

Scrutiny of the Welsh Government Draft Budget 2025-26

February 2025

Introduction

Our approach

- 1.** The Committee held oral evidence sessions with Huw Irranca-Davies MS, Deputy First Minister and Cabinet Secretary for Climate Change and Rural Affairs, and Ken Skates MS, Cabinet Secretary for Transport and North Wales on 8 January 2025.
- 2.** Due to time constraints, the Committee was not in a position to hold an oral evidence session with Rebecca Evans MS, Cabinet Secretary for Economy, Energy and Planning. Instead, the Committee wrote to the Cabinet Secretary with questions on budget allocations for energy and planning, which fall within its remit.
- 3.** Given the Committee's on-going interest in decarbonisation of housing, it wrote to Jayne Bryant MS, Cabinet Secretary for Housing and Local Government with questions on budget allocations to support delivery in this policy area.
- 4.** Written evidence from, and correspondence with, the Welsh Government can be found on Senedd Cymru's website.



5. This report is in two parts: Part 1 covers areas within the Deputy First Minister’s portfolio that fall within the Committee’s remit and Part 2 covers transport.

Overview of allocations

6. The overall draft budget as published sets out figures for “Plans as per 2024-25 Final Budget Restated September 2024”, and “Baseline Adjustments for 2025-26” which are used to calculate a “2025-26 Revised Baseline”. This report uses the “2025-26 Revised Baseline” for comparisons, unless otherwise stated.

7. The Climate Change and Rural Affairs Main Expenditure Group (MEG) total capital and revenue allocation (excluding Annually Managed Expenditure or AME) has increased by 14.9% from the 2025-26 revised baseline. Revenue (resource) funding has increased from £552.1m to £587.2m while capital funding has increased from £232.06m to £314.01m. These figures are for the overall MEG. This includes rural affairs, and these aspects of the draft budget have subject to scrutiny by the Economy, Trade and Rural Affairs Committee.

8. For the Transport MEG, revenue (resource) funding (excluding AME) has increased by £69.66m to £878.22m. Capital funding has increased by £51m to £528.8m.

Part 1: Climate change and the environment

1. Prioritising climate change and nature across government

9. The Programme for Government includes a commitment for the Welsh Government to embed its response to the climate and nature emergency in everything it does. The Committee asked the Deputy First Minister to explain how he has worked across government to ensure this commitment is being met through the budget process. He said:

“We’ve always made very clear in Government that we see both the climate emergency and also the nature crisis as being embedded right across Government. Every portfolio Minister, every directorate, every team of officials needs to integrate it, including within the budget process, as well.”

10. He added, “I speak regularly with Cabinet colleagues on this; it’s discussed within Cabinet, but also in bilaterals and trilaterals as well”. The Deputy First Minister provided examples of funding to support climate change action in other portfolios, including £30m for low-carbon heating in non-domestic local-authority owned buildings; continued funding for the Optimised Retrofit Programme; and £4.5m for the Green Business Loan Scheme.

11. The Deputy First Minister told the Committee that officials from Treasury, Decarbonisation and Biodiversity are involved with the Next Generation Budgets project. The project aims to align public budgeting with climate neutrality goals and help unlock financing, building on and informed by technical training and international best practice.

12. Finally, he explained a sub-group working with the Budget Improvement and Impact Advisory Group is in the early stage of a pilot to embed prevention into the budget setting process, focusing on biodiversity. The sub-group is expected to report in 2025 and, subject to its findings, the Welsh Government “will explore a whole budget approach to preventative activity”. He said this will support the ambition to mainstream delivery for biodiversity and ecosystem resilience across the Welsh Government and its partners.

Climate change adaptation

13. In September 2023, the UK Climate Change Committee published its assessment of progress made towards delivery of the Welsh Government’s statutory climate adaptation plan, *Prosperity for All: A Climate Conscious Wales* (December 2022). The UK CCC found insufficient progress in delivery and implementation of adaptation, and limited monitoring. It stated the next national adaptation plan for Wales must go further to drive delivery across the public sector and more widely. The UK CCC made 73 recommendations to the Welsh Government, covering all areas of responsibility, including housing, rural affairs and the economy.

