

Scrutiny of the Welsh Government Draft Budget 2023-24

February 2023

1. Introduction

Our approach

1. We took evidence from the Minister for Climate Change ('the Minister') and the Deputy Minister for Climate Change ('the Deputy Minister') at our meeting on 25 January 2023. The Minister and Deputy Minister provided written evidence to the Committee in advance.

Overview of allocations

2. The current financial year is expected to see a peak in inflation. According to Wales Fiscal Analysis, the Welsh Government's budget may be £800 million lower in real terms in 2023-24, even with additional funding from the Autumn Statement.

3. The Minister for Finance has emphasised that the Welsh Government is prioritising capital investments to address the climate and nature emergencies. However, the Minister for Climate Change's evidence paper states that inflation and the UK Government's failure to replace EU funding have created significant challenges for her portfolio.

4. The Minister's evidence paper explained that the Welsh Government had undertaken a "reprioritisation exercise" to release funding from within portfolios for reallocation across Government. The principles underpinning this exercise were "to deliver a balanced budget, protect frontline public services and protect



the Programme for Government”. The Minister’s evidence paper went on to say that:

“As a result of this exercise, draft budget plans reflect a return to central reserves from the Climate Change MEG of £20.025m in 2023-24, with reductions baselined into 2024-25.”

Cost of living

5. The Minister’s evidence paper recognised the impact of the increased cost of living and said that:

“As a Welsh Government, we will continue to work to prioritise our budgets to shield the most vulnerable and maintain our commitment to create a stronger, fairer and greener Wales as we prepare our draft Budget 2023-24”.

6. The evidence paper referred to the impact of cost-of-living pressures on Arm’s Length Bodies “which deliver significant public services on behalf of the Welsh Government”. The evidence paper explained that the draft budget provided £10m in 2023-24 and 2024-25 “to support with cost-of-living pressures in the most critical areas”.

2. Climate change

Towards a Net Zero Wales

7. In March 2020, the Fifth Senedd approved more stretching carbon budgets and interim carbon emissions reduction targets ('the interim target(s)'), as well as a net zero by 2050 target ('the net zero target').

8. The Welsh Government's Net Zero Wales Carbon Budget 2 (2021-25) (October 2021) ('Net Zero Wales') sets out its policies and proposals across all Ministerial portfolios to meet the second carbon budget, and build the foundations for Carbon Budget 3, the 2030 interim target, and the net zero target.

9. The Welsh Government's Final Statement on Carbon Budget 1 (December 2022) shows it has met Carbon Budget 1 and the 2020 interim target.

Tackling the impacts of climate change

10. The Welsh Government's 5-year climate change adaptation plan, Prosperity for All: A Climate Conscious Wales (December 2019) ('the adaptation plan'), sets key policy measures it is taking to address the impacts of climate change.¹

11. The Welsh Government's first progress report on the adaptation plan (December 2022) acknowledges that adaptation in Wales (and across the UK) is not keeping pace with the risks arising from climate change.

Evidence from the Minister

12. The Minister told the Committee the Welsh Government is on track to meet Carbon Budget 2, but that Carbon Budget 3 "is very, very challenging". She added:

"...we've picked off much of the low-hanging fruit...[for example] shutting the coal-fired power stations and so on...So, we've got a significant package of investments in this budget, but we will need a huge push from across Wales—the team Wales approach that we talk about all the time, which is why we talk

¹ The adaptation plan was informed by the Met Office Hadley Centre's UKCP18 climate projections and by the Climate Change Committee's (CCC) second Climate Change Risk Assessment Evidence Report 2017

to all of our partners right across industry, commerce et cetera, to get on this pathway because, otherwise, we're not going to make that third carbon budget. That's the bottom line really."

13. The Minister said, "one of the big budget issues for us...is whether we have enough in our budget to leverage in some of the private investment...So, our budget is structured, we hope, in a way that allows us to leverage in some of that".

14. On climate adaptation, the Minister's official explained that, in response to the CCC's advice, the Welsh Government has taken steps to identify additional actions beyond those set out in the current adaptation plan. He confirmed the next adaptation plan will be published in autumn 2024, taking account of the findings of the CCC's ongoing assessment (due to be published in summer 2023).

15. The Minister's official said the Welsh Government would be looking to adopt a 'Team Wales' approach in its next adaptation plan, to reflect that it does not hold all the levers to address climate risk. He explained, "There are places where the UK Government predominantly holds the levers. There are places where we clearly have to collaborate...the [next] plan will touch on that, in similar ways in which we've tried to do that through Net Zero Wales".

16. The Minister's official added that the Welsh Government would also be considering a 'whole-system view' and proposing a 'whole-system solution' to address climate risks.

Our view

We are encouraged that the Welsh Government has met Carbon Budget 1 and the 2020 interim target and is 'on track' to meet Carbon Budget 2.

Nevertheless, future carbon budgets and interim targets are much tighter and, as the Minister has acknowledged, will be more challenging to meet, particularly within the context of increasingly tight budgets.

We are pleased, therefore, the Welsh Government has chosen, by and large, to protect investment on climate change action despite budgetary pressures across government.

We know that the private sector is expected to play a central role in financing the transition to net zero. In our report on the draft budget 2022-23, we asked the Minister to provide a comprehensive explanation of how the Welsh

Government is working to leverage private investment. We are grateful for her response. We would like updates incorporated into the Minister's evidence papers to inform our scrutiny of future draft budgets.

As outlined in our report on the UK Infrastructure Bank Bill (October 2022), we believe the Bank could potentially play an important role in scaling up and accelerating private investment to support the transition to net zero. We expect the Welsh Government to work with the Bank to unlock infrastructure investment opportunities in Wales.

The CCC's latest independent assessment of climate risk provides a stark warning that Wales, along with the rest of the UK, is under-prepared to deal with the impacts of climate change. We note that the Welsh Government has taken steps to identify additional actions to improve its current adaptation plan in light of the assessment. However, it is unclear whether and how changes have been made to the budget allocations for 2023-24 to reflect this. We would like the Minister to address this.

We will be undertaking work on climate change adaptation before the end of 2023, informed by the findings of the CCC's forthcoming report on progress and future priorities for Wales.

Recommendations

Recommendation 1. The Minister should explain whether and how changes have been made to the budget allocations for 2023-24 to reflect the additional climate change adaptation actions it is planning to take, following the CCC's latest assessment of climate risk.

Recommendation 2. The Minister should commit to including annual updates on how the Welsh Government is working to leverage private investment to finance the transition to net zero. These updates should be incorporated into information provided by the Minister to the Committee to inform its scrutiny of future draft budgets.

3. Renewable energy

17. The draft budget shows an increase in revenue funding from £8.6m in 2022-23 to £9.6m in 2023-24 for the 'Clean Energy' BEL. It also shows an increase in capital funding from £14.6m to £25m for the 'Welsh Government Energy Service' BEL, with revenue funding remaining the same at £3.9m.

18. The Welsh Government's current renewable energy targets are:

- Wales to generate 70% of its electricity consumption from renewable energy by 2030;
- 1 GW of renewable electricity and heat capacity in Wales to be locally owned by 2030²; and
- By 2020, new energy projects to have at least an element of local ownership.

19. On 24 January 2023, the Minister announced a consultation on new, more stretching targets for Wales.

20. In December 2021, the Deputy Minister published recommendations from a renewable energy deep dive. The aim of the deep dive was to identify barriers to significantly scaling up renewable energy, and steps to overcome them. In December 2022, the Deputy Minister provided an update on progress towards implementation of the recommendations.

