



Dadansoddi
Cyllid Cymru
Wales Fiscal
Analysis

When ends don't meet: a cost-of-living update

BRIEFING NOTE

MARCH 2022

Preface

Declaration of funding

Wales Fiscal Analysis is hosted by the Wales Governance Centre and the School of Law and Politics at Cardiff University, and funded through a partnership between Cardiff University, the Welsh Government, the Welsh Local Government Association, and Solace Wales. The programme continues the work of Wales Public Services 2025 hosted by Cardiff Business School, up to August 2018.

About us

Wales Fiscal Analysis (WFA) is a research body within Cardiff University's Wales Governance Centre that undertakes authoritative and independent research into the public finances, taxation, and public expenditures of Wales.

The WFA programme adds public value by commenting on the implications of fiscal events such as UK and Welsh budgets, monitoring and reporting on government expenditure and tax revenues in Wales and publishing academic research and policy papers that investigate matters of importance to Welsh public finance, including the impact of Brexit on the Welsh budget and local services, options for tax policy, and the economics and future sustainability of health and social care services in Wales.

Working with partners in Scotland, Northern Ireland, the UK, and other European countries, we also contribute to the wider UK and international debate on the fiscal dimension of devolution and decentralisation of government.

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When ends don't meet

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Executive Summary

A combination of price increases, tax rises, and trailing income growth threatens to squeeze living standards on a scale not seen in the UK for decades. In response, both the UK and Welsh governments have announced measures to help mitigate the impact on household finances. Even so, many Welsh households will still see significant reductions in their real income and purchasing power over the coming months.

- The average household on a default dual-fuel energy tariff will see their bill rise by *£693 a year* from April 2022, with further increases likely later this year. This increase alone equates to *12% of after-housing-costs (AHC) disposable income* for a Welsh household in the poorest income decile.
- The worrying developments in Ukraine have increased the likelihood that energy prices remain high. Welsh households may be particularly vulnerable to sharp rises in the cost of heating high due to the relatively low energy efficiency and age of its existing housing stock. Of all the Energy Performance Certificates lodged in 2021, only 45% were graded A–C (most energy efficient), compared to 52% in England.
- In January 2022, the 12-month CPI rate reached 5.5%, up from 5.4% in the 12 months to December 2021. The Bank of England now expects the CPI rate to peak above 7% in Spring 2022 – its highest level in three decades. At the same time, the ability of individuals to weather these price increases will vary. Even before the recent surge in energy prices, UK households in the poorest income decile spent more than twice as much on housing and utilities as a proportion of their disposable income than their counterparts in the top income decile.
- Inflationary pressures will have a particularly adverse impact on households receiving benefits. These payments are uprated – as is customary – using the CPI rate recorded in September preceding the start of the new financial year (3.1%).
- The Welsh Government has allocated nearly £340 million towards cost-of-living measures announced in February 2022 – considerably more generous than other parts of the UK. However, after the measures to assist with the cost-of-living and tax rises are applied, the average Welsh household on a variable tariff still be *£600 worse off* in April (before considering non-fuel inflation). Welsh households in the poorest income decile will see a *4% reduction* in their disposable income (after-housing-costs).

When ends don't meet: a cost-of-living update

MARCH 2022

On the eve of the first UK lockdown, the pandemic boded an ominous sign for household finances.¹ And yet, despite sector-wide closures and the deepest recession on record, a commensurate fall in household incomes was avoided as governments intervened to replace lost earnings on a previously unprecedented scale. Two years on, the UK faces the biggest squeeze in living standards in decades.

The imminent rise to the energy price cap in April will increase bills for the average household on a standard dual-fuel tariff by nearly *£695 a year*, with further increases likely later this year, not least because of recent international developments. In response, both the Welsh and UK governments announced measures to mitigate the impact of rising bills. Any government intervention must strike a balance between policies that provide broad-based support and guarantee high take-up against more targeted measures, which can direct more support to those in need but might exclude other struggling households. In Wales, the near-universal support provided by the repayable discount on energy bills and council tax rebate accompanied targeted payments to individuals who receive qualifying benefits through the Winter Fuel Support Scheme and local authority-run discretionary funds.

Several tax policy changes also take effect in April, including increased national insurance contributions, as well as frozen income tax and student loan repayment thresholds. Though broadly progressive, these measures will nevertheless further erode real growth in disposable incomes. The increase in the employee and self-employed national insurance contribution rates alone will leave the average Welsh household worse off by £220 a year.

The Bank of England now expects Consumer Price Inflation to peak above 7% in the Spring – its highest rate in three decades. At the same time, the ability of individuals to weather these price increases will vary. Even before the recent surge in energy prices, UK households in the poorest income decile spent more than twice as much on housing and utilities as a proportion of their disposable income than their counterparts in the top income decile.

This **Wales Fiscal Analysis** briefing note sets out the factors driving the latest cost-of-living squeeze, analyses the distributional impact of policies announced by the Welsh and UK governments, and examines the likely effectiveness of these measures in mitigating the impact on household finances in Wales.

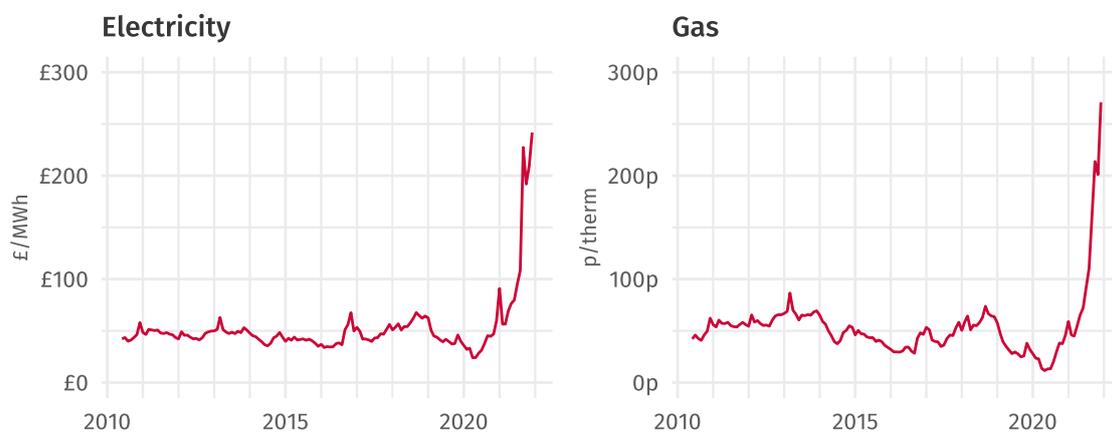
¹ Cian Siôn, “Which Welsh households are most vulnerable to a loss of income because of Covid-19?” *Bevan Foundation* (blog), 20 March 2020, accessed 01 March 2022. <https://www.bevanfoundation.org/views/which-welsh-households-are-most-vulnerable-to-a-loss-of-income-because-of-covid-19/>

