

Welsh Parliament

Climate Change, Environment and Rural Affairs Committee

Scrutiny of the Welsh Government Draft Budget 2021-22

February 2021



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**Climate Change, Environment and Rural Affairs Committee
Welsh Parliament
Cardiff Bay
CF99 1SN**

Tel: **0300 200 6565**
Email: **SeneddCCERA@senedd.wales**
Twitter: **[@SeneddCCERA](https://twitter.com/SeneddCCERA)**

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Scrutiny of the Welsh Government Draft Budget 2021-22

February 2021



About the Committee

The Committee was established on 28 June 2016. Its remit can be found at: www.senedd.wales/SeneddCCERA

Committee Chair:



Mike Hedges MS
Welsh Labour

Current Committee membership:



Janet Finch Saunders MS
Welsh Conservatives



Llyr Gruffydd MS
Plaid Cymru



Neil Hamilton MS
UKIP Wales



Jenny Rathbone MS
Welsh Labour



Joyce Watson MS
Welsh Labour

The following Member attended as a substitute during this inquiry.



Rhianon Passmore MS
Welsh Labour

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1. Introduction

Our approach

1. We took evidence from the Minister for Environment, Energy and Rural Affairs ('the Minister') at our meeting on 14 January 2021. The Minister provided a written submission to the Committee in advance of the meeting.
2. Given the timetable for budget scrutiny, we were not in a position to seek the views of stakeholders to inform our work. We have, however, drawn on evidence received as part of our wider work on EU exit and the impact of the Covid-19 pandemic, and on responses to the Finance Committee's consultation on the draft budget.

Budget process

3. Due to the Covid-19 pandemic, the UK Government conducted a one-year Spending Review in November 2020 ('the Spending Review') rather than the planned multi-year Comprehensive Spending Review. The Spending Review set the Welsh Government's settlement for 2021-22 only. Consequently, the Welsh Government has only set revenue and capital plans for a single year.
4. The publication of the Spending Review on 25 November impacted upon the timing of the Welsh Government's draft budget 2021-22 (hereafter referred to as 'draft budget'). The Welsh Government published its draft budget on 21 December 2020.
5. In November 2020, the Business Committee agreed a timetable for consideration of the draft budget and set a reporting deadline of 4 February 2021. The draft budget will be debated by the Senedd on 9 February 2021.
6. The final budget 2021-22 will be published and debated in March 2021.
7. The purpose of this report is to inform the debate on the draft budget with a view to influencing the final budget 2021-22.

The Welsh Government's key priorities

8. According to the Welsh Government, its approach to the draft budget has been "to maximise the impact of available resources recognising that we will need to continue to deal with the impact of the pandemic alongside driving

forward longer-term change.” The Welsh Government’s principles underpinning the budget proposals this year are:

- protecting public health and jobs during the pandemic;
- building a greener future; and
- driving change for a more equal Wales.

9. Further to the above, the Minister told the Committee the budget has been prepared in the context of the Welsh Government’s declaration of a climate emergency in April 2019 and priority areas such as decarbonisation and reversing biodiversity decline.

Overview of allocations

10. Total spend for the Environment, Energy and Rural Affairs Main Expenditure Group (MEG) increases from £654.5m in the 2020-21 ‘restated budget’ to £721.5m in the 2021-22 draft budget. This is an increase in cash terms of 10.3% (£67.1m).

11. Revenue increases from £475.5m in the 2020-21 restated budget to £507.6m in the 2021-22 draft budget. An increase in cash terms of 6.7% (£32.1m). Capital increases from £154.9m to £189.9m. An increase in cash terms of 22.6% (£35m).

12. Unless otherwise stated, comparisons made in this report are with the restated budget for 2020-21, as this provides a more relevant baseline when comparing year-on-year spend.

Our view

The draft budget 2021-22 comes at a time when the UK remains in the midst of the Covid-19 pandemic, which continues to have a profound impact on individuals, our communities and the economy. There is widespread consensus that recovery from the pandemic offers a pivotal opportunity to address the underlying climate and nature emergencies. Climate change and nature’s decline are not on pause.

The State of Natural Resources Report 2020 concludes that Wales has not met any of the four aims of the sustainable management of natural resources approach. Iconic species, including the curlew, are predicted to become extinct within decades. Ecosystem resilience is declining in line with global trends.

With this in mind, we would have expected to see clear evidence of spending decisions that support a ‘green’ and ‘blue’ recovery, and that better reflect the

urgency of the climate and nature emergencies. While there have been increases in allocation in some areas, including the circular economy and biodiversity, we are not convinced that the overall level of investment is sufficient to drive forward change. We explore this in further detail in later Chapters.

Our recent work on the green recovery has highlighted the importance of a cross-government approach. The Green Recovery Task Force's report includes priority actions in eight sectors of the Welsh economy. These actions, if taken forward, have the potential to deliver meaningful change. The report was published in early December 2020, shortly before the draft budget. We expect the findings of the report to be fully reflected in the final budget.

Recommendation 1. The Welsh Government should clarify whether and how the Green Recovery Task Force's findings have influenced allocations in 2021-22. The Minister should report back to us on this matter before the annual budget motion.

2. Decarbonisation

13. While the Welsh Government's ambition is to reach net-zero carbon emissions by 2050, its current statutory target is for at least an 80% reduction in emissions on 1990 levels by 2050.

14. Following advice from the UK CCC in May 2019, the Minister committed to legislating for "at least a 95% reduction" by 2050. In December 2020, the UK CCC revised its advice and recommended Wales achieves net zero emissions by 2050. At the same time, the UK CCC published its progress report on reducing emissions in Wales.

