Addendum to Draft Budget 2023-24 Annex A: Strategic Integrated Impact Assessment

December 2023

gov.wales
Addendum to Draft Budget 2023-24 Annex A: Strategic Integrated Impact Assessment

This is an addendum to the Strategic Integrated Impact Assessment, which was originally published as part of the draft Budget 2023-24 in December 2022. It sets out the context, approach and impact of in-year changes to the Welsh Government’s spending plans announced by the Minister for Finance and Local Government on 17 October 2023 to manage extreme financial pressures caused by persistently high inflation, the impact of more than a decade of austerity on public services, and the ongoing consequences of Brexit.
Strategic context

When we published our 2023-24 Budget, despite it being one of the most difficult since devolution, we drew on all our available resources to protect public services and provide targeted support to people and businesses most in need in the face of the cost-of-living crisis.

Since setting these spending plans, we have experienced record prolonged levels of high inflation along with continued challenges in the fiscal context, particularly in areas such as public sector pay. In addition, the cost-of-living crisis, which has disproportionately affected people with lower incomes, has increased the pressure on public services.

Economic developments will be more fully reviewed in the Chief Economist’s Report, which will be published alongside the draft Budget 2024-25 on 19 December 2023.

As a result, overall, we are having to spend more than previously planned in 2023-24, placing unprecedented pressure on the devolved Welsh Budget. The First Minister published a written statement on 9 August 2023, where he indicated that work would take place over the summer months to address the impact of our budget being worth around £900m less than when it was set in 2021.

Unlike the UK Government, the Welsh Government is extremely constrained by the requirement to spend within limits set by HM Treasury and limitations on our ability to accumulate and draw on reserves, borrow or increase tax revenue. To deal with pressures facing public services in Wales this year, particularly the NHS and rail, we are having to reallocate funding to these spending areas. This means spending less in some other areas. In doing so, we have avoided the need to raise additional taxes in 2023-24. We have taken prudent action by revisiting spending plans for 2023-24, to enable us to balance our duty of robust fiscal management and this government’s commitment to continue to protect core public services and target support to those with the greatest need.

We have made these choices now to prevent even more difficult decisions in the 2024-25 Budget, when the financial pressures are likely to be worse.
Protecting the NHS

The financial challenge for the NHS, common to all areas of the UK, relates to a number of significant factors:

- the challenge in managing higher costs post-pandemic, where new services now exist, and levels of staffing and bed capacity have increased.
- inflationary pressures across all areas, which are outside of health board control – for example, pay and non-pay inflation, including the costs of medicines and increasing costs of packages of care.
- increasing demand.

As a result of the changes to spending plans announced on 17 October 2023, we have been able to allocate an additional £425m in 2023-24 to the NHS. There are no cuts to health board budgets. But this will still mean difficult choices in-year and next year for both the Health and Social Services MEG and the NHS.

The Minister for Health and Social Services published a written statement on 8 November 2023 setting out how the additional funding would be allocated and the new health board target control totals that have been set. The Minister for Health and Social Services confirmed the funding will be provided to organisations to support the agreed pay award commitments and help manage the challenges the NHS is facing.

Each health board will also be required to reduce its planned deficit by 10%. To achieve these additional deficit reductions, NHS organisations have engaged with service leads, clinical staff, and their boards to consider a range of possible options. They have set out the following guiding principles to inform this work:

- Ensuring the least possible harm will be caused to patients – cancer treatment and urgent and life-threatening care will continue.
- Any intervention should be clinically cost-effective and evidence-based.
- Proposals would not be supported where there is the potential for serious impact to patient experience.
- Seeking consistent national decision-making on key policy areas where appropriate, for example the introduction of various charging mechanisms, changes to legislation.
- Seeking Welsh Government support on consistent national messaging with stakeholders and the public.
- Recognising the impact that reducing expenditure in the short-term will have on Ministerial priorities, targets, and commitments.

Around 75% of NHS expenditure is on workforce costs, medicines and prescribing, and packages of care. The majority of the remainder of NHS expenditure relates to the delivery of core services and infrastructure, including energy costs, food and provisions and contracting services from other providers. Actions to reduce costs will inevitably impact on these areas – the deeper the cuts required; the greater the
impact there will need to be in these areas. Without the additional £425m to support frontline NHS services, the scale and breadth of the cuts would be much deeper.