21. The Minister's evidence paper says the Welsh Government is taking forward the deep dive's recommendations and that this is reflected in the draft budget allocations.

22. In October 2022, the Welsh Government announced it will be establishing a publicly-owned renewable energy developer to accelerate the delivery of renewables, initially through the development of onshore wind projects on the Welsh Government woodland estate. The Welsh Government has also omitted

² In addition to the 1GW target for locally owned generation by 2030, the Welsh Government has committed to expand renewable energy generation by public bodies and community enterprises by over 100MW by 2026

to work towards the creation of Ynni Cymru to expand community-owned renewable energy generation.³

23. The Minister’s evidence paper states, in the short term, work will focus on the scope of Ynni Cymru and “how we establish the new entity to support implementation and how Ynni Cymru can work alongside the new large-scale public-sector developer”. It goes on to state:

“The budget allocations will enable us to establish a small team to develop the concept of a Welsh public developer, as described in the Cooperation Agreement, and in parallel actively develop an initially small number of projects for Welsh Government, and in support of communities and public bodies where capacity is a challenge.”

Evidence from the Minister

24. The Minister said funding for Ynni Cymru is ring-fenced within the ‘Clean Energy’ BEL. £2m is allocated for 2023-24 (up from £1m in 2022-23) and £3m for 2024-25. She explained that proposals for Ynni Cymru were being developed and an announcement would be made shortly.

25. The Minister said the publicly-owned renewable energy developer “will be established this time next year, so there’s lots of work to do it, and then we’re actually simultaneously paralleling the feasibility work for various sites for the developer to get into it”. She added, “there’s no way, unfortunately, that the Welsh Government can afford the kind of investment necessary to build any one of them. So, we’ll obviously be looking for partners in the private sector”.

26. In commenting on the expected outputs from the £10.5m increase in capital funding for the Welsh Government Energy Service (WGES), the Minister said, “this is about us attempting to get the public sector in a better position [to decarbonise by 2030]”. She referred to several projects that had benefitted from funding to date, including Morriston Hospital’s solar farm.

Our view

In our report, Renewable energy in Wales (May 2022), we emphasised the need for the Welsh Government to scale up and accelerate renewable energy

³ This commitment arose from the [Co-operation Agreement](#) between the Welsh Government and Plaid Cymru (November 2021)

development, recognising the role of renewables in tackling the climate change emergency, improving energy security and reducing domestic energy bills. Given this, we welcome the increase in budget allocation to support the delivery of energy policy.

There is a lack of clarity about the resource and investment needs for the new publicly-owned renewable energy developer, including whether and how these are reflected in the budget allocations for 2023-24 and the indicative allocations for 2024-25. We would like the Minister to address this issue.

We note the Minister's assertion that securing private investment will be critical to the success of the developer. We would welcome further details on steps the Welsh Government has taken, and plans to take, to attract private investment for future projects.

We look forward to the announcement on Ynni Cymru. We note that last year, £1m was allocated for Ynni Cymru, and we would welcome a breakdown of spend.

There is ongoing uncertainty about whether the public sector will meet its collective ambition to achieve Net Zero by 2030. Given this, we welcome the increase in capital allocation for the WGES, which we hope will lead to an acceleration of action across the sector. This is a substantial increase in funding, of over 70% of its budget, and we would appreciate a detailed explanation of what this additional funding is expected to deliver over the next year, including reference to specific projects or programmes.

We are aiming to undertake a short piece of work on public sector decarbonisation before the end of summer 2023. This will provide an opportunity to explore, in more detail, any potential blockers to progress, including gaps in funding, and how they can be addressed.

Recommendations

Recommendation 3. The Minister should provide details of:

- work undertaken to assess the cost of establishing the new publicly-owned renewable energy developer and the ongoing operational costs,
- the budget allocation for the renewable energy developer for 2023-24 and the indicative allocation for 2024-25 (when the developer will be operational), and

- the steps the Welsh Government has taken, and plans to take, to attract private investment to support the work of the publicly-owned renewable energy developer.

Recommendation 4. The Minister should provide a detailed explanation of what the additional allocation for the Welsh Government Energy Service is expected to deliver.

Recommendation 5. The Minister should provide a breakdown of how the £1m allocated to Ynni Cymru last year was spent.

4. Decarbonising Wales' existing homes

- 27.** The Welsh Government has made a commitment to decarbonise more homes through retrofit in its **Programme for Government**.
- 28.** Net Zero Wales sets out the Welsh Government's expectation that by 2025 around 148,000 houses across Wales will receive retrofit measures to reduce heat loss. For social housing, the Welsh Government's ambition is to bring all social housing as close to EPC A as possible within a decade.
- 29.** Most Welsh Government support for housing retrofit is delivered through the **Optimised Retrofit Programme ('ORP')**, which provides grant funding to Registered Social Landlords and local authorities to improve energy efficiency of their existing stock. The ORP is funded from the 'Residential Decarbonisation and Quality' BEL. This BEL also includes funding for the new Housing Net Zero Carbon performance Hwb, among other things.
- 30.** The draft budget shows a decrease in capital allocation of £15m (from £107m in 2022-23 to £92m in 2023-24) and an increase in revenue allocation (from £773K to £2.17m) for the 'Residential Decarbonisation and Quality' BEL.
- 31.** The Warm Homes Programme, which aims to tackle fuel poverty by improving home energy efficiency supports retrofit activity in the private housing sector. The WHP is funded from the 'Fuel Poverty' BEL, which sees an increase in capital allocation of £5m (from £30m in 2022-23 to £35m in 2023-34). Revenue allocations remains flat at £4.37m.
- 32.** The Minister's evidence paper states, "The development of a whole housing stock approach to decarbonisation will provide for a long-term strategy for energy efficiency, fuel poverty and decarbonisation for the sector". It refers to a "new programme", which is "expected to support the social, owner occupier and the private rented sector. It is expected to be accessible to all, including those in the 'able to pay' category".

Our view

Reducing emissions from Wales' homes through energy efficiency retrofit will be critical if the Welsh Government is to meet its climate change commitments. And, with the latest figures showing a rise in residential sector

emissions for 2019-20, it is clear that more needs to be done to increase the scale and rate of retrofit activity across all housing tenures.

We have several concerns about the budget allocations to support housing retrofit. First, there is a lack of clarity about the total level of investment in housing retrofit activity for 2023-24, including in the private rented and owner occupier sectors.

Second, the Welsh Government has said it is seeking to “extend [the ORP’s] reach to ensure that all social landlords in Wales engage with ORP over the next three years”. This would suggest the need for additional investment in the programme. However, there is a £15m reduction in capital allocation in the ‘Residential Decarbonisation and Quality’ BEL for 2023-24, which funds the ORP.

Third, in response to our report on the draft budget 2022-23, the Minister told us the ORP had, at that time, provided funding to 4,500 social homes. However, the Welsh Government’s expectation is that, by the end of 2025, ORP investment will have contributed to the decarbonisation journey of 148,000 homes. We seek clarification from the Minister about whether the ORP is on track to meet this expectation.

Finally, it is unclear whether the draft budget includes allocation for the “new programme” to support the delivery of a whole housing stock approach to decarbonisation.

The Committee has recently completed an inquiry into decarbonising the private housing sector and will be publishing its report before the end of February 2023.

Recommendations

Recommendation 6. The Minister should clarify the total level of investment in housing retrofit activity for 2023-24, including to support retrofit in the private rented and owner occupier sectors.

