

Economy, Transport and Rural Affairs Committee

Welsh Government's evidence paper – General scrutiny and cost of living

Cost of living crisis

Consumer prices across the UK increased by 9.0% in the year to April, the highest rate of inflation in 40 years and well above the UK Government's 2.0% target. The increase was driven mainly by energy costs, but food prices also played a significant role.

As a consequence of surging prices the Office for Budget Responsibility had concluded that 2022-23 would see the biggest fall in living standards since records began.

Although we welcome the announcement of new measures by the UK Government the Chancellor has not gone far enough to ease the burden on the poorest households and is out of touch with the impact soaring costs have for these households.

The £1,200 that the Chancellor says will go to the most vulnerable households just about makes up the £1,040 loss incurred by Universal Credit recipients when the £20 per week uplift was removed last year.

Despite the new measures by the UK Government on 26th May, it remains the case that in his Spring Statement, the Chancellor announced an increase of just £27 million in the Welsh Government's resource funding for this financial year. When in comparison, the Welsh Government announced a £380m package to help families with rising household bills.

In addition, the impact of the UK Government's Trade and Continuity Agreement with the EU is predicted to hit the UK economy by double that of the pandemic. Businesses are struggling to trade in EU countries or facing huge costs increases and staff shortages. Latest research suggests that Brexit has added 6% to Britain's food bills.

In 2022-23, the Welsh Government continues to support SMEs by providing £116m of targeted non-domestic rates support to businesses in the retail, leisure and hospitality sectors.

We will continue to do everything we can to protect people in Wales from the impact of this severe cost of living crisis and will continue to push the UK Government to do more.

Decarbonisation

Ending reliance on fossil fuels and a quicker transition to renewable energy and better energy efficiency will have a significant impact on reducing energy costs across the world.

The Welsh Government will support businesses with this transition. Our Business Wales advisory service covers all aspects from energy and waste to water efficiency measures.

Tackling the climate emergency as part of a just transition to Net Zero is also the overarching ambition of our new £8.1bn Infrastructure Investment Strategy. In particular, we'll open up greener forms of transport to more people, providing more choice in how we're all able to get around as well as laying the foundations for more investment in renewable energy projects.

Last month I made a statement on activity within the emerging offshore marine sector in Wales and the focus on the sector's potential impact on regional economies in providing sustainable and high-quality jobs here in Wales.

Where we have the necessary levers, we will invest to support our businesses to maximise their potential. This includes focusing on fair work and developing the local supply chain.

We will also be looking to our new Innovation Strategy later this year to reinforce the focus on emerging marine technologies, including hydrogen generation from offshore marine energy.

Employability and Skills

I've also announced our intention to publish a Net-Zero Skills Action Plan. We see the development of the plan as a unique opportunity to achieve a just transition towards net zero.

Moreover, against a tough financial backdrop, including the loss of over £1.1bn in post-EU funds, my new Plan for Employability and Skills provides a strong employability and skills offer that is a crucial part of our collective task to make Wales an attractive prospect for more people and business.

For those furthest from the labour market and amongst the hardest hit by the cost of living crisis the Plan will help navigate and respond to the work related challenges they will face throughout their lives, whether that is through training, retraining, upskilling, changing career or starting a business.

It will help us meet the skills required by Welsh businesses by making the most of our talent in Wales, driving workforce diversity and shaping an economy that works for everyone.

As part of our steps to make work fairer, we are using our influence to improve levels of the Real Living Wage adoption and accreditation. This includes:

- leading by example as a Real Living Wage accredited employer;

- beginning the implementation of the Real Living Wage in social care;
- encouraging employers in Wales to explore the benefits of the Real Living Wage to them and those they employ.

We are working closely with Cynnal Cymru as the Living Wage Foundation accreditation partner in Wales. We are supporting the work they do in promoting the Real Living Wage and have helped them build capacity in their ability to engage employers on this agenda.

According to the Living Wage Foundation, in 2021, the proportion of employee jobs in Wales paid at least the Real Living Wage was 82.1%. This has grown from 74.70% in 2015, narrowing the gap with the equivalent figure for the UK as a whole (82.9%).

Shared Prosperity Fund

The Shared Prosperity Fund (SPF) was announced by the UK Government in 2017, but the Welsh Government was not involved in substantive discussion on the policy and structure of the fund until early April this year. The UK Government scrambled to publish their prospectus less than two weeks later on 13 April, ahead of the local government pre-election period.