Energy price increases

Rising energy prices will significantly contribute to the squeeze on household budgets over the coming months. These price increases follow a rapid rise in wholesale gas and electricity costs paid by suppliers. Great Britain's reliance on gas imports from the continent and its low storage capacity has left it particularly vulnerable to the recent volatility in gas prices. Since gas-fired generation is the marginal supply of electricity in the UK, an increase in wholesale gas prices also tends to increase the spot price for electricity (**Figure 2.1**).

Figure 1

Day-ahead (baseload) contract prices, monthly average (Great Britain)



Source: Ofgem (2022) Wholesale Day Ahead Contracts Price Trends. • Notes: “Day-ahead” prices represent the near real-time costs of purchasing gas and electricity on the wholesale market in Great Britain. Suppliers often purchase energy months (or even years) in advance of when it will be delivered.

Consumer energy prices are a lagging indicator of trends in the wholesale market due to the widespread availability of fixed-term tariffs and the energy price cap – which imposes a constraint on the amount suppliers can charge for each kWh of electricity and gas used. However, as more fixed-term tariffs expire and the cap is updated to reflect up-to-date supplier costs, consumer bills will eventually reflect these spiking wholesale costs.

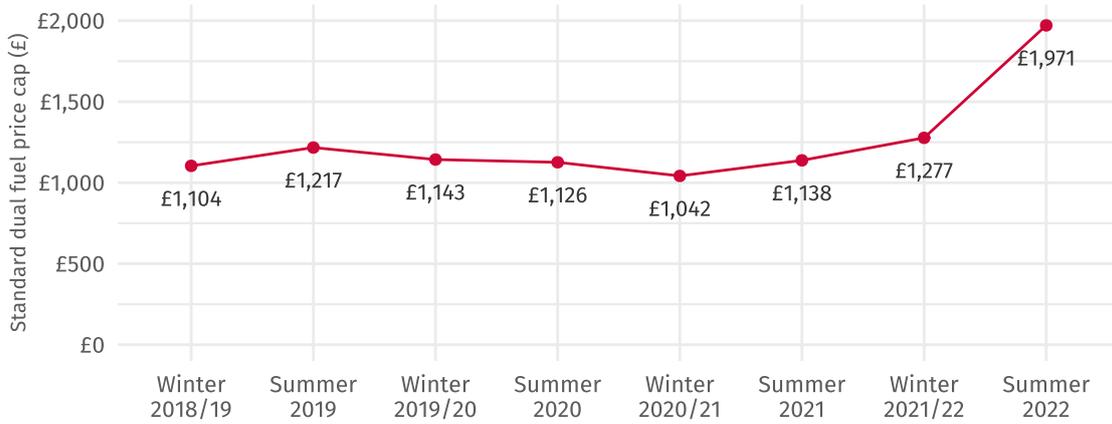
The average household on a default energy tariff will see their bill rise by £693 a year from April 2022, with further increases likely when Ofgem updates the price cap for Winter 2022–23. This increase alone equates to 2.5% of after-housing-costs (AHC) disposable income for an average Welsh household, or 12% for the poorest Welsh income decile.² Our previous analysis suggests that even before the recent price increase, households in the poorest Welsh income quintile spent, on average, 12% of their AHC income on energy bills.³

² These results are based on UKMOD A2.5+. See Figure 8 for further details.

³ Cian Siôn, “When ends don’t meet: a cost-of-living crisis (Part 2),” *Thinking Wales* (blog), 22 October 2021, accessed 18 February 2022. <https://blogs.cardiff.ac.uk/thinking-wales/when-ends-dont-meet-part2/>

Figure 2

Standard dual fuel price cap for customers paying by direct debit



Source: Ofgem (2022) Historic default tariff price cap. • Notes: Price cap unit rates vary by region, payment method and meter type. Chart shows the capped cost of a standard dual fuel tariff for a typical UK household paying by direct debit.

Figure 3

Proportion (%) of Welsh households fitted with prepayment meters by housing tenure



Source: Welsh Government (2017–18) Welsh Housing Conditions Survey. • Notes: Error bars denote 95% confidence intervals.

Not only do lower-income households spend considerably more on energy costs as a proportion of their income, but they may also be more likely to be directly impacted by the planned increase to the price cap as well. As illustrated in **Figure 3**, approximately 45% of properties in the Welsh social housing sector have prepayment meters installed, compared to a quarter of privately rented homes and only 5% of owner-occupied properties.

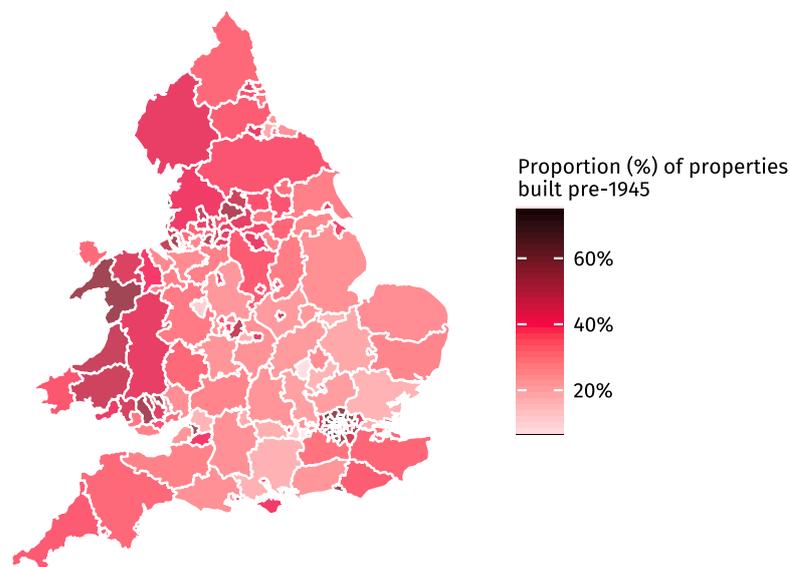
Households with prepayment meters will often have no choice but to accept a default variable tariff set at, or just under, the price cap rather than opting for a fixed-term deal. The price cap itself is marginally higher for prepayment customers as well.