Recommendation 7. The Minister should explain the £15m reduction in capital allocation in the ‘Residential Decarbonisation and Quality’ BEL for 2023-24, including any assessment made on the impact on the delivery of the ORP.

Recommendation 8. The Minister should clarify the number of social homes that have benefitted from the ORP to date. She should also provide details of any

assessment made of whether the ORP is on track to have contributed to the decarbonisation journey of 148,000 social homes by the end of 2025 (as set out in Net Zero Wales).

Recommendation 9. The Minister should clarify whether the draft budget 2023-24 includes allocation for the 'new programme' to support the delivery of a whole housing stock approach to decarbonisation.

5. Transport

33. The draft budget acknowledges the financial pressures public transport operators face and states that £40m has been allocated to support services. However, the Minister's evidence paper indicated that total bus revenue support will remain unchanged between 2022-2023 and 2023-24.

Transport poverty

34. Transport poverty is widespread across Wales. Transport for Wales (TfW) reports that 13% of Welsh households do not have access to a car, and 25% of bus users have a disability or long-term illness. Research conducted by the University of South Wales found that areas with high levels of deprivation experienced the greatest decrease in access to bus services during the pandemic.

35. The Deputy Minister recognised the impact of transport poverty and told the Committee that “amongst the 20 per cent poorest households, they're spending around a quarter of their household income on running a car”. He added that:

“the Wales transport strategy is very much about achieving modal shift and supporting measures for public transport in order to tackle transport poverty.”

36. Policy interventions to reduce the cost of public transport have been announced in several parts of the UK. This Committee's report on bus and rail (October 2022) urged action to address transport poverty, including through fare subsidies. Although it accepted this in principle, the Welsh Government said, “we must be realistic about...budgetary restrictions”. In early 2023, TfW announced discounts on specific tickets and railcards for a limited period in response to cost-of-living pressures.

37. The Deputy Minister told the Committee that pressure on the overall budget meant that the interventions available to the Welsh Government were limited. This had “stopped us doing some of the things we really wanted to do, particularly around bus fares”. He concluded that “we are sustaining things as they are, but not able to do as much as we want to do in order to tackle modal shift and transport poverty this year.”

Rail infrastructure

38. In response to a question about the £50 million the UK Government is contributing to Cardiff Crossrail via its Levelling Up Fund, the Minister noted that this was being match-funded by the Welsh Government. The Deputy Minister explained that the funding would be "a helpful contribution to a much larger project". However:

"when you put it in the context of how much money we've lost, which levelling up was meant to be replacing—circa £1 billion a year worse off, the Welsh budget, as a result of leaving the EU—it's a drop in the ocean".

39. He added that the failure of the UK Government to electrify "the Cardiff and Valleys lines and the south Wales main line to Swansea" was "a broken promise, and we're living with the consequence of that". He explained:

"The new trains that we're launching at the moment are diesel trains. We don't want to be running diesel trains, but we have to run diesel trains, because there aren't electrified railway lines."

Transport for Wales

40. The Deputy Minister acknowledged that TfW's role had evolved significantly since its inception. He described the latest stage of its evolution as "TfW 2.0" and explained:

"It has now morphed and evolved into what we hope will be a multimodal transport delivery body that's not just doing rail, but doing bus, doing active travel, and with the potential to doing roads alongside and take a truly multimodal approach to get us to our modal shift targets."

41. In response to a question about whether TfW receives sufficient funding for these additional responsibilities, the Deputy Minister confirmed that "we're asking them to do a lot and we'll be asking them to do more, but they're also being funded".

42. This Committee's report on bus and rail (October 2022) emphasised the complexity of the process of setting the budget for TfW and how its opaque presentation makes scrutiny more difficult.

43. James Price, the Chief Executive Officer of TfW, had previously told the Committee the budget process involves discussions with around 20 to 25 different budget holders throughout the Welsh Government. In its report, the Committee recommended that details of the TfW budget should be available in good time so the Committee can scrutinise the TfW budget in total during the draft budget process.

44. Despite TfW being the Welsh Government's transport delivery organisation, the TfW Budget Expenditure Line included in the Welsh Government budget only includes information on its rail obligations. This makes it impossible to examine the total amount of funds available to the organisation before the Welsh Government draft budget is agreed, despite its significant and growing role. Although the Committee requested that the Minister's draft budget document include information on TfW's entire budget, the evidence paper states:

"Given that TfW is still a relatively new and evolving organisation, we are continually looking for ways to streamline processes, and we will endeavour to offer the Committee sufficient time to scrutinise draft budgets in future."

45. In commenting on the relationship between TfW and the Welsh Government, the Minister said:

"we've been fundamentally recalibrating the relationship between the Government and this portfolio and TfW...since we came into post. So, we've had a lot of extremely difficult discussions, early doors, about the relationship between us and them, and how the budget process in particular works, and who does the due diligence, for example, on various projects."

46. The Minister concluded that "we expect a really serious improvement...next year as we recalibrate" the relationship.

Transport decarbonisation

47. The Net Zero Wales Carbon Budget 2 2021-2023 (the Net Zero Plan) includes a target that 50% of buses and all taxis and private hire vehicles (PHVs) will be zero-tailpipe-emission by 2028. The Welsh Government finances the decarbonisation of transport through the Ultra-Low Emission Vehicle Transformation Fund (ULEVTF).

48. The 'Wales infrastructure investment strategy: project pipeline December 2022' confirms that the ULEVTF has been allocated around £35m for 2023-24 and 2024-2025. This funding will support the development of electric vehicle charging infrastructure, including for taxis, PHVs, and buses, as well as the "provision of Green Fleet for taxis, [PHVs], and buses."

49. The Deputy Minister said that work was ongoing with the Minister for the Economy to consider the economic opportunities arising from the transition "within the next decade or so" to an entirely electric bus fleet. He said:

"there's an opportunity here to make them in Wales, just as we are assembling some of the CAF trains in Wales as part of our new rail rolling stock roll-out. So, there's been a lot of work going on. We set up a special group, led by James Davies from Industry Wales, to look at how we would do this, the practicalities of it, and we've made significant progress. We're not there yet, and it's very complicated, but that's our aspiration."

50. The Deputy Minister said that the decarbonisation of the bus fleet was a challenge for the sector. As an example, he said:

"When you think particularly of SMEs, who provide the school market, they are typically family firms, particularly in western Wales, where their model is to buy buses at the end of their life at a relatively low cost and to do them up, because they enjoy doing them up, and that's the family business, and they run them at a very small profit and they keep them on the road. Now, they're not going to be able to do that with electric buses."

51. He said that "franchising, in a sense, intensifies that challenge for the SME sector". The Welsh Government was considering how the franchising model could help decarbonise the fleet. This might involve looking "at a foundational economy model, where maybe TfW owns the buses and leases them to the SME, who then charges an operating fee". These and other issues would be considered during the bus reform process.

Active travel funding

52. The Minister's evidence paper shows the funding distribution for active travel in 2023-24, with a total allocation of £72.6m. Although this is an increase

from the £60m allocated last year, it falls short of the funding set out in the indicative budget for 2023-24.

53. The draft budget for 2022-2023 decreased funding for active travel compared to the previous year. In written evidence, the Welsh Government stated that this would be a "short term reduction" in funding with "record [levels of] active travel funding [available in] 23-24 and 24-25 where funding will be £80m in both years".