Evidence from the Minister

15. The Minister asserted the Welsh Government has "continued to focus [its] budget preparations across Government on decarbonisation".

16. The Minister acknowledged that, although Wales is on track to achieve its first carbon budget (2016-20) and 2020 interim target, "future budgets and targets will be more demanding". She said there is a need to "redouble" efforts if Wales is to make its fair contribution to tackling the climate emergency.

17. The Minister said officials were currently considering the UK CCC's latest advice, including the modelled costs of moving towards the recommended revised target. She added that future regulations to amend the target will be accompanied by a Regulatory Impact Assessment.

18. The Minister told the Committee the Welsh Government is focussing development on its second Low Carbon Delivery Plan, which will cover the second carbon budget period (2022-25). She stated:

"We already know that the increased ambition will mean an increased scale and rate of the policy effort required to meet the new target. These actions will need to be funded by the financial budgets relating to that period of time and will be determined by the actions we choose to take."

19. The Minister explained the Welsh Government has undertaken work to assess the feasibility of developing a carbon assessment of its budget expenditure. The initial output from this work has been published alongside the draft budget.

Our view

We welcome the progress made to date in carbon emissions reduction, with Wales on track to meet its 2020 interim target. This is a positive achievement. However, we must not underestimate the scale of the challenge ahead if Wales is to meet its second carbon budget and 2030 interim target. The Welsh Government must accelerate efforts to reduce emissions across all sectors of the Welsh economy, and spending decisions must reflect this.

The UK CCC has recently recommended a more challenging carbon emissions reduction target in Wales. It has estimated that delivering its recommended target will require a large, sustained increase in investment. Some of this will need to be provided by Welsh Government. As we have stated in previous reports, it is unclear what level of investment the Welsh Government is currently providing to drive forward the decarbonisation agenda. We believe there is a need to improve transparency to facilitate parliamentary and public scrutiny.

We acknowledge the UK CCC's latest reports and advice were published shortly before the draft budget was laid. We expect the Welsh Government to reflect on these before finalising the budget. We would like the Minister to report back to us on this matter before the annual budget motion.

The Welsh Government is in the process of developing its second Low Carbon Delivery Plan ('the Plan'). In our draft budget report 2020-21, we recommended the Plan be accompanied by an assessment of its financial implications, including costs and benefits, and an assessment of the carbon impact of each policy or intervention. Further to this, UK CCC has recommended the expected impact of policies within the Plan should in sum be enough to meet the third carbon budget. We support this. We urge the Minister to take forward these recommendations when developing the Plan.

We have previously called for the Welsh Government to analyse the carbon impact of budget decisions and for all future draft budgets to be accompanied by a comprehensive assessment of their overall carbon impact. We are pleased, therefore, that the Welsh Government has commenced work in taking this forward. We hope to see this work continue at pace. We would like the Minister to clarify whether and how the output from this work has influenced her approach to budget allocations in 2021-22.

Recommendation 2. The Welsh Government should reflect on the findings of the UK CCC's recent reports and revised advice before finalising the budget. The Minister should report back to the Committee on the outcome as soon as possible, and ahead of the annual budget motion.

Recommendation 3. The Minister must commit to ensuring:

- the second Low Carbon Delivery Plan is accompanied by an assessment of its financial implications, including costs and benefits, and an assessment of the carbon impact of each policy or intervention; and
- the carbon impact of policies within the Plan in sum is enough to meet the third carbon budget.

Recommendation 4. The Minister should clarify whether and how the output from the pilot project to estimate the carbon impact of spending decisions in 2020-21 has influenced her approach to budget allocations in 2021-22.

3. Energy

The Welsh Government Energy Service

20. There is an additional budget allocation to the Welsh Government Energy Service (BEL 2809) of £2.3m revenue (taking total revenue funding to just under £4m) and £11m capital funding (taking total capital funding to £13m). The Minister said investment in the Service focuses on infrastructure projects which will reduce carbon emissions, including renewable energy generation, resources efficiency and energy from waste projects.

Our view

We welcome the increase in allocation to the Welsh Government Energy Service. We expect this to make a valuable contribution towards achieving the Welsh Government's target to achieve a net-zero carbon public sector and increase locally owned renewable energy capacity to 1GW by 2030. We would like further details on how this additional funding will be used and how it will contribute to the 2030 target. We would also welcome an update on progress made towards the 2030 target.

Recommendation 5. The Minister should provide further details on:

- how the additional allocation to the Welsh Government Energy Service will be used;
- how it will contribute to achieving a net-zero carbon public sector and increase locally owned renewable energy to 1GW by 2030; and
- progress made towards the 2030 target to date.

Fuel poverty

21. There is an additional revenue allocation of £1m, and an additional capital allocation of £4m (BEL 1270) for fuel poverty, resulting in a total budget of £31.3m. This includes £8m of EU funding.

22. The Welsh Government published its draft fuel poverty plan ('the draft plan') for consultation in September 2020. The draft plan sets out how the Welsh Government will take action within four overarching policy goals (Identify, Prioritise and Protect, Decarbonise, and Influence) to further reduce fuel poverty between now and 2035. It identifies 10 short-term actions, to be delivered

between 2021 and 2023. A number of these reflect the recommendations made by this Committee in its report, Fuel poverty in Wales (April 2020).

23. The draft plan sets out the Welsh Government's intention to consult on revised arrangements for delivering measures for tackling fuel poverty beyond March 2023.