Consumers are unlikely to face a reprieve next Winter either, as energy prices look set to remain high. The worrying developments in Ukraine have sparked renewed speculation about the security of Europe's natural gas supply, 40% of which it imports from Russia.⁴ Although the UK is considerably less reliant on Russia for gas imports than its European counterparts, prices remain exposed to trends in international markets.

Welsh households may be particularly vulnerable if the cost of heating remains high due to the relatively low energy efficiency of its existing housing stock. Of all the Energy Performance Certificates (EPCs) lodged in 2021, only 45% were graded A–C (most energy efficient), compared to 52% in England. Wales also has an older housing stock than the England and Wales average. In Gwynedd, 56% of the property stock dates pre-1945. According to the Welsh Government's modelled estimates, Gwynedd is also the local authority with the highest proportion of households living in fuel poverty.⁵

Figure 4

Proportion (%) of properties built pre-1945 by upper-tier local authority



Source: Valuation Office Agency (2019) Council tax stock of properties. • Notes: Properties whose build period is unknown have been excluded from the total.

⁴ The Economist, "If the supply of Russian gas to Europe were cut off, could LNG plug the gap?," *The Economist*, 26 February 2022, accessed 02 March 2022. <https://www.economist.com/the-economist-explains/2022/02/26/if-the-supply-of-russian-gas-to-europe-were-cut-off-could-lng-plug-the-gap>

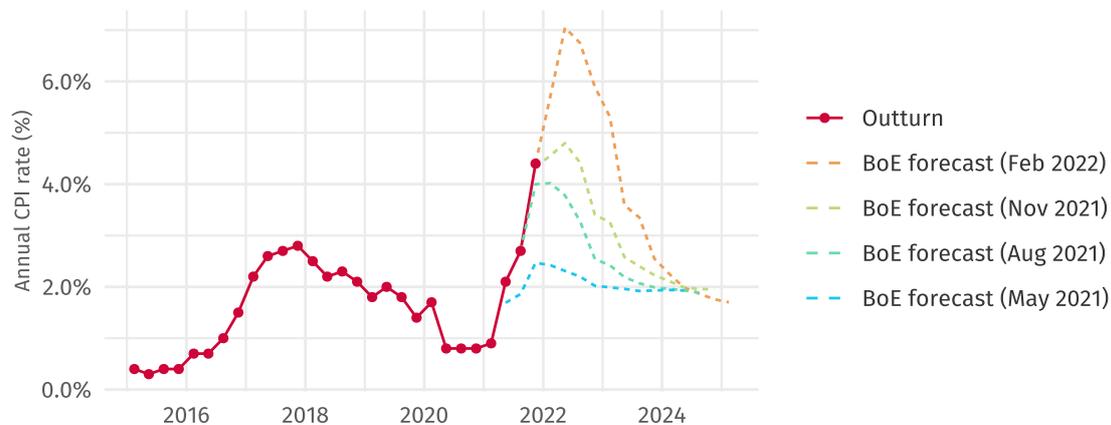
⁵ Welsh Government, "Welsh Housing Conditions Survey (WHCS) 2017-18: Local area Fuel Poverty estimates modelling and results summary," Statistical Article, 01 April 2020, accessed 16 February 2022. <https://gov.wales/local-area-fuel-poverty-estimates-april-2017-march-2018>

Consumer price inflation (CPI)

The Consumer Price Index (CPI) and the Consumer Price Index (including owner occupiers' housing costs) (CPIH) both track price changes for goods and services included in the average consumer's basket. In January 2022, the 12-month CPI rate reached 5.5%, up from 5.4% in the 12 months to December 2021 (the CPIH rate stands at 4.9%, up from 4.8% in the year to December 2021). Having applied successive upward revisions to its forecast over the past year, the Bank of England now expects the CPI rate to peak above 7% in Spring 2022 – its highest level in three decades (**Figure 5**).

Figure 5

Consumer Price Inflation (CPI) outturn and forecasts: Bank of England



Source: Bank of England (2022) Monetary Policy Report. ● Notes: Chart records the annual CPI inflation rate by Quarter.

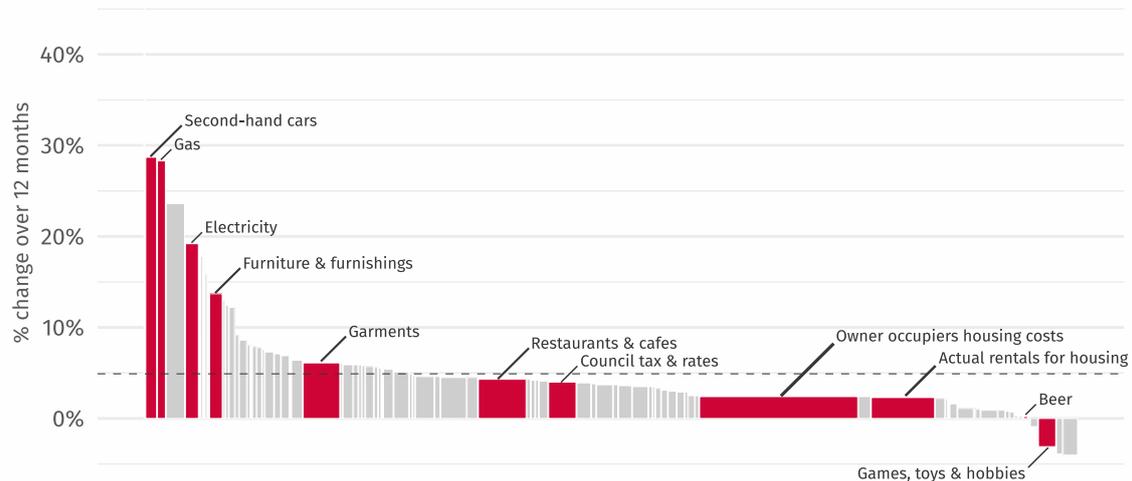
While energy prices (featured in **Figure 6**) are some of the most marked contributors to the recent growth in the CPIH, other items have also contributed to inflationary pressures. Prices for second-hand cars are up 28.7% on 12 months ago. The 12-month increase in the cost of fuel, furniture, garments, and hotel accommodation all exceeded the headline CPIH rate of 4.9% in January 2022.

