access goods or services. As fuel costs escalate, the cost of a round trip can make the journey cost prohibitive.
21. Secondly, a higher percentage of properties in rural areas are off-grid, with an estimated third of homes not having a mains gas supply. This causes them to rely on other heating sources such as oil (28% of rural dwellings). The price of oil has been rising dramatically and has virtually doubled in the time since Russia invaded Ukraine. Whilst there has been a price cap on electricity and gas prices, oil heating has not benefitted from such protection. Furthermore, solid wall buildings found in many rural locations cannot benefit from cavity insulation. It is no surprise, then, that NEA Action for Warm Homes reports that household in rural Wales are twice as likely to be in fuel poverty as urban Welsh households.
22. Thirdly, agriculture remains a vitally important sector for rural economies with many other businesses relying on farming activity as a source of income. Agriculture has been particularly hard hit by cost increases. As well as the impact



of increasing fuel costs, fertiliser prices have increased by over 50% to record levels, caused by increases in the cost of gas and supply chain issues and shortages. The conflict in the Ukraine has worsened the situation. Animal feed is also reported to have increased by 60% over the past two years. Meanwhile, labour shortages have created difficulties for some farming operations too, creating upwards pressure on wages.

23. As all these costs increase, the viability of farms is undermined. Fears over loss of EU funding and exports and the impact of the nation-wide nitrate vulnerable zone (NVZ) regulations add to the pressure on farmers trying to sustain their operations. Spending cutbacks by farmers then have a negative multiplier effect on the wider local economy.
24. Finally, the incidence of second homes in rural areas has added to the cost of living squeeze by making property unaffordable for many local residents. Those who are able buy at higher prices then have to bear high mortgage costs which immediately reduce their disposable income before trying to manage all the other cost increases.

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?

25. There have been various measures introduced in an attempt to alleviate the cost of living pressure on households. The Senedd itself has recently produced a useful guide for constituents identifying and summarising all of the support available from both the UK and Welsh Governments and utility companies, as well as signposting to sources of advice and assistance - [support-with-cost-of-living-pressures-eng.pdf \(senedd.wales\)](#).
26. The UK Government's main initiative to address rising energy bills is a package of support known as the Energy Bills Rebate. This provides a £200 discount on domestic electricity bills that will need to be repaid over a five-year period, a £150 non-repayable council tax rebate for households in council tax bands A to D and a discretionary fund to assist those households in need but not eligible for the council tax rebate. This package of support is in addition to the Household Support Fund announced in September 2021 (with consequential funds for Wales) to support those households most in need of help with significantly rising living costs.
27. There have been calls for the UK Government to go further and provide other forms of support. This includes the suggestion of a windfall tax on energy companies who are currently making substantial profits from the rising prices. The revenue generated from such a tax could then be used to soften the impact on low income households. There have also been calls on UK Government to rethink its approach to Universal Credit.
28. The Welsh Government's support extends across a range of financial assistance targeted at lower income households. Local authorities have worked with the



Welsh Government to help deliver many of these initiatives, building on the successful joint delivery of targeted support during the Covid crisis.

29. There are signs that the current pressures will not be short-lived and could continue for some time. If some of the worst-case scenarios outlined above come to fruition there will be a need for support that goes beyond household grants and advice. There could be a need for extensive labour market measures to help unemployed train for jobs that are available and support for innovation to help uncover digital and technological solutions that can help to improve productivity and bring down operating and production costs.
 30. Investment in renewable energy is another area that needs to be given even greater priority than at present. Having made such investments, the source of energy (wind, solar, hydro, tidal, marine) is (largely) free and (generally) environmentally benign. Having more renewable sources of energy will increase energy resilience and reduce the impact of future international energy price shocks. Importantly, and more generally, any short-term measures and responses introduced to alleviate the current pressures need to be consistent with the longer imperative to find equitable ways of decarbonising and helping communities and businesses adapt to climate change.
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