54. During the Committee's scrutiny of the budget last year, the Deputy Minister said the increase in funding planned for 2023-24 "was designed, deliberately, to give local authorities development money so that they can start preparing a pipeline of schemes".

55. However, in commenting on the reduction in the allocation for the draft budget 2023-24, the Deputy Minister said it was because "there are some real capacity and capability constraints across local government, and they simply haven't been able to spend all the money that we wanted them to spend". He explained that there had been "underspends over the last two financial years, which have caused us some challenges". He said he had concluded:

"we need a pretty deep reform to the delivery mechanisms for active travel. So, we're talking with TfW now, who haven't been doing enough on active travel. They've been focusing, as we'd ask them to, to do a grant-giving function and the monitoring, rather than development and capacity building, and there's some good work going on in Active Travel England on this that we want to work alongside and learn from."

56. The Deputy Minister said that Welsh Government is "spending double what we were spending four years ago", but "we're not able to ramp it up as quickly as we need to because of the delivery constraints".

Roads review

57. During the Committee's scrutiny of the draft budget last year, the Deputy Minister stated that the roads review would investigate how funding could be redirected from new projects to the maintenance of existing roads. The Welsh Government has delayed publishing its response to the review due to the "deteriorating fiscal and economic situation".

58. The Committee's report on the future of bus and rail (October 2022) recommended that funding from cancelled projects be used for sustainable transport and decarbonisation measures in the same region. The Welsh Government accepted this recommendation in principle but stated that funding allocated to current schemes is "limited".

59. In response to a question on this issue, the Deputy Minister explained, "we're not anticipating a great release of funding in the short term because the roads aren't being built yet". He clarified that:

"the schemes that the roads review is looking at are schemes currently in development. The whole criteria was that we're not looking at schemes where shovels are in the ground—they're being built. So, the schemes we're looking at are not schemes that currently have much budget attached to them—they're mostly at the study stage."

Highway maintenance backlog

60. The 2023-24 draft capital budget for "network operations" is £185m, which is £5m less than planned.

61. The Minister's evidence paper mentions several preventive programmes being implemented across the strategic road network. However, it also acknowledges the estimated £1 billion backlog of capital maintenance. The evidence paper references the creation of a Major Asset Renewal programme to address the backlog and aid in implementing "road space reallocation for active travel and public transport." However, this program is currently unfunded.

62. In reference to the backlog, the Deputy Minister said that the roads review has been asked to consider this issue and would have "quite a bit to say about the way we approach maintenance". He added that the Welsh Government had commissioned a review, led by Matthew Lugg, to consider how maintenance is funded. He said that the review's report, and the Welsh Government's response to it, would be published "in due course".

Local highway maintenance

63. Previous budgets have allocated specific capital funding for local highway maintenance (£20m in 2021-2022). However, this funding was removed last year. The 2023-2024 draft budget does not include any specific funding. Though the local government settlement has seen an increase in general capital funding,

local authorities may prioritise other projects. Rising capital project costs due to inflation may also present difficulties.

64. Several recent incidents have highlighted problems with local highway infrastructure, including the closure of the Menai bridge. In response to a question on this issue, the Deputy Minister acknowledged that "our infrastructure is ageing and requires more maintenance". The challenge of maintaining local highways is compounded by extreme weather events caused by climate change and broader financial pressures on local authorities.

20mph zones

65. In commenting on the implementation of 20mph zones on the local road network, the Deputy Minister explained:

"This is a key measure for our road safety strategy for reducing deaths and casualties on the road, which cost us, public services, a significant amount of money. We've published some research sponsored by Public Health Wales showing that, in the first year alone, they estimate...it'll save public services £100 million per year—three times the cost of introducing it".

66. He said:

"we have taken money from the local transport fund to fully fund this—some £30 million this year and we had some money last year. There will be a little bit of money next year, but much less. These two years are the big years because we have to replace the road signs, and so on. So, as far as we're concerned, we're fully funding this change from central budgets and we're also confident that it'll bring a long-term saving."

Our view

We continue to be seriously concerned about the impact of **transport poverty** in Wales. We note the Deputy Minister's comments about broader budgetary pressures and acknowledge that planned interventions could not be pursued as a result.

Transport poverty affects some demographic groups disproportionately, including disabled people, older people, and women. We reiterate the

concerns expressed in our report on bus and rail that the cost-of-living crisis will exacerbate this situation.

The UK Government introduced a bus fare cap in England for three months from January 2023. TfW has introduced reduced rail tickets for a limited period. We urge the Welsh Government to continue to explore all opportunities to reduce fares to ease the impact of the cost of living crisis on public transport users in Wales.

On **rail infrastructure**, we welcome the contribution of £50m via the UK Government's Levelling Up fund, which will be match-funded by the Welsh Government. The Deputy Minister was generous in his assessment of this funding. It is, frankly, minuscule compared to the funding lost to Wales due to the UK Government's decision that we should not receive consequential funding from the HS2 scheme.

We agree that **TfW** has evolved quickly to its current state, which is by no means settled. The organisation has had to adapt and be agile during challenging times. Regarding the transparency of its budget, we expect to see the "serious improvement" as promised by the Minister. Last year, we undertook our first annual scrutiny session with TfW. We have committed to continuing this annual scrutiny process throughout this Senedd term. We look forward to holding TfW to account for its performance.

On the **decarbonisation of transport**, we welcome the allocation of funding to the Ultra-Low Emission Vehicle Transformation Fund. However, we are not persuaded that the approximately £35m for 2023-24 and 2024-2025 will be sufficient to deliver the Welsh Government's ambitions. We would be grateful for more information about what the Deputy Minister expects to be delivered with this funding, how it will be distributed and why he believes it is sufficient.

In response to the Committee's report on the draft budget for 2022-23, the Welsh Government said it would bring forward an action plan for decarbonising taxis and PHVs. We would be grateful if the Deputy Minister would share this action plan with the Committee. The response said the Action Plan would be subject to consultation as part of the proposed Welsh Government Bill on taxis and PHVs. We would be grateful if the Deputy Minister would explain the timeline for this work.

We welcome the comments from the Deputy Minister about the potential opportunities for decarbonisation arising from bus reform and the forthcoming Welsh Government bus Bill.

We note the Deputy Minister's reasons why **active travel** funding has not increased to the level previously indicated. Last year, the Deputy Minister told us the increased funding would be used to develop a "pipeline of schemes", but funding has not increased to the level planned because of a lack of capacity in local authorities. We believe it is prudent to change approach in such circumstances, but are concerned by the apparent disconnect between the Welsh Government and local authorities in this policy area.

Further, we are concerned that the "pipeline" of schemes is at risk. The Deputy Minister told us that TfW would be involved in a "deep reform" of active travel delivery mechanisms. We would appreciate details of what this means in practice, when we should expect to see outcomes from this work, and whether additional funding will be necessary. Further, we would like reassurance from the Deputy Minister that this work will address the problems arising from the lack of capacity in local authorities.

We note the Deputy Minister's comments on the **roads review** and urge him to publish the report of the group undertaking that work as soon as possible.

We reiterate our concerns about the estimated £1 billion backlog in **highway maintenance**. The Welsh Government's written submission referred to a Major Asset Renewal programme, which is unfunded. In response to our report on last year's draft budget, the Welsh Government said that an independent panel had been established to review the programme. It said that after feedback had been considered, approval would be sought to commence preparatory work. Feedback was due in April 2022. We would be grateful for details about the status of this work, including the reasons for the apparent lack of progress since April 2022.