So far, annual growth in prices for the highest-weighted components: owner-occupiers' housing costs (2.4%) and rent (2.3%) have remained relatively low. However, this might change. Any change to the Bank of England's base rate will directly impact households with inflation-tracked mortgages, and expectations of further rates rises already inform new fixed deals. How the ONS measures rent levels in the CPI and CPIH indices reflect the prices of all rental contracts and not only the change in newly advertised rental prices. According to the insurance company HomeLet, which uses data from tenant referencing services to generate its rental price index, the average mix-adjusted rental price for a new tenancy in the UK grew

by 8.5% in the 12 months to January 2022 (8.0% in Wales) – considerably higher than the CPI / CPIH measure.⁶

Figure 6

CPIH inflation by item, % change on a year earlier: January 2022



Source: WFA analysis of ONS (January 2022) CPIH index. ● Notes: The width of the bars denotes the weight of the respective item in the consumer basket.

Using the CPI inflation data for the 12 months to December 2021, the Office for National Statistics (ONS) published a breakdown of consumer price inflation measures by equivalised disposable income decile.⁷ Though there appears to be very little difference between the index for the poorest deciles of UK households and the top income deciles, the contribution to the annual CPI rate varies considerably.

As shown in **Figure 7**, utilities and housing costs contributed an additional 0.5 percentage points to the CPI rate of households in the second decile of income compared to those in the ninth decile. Even before the imminent surge in energy prices, UK households in the poorest income decile spent more than twice as much on housing and utilities as a proportion of their disposable income than their counterparts in the top income decile. On the other hand, transport costs (including vehicle purchases) contributed almost an additional 0.7 percentage points to the annual inflation rate for households in the richer decile. Spending on restaurants and hotels (0.2ppts), furniture and household equipment (0.1ppt), recreation and culture (0.1ppts) – largely discretionary items – were also weightier determinants of the CPI rate for households in the higher income decile.

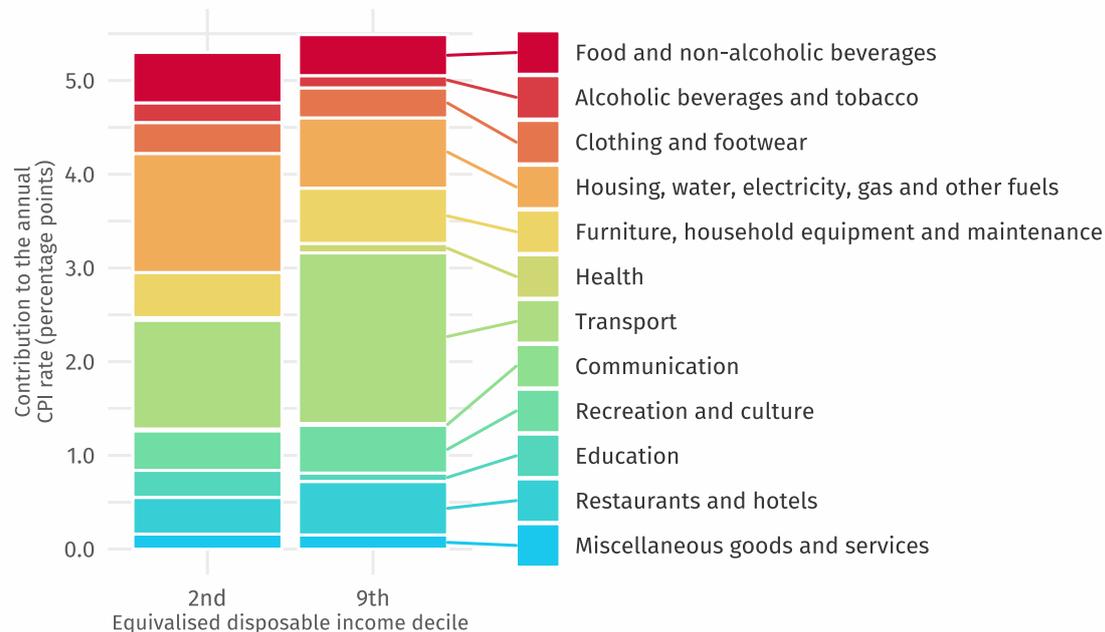
⁶ <https://homelet.co.uk/homelet-rental-index>

⁷ Office for National Statistics “CPI-consistent inflation rate estimates for UK household groups: 2005 to 2021,” Statistical Article, 28 January 2022, accessed 22 February 2022.

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/cpiconsistentinflationrateestimatesforukhouseholdgroups/2005to2021>

Figure 7

Components of CPI inflation by equivalised disposable income decile (UK): December 2021



Source: ONS (2022) CPI-consistent inflation rates for household subgroups.

The impact of inflation on households' purchasing power will critically depend on growth in income from employment and other sources. The most recent data on average weekly earnings covering the period from October to December 2021 shows that average year on year pay growth in the UK stood at 4.3%. Pay growth was fastest in the private sector at 4.6%; public sector wage growth trailed at 2.6%, likely reflecting the single-year pay freeze imposed by the UK government on some – but not all – public sector workers in Wales.