Evidence from the Minister

24. The Minister said that the new Fuel Poverty Plan would be published in February 2021. She explained the new Plan would set out "short-term actions to make sure that the next targets [the Welsh Government sets] are achievable".

25. We questioned the Minister about the possibility of the UK Government abolishing value-added tax (VAT) on domestic now there is potential for European VAT legislation to be amended. The Minister agreed to raise this matter with the UK Government.

Our view

In our report, Fuel poverty in Wales (April 2020), we concluded that, despite the Welsh Government's on-going investment in the Warm Homes Programme, fuel poverty remains at an unaccepted level. In the wake of the Covid-19 pandemic, with more households struggling financially, and higher energy bills as people are staying at home for longer throughout the colder months, it is predicted that fuel poverty is set to rise. This is of serious concern.

In response to our report on the draft budget 2020-21, the Minister acknowledged that, if estimates provided to us were correct, the number of homes benefitting from the Warm Homes Programme "will need to be more than doubled". She agreed to consider this when developing the new draft Fuel Poverty Plan. We are disappointed that the draft Plan does not address this issue.

Although there has been an increase in budget allocation for 2021-22, we are concerned it is insufficient to deliver progress at the scale and pace required to meet the proposed fuel poverty targets set out in the new Plan. This is particularly the case given the predicted rise in fuel poverty levels. We believe the Minister should reflect on this.

We have previously highlighted the limitations of the current home energy efficiency schemes, including the number of properties receiving improvements

through Arbed. The 2019-20 figures show Arbed delivered improvements to 1,945 properties across Wales at a cost of £18.1m. In the same period, NEST delivered 4,544 improvements, although the delivery cost is unclear. We would welcome clarification on this issue. We would also welcome details of Arbed and Nest's proposed allocations in 2021-22, and the projected number of households that will receive home improvements under each scheme.

Recommendation 6. The Minister should reflect on whether the increase in budget allocation for fuel poverty will be sufficient to deliver progress at the level and pace required to meet the proposed fuel poverty targets set out in the new Plan. She should report back to the Committee on the outcome as soon as possible, and ahead of the annual budget motion.

Recommendation 7. The Minister should clarify:

- the cost of delivering home energy efficiency improvements through Nest in 2020-21; and
- the proposed allocations in 2021-22 for Arbed and Nest, and the projected number of households that will receive home improvements under each scheme.

4. Air quality

26. According to the Minister, air quality improvement is a priority for the Welsh Government. There is £3.4m revenue funding and £17m capital funding (BEL 2817) for air quality action, which remains unchanged from the previous year.

27. The Minister told the Committee:

“The budget allocation supports some significant strands of work, including numerous commitments in the Clean Air Plan: Healthy Air, Healthy Wales. This includes delivery of commitments under Prosperity for All: our national strategy. In particular, ‘reducing emissions and delivering vital improvements in air quality’ to support ‘healthier communities and better environments’.”

28. The Welsh Government's [Clean Air Plan](#) (August 2020) identifies a range of actions to be delivered by the Welsh Government and its partners to improve air quality in Wales. It includes a commitment to publish a White Paper for a Clean Air Bill, to enable delivery on commitments identified within the Clean Air Plan. The [White Paper](#) was published on 13 January 2021. The Minister has indicated her intention to introduce a Clean Air Bill in the next Senedd term.

Evidence from the Minister

29. When asked why, given air quality improvement is a priority for the Welsh Government, there has been no increase in allocation for 2021-22, the Minister stated it was due to “competing priorities”, which had meant making “difficult choices”.

30. The Minister said she had “asked officials to develop cost estimates for taking forward the commitments in the Clean Air Plan”.

Our view

While we welcome the publication of the Clean Air Plan, we question why a comprehensive assessment of the delivery costs was not completed before its publication.

The Plan includes a range of actions to be delivered, including timelines for delivery. According to the Plan, ‘short term’ actions will be delivered in 2020-21. We would welcome an update on progress towards delivering these actions. We

would also welcome an explanation of how much funding has been allocated in 2021-22 to deliver the actions set out in the Plan.

We note significant funding has been made available via the Air Quality Fund to support measures to improve air quality in Caerphilly and Cardiff. We seek assurance that the remaining allocation will be sufficient to support other strands of work, including delivering actions set out in the Clear Air Plan.

We welcome the publication of the White Paper on the Clean Air (Wales) Bill. Scrutiny of any future Bill will be a matter for responsible committees in the Sixth Senedd. We hope they will take advantage of the preparatory work we have undertaken in this policy area to inform their scrutiny of the Bill.

Recommendation 8. The Minister should provide an update on progress towards delivering the 'short term' actions set out in the Clean Air Plan.

Recommendation 9. The Minister should clarify how much funding has been allocated in 2021-22 to deliver the actions set out in the Clean Air Plan.

5. Food and drink

31. There is £5.2m of revenue funding for “promoting Welsh food and industry development” in the draft budget, which is the same as the previous year.

32. In July the Welsh Government launched a short-term Covid-19 recovery plan (12-18 months) for the food and drink industry. The plan bridges between the 2014-2020 food and drink action plan and the proposed new longer-term strategy, consulted on in 2019. Work on the new strategy had been paused as a result of the response to the Covid-19 pandemic.

Evidence from the Minister

33. The Minister explained that the new food and drink Strategy would be published in 2021. She added:

“until that strategy is brought forward, obviously, the costings, et cetera, will go alongside that. The food and drink part of my portfolio, we've maintained the funding because this is one area where we've really had to adapt.”