On **local highway maintenance**, we note that there are increasing problems across Wales. It is vital that the Welsh Government understands the scale of the problem and develops a plan to tackle it. We would be grateful for an update from the Deputy Minister on this matter.

We note the £30m funding being made available for local authorities to introduce **20mph zones**. We would be grateful for reassurance from the Deputy Minister that this funding is sufficient to deliver the Welsh

Government's ambitions and the projected savings resulting from the policy. This should include an explanation of how the Welsh Government determined the amount needed to implement the policy.

Recommendations

Recommendation 10. The Welsh Government should continue to explore all opportunities to reduce fares to ease the impact of the cost-of-living crisis on public transport users in Wales.

Recommendation 11. The Welsh Government should ensure that TfW's budget is transparent, reflects all of its responsibilities and functions and is publicly available in good time.

Recommendation 12. The Welsh Government should provide more information about the specific policy interventions it expects to be delivered by the £35m allocated to the Ultra-Low Emission Vehicle Transformation Fund.

Recommendation 13. The Welsh Government should share with the Committee its action plan for decarbonising taxis and PHVs and set out a timeline for consultation and implementation.

Recommendation 14. The Welsh Government should provide more information about the "deep reform" of active travel delivery mechanisms, including details of when outcomes can be expected and whether additional funding will be necessary. This should include specific information about the role TfW is expected to play.

Recommendation 15. The Welsh Government should provide more information about the status of the Major Asset Renewal programme and the reasons for the apparent lack of progress since April 2022.

Recommendation 16. The Welsh Government should work with local authorities to assess the backlog of local highway maintenance and develop a plan to address it.

Recommendation 17. The Welsh Government should provide reassurance that the £30m funding for introducing 20mph zones is sufficient to deliver the Welsh Government's ambitions and projected savings, and explain how the funding amount was determined.

6. Biodiversity

67. In June 2021, the Senedd declared a nature emergency and called for legally binding targets to stop and reverse the decline in biodiversity. At COP15, the UN biodiversity summit held in December 2022, a new global biodiversity framework was agreed upon, comprising goals and targets to address the worldwide loss of biodiversity and restore natural ecosystems. The "30x30" target is a critical component of the new framework, which aims to protect 30% of terrestrial, inland water, coastal, and marine areas by 2030. Additionally, the new framework necessitates the full integration of biodiversity across all policy areas.

68. When requesting information on the budget, the Committee inquired about how the Welsh Government's declaration of the nature emergency was reflected in the budget. The Minister's evidence paper referred to a "Biodiversity Taskforce", which supports the "commitment to embed biodiversity in all we do". It explained that mainstreaming biodiversity received funding through "a programme focussing on people, our systems and piloting innovative solutions both in and outside Welsh Government."

69. The Minister said that work was ongoing to embed the nature emergency across the Welsh Government and develop an integrated "whole-Government" programme. She added:

"We're still in some discussion about the governance for that, but I think we're nearly there now to do that, so that we can make sure that we're co-ordinating efforts not just in my MEG, my portfolio budget, but across the Government".

70. In response to a question about why more progress had not been made, the Minister conceded this was "because we weren't geared up enough to do it". However, this was now being addressed. The Minister went on to explain her aspiration for biodiversity policy:

"We have a number of very specific budget programmes at the moment but we don't have that overarching thing, and that's one of the things we want to work up...So, the budget is sufficiently flexible for us to begin the process of that, but we will obviously have to look again once we've got the review done".

71. The Welsh Government's recent biodiversity "deep dive" identified key themes and recommendations for specific actions to be implemented in Wales to achieve the 30x30 target, and to integrate biodiversity and nature recovery across portfolios and public bodies. The Minister's evidence paper states that a "Biodiversity Taskforce is advancing this work". Funding will be allocated to implement the recommendations and actions from the deep dive.

72. The Minister's evidence paper explained, "Taking effective action to tackle the nature emergency by 2030 will require adequate funding – budget has been allocated to support the development of an innovative future finance model." In response to a question on the finance model, the Minister explained that the Welsh Government is "part of a global group that are looking at various financing models for this" following COP15. She would write to the Committee with further information.

Biodiversity targets

73. The Welsh Government's Programme for Government includes a commitment to establish a "statutory duty and targets to protect and restore biodiversity." It states that legally binding biodiversity targets will be examined in light of the new global framework. The Minister's evidence paper said this work would be "escalated" following COP15, and funding has been allocated to provide "technical and academic support required to ensure robust, evidenced based approach to developing SMART [Specific, Measurable, Achievable, Relevant, and Time-Bound] targets."

74. The Minister said that no funding had currently been allocated for the development of statutory targets, but several groups of experts, including one being led by former Welsh Government Environment Minister Jane Davidson, were working voluntarily on this and other related matters.

75. The COP15 framework requires governments to establish "effective mechanisms for planning, monitoring, reporting, and review". National biodiversity strategies and action plans must be updated to align with the framework. For the Welsh Government, this will involve revising its Natural Resources Policy and Nature Recovery Action Plan. The Minister's statement to Plenary committed to creating a "new strategic biodiversity action plan", and her budget evidence paper indicates that this will occur in 2023-24.

76. She said a task and finish monitoring group had been established to design an "effective monitoring and analytical framework" for the Welsh Government.

This would enable the Welsh Government to meet its "international reporting requirements, as well as develop the goals". She said she expected there might be calls for a budget to be allocated for this work within the next year, but "we're not there yet". The Minister concluded that:

"we've been immensely fortunate in having people with serious expertise who've been prepared to give us a lot of time and effort to put this together, because they're very concerned, and they want to help us do this."

Delivery of the Nature Recovery Action Plan

77. The Minister's evidence paper emphasises the importance of the Nature Networks Programme (NNP), a three-year funding program launched in 2021, to help achieve the 30x30 target. The Minister has previously indicated that the 'Enabling Natural Resources' BEL delivers the Nature Recovery Action Plan. Capital allocations for this BEL have decreased in this draft budget by £1.4m due to budget reprioritisation.

Addressing marine biodiversity

78. The Minister's evidence paper states that budget allocations to implement Marine Protected Area (MPA) Action Plan projects "are expected to match awards from previous years". This Committee has previously expressed concern about the ongoing funding of MPA feature condition assessments conducted by NRW. In response, the Minister said she is looking into the NNP as a potential option for funding this work.

79. Following the biodiversity deep dive, the Minister announced the Welsh Marine Conservation Zone (MCZ) designation pre-consultation engagement process to enhance Wales' MPA network. The Minister acknowledged delays in executing this work. The official accompanying the Minister confirmed that there is no specific funding allocation for work on MCZs, but the costs would be met from "the overall marine biodiversity allocation of £1.9 million".

Replacing the EU LIFE programme

80. Wales has received an average of £3 million annually from the EU LIFE funding program during 2014-2019. However, since 2021, no new funding has been available through the program. In June 2022, the Welsh Government announced that talks were ongoing among the four UK nations regarding a replacement program and funding. The Minister said:

“we've allocated £1.2 million in 2023-24 to match fund the final two LIFE EU projects. They always require match funding, and we've been happy to do that. They're in the Nature Networks programme's deep dive recommendations for the protected-site network there.”

81. Regarding a replacement scheme, the Minister said that discussions with DEFRA were ongoing, and it did not look likely that there would be a scheme in place for 2023-24. The Minister concluded:

“you know, I'm sorry to echo the First Minister here, but this is very much part of the broken promise about 'not a penny lost', because it is lost, and it's a real, real problem for us. There's no way that we can match, out of our own resources, the £10 million that was spent on the last two projects, both of which I had the privilege to open.”