Inflationary pressures will have a particularly adverse impact on households receiving benefits. These payments are uprated – as is customary – using the CPI rate recorded in September preceding the start of the new financial year. In April 2022, the UK government will uprate working-age benefits, Pension Credit, and – due to the removal of the triple-lock – the State Pension by 3.1% (a substantial reduction in real terms). If the inflation rate slows in the second half of 2022, households receiving benefits will receive real increases to their awards in 2023–24 to reflect price changes that occurred in the 12 months to September 2022. Of course, this will be of limited use to households facing immediate economic hardship, thus underscoring the need to explore whether there are alternatives to using a lagged measure of inflation to uprate benefits over the longer term.⁸

⁸ Robert Joyce, Heidi Karjalainen, Peter Levell and Tom Waters, "The cost of living crunch," Institute for Fiscal Studies, 12 January 2022, accessed 21 February 2022. <https://ifs.org.uk/publications/15905>

Policy response

Both the UK and Welsh governments have announced measures to help mitigate the impact of rising prices – particularly the rising cost of energy – on households. In addition to deciding on the scale of the support packages, they also had to decide whether to favour universal interventions or a more targeted approach. A summary of the key measures announced to date which apply to Welsh households is provided below:

- **Energy Bill Discount Scheme (UK government)**
A £200 cash discount applied to households' energy bills in Autumn 2022. This discount will be repaid by consumers in equal instalments over five years, starting in 2023–24.
- **Council tax rebate (Welsh Government)**
A £150 payment provided to all households in council tax bands A to D, and all households which receive support from the Council Tax Reduction Scheme, regardless of council tax band.
- **Winter Fuel Support Scheme (Welsh Government)**
A £200 payment for households in receipt of Universal Credit and other qualifying benefits during Winter 2022–23. This is in addition to the Winter 2021–22 payment round.
- **Discretionary funds (Welsh Government)**
A £25 million discretionary fund and a £15m top-up to the Discretionary Assistance Fund (DAF) to allow local authorities to make additional discretionary payments to individuals experiencing financial hardship. The DAF flexibilities introduced in response to the pandemic have been retained until March 2023.
- **Other announcements (Welsh Government)**
The Welsh Government lists several other policies in its Final Budget 2022–23 narrative. These include £21m to extend Free School Meals provision over the school holiday, a commitment that formed a part of the Co-Operation Agreement with Plaid Cymru. See [Table A1](#) for further details.
- **Changes to the Warm Home Discount Scheme (Cost levied on consumers)**
A proposed expansion of the broader eligibility criteria to better target households with high energy costs and increase the award amount from £140 to £150 a year. These changes are currently subject to consultation and will take effect in time for the next application round in Winter 2022–23.

The UK government's flagship Energy Bill Discount Scheme and council tax rebate for properties in bands A to D in England – later mimicked in Wales – will boost the income of the average Welsh household by just under £300 a year in 2022–23. Since eligibility for the council tax rebate is broad, and the discount on energy bills is universal, the benefits will accrue relatively evenly across the income distribution. A household in the poorest Welsh income decile will benefit by an estimated £306 a year. The measures will boost the income

of the median Welsh household by £300. Households in the top income decile will gain £252 as they are somewhat less likely to be living in properties in bands A to D.

The discount on energy bills is a GB-wide initiative with up-front funding provided to energy suppliers by the UK government. But since council tax policy is devolved, the decision to offer a rebate and set up a £144 million discretionary hardship fund run by councils in England triggered £180 million for Wales in 2021–22. This amount has been carried forward from 2021–22 to 2022–23 – outside the normal Wales Reserve arrangements – to fund the response to the cost-of-living crisis.

The Welsh Government's 2nd Supplementary Budget for 2021–22 allocated £152 million to fund the Welsh council tax rebate and £25 million to set up a discretionary hardship fund.⁹ These policies were funded using additional consequentials for 2021–22 and previously unallocated funding. Using funding carried forward from 2021–22, the Welsh Government's Final Budget for 2022–23 allocated a further £162 million to provide cost-of-living support.¹⁰ This included £90 million to fund another round of £200 payments to households in receipt of Universal Credit (and other qualifying benefits) during Winter 2022–23, and £15 million to extend the Discretionary Assistance Fund flexibilities first introduced in response to the pandemic. Other policy interventions (including benefits-in-kind) the Welsh Government considers will help households with increased cost-of-living include the extension of Free School Meals over the holidays (£21 million) and a top-up of the Pupil Development Grant (£13 million). Further details are available in **Table A1**. The total package of support announced by the Welsh Government on 15th February is worth nearly £340 million – considerably more generous than other parts of the UK.