The Welsh budget is facing a total loss of £1.1bn in un-replaced Structural and Rural funding between January 2021 and March 2025.

The £243m loss in rural funding and the £772m shortfall in EU structural funds add up to just more than £1bn. Applying the same inflation adjustment to rural funding as to the structural funds, the overall shortfall to the Welsh budget is more than £1.1bn. The direct impact of this loss of funding is that major investments in job creation, business support, R&D, skills and tackling poverty are not taking place in Wales when they otherwise would.

The calculation we have used to demonstrate the reduction in the funds Wales would have received follows the methodology used by the UK Government in relation to the UKSPF. These figures also do not take into account the additional losses of funding from our access to other EU funding programmes, including Erasmus, Horizon and European Territorial Co-operation which have not been fully replaced by the UK Government.

On 4 May, the Minister for Finance and Local Government issued a Written Statement detailing this loss of funding to Wales as a result of the UK Government's broken promises to fully replace EU funding¹. Including adjustments for inflation:

¹ <https://gov.wales/written-statement-loss-funding-wales-result-uk-governments-arrangements-replacement-eu-funding>

Period	Wales SPF allocation	Funding if Wales remained in the EU	Shortfall to Wales
Jan – Mar 2021	--	£79m	£79m
2021-22*	£47m	£316m	£269m
2022-23	£89m	£329m	£240m
2023-24	£153m	£337m	£184m
2024-25	£343m	£343m	£0m
Total	£632m	£1,404m	£772m

*2021-22 funding awarded through the Community Renewal Fund (the pilot for the UKSPF)

In addition the UK Government, when providing replacement EU farm funding, is deducting EU receipts due to Wales for work which was part of the 2014-2020 Rural Development programme. This means Wales' rural communities are also £243m worse off than had we remained in the EU.

Taken together, these cuts to the Welsh budget amount over the period to over £1 billion:

Period	Wales SPF allocation	Funding if Wales remained in the EU	EU farm funding shortfall	Total shortfall to Wales
2020	--	--	£42m**	£42m
Jan – Mar 2021	--	£79m	--	£79m
2021-22*	£47m	£316m	£95m†	£364m
2022-23	£89m	£329m	£85m	£325m
2023-24	£153m	£337m	£21m	£205m
2024-25	£343m	£343m	£0m	£0m
Total	£632m	£1,404m	£243m	£1,015m

* 2021-22 funding awarded through the Community Renewal Fund (the pilot for the UKSPF)

** transferred from CAP Pillar 1 into Pillar 2 Rural Development Programme in 2020, † EU receipts netted off replacement EU funding in 2021-22

Taken together, the £243m loss in rural funding and the £772m shortfall in EU structural funds, and the same inflation adjustment to rural funding as to the structural funds, the overall shortfall to the Welsh budget is more than £1.1bn. The UK Government combined a measure from WIMD with a population measure and its own Community Renewal Fund formula in a way that disadvantages more populous local authorities in Wales. The Welsh Government proposed a formula based on the Welsh Index of Multiple Deprivation (WIMD), which would have distributed funding more fairly across Wales according to economic need, but this was rejected by the UK Government.

As a result, two of the authorities with relatively high economic development needs - Rhondda Cynon Taf and Caerphilly - have allocations per capita that is barely above the Wales average.

Impact on Welsh Government strategic spending

EU funds played a significant role in supporting Wales' long-term strategic priorities in areas such as R&D, energy, infrastructure and skills. Their loss is causing considerable disruption to the funding landscape and to the Welsh Government's ability to support strategic areas as we were with EU funds.

The UK Government has denied the Welsh Government access to these funds and a decision-making role in the distribution of the funds.

As a result, we are already making tough choices on our priorities – such as protecting our commitment to apprenticeships, Business Wales and Communities for Work, which have been part-EU funded for many years.

Devolution issues

The UK Government's use of their Internal Market Act powers to encroach into devolved policy with the SPF is one amongst a range of actions that they are taking to spend money and enact UK policy in Wales without the oversight of the elected Welsh Parliament.

The Senedd holds the Welsh Government to account on its spending of public money. There is no equivalent level of scrutiny afforded the UK Government's spending in Wales. Welsh voices do not have the same influence in Westminster as they do here.

The UK Government is persistently refusing to respect the devolution settlement. It is undermining the democratically-elected powers of the Senedd and the Welsh Government to govern and oversee devolved areas of public life.