Without this additional funding, the level of cost reduction required to address the forecast deficit would have been very significant, with potentially serious impacts on frontline services, patient care, access and performance targets. The provision of additional in-year funding for the NHS enables us to offset the most severe impacts across all parts of Wales and provide protection for all patients, including children and disabled and vulnerable people.

In considering options to address the forecast deficit, the NHS considered a range of possible actions. Many were identified as high risk, given their capacity and operational impact; including the likely significant impact on the ability to deliver on waiting list targets and, for example, reducing cancer waiting times. Health boards will still need to take actions to reduce expenditure and manage to the target deficits we have set out, but we have issued the additional funding to mitigate and minimise any impacts.

All decisions by health boards will be subject to quality impact assessments, balance of risk judgements and potential consultations, if decisions impact on service change. Each health board faces different challenges in terms of population need and the configuration of services; the actions taken to manage cost pressures will vary according to organisation and will be subject to local determination.
Protecting rail transport

As a result of the changes to our 2023-24 spending plans, announced by the Minister for Finance and Local Government on 17 October, we have increased the Climate Change MEG funding for Transport for Wales (TfW) by £125m. This will enable us to maintain rail operations across Wales.

TfW identified in its business plan that additional funding would be required to continue to operate rail services and introduce new trains. Without additional funding, TfW would not have been able to maintain the continued operation of all its rail services and jobs would have been at risk. We are continuing to work with TfW to make savings and to minimise the gap between income and costs. We have challenged TfW to close the gap as quickly as possible.

The gap in TfW's revenue budget has been caused by the ongoing impact the pandemic has had on the ambitious revenue projections from the original KeolisAmey bid in 2018. Some operational costs have increased as a result of inflation – many of these costs were known from the outset but have not been able to be offset as the pandemic resulted in three years of no growth in passenger revenue. Income from passenger revenue has recovered to the level it was at prior to the pandemic and we are working with TfW to deliver the passenger growth needed to reduce future subsidy.

We have invested significantly more funding in rail than under the previous franchise system. The benefits of this approach are seen in the new trains across the Wales and Borders area; in the £1bn transformation of the Core Valley Lines and in additional and more frequent services.

The significant investments already made into rail across Wales would have been put at risk without the additional funding provided in the revised spending plans. The wider package of investment will also help to grow demand and increase revenue income significantly over the coming years.
Protecting local government

We have protected the local government revenue support grant (RSG), which provides core funding for local authorities through the local government settlement.

Local authorities deliver a wide range of public services, often to the most vulnerable in our society or those who are economically disadvantaged. These include significant services for children, through education and social services and a wide range of services for adults who may be facing challenges in their everyday lives, through social services, housing support and other community services. Sixty-six per cent of local authority resources are directed to education and social services.

Recognising the need to do all we can to protect these important services provided by local authorities, we have sustained the current level of funding through the RSG as set out in our original spending plans in 2023-24.

Local authorities are facing similar unprecedented financial pressures as the Welsh Government – persistently high inflation, pay pressures, high energy prices, and rising demand for services. Maintaining the planned level of core funding through the RSG supports local authorities with the flexibility they need to prioritise local needs based on local knowledge. In making local decisions to reflect local needs, local authorities will need to consider the impacts of their choices under the statutory requirement relating to local government.
Approach to prioritising across public services

Our approach to making changes to our 2023-24 spending plans has been to assess the strategic and cumulative impacts of choices and to do all we can to ensure the decisions we take minimise the disproportionate effect on any one specific group or area, to help identify opportunities to maximise positive impacts and to reduce inequalities across our society.

Undertaking this integrated approach to assessing impacts better enables consideration of our statutory and non-statutory requirements, in particular: Equality Act 2010; the Public Sector Equality Duty; Socio Economic Duty; UN Convention on the Rights of the Child; Well-being of Future Generations (Wales) Act 2015; health, justice; environmental assessment; biodiversity; rural proofing and the Welsh language.

We are having to respond to a rapidly developing context as this financial year continues to unfold, and our future decisions will build on the evolving picture of impacts. However, we believe it is important to be transparent about the considerations associated with the difficult decisions required through this review of our 2023-24 spending plans.