Our view

The Covid-19 pandemic has had a significant impact on Wales' food and drink industry, with disruption of supply chains, and closure of the hospitality and tourism sectors following the introduction of social restrictions. This, along with challenges arising from the UK's departure from the EU, has left the industry exposed and means an uncertain economic outlook for many businesses.

The Welsh Government's short term Covid-19 recovery plan is a welcome step to help stabilise and rebuild the industry. However, it is unclear what level of funding has been allocated in 2021-22 to support the delivery of the plan.

We note the Minister's intention to publish the Welsh Government's new food and drink strategy before the end of 2021. Since May 2018, we have been calling for a new, overarching, post-Brexit food strategy that reflects a whole-system approach. We acknowledge the Welsh Government has had to reprioritise its programme of work to prepare for the UK's departure from the EU and, more recently, to respond to the Covid-19 pandemic. Notwithstanding this, it is regrettable that the new strategy has taken so long to come to fruition. We

expect the new strategy to be accompanied by a comprehensive assessment of the cost of delivery, and to be met with an appropriate level of investment.

Recommendation 10. The Minister should clarify the level of funding available to support the delivery of the Covid-19 recovery plan for the food and drink industry, including allocations in the 2021-22 draft budget.

Recommendation 11. The Minister should report back to the Committee in due course on the findings of the cost assessment for delivering the Welsh Government's new food strategy.

6. Agriculture

34. Although plans are being developed for a new agricultural scheme (discussed below) **the Minister has confirmed** that the Direct Payment style of support is expected to continue for the 2021 and 2022 scheme years. **She has committed** to the same level of funding for 2021 Direct Payments as in 2020. £238.0m is allocated to Direct Payments in the draft budget (BEL 2787).

35. **The Welsh Government has provided a guarantee** that all Rural Development Programme (RDP) commitments in place at the point of leaving the EU will be met and will come to an end at a range of intervals (to '**2023 and beyond**'). £30.8m is allocated to the RDP in the draft budget (BEL 2949).

36. On 25 November 2020, the UK Government announced that £242m has been allocated to "support farmers and land managers" as part of the 2020 UK Spending Review. The **Welsh Government responded** with concern that "the UK Government has failed to meet its own commitment that Wales would not be worse off as a result of leaving the EU". It identified a £137m shortfall in the expected funding to Welsh farmers and rural communities.

Evidence from the Minister

37. The Minister's official explained the £137m shortfall was made up of £42m of funding transferred from the CAP pillar 1 2020 budget and £95m of planned EU Rural Development Programme spending profiled over three years.

38. The Minister's official suggested the UK Government had recognised a mistake had been made in relation to the £42m. He was cautiously optimistic the Welsh Government would receive this funding.

39. The Minister told the Committee the Welsh Government was continuing to pursue the £95m with the UK Government, although communication was proving difficult and responses were not forthcoming.

40. The Minister asserted the methodology used by the UK Government to calculate the level of agricultural support now the UK has left the Common Agricultural Policy was "clearly flawed" and should be reconsidered.

41. In explaining how she had made up the shortfall to ensure funding for 2021 Direct Payments is maintained at the same level as in 2020, the Minister stated:

“I had to do it from my own budget; it couldn't come from anywhere else in the Welsh Government budget. It will, I'm sure, create gaps, but I thought it was important to give that certainty to our farmers for this next financial year...this is how I've prioritised my budget to make sure that I could fulfil the basic payment scheme for the £238 million.”

42. When asked why the Minister did not make the case for additional allocation from central funds to offset the shortfall the Minister said:

“Well, I suppose it could, but you'll appreciate we're in the middle of a global pandemic that's taken a huge amount of funding. So, there are other things that I probably will have to go to the centre for. You can't run there all the time, so that's what we've done.”

Our view

In our report on the UK Agriculture Bill (January 2019), we made clear the agricultural sector should not be penalised as a result of the UK's departure from the EU. We called for funding for the sector to be maintained at the same level as in 2020, at least in the short term. We are disappointed, therefore, by the £137m shortfall in funding from the UK Government for agricultural support.

We note the Minister's assertion that the shortfall has arisen as a consequence of a flawed methodology. It is unclear whether this methodology will be used to determine levels of agricultural support in future years. It would be helpful if the Minister could provide clarification on this matter.

We previously emphasised the need for the UK Government to ensure that funding arrangements for agricultural support to replace the CAP were developed in partnership with the devolved administrations. We are disappointed that this does not appear to be the case. We seek assurance that the Minister will continue to press the UK Government to reconsider the methodology and address the shortfall in funding for 2021-22. We would like the Minister to report back to the Committee on these matters as soon as practicable.

Despite the shortfall in funding from the UK Government, the Minister has maintained 2021 Direct Payments at the same level as in 2020, in line with her previous commitment. Given the on-going challenges faced by the agriculture sector arising from the Covid-19 pandemic and the end of the EU transition period, we welcome this.

To offset the shortfall, the Minister has made up funding from within her departmental budget. According to the Minister, this could potentially “create gaps” in funding in other policy areas that fall within her responsibility. While we acknowledge the financial challenges faced by the Welsh Government in responding to the Covid-19 pandemic, we question why the Minister has not made the case for additional funding from within the wider Welsh Government budget to offset the shortfall. We believe the Minister should reflect on this.

We would like the Minister to set out the policy areas in which she considers potential gaps in funding could arise, how this will impact on delivery in those policy areas, and the steps she intends to take to mitigate this.

Recommendation 12. The Minister should continue to press the UK Government to reconsider the methodology for determining replacement EU funding for agricultural support and address the shortfall in funding for 2021-22. She should report back to the Committee on the outcome as soon as practicable.