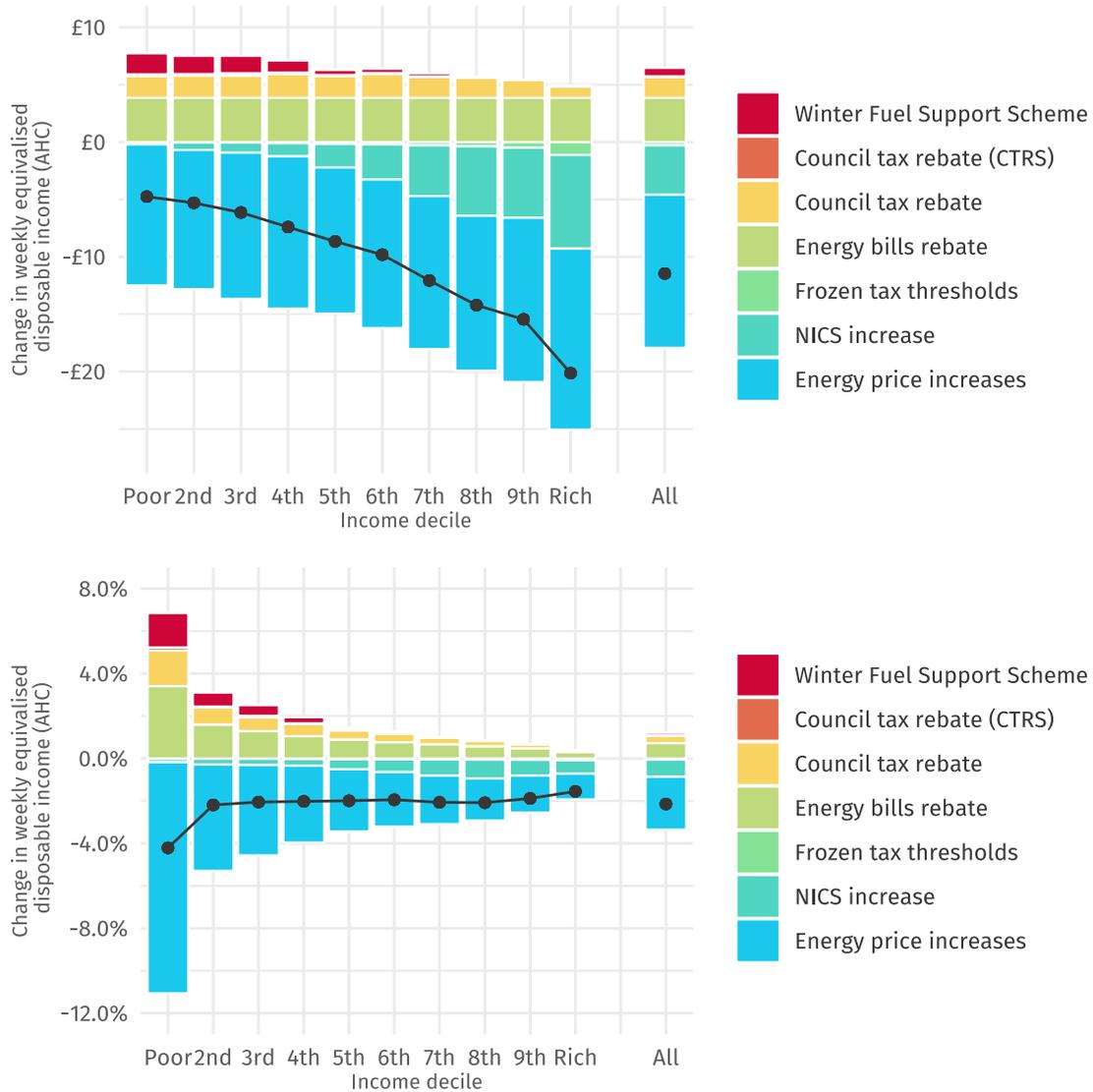
Nevertheless, households in all income deciles will see their incomes fall in April 2022 because of energy price increases and planned tax rises. **Figure 8** shows the absolute and relative change in income for Welsh households subject to the cap on energy prices, by equivalised disposable income decile. After the measures to assist with the cost-of-living are applied, the average Welsh household on a variable tariff will still be £400 worse off in April due to energy price rises alone, and £600 worse off when we include tax rises. This equates to a 2% reduction in AHC income. For a household in the poorest Welsh income decile on a variable tariff, the energy price increases due to take effect in March alone represent an 11% reduction in their disposable income. After policy measures are applied, including the targeted Winter Fuel Support Scheme, the poorest Welsh households will still be £237 worse off next year – equivalent to a 4% reduction in household (AHC) income.

⁹ Welsh Government, *2nd Supplementary Budget 2021–22*, (Cardiff: Welsh Government), accessed 02 March 2022. <https://gov.wales/sites/default/files/publications/2022-02/2nd-supplementary-budget-2021-2022-note.pdf>

¹⁰ Welsh Government, *Final Budget 2022–23*, (Cardiff: Welsh Government), accessed 02 March 2022. <https://gov.wales/sites/default/files/publications/2022-03/final-budget-2022-2023-note.pdf>

Figure 8

Distributional impact of policy and price cap changes, by equivalised disposable income decile in Wales: April 2022



Source: WFA analysis using UKMOD A2.51+¹¹ and ONS (2016–18) Family and Resources Survey input data. ● Notes: Energy price increase represents the increased costs for households on a standard dual-fuel tariff after the price cap is increased in April 2022. This increase (£693/year) is weighted to reflect differences in energy consumption by equivalised income decile using data from the Living Costs and Food Survey. The Winter Fuel Support Scheme reflects the £200 payment that is scheduled to eligible households during Winter 2022/23; a separate payment has already been made in Winter 2021/22. Assumes full take-up of all policy measures.

¹¹ The results presented here are based on UKMOD version A2.51+. UKMOD is maintained, developed and managed by the Centre for Microsimulation and Policy Analysis (CeMPA) at the University of Essex. The process of extending and updating UKMOD is financially supported by the Nuffield Foundation (2018-2021). The results and their interpretation are the authors' sole responsibility.

Although the poorest 10% of Welsh households face the biggest relative hit to their disposable income levels, the impact across the remainder of the income distribution is broadly uniform. In part, this is because the Welsh Government decided to target most of its cost-of-living support at lower-income households, but mostly because of tax changes that will take effect in April 2022, which are broadly progressive. The support provided by governments to deal with the cost-of-living crisis fully offsets the increase in national insurance contributions and the effect of freezing income tax thresholds for more than two-thirds of Welsh households. A household at the 25th percentile of income in Wales will see a similar relative hit to their income as a household at the 75th percentile.

However, a critical omission from **Figure 8** is the effect of non-fuel inflation. Though rising prices do not directly affect disposable income levels in the same way as changes to tax policy, they do reduce purchasing power. Put simply, households will find that their income does not go as far as it used to. This will be particularly damaging for lower-income households who might have less capacity to rein back discretionary spending in response to rising prices.