Given the exceptional circumstances under which this work has been undertaken, the evidence set out in this document is presented at a high level, focusing on the most substantial changes. This work is an addendum to the Strategic Integrated Impact Assessment undertaken – and published – in Annex A of the Welsh Government’s draft Budget 2023-24.

Relative to an annual budget, there is only limited scope for change, given what can be achieved with in-year adjustments to spending plans. This report is therefore a snapshot of revisions to planned spending of the overall 2023-24 budget, rather than a forward look across a whole annual budget.

As we set out in our 2023-24 draft Budget, this process is distinct from the Welsh Government Integrated Impact Assessment (IIA), which assesses the impacts at an individual project or policy level. IIAs are routinely undertaken across the government and are carefully considered in policy design, influencing policy decisions. In reaching the decisions outlined in this review, Ministers drew on existing evidence and considered the cumulative impact to enable a high-level analysis of the changes to be conducted.

As the context evolves, we will continue to develop and iterate our assessment of the impacts of these choices, as well as mitigations of negative impacts where possible. We will produce a Strategic Integrated Impact Assessment of the 2024-25 draft Budget alongside its publication in December 2023, showing the evolution of the impacts as we set our 2024-25 plans. All changes to our 2023-24 spending plans will be regularised in the second supplementary budget to be published in February 2024 with all details provided in the accompanying Explanatory Note.
Summary assessment

The updated assessment we have undertaken reflects that the benefits of public spending from Welsh Government are predominantly concentrated towards people on lower incomes, older people, and children and their families – these are the same groups already adversely impacted by the current financial context. We recognise that the need to identify actions to reallocate spending could risk disproportionately impacting these groups. Action was therefore taken to identify options to minimise the impact on these groups and consider mitigations where impacts were identified.

This work was underpinned by a set of clear principles to ensure that core public services are protected as far as possible and to deliver the greatest benefit to households hardest hit by the current cost-of-living crisis. Consideration was also given to the importance of protecting jobs.

By taking this approach:

- The changes agreed will result in a substantial increase in funding for the Welsh NHS and rail services provided by Transport for Wales. We have also been able to protect the current Revenue Support Grant to local authorities.
- Other areas of spending have had to reduce to contribute to meeting the pressures we face on a cross-government basis. As far as possible, funding has been released by re-forecasting plans (for example because of changes in uptake of, or demand for, services); maximising income; and re-prioritisation of activity, rather than stopping programmes as a whole. This minimises direct impact on particular groups, although in some cases these choices represent an opportunity cost in delaying action.
- Inevitably, some reprioritised funding will be likely to have negative impacts. In all cases, we have worked hard to maintain funding and take mitigating action where possible, and we will work with partners to minimise impacts.

As part of the approach to mitigating negative impacts from the changes to spending plans we are making, we have:

- Maximised use of our in-year and Wales reserves while maintaining a prudent level of contingency.
- Assumed a level of additional consequential funding this year from the UK Government.
- Planned on the basis of switching some capital to revenue to mitigate reductions in revenue spending.
- Made a combination of revenue and capital reprioritisations in departmental budgets (MEGs).

Some of the impacts arising from this approach are one-off, but some will have implications for the next financial year. These will be worked through as we develop the 2024-25 draft Budget.
This addendum summarises the changes we are making to spending plans – covering reprioritised funding, additional income and some new areas of spend – and provides a high-level summary of the current evidence in relation to the impacts.

**Funding reprioritised as a result of re-forecasting**

As is standard practice in government, annual budget forecasts across the many areas of activity are based on a range of assumptions, using the best available evidence. For example, this may include:

- Forecasts on the demands for, and uptake of, services or financial support.
- Forecasts of expected income, including from charges or other revenue streams.

In some cases, the demands for services over the year may not be as great as envisaged, or income streams may be higher than expected. For these and other financial management reasons, budget lines may be re-profiled/reprioritised, and alongside additional income be made available for funding elsewhere.

Work has been undertaken across Welsh Government to generate options to support the achievement of a balanced budget.

**Maintaining our existing investments**

When we set our 2023-24 Budget, we outlined plans designed to ensure every pound invested makes the greatest positive impact. While we have acted to maintain our duty of robust fiscal management, we have also acted to maintain the plans we set, which aimed to balance the short-term needs associated with the ongoing cost-of-living crisis while seeking to continue to drive forward longer-term change and delivering on our Programme for Government ambitions.