14. The Welsh Government published a new climate adaptation plan in October 2024, outlining the actions it is taking to deliver climate resilience in areas where it has the levers.

15. In commenting on the extent to which climate adaptation is a priority for Welsh Government and how the draft budget reflects this, the Deputy First Minister told the Committee:

“It’s integral to the budget that we’ve brought forward...it is to do with investment in flood defences, protecting homes, of course it is, but it’s also to do with things like the investment in Public Health Wales...for example, in helping us analyse and understand the risks to human health.”

16. He added:

“The way we understand this better and then implement budget decisions and policy decisions is through our engagement with external bodies, like the [UK] Climate Change Committee”.

17. The Deputy First Minister said the UK CCC has yet to provide a formal view on the new climate adaptation plan. However, he asserted that the new plan “has moved us forward considerably, but we’re always going to need to do more”.

Our view

As outlined in many of our reports, if Wales is to meet its statutory emissions reduction targets and global biodiversity commitments, the Welsh Government needs to scale up delivery, which means increasing investment.

According to the Green Finance Institute, Wales is facing an estimated £5 to £7 billion finance gap for nature over the next ten years. In our report, [Halting and reversing the loss of nature by 2030](#) (January 2024), we call for the Welsh Government to undertake its own assessment of investment requirements and develop a comprehensive nature finance strategy. We repeat that call.

The Welsh Government has already committed to “increase public investment in nature’s recovery by ensuring the response to the nature emergency is integrated across government departments”. We would welcome further details on how this is being taken forward and how the Welsh Government will measure success.

We are encouraged to hear about the various work the Welsh Government is undertaking to embed biodiversity and climate change into the budget process. We intend to follow these up during next year’s draft budget scrutiny.

The findings of the UK CCC’s assessment of progress towards climate change adaptation in Wales are of concern to us. Since the assessment, a new adaptation plan has been published, which, according to the Welsh Government “marks an important shift” in its approach to tackling the risks of climate change. We would welcome further details from on how engagement with the UK Climate Change Committee has influenced budget allocations to support delivery of the new plan.

Recommendation 1. The Welsh Government should:

- assess and set out the scale of investment needed for nature recovery in Wales, incorporating findings from reports such as Wales Environment Link’s ‘Pathways to 2030’, and
- develop and publish a comprehensive nature finance strategy.

Recommendation 2. The Deputy First Minister should report back to the Committee on work undertaken following the Biodiversity Deep Dive to “increase public investment in nature’s recovery by ensuring the response to the nature emergency is integrated across government departments”. This should include details of how he will measure the impact of this work on investment levels for nature.

Recommendation 3. The Deputy First Minister should explain how his engagement with the UK Climate Change Committee has influenced budget

allocations to support the delivery of the Welsh Government's new climate adaptation plan.

2. Coal tip safety

18. The 'Coal Tip and Reservoir Safety Delivery' revenue BEL has increased from £3.83m to £5.83m. The capital BEL has increased from £10.3m to £38.2m.

19. The Deputy First Minister's written evidence explains this BEL includes funding for the Coal Tip Safety Grant Scheme, costs associated with setting up the proposed Disused Tips Authority for Wales, continuation of the Mining Remediation Authority (formerly the Coal Authority) works regarding inspections, and £4.9m for reservoir safety.

20. During his appearance before the Committee, the Deputy First Minister confirmed that the UK Government had provided £25m for coal tip safety as part of its Autumn budget. He added the total investment in coal tip safety in this Senedd term is £102m (including budget allocation for 2025-26).

The Coal Tip Safety Grant Scheme

21. Following a landslide at a disused coal tip in Tylorstown, Rhondda Cynon Taf in February 2020, the Welsh Government established a Coal Tip Safety Taskforce to deliver a programme of works, including reviewing the safety of coal tips across Wales, and inspections and maintenance of tips with the potential to impact public safety.