Committee inquiry into Retail, Hospitality and Tourism

Retail Sector

The cost of living crisis is impacting on consumer habits with potentially serious implications for the retail sector. There will be an inevitable impact on those retailers who trade in discretionary goods and services given that consumer expenditure on discretionary items is likely to be the first sacrifice in any squeeze on personal finances.

Similarly, there will be expectations and pressures on those retailers who trade in essential goods and services, given the impact that rising prices will have on household incomes.

In terms of energy costs, the cost increases for businesses are just as eye-watering and just as consequential as those for consumers. For some retailers a cash

increase in their energy bills of £20,000 would require an increase in sales of nearly £100,000 to pay that bill. Rising product and wage costs compound these pressures.

I am acutely aware there are no quick fixes, easy solutions or infinite budgets. What we do have however is a willingness to work in social partnership with Welsh Government, employers, business representative bodies and trade unions working together to understand where we are now, where we want to get to and how we can get there.

Last year, with the support of the Deputy Minister for Social Partnership we established the Retail Forum to begin this conversation. We published a [Position Statement](#) in March and a Shared Strategic Vision for Retail will be presented to the Committee at the end of the month (May) - setting out our actions to date alongside our future ambitions.

It is my intention to then, over the coming months to develop a delivery plan, taking into account any recommendations by the Committee following its own inquiry into the Retail (and Hospitality and Tourism).

Tourism & Hospitality

We are ambitious for Wales as we look ahead to the summer and our tourism and hospitality sectors have a key role to play in supporting the economic and societal recovery of Wales from the pandemic.

Our strategy, *Welcome to Wales: Priorities for the Visitor Economy* sets our vision and ambition for the sector. Our ambition is to grow tourism for the good of Wales, balancing economic growth, environmental sustainability, social and cultural needs, health and wellbeing aspects along with supporting the need of local communities.

We emphasise the importance of addressing **spread** of benefits, encouraging increased **spend** in our economy and tackling **seasonality** by promoting Wales as a nation you can visit all year round.

We recognise that there are continuing challenges and our focus and commitment will require an effective response. There are short-term and long-term challenges facing the sector, such as inflation, cost of living crisis, energy costs, skills and recruitment, and so on.

These challenges coming together as the sector continues to recover from the pandemic means people have less money in their pockets to spend, generating less demand to go out, to take holidays and visit attractions. Therefore the tourism and hospitality sector is likely to suffer the consequences of a 'perfect storm'. We are fully aware that continued action is required over the course of the next few years to help these vital sectors return to sustainable operation and contribute to Wales's recovery.

The Spring Tourism Barometer found that 29% of tourism and hospitality businesses are currently trying to fill staff vacancies, with 63% of these experiencing considerable difficulties. Issues of attracting people back to work in the sector / work

at all remain the main themes. The effects of recruitment difficulties remain considerable, with some unable to open as often or fully as they would like.

In response, and in partnership with the industry-led Wales Tourism and Skills Partnership, a campaign was launched in August 2021 to support the sector by raising awareness of the high numbers of vacancies and of the variety of career opportunities available.

The campaign is being delivered in partnership with Working Wales [Work in hospitality and tourism | Working Wales \(gov.wales\)](#) – which provides one simple route for young people.

Earlier this month, and coinciding with the Wales Tourism Week, I announced the projects receiving funding from this year's Brilliant Basics capital fund.

The £2.9m fund for 2022-23 will be shared among 18 projects that will help deliver small-scale infrastructure improvements in strategically important tourism locations across Wales.

The fund is supporting local authorities and national parks to deliver improvements which will benefit both visitors and local communities. This year's fund is supporting a variety of projects including initiatives to help alleviate pressure in areas that are seeing increased visitor numbers, projects to improve accessibility and projects that make their destinations more environmentally sustainable.

Summary

Despite the aforementioned challenges, we will continue to deliver on our vision of making Wales an attractive place to live, study, work and invest, including the quality of life in an inclusive, open and green nation.

The Welsh Government's Cabinet have all committed to creating the conditions where more people feel confident about planning their future in Wales.

My newly appointed [Ministerial Advisory Board](#) have been tasked with building on our work to date, as their first challenge.

When I talk to potential investors or those that have come to Wales already, it is also the coherent programme, the political stability and the partnership approach Wales has to offer, that provides that extra edge.

Our social partnership approach has a crucial role in all of this, not least in bringing people together to not only promote fair work and better jobs but as a nation of sanctuary - epitomising the Team Wales approach.