The decisions outlined here represent less than 3% of our £20bn annual budget. As a result of the changes announced on 17 October 2023, we have minimised the impact on the delivery of the Programme for Government and our overarching aim to tackle climate change. We are maintaining substantive investments, including paying a real living wage for social care workers, cost-of-living support for vulnerable people, raising education standards, and non-domestic rates relief.
Prioritising Public Services

Health

Older people, a significant number of whom will be living with frailty and multiple chronic conditions, use the NHS more than any other population group. Socio-economic status continues to influence key outcomes in Wales. Those in the least deprived areas in Wales can expect to live longer and healthier lives than those in the most deprived. Health inequalities are also known to exist across different protected characteristics (as defined by the Equality Act) and vulnerable groups.

In assessing the actions needed to address the forecast deficit of the NHS, we have redirected funding from across Welsh Government to the Health and Social Services (HSS) MEG, reprioritised funding within the HSS MEG and asked the NHS to take action to reduce their forecast deficit overall. This means health boards will face some challenging decisions in order to reduce expenditure and manage to the target deficits we have set out.

Health boards will make decisions locally around savings and the assessment of any impacts. These may include potential impacts to planned care activity resulting in potential impacts on waiting times, which will affect particular groups and could also result in geographic impacts subject to how individual health boards take forward plans to reduce costs.

To enable the reprioritisation of funds within the HSS MEG, we have taken action to review demand and reassess forecasts in many areas. We have taken decisions to pause new developments and step back from plans that have yet to commence. This will mean we will not be meeting planned objectives in some areas, but we are able to redirect funding to meet immediate pressures on the frontline within the NHS. This approach allows us to release uncommitted funding to minimise direct impacts.

Health preventative measures

We have reviewed our original plans to allocate £30m this winter to improve outcomes and moderate pressure on health and social care services by increasing community capacity. This activity will still go ahead but funding has been reduced to £8.2m. This funding was not fully allocated so impacts are minimised. The additional funding would have increased benefits for vulnerable groups in the community and allowed the introduction of more preventative measures that could ease the pressure on emergency services.

We are also reprioritising £3m of uncommitted funding from prevention pathways intended to support the targeted expansion of capacity for prevention support services (such as weight management or smoking cessation) to support increased demand generated from sign-posting people through the digital offer. This is alongside the release of funding intended to support waiting list management work to enable more systematic and automated referrals of individuals on waiting lists to the digital offer. Deferring this funding means that this work will still need to proceed but
is likely to be at a slower pace. Some health boards have their own more targeted wellbeing or prevention offers which can help mitigate the impacts.

Health protection

We are releasing £32m from health protection budgets. This includes re-forecasting a number of budgets due to lower Covid-19 incidents and outbreaks during the first part of the year, resulting in reduced demand for PPE and testing, and vacancies within regional health protection teams. The reallocation of funds also reflects the reduction in activity under the UK testing programme. We will monitor the impact of demand, especially during the winter months.

We are retaining funding levels to respond as set out in the winter respiratory framework, national immunisation framework and outbreak control plan focusing on protecting the more vulnerable. Vaccination has long been a critical part of NHS Wales delivery to protect our citizens and communities and plays an important role in both prevention and response to serious disease that is more likely to have an adverse impact on the more vulnerable including children, older people and in closed settings such as care homes. Recognising the risks of a challenging winter we will continue to engage with the national and regional health protection teams and plan precautionary actions ready to be deployed if necessary. However, if these are required, then we will need to re-prioritise once again.

Health digital

We are removing £4.7m from our Digital Priorities Investment Fund (DPIF) which aims to invest in and roll out new technology that supports fast and effective advice and treatments; and introduce e-prescribing and support developments that enable accurate detection of disease through artificial intelligence. The reprioritisation means that reductions are being made across all programmes which will impact all health and social care services of Wales. We are minimising the impact as opposed to identifying a small number of programmes to take bigger reductions with associated larger impacts.