22. 2573 disused coal tips have been identified across Wales. Of these, 360 have been classified as 'high risk' in terms of the potential to impact public safety. The Coal Tip Safety Grant Scheme provides funding for local authorities and Natural Resources Wales to complete maintenance activities on both publicly and privately owned coal tips to control and minimise the threat of slips.

23. When asked whether the Scheme is oversubscribed, the Deputy First Minister told the Committee:

"No...because there's a real practical reality here of being able to deliver, with the capacity out there to deliver projects on the ground. So, we allocated £18.4 million to authorities and NRW in 2024-25. It is correct that the initial applications received totalled in excess of £29 million. However, the practical reality is that many of those applications would be unlikely to have been delivered before the end of the 2024-25 financial year."

24. He added applications that had been unsuccessful in 2024-25 will be considered for funding through the scheme for 2025-26.

Reform of the coal tip safety regulatory regime

25. In its Programme for Government, the Welsh Government committed to reform coal tip safety legislation in Wales. In December 2024, it introduced the Disused Mine and Quarry Tips (Wales) Bill to the Senedd. The Bill aims to prevent disused tips (coal and non-coal) from threatening human welfare by reason of their instability. It provides for the establishment of a Disused Tips Authority for Wales (the Authority) to implement the new regulatory regime. The intention is for the Authority to be operational in April 2027.

26. The Deputy First Minister's written evidence says the draft budget includes an allocation of £0.40m for continuing work on the Bill. It adds:

"the budget recognises the implementation costs arising from the Disused Mine and Quarry Tips (Wales) Bill...Budget allocations have been made in relation to the costs of setting up a new body, as also outlined in the RIA. Funding has also been included for the continuation of the Coal Authority [now the Mining Remediation Authority] works regarding the inspection regime".

27. The RIA to the Bill sets out the cost estimate for the two-year transitional period (2025-26 to 2026-27) as £5.6m, which includes staff and non-staff costs in setting up the Authority.

Our view

The recent landslide at the disused coal tip in Cwmtillery, Blaenau Gwent, following Storm Bert serves as a stark reminder of the continuing risks posed by Wales' mining heritage. Events such as these invariably have a significant and long-lasting impact on communities, the cost of which cannot be measured.

The Committee is in the process of scrutinising the Disused Mine and Quarry Tips (Wales) Bill. While we do not wish to pre-empt the findings of our work, we are keen to ensure the regulatory regime for disused tips is robust, effective, and sufficiently resourced, providing protection and peace of mind to communities living in the shadow of tips. We will be reporting on the findings of our scrutiny in due course.

We know that clean-up and remediation costs following a tip slip can be significant. We would welcome details of any assessment made of these costs for the Cwmtillery tip and how they will be met.

We welcome the increase in funding for coal tip safety, recognising the importance of accelerating delivery of the on-going maintenance programme.

We note that applications for the Coal Tip Safety Grant Scheme for 2024-25 exceeded the scheme budget by over £10m. We seek clarification on how scheme applications are prioritised and whether any unsuccessful applications for 2024-25 involved 'high risk' tips (i.e. category C and D).

We are concerned by the Deputy First Minister's suggestion that capacity to deliver disused tip maintenance is currently lacking in Wales. We would welcome further details on the steps the Welsh Government is taking to ensure sufficient capacity and capability to deliver the ongoing maintenance programme.

The Welsh Government has previously estimated £0.5bn will be needed over the next ten years to meet the full cost of the disused coal tips remediation and reclamation programme. Representations made to the former UK Government to share the cost were unsuccessful. We seek assurance that the Welsh Government has set out clear expectations for the current UK Government to share the cost of the programme.

Recommendation 4. The Deputy First Minister should report back to the Committee on the cost of clean-up and any remediation work following the landslide at the disused coal tip in Cwmtillery. He should also clarify where these costs will fall, and whether (and how much) funding will be made available through the Coal Tip Safety Grant Scheme to meet them.