Some policies are omitted in **Figure 8** due to the lack of clearly defined eligibility criteria or because they are benefits-in-kind. For instance, although individuals must meet certain conditions to receive support from the Discretionary Assistance Fund, there is no guarantee that individuals who meet the qualifying criteria will receive a payment. The other key excluded measure was the proposed changes to the existing Warm Home Discount. These proposals were drafted in June 2021, before the recent surge in energy prices. At present, eligible consumers may be able to receive a one-off £140 discount each Winter funded via a levy applied to the bills of all customers of obligated suppliers. Those in receipt of the Guarantee Credit element of Pension Credit constitute the 'Core Group' and normally have the credit applied to their account automatically. Those receiving certain means-tested benefits qualify for the 'Broader Group'. Members of this group must apply to their energy supplier each year, though they are not guaranteed to receive a payment. According to Citizens Advice, these individuals currently find the current scheme "unpredictable" and often "oversubscribed".¹²

Some of the proposed changes to the scheme are welcome – including measures to help better target households most at risk of fuel poverty and ensure that more households receive their rebate automatically.¹³ The new methodology used to identify the 'broader group' uses the Valuation Office Agency's administrative data on floorspace, build date and whether the property is detached to identify households who are most likely to be experiencing fuel poverty. We know from these datasets that Welsh properties are, on

¹² Citizens Advice, *Citizens Advice response to BEIS's Warm Home Discount Scheme 2021 to 2022 consultation*, (London: Citizens Advice), accessed 23 February 2022.

https://www.citizensadvice.org.uk/Global/CitizensAdvice/Energy/Energy%20Consultation%20responses/CitizensAdvice%20response_Warm%20Home%20Discount%202021_22.pdf

¹³ Department for Business, Energy & Industrial Strategy, *Warm Home Discount: Better targeted support from 2022*, (London: Department for Business, Energy & Industrial Strategy), accessed 22 February 2022.

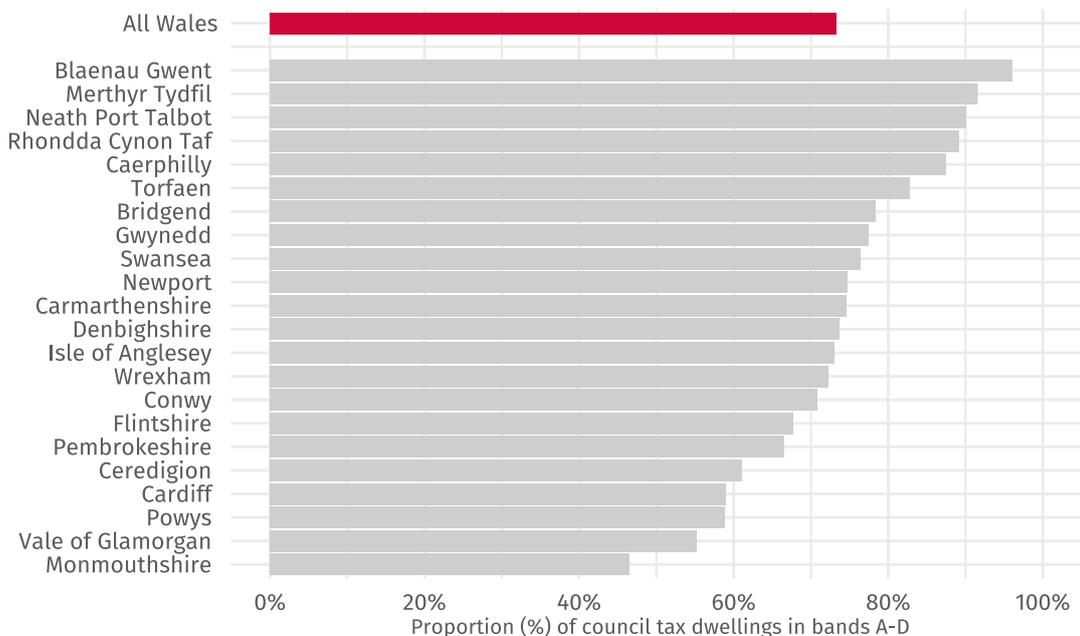
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/999412/warm-home-discount-reform.pdf

average, larger, older, and more likely to be detached than those in England. However, the increase in the scheme's overall funding (£117 million in 2022 prices) appears small in the context of recent price rises. And the decision to uprate the payment amount from £140 to £150 in 2022–23 falls considerably short of the growth in energy prices expected in April 2022 alone, let alone when we consider that the amount has been fixed at its £140 level since 2011.

Does the current suite of policies constitute an effective response to the cost-of-living crisis? Though the measures will alleviate the impact on households, and the additional targeted support announced by the Welsh Government has helped curb some of the asymmetric proportional hit to incomes across the earnings distribution, households in each income decile will be worse off this Spring.

Figure 9

Proportion of council tax dwellings in bands A–D, by local authority



Source: StatsWales (2022) Proportion of council tax dwellings, by band and year.

One of the policies encapsulating the Welsh and UK governments' decision to integrate universalism into their support package is the council tax rebate. An estimated 73% of Welsh properties are in bands A to D meaning that, though not universal, the eligibility criteria are nevertheless broadly defined (Figure 9). Yet, households in the top income quartile are also set to benefit – in fewer numbers – due to the imperfect mapping of property values (based on 2003 values) to household incomes. A near-universal approach might be justified on the basis that many middle-income households will face economic hardship over the coming months, and by eliminating the requirement to make an application, governments can secure virtually 100% take-up. However, the clear trade-off is that funds, which could have

enabled more support for more vulnerable households, are diverted to those who arguably may not need the payment.

The decision to extend the Winter Fuel Support Payment ensures that some targeted support is maintained. By targeting Universal Credit recipients, the Welsh Government has closed a gap in the current UK safety net whereby low-income, working-age households are not eligible for a Winter Fuel Payment nor guaranteed support through the Warm Homes Discount Scheme. The Bevan Foundation identified other areas where the Welsh Government could expand its response to ease pressures on the least-well off. These include maximising Discretionary Housing Payments, extending the Tenancy Hardship Grants, extending Discretionary Assistance Fund flexibilities, and bringing forward plans for universal provision of Free School Meals in primary education.¹⁴

Perhaps the biggest challenge for the Welsh Government will be encouraging take-up of the Winter Fuel Support Payment and other discretionary schemes. It is notable that despite the lack of powers over welfare, the Welsh Government has nevertheless delivered a larger means-tested support package than in Scotland, where a devolved agency, Social Security Scotland, already administers several ill-health and disability-related benefits. While the Welsh Government's interventions highlight the potential of a Welsh safety net, if take-up rates struggle, they might also underscore the limits of the devolved government's ability to deliver in this area in the absence of further powers, formal structures, and the necessary data-sharing arrangements with UK agencies.