Mental health and older people/dementia

Overall, we are re-directing around £15m of mental health funding, largely from budgets where we have agreed longer lead in periods. This is particularly relevant in new budget areas for 2023-24 where funding was not fully committed and it is recognised that the planned recruitment will need to take an incremental approach. This has allowed us to minimise direct impacts, however, it will mean that work to tackle mental health inequalities, including in access to services for Black, Asian and Minority Ethnic people and our most deprived communities will be delivered over a longer period.
A similar approach has been taken in terms of dementia funding, where ‘new’ funding to deliver recommendations of the recently submitted Memory Assessment Services (MAS) review undertaken by the NHS Executive has been slowed. The lower level of ‘new’ funding for waiting lists for MAS (dementia diagnosis), will potentially mean that pressures continue to increase until 2024-25. Women, minority ethnic groups, and people in poverty could be impacted. There is higher prevalence of dementia in women, for minority ethnic groups it is reported that Black people with dementia are less likely to receive a timely diagnosis. There is a clear body of research that links a lower socioeconomic status to a higher risk of dementia.

**Education**

Impacts on schools, colleges and universities have been minimised, with revenue reductions identified through a review of demand led budgets and uncommitted funding across the MEG. Alongside protecting the local government RSG, we have reprioritised funding by reviewing demand-led budgets such as Universal Primary Free School Meals (UPFMSM), Higher Education Student Support Grants and Initial Teacher Education incentives.

We are releasing £11.5m from the Universal Provision of Free School Meals budget of £70m. This is a demand-led grant to local authorities, and, despite the reduction, there remains sufficient funding to cover the current roll-out plans.

There are no changes to the maintenance grant support that Welsh undergraduate and postgraduate students will receive in the 2023/24 academic year. This is a demand led budget and £53.4m has been identified based on forecasts from the Student Loans Company.

It has not been possible to avoid impacts in all areas. We are delaying or deferring activity where possible. We have reduced £1.3m from the Whole School Approach to Wellbeing budget, relating predominantly to areas of uncommitted funding with minimal impacts including work with the third sector, research activity, and recruitment to new posts. By taking this course of action this has protected funding for school-based counselling; interventions for children and young people; and to secure grant funding for Education Support to continue and expand on the range of mental health and well-being services they provide to the education workforce across Wales.

We are releasing £40m of capital from the Sustainable Communities for Learning (SCfL) programme. Through releasing this funding this will reduce the ability to support current projects and reduce scope to offer capital maintenance funding. While it is anticipated that the impact on children’s learning will be minimised as far as possible this poses an indirect risk in deferring potential activity to improve the learning environment and address carbon impacts.
We are reducing the post-16 provision budget by £8.5m. These reductions have been achieved through a combination of grant reclaims totalling £7.1m (including the Adult Learning Maintenance and Equipment grant) and releasing uncommitted funding earmarked for Vocational Qualifications and Adult Learning review, a marketing campaign for Personal Learning Accounts and Investing in Quality. Through these reductions we have limited the impacts on children and young people through protecting core provision so that the overall quantum of learners is not impacted. We will work closely with the sector to share best practice in managing the challenges and monitor the impacts.

Ukraine programme

We have identified £4.3m funding for reallocation that was previously allocated in support of our Ukraine programme. The reduction does not impact on our ability to deliver the necessary levels of initial accommodation or impact local authorities’ ability to integrate guests into the community. This funding has been secured due to the success we have achieved working with our partners to move guests into less expensive, longer-term accommodation, combined with the slowdown in arrivals via our super-sponsor scheme. We will continue to monitor numbers of arrivals and move-on rates to ensure that we can provide the same welcome and give people the independence they seek.

Early years

We are releasing £16.1m from the budgets supporting Early Years, Childcare and Play activities. The majority of this funding has been released as a result of updated forecasts on take-up of the Childcare Offer for Wales. The Offer, which provides funded childcare for three and four-year-olds, is demand led, with annual variations in the number of eligible families, the number of families taking up their entitlement and the number of hours of childcare used by households. We regularly monitor demand to ensure we are making the best use of funding, and on this occasion, we are in a position to release emerging lower forecasted spending without impacting delivery or access.

We have also seen lower spending projections on the Early Years Integration and Transformation Programme and are reducing some of the planned support for training activities across the childcare and playwork workforce in-year, as part of our wider training and support programme. We have maintained support for statutory activities and training required for the National Minimum Standards for regulated childcare, prioritising quality and safety of provision.