Recommendation 5. The Deputy First Minister should:

- explain how Coal Tip Safety Grant Scheme applications are prioritised;
- clarify whether any unsuccessful applications for 2024-25 involved 'high risk' tips (i.e. category C and D); and
- clarify the total allocation for the scheme for 2025-26, including the projected number of disused tips that will benefit from maintenance and remediation works as a result of the increase in allocation.

Recommendation 6. The Deputy First Minister should:

- provide assurance that the Welsh Government has set out clearly its expectation for the current UK Government to share the cost of the long-term remediation and reclamation programme for Wales' disused coal tips, and
- provide details of any inter-Ministerial discussions on this matter since the formation of the UK Government in summer 2024.

3. Flood risk management

28. Revenue funding for flood risk management and water policy delivery has decreased from £4.23m to £2.98m. Capital funding has increased, from £27m to £30.02m. The increase in capital is funded by a transfer from reserves.

29. The Deputy First Minister's written evidence says the Welsh Government has "maintained record levels of investment in flood risk management". During his appearance before the Committee, he said he was confident that the budget allocation for 2025-26 remains sufficient.

30. In January 2024, Nature Resources Wales published its report, Long-term Investment Requirement for Flood Defences. The report found that addressing the flood risk created by future climate change projections across Wales will require a 3.4 increase to current funding levels. When asked how the report had been taken into account in preparing budget allocations, the Deputy Minister said it had "changed our approach to the scale and the type of capital investment and flood investment that we're doing". He added, "the report made the case very clearly and we heard it, and we're delivering on it for continued investment over that 100-year period".

Our view

During a two-week period at the end of 2024, following Storms Bert and Darragh, Wales experienced significant flood events, causing widespread disruption and damage to homes, businesses and critical infrastructure. Communities were left devastated. With extreme weather events set to become more frequent as a result of climate change, the risk of flooding is set to increase, along with the cost of managing it.

The Welsh Government has always been clear that protecting communities from the risk of flooding is a priority, investing heavily in flood risk management in recent years. Nevertheless, it is widely considered that a significant increase in investment will be required to keep pace with climate change. In its National Flood and Coastal Erosion Risk Management Strategy, the Welsh Government outlines its intention "to update [its] long-term investment requirements using the latest risk data and climate change projections". NRW's report was meant to inform this work. Despite the Deputy First Minister's assertion that the report's findings had "changed [the Welsh Government's approach] to investment, we

have yet to see evidence of this. We would welcome a more detailed explanation of this matter.

We note the reduction in revenue allocation for flood risk management and water policy delivery. We would welcome an explanation of this.

Recommendation 7. The Deputy First Minister should provide further details of how the findings of Natural Resource Wales' report, Long-term Investment Requirement for Flood Defences, "has changed the Welsh Government's approach to the scale and type of capital investment" for flood risk management.

Recommendation 8. The Deputy First Minister should;

- explain the reason for the £1.25m reduction in revenue funding for flood risk management and water policy delivery, and
- provide details of any assessment made of the impact of this reduction on the delivery of Risk Management Authorities' flood activities.

4. Restoring nature

Nature Networks Programme

31. There is an increase in the ‘biodiversity, evidence and peatlands’ revenue BEL from £11.44m to £11.52m. The capital allocation remains the same at £12.5m. This BEL includes the Nature Networks Programme (NNP) (which aims to improve the condition and connectivity of the protected sites network), Local Nature Partnerships and the National Peatland Action Programme, among other things.

32. Responding to the Finance Committee’s draft budget consultation, Wales Environment Link (WEL) highlights the value of the Nature Networks Fund (NNF) (which falls under the NNP) as the only Welsh Government grant enabling multi-year, partnership projects to improve the condition of protected sites. It highlights the NNF is consistently over-subscribed.

33. In commenting on funding for the NNP for 2025-26, the Deputy First Minister’s written evidence says:

“I have considered very carefully the potential to expand the scope of the Nature Networks programme in line with the ambition I know the Committee shares with me. On balance, I concluded there was insufficient headroom across the other pressures on the budget to expand the programme further next financial year.”