Our view

We were pleased to hear the Minister's commitment to the importance of biodiversity. The global framework agreed upon at **COP15** should now give the Welsh Government the impetus to develop an approach that is responsive to the particular needs of nature in Wales.

We appreciate the Minister's honesty concerning the lack of progress in embedding the nature emergency in Welsh Government policy. We note the Minister's comments that work on this was still ongoing to develop a "whole-government" programme, similar to the approach for net zero. We welcome this development and would be grateful for an early update on progress, including the timescales for the implementation of the approach.

The Minister has committed to creating a "new **strategic biodiversity action plan**" during 2023-24. We would be grateful for further information on this matter. We would also be grateful to receive an explanation of the impact the Minister expects the reduction of £1.4m for the 'Enabling Natural Resources' BEL will have. This should include reference to specific projects, programmes or interventions.

We were pleased that the Welsh Government has committed to the **30x30 target** in Wales. We agree with the Minister that this will be a significant challenge, and momentum must be built up quickly. We would be grateful for

an update on progress within the next six months on how this work is developing. This work will necessitate specialist skills, and we would be grateful for reassurance from the Minister that the Welsh Government has sufficient staffing resources, with the right mix of skills, to deliver on this agenda.

We have been calling for **some time for statutory targets** for biodiversity. We welcome the Minister's commitment on this issue. We would be grateful for details about the timeline for introducing targets and the legislative vehicle that will be used to bring them forward.

The Minister explained that the Welsh Government had started the **Marine Conservation Zone** process. We welcome this important step, particularly as we expect offshore energy projects to ramp up in the coming years. In the past, we have expressed concern about the staffing resource in the marine department of the Welsh Government. We would be grateful for reassurance from the Minister and the department Director, if necessary, that there are sufficient staff to progress this work. Further, we note that no specific budget is allocated for this work. We would be grateful for confirmation from the Minister of how much of the £1.9m of the overall marine biodiversity allocation has been earmarked for this work.

Finally, we share the Minister's disappointment regarding the ending of the **EU LIFE** programme. We note her comments that it is unlikely that a replacement scheme will be in place for 2023-24. We would be grateful if the Minister would keep us informed of the progress towards developing the replacement scheme.

Recommendations

Recommendation 18. The Welsh Government should provide an update within the next six months on progress in developing a "whole-government" programme for the nature emergency, including the timescales for implementation.

Recommendation 19. The Welsh Government should explain what impact the reduction of £1.4m for the 'Enabling Natural Resources' BEL will have on specific projects, programmes or interventions.

Recommendation 20. The Welsh Government should provide an update within the next six months on the progress of the 30x30 target in Wales, including reassurance that there is sufficient staffing resource with the right mix of skills to

deliver on this agenda. This should include further information about progress towards the development of financial models to deliver the 30x30 targets.

Recommendation 21. The Welsh Government should provide details about the timeline for introducing statutory biodiversity targets and the legislative vehicle that will be used to bring them forward.

Recommendation 22. The Welsh Government should provide reassurance that there is sufficient staff to progress the Marine Conservation Zone process and confirm how much of the £1.9m of the overall marine biodiversity allocation has been earmarked for this work.

Recommendation 23. The Minister should provide an update on her consideration of whether the Nature Networks Programme can fund MPA feature condition assessments.

Recommendation 24. The Welsh Government should keep the Committee informed of the progress towards developing a replacement scheme for the EU LIFE programme after it ends in 2023-24.

7. Forestry and woodland

- 82.** The Welsh Government has a long-term commitment to a national forest.
- 83.** The Welsh Government has set a target to plant 43,000 hectares (ha) of new trees by 2030 (almost 5,000 ha per year), rising to 180,000 ha by 2050 (over 6,000 ha per year) to help reach net zero.
- 84.** In early 2021, the Deputy Minister led a deep dive into removing barriers to tree planting. Recommendations include a new funding scheme for woodland creation and a strategy to coordinate timber supply and construction.
- 85.** The draft budget shows an increase in revenue funding of £2.9m (from £5.2m in 2022-23 to £8.1m in 2023-24) and an increase in capital funding of £14m (from £9m in 2022-23 to £23m in 2023-24) for the 'Forestry' BEL.
- 86.** According to the Minister's evidence paper:

"[The budget allocation] will support funding to develop the National Forest, including through creating new woodlands and enhancing existing ones through further rounds of The Woodland 23 Investment Grant, seven National Forest liaison officers to work with landowners across Wales, and funding the creation of Tiny Forests".

- 87.** It also says that £32m over three years is committed to the "new woodland creation schemes launched in August 2022", understood to be the Small Grants Woodland Creation scheme and the Woodland Creation Grant.
- 88.** The Minister explained the reduction of £1.1m revenue against previous plans was a result of the reprioritisation exercise to release funding from within portfolios for reallocation across Government. However, she said "I'm confident that this [budget allocation] will get us to where we hope to be".
- 89.** The Minister told the Committee that meeting the woodland creation target is "completely dependent on landowners applying for grants to do this, so we'll be working with landowners right across Wales". She said the new grant schemes are "a great opportunity for farmers in particular to get ahead of the sustainable farming scheme" and that the National Forest liaison officers provide support for this.

Our view

An increase in woodland cover is essential if Wales is to meet its climate change commitments. However, tree planting rates in Wales have been poor for decades. While the latest figures show a rise in rates between 2019 and 2022, they still fall woefully short of those needed for the Welsh Government to meet its woodland creation targets. While we welcome the increase in allocation for 2023-24, we recognise that meeting the target will not be possible through public funding alone.

In the Minister's recent letter to us, she explained the Woodland Finance Working Group had begun work to consider models to attract private investment that avoid disadvantaging rural communities and disrupting existing patterns of land ownership. She said pilot projects to test approaches to private investment will be introduced in the short term. We would welcome further details on these projects.

Last year, the Welsh Government launched its My Tree, Our Forest initiative which provided every household a tree to plant or have planted on their behalf. In our report on the draft budget 2022-23, we asked the Welsh Government to provide an update within 6 months on take-up of the initiative. In response, the Minister said she would do this in 12 months when more meaningful data was available. We would welcome an update as soon as practicable.

In 2021, the Welsh Government committed to publishing a new Woodland for Wales Action Plan (by the end of 2021) and a Timber Industrial Strategy (by the end of 2022), and to consulting on a long term strategy for the National Forest (in January 2022). At the time of writing this report, it has yet to deliver on these commitments. There has been a significant increase in funding for forestry and having these plans and strategies in place is vital for ensuring that it is targeted in a coherent way that delivers value for money. We question whether the delay in publication of these documents has arisen due to a lack of capacity and resource with the Welsh Government, or for some other reason. We will further explore these issues later this Senedd term as part of our inquiry into the delivery of forestry policies. In the meantime, we would like the Minister to explain the reason for the delay and to provide an update on timeframes for publication.

Recommendation

Recommendation 25. The Minister should report back to the Committee on take-up of the My tree, Our forest initiative in 2022-23, including total spend, the number of trees planted, and any assessment made of its impact on public attitudes towards climate change.

Recommendation 26. The Minister should provide further details on the pilot projects to test approaches to private investment in forestry. This should include an indicative timetable for the development and delivery of these projects and the rollout of subsequent learning.