We are releasing £5.8m from the Bwndel Babi Programme which is aimed at supporting all new and expectant parents with a bundle of essential items ranging from clothes, blankets, thermometers and personal hygiene items to support each baby to have the best start in life. As this will delay implementation of the programme this will indirectly impact those already facing poverty or affected by the cost-of-living crisis. There is evidence that disabled people, lone parent families and those from some Black, Asian, and Minority Ethnic backgrounds are more likely to be living
in relative income poverty. To mitigate the impact, modelling of different options is currently underway.

Social Justice

We are making reductions of £4.2m in funding for our Equality, Inclusion and Human Rights Budgets, with £2.7m returned to reserves to contribute towards pressures across Welsh Government and £1.5m to meet pressures within the MEG associated with the Basic Income Pilot and the Fuel Bank Foundation. The majority of these areas of reprioritised funding have arisen through deferring the scale and speed of planned implementation where funding has not yet been committed. These reductions have also been targeted to areas where there is not a direct impact to people such as through deferring communications, evaluation and evidence investment. Whilst impacts have been minimise, there will be some impact on action focused on promoting equality and human rights.

We have released funding of up to £1.5m from our Police Community Support Officer (PCSO) budgets by asking police forces to freeze recruitment. This could impact support for community safety. Crime is more common in poorer areas, and you are more likely to be a victim of crime if you have adverse childhood experiences, so we recognise this may have a greater impact on people and communities who are disadvantaged. We will work with forces to identify the level of churn and likely impact of a recruitment freeze, including monitoring the geographic impacts as some forces had already undertaken recruitment prior to the recruitment freeze; this will predominantly affect the North Wales and Gwent policing areas.

Economy

Most of the reprioritised funding from the Economy portfolio has been found as a result of revised forecasts or from additional receipts, either though EU income or property sales. This includes £17.5m linked to demand-led apprenticeship funding where available funding exceeded demand.

We are also reducing funding by £5.3m from the demand-led React+ programme. The aim of ReAct+ is to prevent progression into long-term unemployment, including supporting those made redundant and the intervention has assisted those closest to the labour market to find new employment in as short a time as possible. While this reduction is based on the latest forecast demands we recognise the importance of this programme to young people, women, disabled people and ethnic minority communities which face particular difficulties when entering and re-entering the labour market. We will continue to monitor this funding closely in light of the changing economic and labour market context.

Public transport

We are releasing £3.5m of capital funding from a range of uncommitted transport schemes. Targeting these areas, including deferring activity into 2024-25, will limit the impact on people and places; in particular, no frontline delivery will be scaled
back in 2023-24. However, delays or cancelling proposals carries risk related to a negative impact on achieving longer term goals linked to modal shift and decarbonisation. We will review these schemes as part of the 2024-25 budget process.

Housing

We recognise reductions in social housing budgets can impact on those on lower incomes and at greater risk of homelessness. While £19m of capital funding is being released from housing budgets, this relates to updated forecasts and deferral of activity and funding. This approach is aimed at minimising impacts, recognising these complex capital programmes take time to design, procure, implement and commence spend.

Regeneration

We are releasing £14.5m from regeneration budgets, which includes £13m of income. While this funding was not formally committed, this will reduce the schemes supported this financial year. Through careful budget management and natural slippage on some town centre capital projects, the overall position can be adequately managed this year. Therefore, it is expected that all committed projects will still be able to be delivered, but some over a longer period.

Environment

To ensure we minimise the impacts on action to tackle the climate and nature emergencies, we have released funding from budgets with revised lower forecasts or through deferring activity. For example, we are reducing both the Local Place for Nature and the Nature Networks programmes this year by £1m capital.

Rural

We are reprioritising £10m from the Rural Investment Schemes. Much of this funding relates to updated forecasts resulting in minimal implications to the delivery of current established schemes with small impacts at an individual farm business level.
Updated strategic evidence

An analysis of the latest wider evidence outlines that there are already cumulative and disproportionate impacts falling on specific groups of people, places and in areas of prevention because of factors like the sustained rate of inflation.

Economic and Fiscal Update

CPI inflation rose above the Bank of England’s target of 2% in mid-2021. It then rose sharply to reach a peak of 11.2% in October 2022. Following this peak, inflation has trended downwards, although the latest (October) figure of 4.7% remains well above target. The decline in inflation has been largely accounted for by a falling contribution from fuel prices, which have declined, and electricity and gas bills, which, following some reductions, have apparently stabilised, albeit at an historically high level. Food price inflation appears to have peaked.