Recommendation 13. The Minister should reflect on whether there is a case for additional funding from within the wider Welsh Government budget to offset the shortfall in replacement EU funding for agricultural support.

Recommendation 14. The Minister should provide further details on:

- the policy areas in which she considers potential gaps could arise as a result of prioritising funding to address the shortfall;
- how this will impact on delivery in those policy areas; and
- the steps she intends to take to mitigate this.

7. Bovine TB

43. There is a statutory requirement on the Welsh Ministers to pay TB compensation following the slaughter of cattle. According to the Minister's paper, this "has created an unfunded pressure on budgets since 2015-16. Following the UK's departure from the EU, there is a loss of £1.3m of EU TB income (BEL 2269: TB EU Income).

44. There is £7.5m for the management and delivery of TB eradication (BEL 2273: TB Eradication), which remained unchanged from the previous year.

Evidence from the Minister

45. The Minister said she was keeping TB compensation arrangements under review. She added:

"We need to consider the fairest way to pay compensation in light of ongoing budget pressures and, obviously, the loss of the EU funding. We are in discussions with the UK Government to ensure that we get the equivalent funding postEU exit—it's not guaranteed."

Our view

We are disappointed the UK Government has not provided full EU replacement funding to help meet the cost of TB compensation arrangements. We are concerned this will increase budgetary pressures which may, in turn, influence the outcome of the planned review of arrangements. We seek assurance the Minister will continue to pursue with the UK Government the need for full EU replacement funding. We would like the Minister to report back to the Committee on the outcome as soon as practicable.

The Minister previously told us she would be consulting on proposed changes to TB compensation arrangements before the end of 2020. We would welcome an update from the Minister about progress made in reviewing the arrangements, including when the consultation on proposed changes is likely to be published.

Recommendation 15. The Minister should report back to the Committee on:

- the outcome of her discussions with the UK Government on replacement funding to offset the loss of EU TB income; and

- progress made in reviewing the TB compensation arrangements, including a timeline for the consultation on proposed changes.

8. Dog breeding and selling

46. The Welsh Government has committed to introducing regulations to ban the commercial third-party sale of puppies and kittens before the end of the Fifth Senedd. It is also revisiting the Animal Welfare (Breeding of Dogs) (Wales) Regulations 2014 with a view to improving welfare conditions at breeding establishments.

47. It is unclear from the budget narrative whether and how much funding has been allocated to implement the above animal welfare measures.

Evidence from the Minister

48. We asked the Minister to address the concerns raised with the Committee about the lack of capacity and expertise within local authorities to carry out inspections of dog breeding establishments. She told us the Welsh Government had been working closely with local authorities to address this issue. She added:

“We secured funding for three financial years, from the current financial year—the one we're in now, that was the first year, and we've committed it for three years—to support local authorities with their specific project around enforcement, and that included enhancement of training, better guidance for inspectors, improved use of existing resources within local authorities, and across Wales, and that's benefited all local authorities across Wales going forward.”

49. The Minister explained that a project group had been established, which would monitor progress against delivery.

Our view

Effective enforcement is key to the successful implementation of existing and future regulations aimed at promoting high welfare standards in dog breeding establishments and tackling unlicensed and irresponsible breeders.

In our report on the draft budget 2020-21 we raised concern about how local authorities would meet the costs associated with further regulation of dog breeding establishments and the introduction of the proposed ban on commercial third-party sales of puppies and kittens. We are pleased the Minister has responded positively by establishing a three-year pilot project to increase capacity and expertise within local authorities to support enforcement of existing and future regulations. We hope this will address the recent concerns

raised by animal welfare groups, including the Companion Animal Welfare Group Wales, about on-going barriers to enforcement.

We would welcome clarification from the Minister about the level of funding provided for the pilot project, including the budget allocation for 2021-22. We would also like details of any existing or planned work to assess the impact of the pilot project on local authorities' enforcement and resourcing capabilities, and enforcement action.

Recommendation 16. The Minister should clarify the level of funding provided for the pilot project to enhance capacity across local authorities' animal welfare inspection and enforcement services, including the budget allocation for 2021-22.

Recommendation 17. The Minister should provide details of any existing or planned work to assess the impact of the pilot project on local authorities' enforcement and resourcing capabilities, and enforcement action.

9. Natural Resources Wales

50. The Natural Resources Wales ("NRW") budget for 2021-22 has small changes when compared to 2020-21. There has been no change in core Grant in Aid for NRW in 2021-22.

51. NRW will have additional responsibilities in 2021, including delivering measures in the Welsh Government's National Strategy for Flood and Coastal Erosion Risk Management and the National Peatland Action Programme. NRW is also a key body in tackling the climate and biodiversity emergencies.

52. During the Committee's recent scrutiny session with NRW, we asked about its funding from the Welsh Government and income from commercial activities. NRW told the Committee it receives about £3m a year for the costs of managing and operating wind farms, and that £8m income is returned to the Welsh Government. NRW said it was in discussions with the Welsh Government about whether there was the opportunity to keep some of the income, which it could potentially use to fund biodiversity projects.

53. NRW explained the gap between its income and expenditure has historically been managed through carrying forward reserves from timber and other income. However, changes introduced following the Welsh Government's alignment project mean that this will no longer be possible.

Evidence from the Minister

54. According to the Minister, "NRW's funding is sufficient for their statutory responsibilities", although she would "prefer to give [NRW] a bigger budget".