Recommendation 27. The Minister should explain the reason for the delay in the publication of the new Woodland for Wales Action Plan (due by the end of 2021) and the Timber Industrial Strategy (due by the end of 2022), and in the consultation on a long term strategy for the National Forest (due in January 2022). The Minister should also provide an update on timeframes for the publication of each of these.

8. Environmental governance

90. The Welsh Government has committed to introducing a Bill to establish an environmental governance body for Wales during this Senedd term.

91. Until such time as a permanent governance body is in place, the Welsh Government has established interim environmental protection measures ('interim measures'), overseen by an Interim Environmental Protection Assessor for Wales ('the IEPAW'). The Minister's evidence paper states, "Costs incurred for the Interim Environmental Protection Assessor come out of a budget of £45,000 that is set aside for the IEPAW's functions".

Evidence from the Minister

92. The Minister explained £480,000 has been allocated for "policy development and external research" to support the development of proposals for a permanent governance body. She added "That's not intended to be the investment programme or the revenue stream [for the governance body]".

93. In the Committee's report on interim environmental protection measures (September 2022), it raised concern that capacity and resource constraints within the IEPAW had led to delays in reporting. The Committee called for the Welsh Government to undertake an urgent review of the IEPAW's resources. The Welsh Government accepted its recommendation and committed to report back to us on the findings as soon as practicable. When asked for an update on the review of resources for the IEPAW, the Minister said, "we're in the process of having the conversation with the Interim Assessor about what her findings are". The Minister added she was confident there was sufficient flexibility in the draft budget to respond to the outcome of the review if it finds additional resources are required.

Our view

We are disappointed that, four months on from our call for an 'urgent' review, a decision has yet to be taken on whether to increase resourcing for the IEPAW. Our call for a review arose, in part, from concern that capacity and resource constraints had led to delays in the IEPAW reporting to the Welsh Government following investigations into complaints made about the functioning of environmental law. At the time of writing this report, it is unclear whether the IEPAW has submitted any reports. We are keen to emphasise that this is a not

a criticism of the IEPAW, rather a bid to understand the current position, including whether lack of capacity and resource is holding back progress.

We have previously made clear that the interim environmental protection measures fall significantly short of the fully functioning, well-resourced governance body that Wales needs. We expect to see demonstrable progress towards the development of proposals for such a body, and for statutory biodiversity targets, over the coming year.

In response to our report on the draft budget 2022-23, the Minister told us, “officials have undertaken initial work to assess the costs associated with setting up and maintaining a new environmental governance body. Such consideration has included a comparative analysis of similarly-sized and constituted bodies across the UK”. We would like the Minister to share the findings of this work with us to help facilitate and support scrutiny of future draft budgets.

Recommendations

Recommendation 28. The Minister should report back to the Committee on:

- the findings of the initial work to assess the costs associated with establishing and maintaining a permanent environmental governance body for Wales, and
- the outcome of her discussions with the IEPAW on future resource requirements for the service.

Recommendation 29. The Minister should clarify whether the IEPAW has submitted any reports following investigations into complaints made about the functioning of environmental law. If no reports have been submitted, the Minister should set out her understanding of the reason for the ongoing delay, in particular, whether it is due to lack of capacity and resource, or some other reason.

9. Natural Resources Wales (NRW)

94. NRW is funded by a combination of core funding for its baseline functions and grant funding for additional projects. Its budget has not increased since last year. Since its inception, NRW's budget has been reduced by more than one-third.

95. As its budget has decreased, the Welsh Government has assigned it additional duties. The Welsh Government and NRW have recently conducted a "baseline" review of NRW's resources to ensure they align with NRW's statutory functions and the commitments in the Programme for Government. The Minister said the review had been completed and had identified a gap in NRW's funding.

96. Discussions about how to address the funding shortfall were ongoing. The Minister said several factors, including pension liabilities and fluctuation in timber income, caused the shortfall. However, the Minister said:

"we want them to budget as if the gap was not there, and that we will be able to cover that gap off over the next year as far as we can."

97. The Minister said she hoped the pension liability would be addressed shortly and would report to the Committee.

98. The Minister referred to a recent consultation on the fees and charges levied for NRW's services. She said she hoped to move to "full-cost recovery where that's possible". She added:

"if we're asking NRW to do things, which we're not allowing them to full-cost recover for, then we need to be upfront about that in their budget. So, I'm just trying to get into a very different place, in terms of how we perceive these things, and then we can understand with them what the income looks like, what the service that's delivered for that income looks like, and then what the demands from us look like. And that's a wholly different place to where we were when I started in this portfolio two years ago."

End-to-end marine licensing

99. NRW is responsible for issuing marine licenses on behalf of Welsh Ministers. In December 2021, the Deputy Minister's "deep-dive" review of renewable energy policy suggested conducting a comprehensive, "end-to-end" review of marine licensing, consenting, and advisory processes and transferring offshore advisory powers from the Joint Nature Conservation Committee (JNCC) to NRW. £300,000 was allocated from the 2022-23 budget for this review.

100. The Minister confirmed that the review was complete and the "high-level" findings would be published in February 2023. The review had not identified fundamental issues with the process, "but there are certainly improvements that have been suggested, and a series of strategic recommendations". The Welsh Government would work with NRW to develop actions arising from the review. She would consider "the likely budget and resource implications of that" at the appropriate time.

Our view

For several years, this Committee and its predecessor have expressed concerns about NRW's ability to effectively carry out its roles and responsibilities due to a lack of capacity and resources. Year on year, NRW has been asked to take on additional responsibilities without the allocation of commensurate funding to discharge those responsibilities. The "**baseline review**" undertaken by the Welsh Government and NRW was a welcome intervention to address this issue. We are pleased that the Welsh Government, as a result of this process, has finally acknowledged that there is a gap in NRW's funding.

The shortfall in funding is caused by more than one factor, but pension liability is a historic problem and was a concern at NRW's creation almost a decade ago. We are pleased that the Minister has confirmed that this outstanding issue is being addressed and would be grateful for an update on progress shortly.

We note the Minister's commitment that arrangements will be put in place to fill the **funding gap** other than the pension liability. We note that NRW's flat year-on-year budgetary allocation will, in effect, mean a real-terms decrease in funding once inflation is taken into account. We would be grateful for details from the Minister about how and when she expects arrangements to be implemented to address the funding gap, including the impact of inflationary pressures on NRW.

We look forward to the result of the consultation on NRW's **fees and charges** but note that there has been significant disquiet about some of the proposals. We would be grateful to have an early understanding of the Minister and NRW's plans for taking the proposals forward.

On the **marine-end-to-end licensing review**, we look forward to the publication of findings in February. We would be grateful if the Minister would publish alongside the findings an explanation of how the outcomes of the review will be taken forward.

The Committee has agreed to hold **annual scrutiny** sessions with NRW and will continue this work throughout the Senedd term.

Recommendations

Recommendation 30. The Welsh Government should provide details on how and when NRW's funding gap will be addressed. This should include an update on progress in resolving the historic problem with pension liability.

Recommendation 31. The Welsh Government should publish, alongside the findings of the marine-end-to-end licensing review, an explanation of how the outcomes of the review will be taken forward.

10. Waste

101. The Welsh Government's circular economy strategy, *Beyond Recycling*, sets out its goal for Wales to become a zero waste nation by 2050, along with key targets towards achieving it. Targets for 2025 include a minimum of 70% recycling and zero waste to landfill.