Of course, the Welsh Government chose to intervene precisely because the UK government opted not to use the established social security system to deliver support. Although there were, arguably, legitimate reasons for thinking that this approach would have been overly narrow in this instance, other decisions are more difficult to justify. The decision to withdraw the £20 a week uplift to Universal Credit last year impacted a fifth of Welsh households; households in the poorest decile saw a 5% reduction in their after-housing-cost disposable income overnight.¹⁵ Given that households receiving working-age benefits will see real cuts in the value of their awards from April because of the uprating arrangements, this decision appears particularly ill-judged.

¹⁴ Bevan Foundation, *The cost of living crisis: a Welsh action plan*, (Merthyr Tydfil: Bevan Foundation), accessed 21 February 2022. <https://www.bevanfoundation.org/wp-content/uploads/2022/02/Cost-of-Living-Action-Plan-Final-.pdf>

¹⁵ Cian Siôn, "When ends don't meet: tax rises and benefit cuts (Part 1)" *Thinking Wales* (blog), 15 October 2021, accessed 18 February 2022. https://blogs.cardiff.ac.uk/thinking-wales/when_ends_dont_meet_part1/

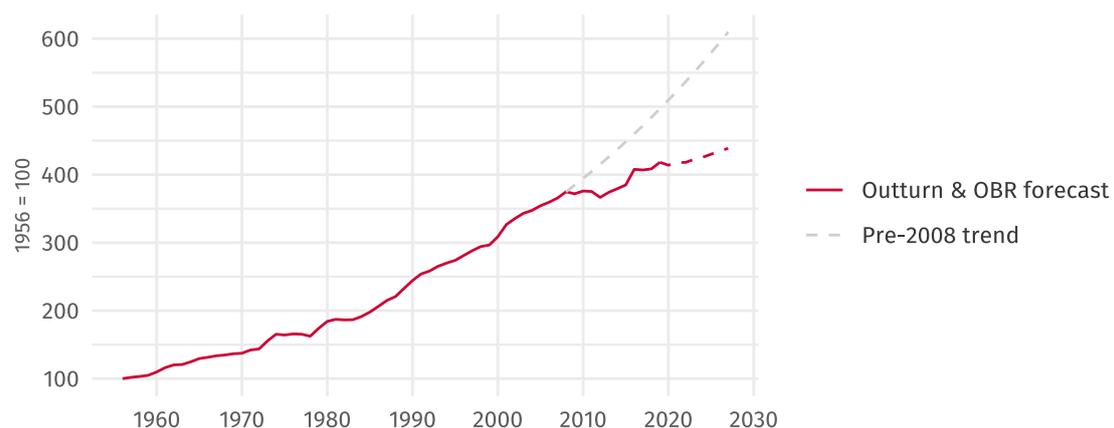
Conclusion

Despite the interventions made by the UK and Welsh governments, a combination of inflationary pressures and tax rises will depress household incomes over the coming months. The UK government's flagship Energy Bill Discount Scheme and the Welsh Government's decision to replicate the council tax rebate provide near-universal support. There are some merits to this approach. High take-up rates are almost assured, and many middle-earners also face a substantial reduction in spending power. Nevertheless, on their own, these measures fail to recognise that the imminent rise in energy prices and inflationary pressures will disproportionately erode the incomes and purchasing power of the least well-off.

For this reason, the Welsh Government's decision to supplement these policies with more targeted measures is welcome. The support also differs from other parts of the UK, both in its generosity and by being more targeted towards lower-income households. Nevertheless, even assuming 100% take-up of the Winter Fuel Support Scheme, the income of the poorest decile of Welsh households will still be hardest hit by the energy price rises in April. While discretionary funds could support individuals experiencing financial hardship on a case-by-case basis, the reduction in purchasing power brought about by non-fuel inflationary pressures will hit the pockets of poorer households even further. Had the UK government not proposed tax rises and tax threshold freezes in April, which disproportionately hits higher earners, the proportional hit to disposable income would have been more skewed towards the bottom end of the distribution.

Figure 10

Growth in real household disposable income, UK



Source: WFA analysis of ONS (2021) RDHI per head; OBR (October 2021) Economic & fiscal outlook.

While the recent focus has understandably been on the immediate challenges posed by price rises, the longer-term outlook for household income remains bleak, as highlighted in our Welsh Budget Outlook 2022 report. Forecasts produced by the Office for Budget

Responsibility in October 2021 implied that real disposable household income – which measures how much households have available to spend or save after adjusting for the impact of inflation – would grow by less than 1% a year between 2021 and 2027, well below the long-run average of 2.6%. Had this pre-financial crisis annual growth rate of 2.6% been sustained, real household incomes would be 28% higher in 2027 than what's implied by current projections (**Figure 10**).

Lastly, there remains considerable uncertainty about how high the inflation rate will climb and how entrenched will these price rises be. When Ofgem increased the price cap, they assured that suppliers would adjust the prices of their standard tariffs accordingly, meaning that millions of UK households will see a mammoth increase in energy bills from April. Most forecasters still expect inflationary pressures to begin to subside before 2022 ends, however. But if high price levels persist for a prolonged period without real growth in income, this may not be the last time governments are compelled to intervene to assist with the cost of living.

Annex A: Supplementary tables

Figure A1

Cost-of-living measures and amounts allocated by the Welsh Government at each budgetary event

	£ million
2nd Supplementary Budget 2021–22	251.7
Household Support and Winter Fuel Support*	74.7
Cost of living payment	152.0
Discretionary fund for LAs	25.0
Final Budget 2022–23	162.4
Winter Fuel Support Scheme	90.0
Discretionary Assistance Fund	15.0
Social Justice measures	10.0
Holiday hunger	28.4
Pupil Development Grant	13.1
Learners and schools (via consortia)	1.0
Vulnerable families (inc. families with care and support needs)	2.0
Sustainable food package to support access to food	2.9
Total	414.1
Of which announced on 15 February 2022	339.4

Source: Welsh Government (2022) 2nd Supplementary Budget 2021–22; Final Budget 2022–23.

* Covid-19 allocations from announcements before February 2022.

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