55. The Minister added she had provided additional funding to NRW in the wake of the February 2020 flooding.

56. The Minister explained when the wind farm programme was established, "it was agreed the income would be retained by the Welsh Government, and that is held centrally". She said the Minister for Finance and Trefnydd had recently agreed that income from wind farms could be retained within the Environment, Energy and Rural Affairs MEG to support the energy and climate change agenda.

57. The Minister went on to state:

"Obviously, the land that NRW manage for us is Welsh Government estate, so I think it is right that the income is retained by Welsh

Government, and I'll look then at ways of utilising this returned funding within my portfolio, which may include some going back to NRW to deliver these priorities.”

Our view

In successive reports on the Welsh Government's draft budget and, more recently, in our report, *Flooding in Wales* (December 2020), we have expressed concern about the level of funding available to NRW to effectively carry out its functions and meet its responsibilities. It is difficult to reconcile the Ministers' assertion that funding for NRW is sufficient with the evidence we have received from NRW about budgetary pressures.

As set out elsewhere in this report, there is an urgent need to accelerate efforts to tackle the climate and nature emergencies. NRW has a lead role to play in this and in supporting the delivery of a green recovery. We would have expected this to be better reflected in the draft budget.

We note that the Minister has been in discussions with the Minister for Finance and Trefnydd about the potential to hypothecate income from wind farms to fund energy and climate change projects. It is unclear what proportion of this would be allocated to NRW. We would like the Minister to report back to the Committee on this matter as soon as practicable.

We are concerned that recent changes to financial accounting arrangements that prevent the carrying forward of reserves may create additional budgetary pressures on NRW. We would welcome details of any assessment made of the impact of these changes on NRW's ability to manage on-going budgetary pressures. We would also welcome an explanation of how this has been considered in determining NRW's allocations.

Recommendation 18. The Minister should report back to the Committee on what proportion of the hypothecated income from wind farms she intends to allocate to NRW.

Recommendation 19. The Minister should report back to the Committee on any assessment made of the impact that preventing NRW from carrying forward reserves will have on its ability to manage on-going budgetary pressures, and how this has been considered in determining NRW's budget allocations in 2021-22.

10. Flooding and coastal erosion

- 58.** BEL 2230 (Flood and risk management and water revenue) totals £66.9m, up from £64.7m in 2020-21, and includes £29m resource and £37.5 capital. The increase includes £3.4m of additional revenue the Coastal Risk Management.
- 59.** The Welsh Government published its National Strategy for Flood and Coastal Erosion Risk Management ('the National Strategy') on 20 October 2020. The Strategy sets out five objectives for managing flood and coastal erosion risk and 24 Measures to achieve them.
- 60.** The Welsh Government's Coastal Risk Management Programme ('CRMP') was established in March 2019 to reduce risk around the coastline and is being delivered by local authorities. The CRMP is a £150m three-year programme funded via a local government borrowing initiative.
- 61.** For previous draft budgets, the Minister has provided an indication of flood funding to NRW within BEL 2230 (Flood and risk management and water revenue). However, it is unclear how much flood funding will be made available to NRW in 2021-22.
- 62.** In evidence to the Committee's inquiry into the February 2020 flooding events, NRW said it will require approximately 60 to 70 staff over the current baseline to deliver long term, sustainable improvements in its flood management services. In addition, NRW said considerable effort and revenue funding will be required to fully implement the Measures in the National Strategy.

Evidence from the Minister

- 63.** The Minister explained the Welsh Government had invested around £0.5 billion in flood management during the Fifth Senedd. She also explained it had removed funding barriers for local authorities to enable them to deliver flood schemes, for example, by providing 100% funding for preparing and designing new schemes.
- 64.** When asked whether additional funding would be allocated to relevant Risk Management Authorities to implement the Measures set out in the National Strategy, the Minister said, "in most cases, there are no additional funding requirements". However, she went on to say:

"...we have given additional funding that's been allocated specifically for those measures and you're right, I gave it to NRW this year. But most

measures offer a better way of working, and as I say, I think we will see some cost savings and efficiencies rather than the need for additional funding, but I certainly did give additional funding to NRW.”

65. When asked how much funding has been allocated to NRW in 2021-22 to undertake its flood functions, the Minister stated:

“NRW haven't given us the specifics around their requirements for the next financial year...I will set out their flood allocation in that remit letter.”

66. In commenting on the NRW's staffing requirements, the Ministers stated:

“...staffing is an organisational matter for NRW...We've provided additional funding, as I said, in line with their work programme, and I know they did bring additional staff in...I have asked them to ensure that their flood teams remain fully resourced because this is such an area of priority, not just for them but for us, too.”

Our view

As outlined in our report, *Flooding in Wales* (December 2020), the impacts of climate change are likely to lead to more extreme weather and, with it, flooding events similar to those experienced across Wales in February 2020. At the time of writing this report, some parts of Wales have been hit by flooding following Storm Christoph. The exact damage of the flooding is not yet known.

With this in mind, it is now more important than ever for the Welsh Government to enhance its strategic approach to flood prevention and flood risk management. We welcome the recent publication of the Welsh Government's National Strategy, but, it must be met with an appropriate level of investment if it is to be effective.

In our report, *Flooding in Wales*, we make a series of recommendations aimed at ensuring Risk Management Authorities have adequate funding to carry out their functions and responsibilities, including delivering the Measures set out in the National Strategy. We expect the Minister to reflect on the findings of our report when allocating flood funding for NRW in 2021-22. We would like the Minister to report back to the Committee on the budget allocation for flood funding for NRW as soon as practicable.

Recommendation 20. The Minister should reflect on the findings of this Committee in its report on Flooding in Wales when determining the NRW's flood funding in 2021-22. The Minister should report back to the Committee once a decision on flood funding has been made.