Inflation has been higher, and more persistent, in the UK than in most other major economies.

In its November report, the Bank of England expected CPI inflation to fall significantly further in the near term, reflecting lower annual energy inflation and further declines in food and core goods price inflation. Services price inflation, however, is projected to remain elevated in the near term, with some potential month-to-month volatility.

The Bank of England expects CPI inflation to fall below 5% in the final quarter of 2023 but it is not expected to return to target until the second half of 2025.

Earnings have increased in nominal terms more than originally expected by the Office for Budget Responsibility (OBR) and the Bank of England and public sector pay increases have placed additional pressure on the public finances.

Reflecting the higher-than-expected increase in nominal earnings, recent data shows whole-economy earnings have increased modestly in real terms, but this follows a period of decline. Real wage growth has been exceptionally weak for a prolonged period. Paul Johnson, of the Institute for Fiscal Studies recently stated: “Real [UK] average weekly earnings are [similar] today [to] November 2005. A completely unprecedented period with no earnings growth……[it is] likely this has not happened over any comparable period since the Napoleonic wars.”

The Resolution Foundation has projected that, following a fall in real incomes in 2022-23, real incomes are expected to stagnate in 2023-24. This would mean that over the two-year period real incomes will have fallen by around 4%.

Low-income households have been most affected by rising prices. ONS data shows that lowest-income households experience a higher-than-average inflation rate while the highest-income households experienced lower than average inflation. This disparity is due to low-income households being more affected by high food and energy prices. Young people and people that rent homes (overlapping groups), minority ethnic groups and the disabled are also particularly affected.
There is evidence that levels of debt are increasing amongst low-income householders, and food bank charities are reporting an increase in demand.

People

- Households with children, women and disabled people are disproportionately affected by employment inequalities, the cost-of-living crisis, and the impacts of poverty, including increased domestic violence and poor mental wellbeing. Those children who depend on women’s or disabled peoples’ incomes are at greatest risk of becoming looked after and having poor life chances.
- People with intersecting characteristics of being disabled from a Black, Asian or Minority Ethnic background, or identifying as LGBT+ are at greatest risk of loneliness and hate crime. Alongside pregnant women, children and young people, these groups are greater proportionate users of mental health services.
- People on low incomes are now being particularly affected by food prices, following a period of pressure from higher energy prices. Even as the rate of price increases falls, lower income groups are likely to continue to struggle with the impact of higher price levels on their living standards. Lower income and disruption to education which appears to have impacted disproportionately on those from disadvantaged backgrounds have not only been disproportionately affected by recent inflation, they typically have lower levels of saving to provide a buffer against higher costs.
- Children and young people also face compounded effects from Covid-19 and disruption to education which appears to have impacted disproportionately on those from disadvantaged backgrounds.
- A combination of factors will lie behind these impacts, including inflation and actions taken by the UK Government.

Place

- The Climate Change Committee has highlighted areas where greater progress is needed to deliver on Net Zero commitments in Wales, recognising the distinction between and relative impact of devolved and non-devolved levers. Funding, regulation and re-prioritisation within existing budgets all have a role to play.
- Additional action is needed to achieve our Net Zero ambitions and to adapt to the impacts of climate change. We also need to increase our resilience to a range of other potential threats.
- Existing investments are increasingly being eroded by the impacts of inflation; for example, increased construction material costs add to investment costs in the public sector.
- The latest State of Nature report, published in September, showed a continued decline in biodiversity; continued and scaled up action is required to reverse this decline and meet our international commitments.
- Some of our urban areas are facing an increasing challenge from the growth of remote economic activity, with vacant retail and office premises undermining the vitality of some of our city and town centres.
Prevention

- Demographic change remains a key consideration. While people are working longer an aging population increases the demand for spending on health, particularly on social care. As the working age population decreases as a share of the total population, there is a risk to the tax base from which public services are funded.
- Following the pandemic there is a need to improve the resilience of public services and wider society to unpredictable shocks.
- Fiscal constraints in the last 13 years have eroded public finances, impacting the resilience of public services while also constraining the ability to invest additional funding in preventative action.
- To maximise the benefits of available funding, there is a need to assess the wide and diverse range of risks in a balanced way, aligning resources to delivers the maximum potential benefit and making maximum use of the full range of policy levers.