102. Key actions in *Beyond Recycling* include a ban on the most commonly-littered single use plastics, reform of Extended Producer Responsibility ('EPR') and the introduction of a Deposit Return Scheme ('DRS') for drinks containers.

103. EPR reforms are due to be implemented from 2024. Affected businesses are expected to start reporting packaging data from 1 January 2023 in preparation.

104. On 20 January 2023, the Welsh Government, UK Government and the Department of Agriculture, Environment and Rural Affairs ('DAERA') in Northern Ireland published a [joint response](#) to the 2021 consultation on the introduction of a DRS. The response sets out the scope of the DRS⁴ and the next steps towards implementation⁵, among other things.

105. The draft budget shows a decrease in revenue allocation of £1.6m (from £36.8m for 2022-23 to £35.2m for 2023-24) and an increase in capital allocation of £20m (from £40m for 2022-23 to £60m for 2023-24) for the 'Resource Efficiency and Circular Economy' BEL.

106. The Minister's evidence highlights "an increase in the budget to support the continued delivery of the *Beyond Recycling Strategy* which will work to build on the foundation of our genuinely world class recycling to support the wider transition to a circular economy which keeps resources in use". It explains, "A key element of this support sees an increase in capital funding to put in place the infrastructure improvements needed to transition to a circular economy, which represents just under half of Wales' total emissions".

⁴ The DRS will be an 'all-in' scheme, i.e. it will include drinks containers up to 3 litres in size. It will include polyethylene terephthalate bottles, and steel and aluminium cans. In Wales, it will also include glass bottles (in line with the existing DRS in Scotland).

⁵ The aim is for the regulations to be in force by the end of 2023 with a commencement date of 1 October 2025 and for the Deposit Management Organisation to be appointed by summer 2024.

Evidence from the Minister

107. The Minister confirmed that, although the intention is to introduce regulations for the DRS in 2023, the scheme will not be up and running until October 2025. She explained that funding had been allocated for 2023-24 to undertake impact assessments and prepare the explanatory memorandum to support the regulations.

Our view

We welcome the increase of £20m in capital allocation to deliver the infrastructure improvements needed to support the transition to a circular economy.

In our report on the draft budget 2022-23, we emphasised the pressing need to progress proposals for a DRS which, at the time, were already long overdue. We are pleased, therefore, that details of the DRS have finally been announced. Nevertheless, the scheme will not be up and running until October 2025, which is almost another three years away. We would welcome details of any assessment made of the infrastructure investment required to support the delivery of the scheme.

Recommendations

Recommendation 32. The Minister should report back to the Committee with details of any assessment made of the infrastructure investment required to support the delivery of the DRS. She should also clarify whether and how this is reflected in the budget allocation for 2023-24.

11. Flooding and water

108. The draft budget shows an increase in revenue funding of £5.7m (from £38.1m in 2022-23 to £43.8m in 2023-24) and an increase in capital funding of £5m (from £44m in 2022-23 to £49m in 2023-24) for the 'Flood Risk Management and Water Policy Delivery' BEL. Of the capital allocation, £34m is for flood and coastal risk management, with the remaining £15m for water quality.

109. The Welsh Government's National Strategy for Flood and Coastal Erosion Risk Management (October 2020) sets out its long-term policies for managing flooding, as well as the measures that will be taken over the next 10 years to improve planning and preparation for, and adaptation to climate change.

110. In May 2022, the Welsh Government launched an independent review of reports into extreme flooding, meeting the Co-operation Agreement commitment.

Flood and coastal risk management

111. The Minister's evidence paper states:

"The additional funding will help meet the objectives of [the National Strategy for Flood and Coastal Erosion Risk Management] as well as contribute to our Programme for Government and Co-operation Agreement commitments to increase flood capital investment and national resilience. This is demonstrated through our largest ever investment in flood protection committing in the 2022-23 budget more than £214M over 3 years (Capital and Revenue). This investment will enable our Risk Management Authorities to deliver new and improved defences, maintenance and minor works to existing assets, investigation of flood events, awareness raising activities, forecasting, and warning and mapping and modelling of flood risk".

112. It also states the funding "will help deliver the schemes in the Coastal Risk Management Programme which when complete will reduce the risk from flooding and/or coastal erosion to over 15,200 homes and businesses. This will help deliver almost 35% of our Programme for Government commitment to fund additional flood protection for more than 45,000 homes".

Tackling water pollution

113. In July, the Minister set up the **Better River Quality Taskforce** (the Taskforce), to evaluate the current approach to the management and regulation of storm overflows in Wales. It subsequently identified **five areas for change and improvement** requiring additional action.

114. In May 2022, the Minister told the Committee that costs to support the delivery of the action plans arising from the Taskforce’s work would “need to be scoped out”.

115. The Minister’s evidence paper states, “NRW has prepared a flexible multi-year programme of work designed to decrease the number of watercourses failing to meet good ecological status. We propose to provide NRW with the necessary funding to undertake work [prioritised using set criteria]”.

Evidence from the Minister

116. In commenting on the costs associated with delivering the action plans arising from the Taskforce’s work, the Minister explained the Welsh Government was “co-ordinating rather than funding [this work]”. She said members of the Taskforce would be expected to meet costs.

117. The Minister explained work had been ongoing to develop a cross-sector action plan to tackle river quality. It was anticipated that this would be agreed at the next river quality summit in early February 2023. The Minister said once the action plan had been agreed “we’ll start to look at what the budget requirements are”.

Our view

Flooding

In recent weeks, parts of Wales have, once again, been blighted by flooding, with reports of over 80 properties impacted, and significant disruption to rail and road. With extreme weather events likely to become more frequent as a result of climate change, the risk of flooding is set to increase, as is the cost of managing it.

The Welsh Government has already invested heavily in flood protection over the years and has committed to invest an additional £214m between 2022-23 and 2024-25. Despite this, recent reviews and reports on flooding, including

those of the Auditor General for Wales, the independent Flood and Coastal Erosion Committee and NRW suggest a significant increase in investment is required to keep pace with climate change.

We would welcome an explanation about whether and how the independent Flood and Coastal Erosion Committee's resources review and NRW's report on long-term investment requirements for maintaining flood assets have influenced the budget allocation for 2023-24.

In agreeing our priorities for the Sixth Senedd, we committed to reviewing progress towards delivery of the new National Flood and Coastal Risk Management Strategy taking account of NRW's section 18 report (due in autumn 2022). We are disappointed that NRW has postponed its report until autumn 2023 because of workforce pressures.

Water quality

According to the latest NRW data, less than half of Wales' waterbodies have achieved good ecological status. With the Welsh Government still a long way off from meeting its 2027 target to restore the health of Welsh rivers, it is clear that additional action is required, and quickly.

While we are encouraged to hear about NRW's programme of work, there is a lack of clarity about how much funding will be made available to meet the cost of delivery. We would like the Minister to address this issue.

We look forward to hearing further details about the cross-sector action plan on river quality. We expect sufficient funding to be made available to support the delivery of the plan.

Recommendations

Recommendation 33. The Minister should explain whether and how the independent Flood and Coastal Erosion Committee's resources review and NRW's report on long-term investment requirements for maintaining flood assets have influenced the budget allocation for 2023-24.

Recommendation 34. The Minister should report back to the Committee on:

- the level of funding that will be made available to NRW to deliver its programme of work designed to decrease the number of watercourses failing to meet good ecological status,

- any assessment made of the costs associated with delivering the cross-sector action plan on river quality, and
- how these have been reflected in the budget allocations for 2023-24.