11. Biodiversity

67. An additional £5m funding has been allocated to 'biodiversity' through the 'building a greener future' priority of the draft budget. This consists of £3.6m of additional revenue allocated to BEL 2825 (Biodiversity, Evidence and Plant Health), and £1.5m to BEL 2490 (Biodiversity - Landscape and Outdoor Recreation).

68. The 2020-21 budget allocated £15m capital funding to support the restoration of the Natura 2000 network. The draft budget 2021-22 does not specify how much has been allocated for this purpose. However, in the Welsh Government's [COVID-19 reconstruction: challenges and priorities](#) it announced a £2.6 million fund to help restore habitats, the Natura 2000 network, and to begin a path to reverse the decline in biodiversity in Wales.

Evidence from the Minister

69. According to the Minister, the Welsh Government has "taken action to truly embed biodiversity considerations across government...most notably through our budgeting process". This has been led by a Biodiversity Taskforce, funded through the 2020-21 budget. Additional funding has been provided for 2021-22 to continue this work.

70. The Minister said a £33m funding package has been allocated specifically for biodiversity, nature, and the National Forest. She said:

"[This] allows [the Welsh Government] to build on the projects programmes we have in place to meet our national and international commitments for biodiversity, tackling the nature and climate emergencies whilst ensuring that our recovery from Covid is a truly green one."

71. The Minister drew attention to several which contribute to reversing the decline in biodiversity, including the continued investment in the National Peatland Action Programme (NPAP), and two funding programmes delivered with the National Lottery Heritage Foundation: the Green Recovery Fund and the Local Places for Nature Fund.

72. The Minister said the National Forest Programme is "at the heart of [the Welsh Government's] approach to tackling the decline in biodiversity". She explained that as well as maintaining capital funding at £4.5m in 2021-22, an additional £5m revenue funding has been provided to accelerate the programme.

73. When asked how the £15m budget allocation in 2020-21 for Natura 2000 had been utilised, the Minister explained that £2.6m had been allocated for 15 projects, and a further £2.8m supported restoration on NRW-managed Natura 2000 sites. She said it had been “quite challenging” to utilise the Natura 2000 funding as a high number of environmental NGOs staff had been furloughed as a result of Covid-19 pandemic.

74. The Minister's official explained that a total of £10.5m of Natura 2000 funding had been allocated. Some of this had been used to deliver benefits for biodiversity through other areas, for example, allocation to the forest industry recovery scheme and reservoir works. He added that work way to underway to identify how the remaining allocation could be used to deliver actions arising from the work of the Green Recovery Task Force

Our view

The Welsh Government, along with governments across the UK and the rest of the world, has failed to meet most of the Aichi Biodiversity targets for 2020. This is deeply disappointing. There is an urgent need for the Welsh Government to accelerate efforts to ensure progress is made towards the new, ambitious global targets that have been promised.

According to stakeholders, the estimated annual cost to maintain, create and adequately restore Wales' priority habitats alone is £120m. Similarly, an estimated £16 million per year over the next decade is required to significantly increase tree cover. While we note there has been a modest increase in funding for biodiversity it falls short of what is needed to deliver real progress in restoring Wales' natural environment.

We recognise that public money alone will not be enough to meet the scale of investment required to tackle the nature and climate emergencies. There is a clear need for the Welsh Government to develop alternative ways of leveraging investment from other sources, including the private sector and income generated from getting the polluter to pay. It must take forward this work as a matter of priority.

The Minister has acknowledged the impact of the Covid-19 pandemic on the delivery of nature restoration projects. A significant level of funding allocated for Natura 2000 in 2021-21 has been repurposed. While we accept this may have been unavoidable, it is still disappointing. It is unclear how much funding has been allocated for the Natura 2000 in 2021-22. It is not possible, therefore, to determine whether this funding will be sufficient to accelerate the delivery of

projects as Wales emerges from the pandemic. We would welcome clarification on this.

We have heard worrying reports from environmental NGOs about the impact of the pandemic on the sector, including income losses and difficulties in accessing grant funding. This represents a serious risk to the on-going delivery of the Welsh Government's environmental programmes, including those aimed at restoring biodiversity. Given this, and the input required from environmental NGOs to achieve a green recovery, action must be taken to stabilise the sector.

We are pleased, therefore, that the Minister responded promptly and positively to the findings of the Green Recovery Task Force, establishing the Green Recovery Capacity Building Scheme to help build capacity within the sector. It is unclear whether and how the Task Force's findings on supporting the sector have influenced allocations in 2021-22. We would like the Minister to report back to us on this matter before the annual budget motion.

Recommendation 21. The Welsh Government must begin a programme of work to develop alternative ways of leveraging investment, such as from the private sector, to support the delivery of actions to address the nature and climate change emergencies.

Recommendation 22. The Minister should clarify the budget allocation in 2021-22 for Natura 2000. She should also set out her views on whether it is sufficient to accelerate the delivery of projects as Wales emerges from the pandemic.

Recommendation 23. The Minister should clarify whether and how the Green Recovery Task Force's findings on supporting the environmental sector have influenced allocations in 2021-22. The Minister should report back to us on this matter before the annual budget motion.

12. Marine and fisheries

75. BEL 2870 (Marine and fisheries) allocates £4.9m for 2021-22, with £450k of the total budget for this area presented separately as non-cash budget.

76. BEL 2830 (EU Funded Fisheries Schemes) allocates £2.7m capital for 2021-22, an increase from £565k in the 2020-21 restated budget. The additional allocation to the reserve is a £2.1m post-EU replacement fund (from £13.2m towards post EU farming and fisheries) announced as part of the UK Government's November 2020 [spending review](#). The Minister said this will "go some way" to support the marine and fisheries sector "which is particularly vulnerable to changes as a result of our exit from the EU".

Evidence from the Minister

77. The Minister said she was "acutely aware" of the challenges faced by the fisheries sector arising from non-tariff barriers following the end of the EU transition period. She added:

"I think it is an area—and I've flagged this up already with DEFRA—where we may have to look at having a specific scheme to support [the sector] because, clearly, there are some issues...officials are in—daily contact with our exporters and with our fisheries stakeholders and we are pressing the UK Government around this."

78. The Minister explained that funding allocated in 2020-21 for the designation of Marine Conservation Zones had been used for a range of purposes, including offshore surveys, and to support the delivery of the Marine Protected Area Network Management Action Plan 2019-20.

Our view

In previous reports on draft budgets, we have called for improved transparency in relation to the marine and fisheries BEL, in particular, the level of funding available for marine management and conservation. We are disappointed this has not been taken on board. We would like details on the budget allocation in 2021-22 for marine management and conservation, including how it will be used.

The Welsh fishing industry is facing unprecedented challenges and financial uncertainty, with many businesses experiencing considerable losses over a sustained period. The industry is already struggling to survive the on-going

impact of the Covid-19 pandemic, with restrictions resulting in a reduction in exports and domestic demand. This is compounded by severe losses due to the disruption of trade following the end of the EU Implementation recent. Concerns have been raised by the industry about the economic viability of businesses, many of which are vital for the long-term sustainability of Welsh coastal communities.

The Welsh Government's Fisheries Support Grant was a much needed and welcome intervention, which provided support to the industry early on during the Covid-19 pandemic. The Minister has previously indicated she has no plans to extend the Grant. This is disappointing, particularly given industry reports that many businesses do not qualify for, or face barriers to accessing other financial support interventions. We believe there is a strong case for the Minister to reconsider her position and extend the Fisheries Support Grant. We would like the Minister to reflect on this.

We are deeply concerned about the impact on the Welsh fishing industry, in particular the shellfish sector, of the widely reported delays at ports following the end of the EU Implementation Period. We note the UK Government has recently announced £23m support for UK fishing export businesses to cover losses incurred. This is a welcome development. We expect the Welsh Government to take appropriate steps to encourage take-up across the industry in Wales.

Recommendation 24. The Minister should provide details on the budget allocation in 2021-22 for marine management and conservation, and how it will be used.

Recommendation 25. The Minister should reflect on her previous decision not to extend the Fisheries Support Grant, given the evidence received by this Committee that current financial support interventions do not meet industry needs.

13. Waste

79. Responsibility for waste policy has recently transferred from the Minister for Housing and Local Government to the Minister for Environment, Energy and Rural Affairs. There is an additional resource revenue opening budget of £48.7m as a result of the ministerial re-alignment from Housing and Local Government (HLG). This baseline figure is made up of £10m to BEL 2490 (Landscape & Outdoor Recreation) and £38.7m to BEL 2190 (Resource Efficiency and Circular Economy).

80. BEL 2190 totals £82.8m, made up of £45.3m resource and £37.5m capital allocations. The resource allocation includes £6.6m additional funding for 'building a greener future', and the capital allocation has additional funding from reserves of £20m.

81. In January 2020, the Welsh Government set out proposals to 'move towards zero waste by 2050' in a new circular economy strategy, [Beyond Recycling](#). The Minister asserted that action on the circular economy is a key part of a green recovery.

82. On 18 March 2020, the Welsh Government announced its [intention to ban single-use plastics](#), with restrictions due to come into force in the first half of 2021. The Minister explained that work on the proposed ban will continue through baseline budgets.

83. The Welsh Government is working with other UK governments to take forward proposals for a Deposit Return Scheme (DRS) and Extended Producer Responsibility (EPR) for packaging waste. The introduction of a DRS and EPR rely on provisions in the UK Environment Bill. Recent reports suggest the UK Bill has been paused for a second time and will resume its passage through the UK Parliament early in the next Parliamentary session.

Evidence from the Minister

84. The Minister said she had "not yet discussed funding levels" in relation to the Extended Producer Responsibility scheme with the UK Government. However, she anticipated "funding coming onstream in parallel with the commencement of the scheme".

Our view

We understand that detailed proposals on the design of the Deposit Return Scheme ('DRS') and Extended Producer Responsibility ('EPR') are due to be

published in early 2021. However, with the UK Environment Bill having stalled a second time, we are concerned that regulations to establish the schemes are still some way off. We would like the Minister to explain the impact of the latest delay in the passage of the UK Environment Bill on the timeline for introducing regulations.

It is unclear whether the Welsh Government has undertaken an assessment of the implementation costs for the DRS and EPR to inform its discussions with the UK Government on future funding. We would welcome clarification on this. We would also welcome clarification on any budget allocation in 2021-22 to meet the cost of implementing the schemes.

Recommendation 26. The Minister should explain the impact of the latest delay in the passage of the UK Environment Bill through the UK Parliament on the timeline for introducing the Deposit Return Scheme and Extended Producer Responsibility for plastic packaging. The Minister should also set out proposals for the implementation of the Deposit Return Scheme.

Recommendation 27. The Minister should provide details of any assessment made of the implementation costs for the Deposit Return Scheme and Extended Producer Responsibility for plastic packaging. She should also report back to the Committee on the outcome of discussions with the UK Government on future funding to support the implementation of these schemes.