34. During his appearance before the Committee, the Deputy First Minister reiterated this point, adding:

“I’m keen to work towards additional funding, and part of this could well be unlocking private finance with real integrity, real ethical investment that is complementary to and additional to, and allows us to go at a greater scale and pace.”

35. Environmental NGOs have called for the launch of the next NNF fund to be in the spring (with approval of projects by the autumn) to enable delivery in line with the seasons, and for longer term funding. The Committee put this to the Deputy First Minister, who said:

“we can definitely work with the National Lottery Heritage Fund to explore that option of having a window—an early window—

for some applications for the next round, so it can work with that seasonal approach there. But it will need to work with the National Lottery Heritage Fund timetable and also allow enough time for stakeholders to put forward good applications as well.”

36. He added the Welsh Government “share the ambition to have longer term funding in place”.

Replacement for EU LIFE

37. Since the loss of the EU LIFE fund following the UK’s departure from the European Union, environmental NGOs have repeatedly called for an adequate replacement.

38. Responding to the Finance Committee’s consultation on the draft budget, WEL says:

“now that the UK Government seems to be reprofiling its ‘Levelling Up Fund’ – envisioned as a replacement of Structural Funds but not in any way a replacement of LIFE funds – this would be an excellent opportunity to work with them on trialling a cross-border (or at least accessible to all four UK nations) fund that can supply that kind of multi-million restoration project, that makes such a significant contribution to nature restoration.”

39. When asked whether the Welsh Government is making representations to the UK Government for a UK nature restoration fund to replace the EU LIFE fund, the Deputy First Minister said:

“We made representations to the previous UK Government, and we had no response, but we’ll keep on making those representations about replacement funding. But, meanwhile, I think it’s important to say, whilst we would welcome, if you like, replacement...it’s vital that we just get on with using the money that we have available”.

Local Places for Nature

40. The Local Places for Nature (LPfN) programme is aimed at communities and community organisations to restore nature in their local areas, particularly in areas

of deprivation. Revenue funding for the LPfN BEL has decreased from £2.95m to £2.65m. There is also a decrease in the capital BEL from £19.79m to £12.56m.

41. According to the Deputy First Minister’s written evidence, the reduction in allocation for the LfPN programme “reflects the significance of pressures elsewhere, including for water quality and reservoir safety, but the value of the programme has been recognised by maintaining a significant level of investment”. It goes on to say that, despite the reduction, “the level of funding will allow us to continue the positive work of the programme and support for the Local Nature Partnerships, with a particular focus on how this work can support a number of our Programme for Government commitments”.

42. During his appearance before the Committee, the Deputy First Minister emphasised the value placed on the LPfN programme by the Welsh Government, highlighting the benefits derived from the programme. He said:

“It’s not just the transformation of spaces in local communities; it’s the engagement exercise with local communities that brings people with us and it excites them about the potential of transforming nature and doing good things for nature.”

43. The Deputy First Minister said he was keen to work with partners to minimise any impact of the reduction in allocation. He added, if additional funding becomes available over the course of the year, he will consider increasing allocation for the programme.

44. The Deputy First Minister told the Committee the LPfN programme had been extended to October 2027.

Our view

The Nature Networks Programme is a key intervention in delivering the global target to effectively protect and manage 30% of land and seas for nature (‘30 by 30’), which the Welsh Government has committed to. Over two years ago, the Welsh Government promised to “take immediate action” towards ‘30 by 30’ by “expanding and scaling up” the NNP. Since then, we have seen no evidence of this.

Last year, we were told the Welsh Government’s difficult financial position meant increasing investment in the NNP was not an option. Regrettably, and despite an overall increase in the departmental budget, the message this year is the same. If the Welsh Government is to meet the ‘30 by 30’, and wider [Global](#)

Biodiversity Framework (GBF) commitments, it must prioritise investment in nature.

In our report, Halting and reversing the loss of nature by 2030, we emphasise the importance of making best use of existing funding to support delivery of '30 by 30'. We are encouraged, therefore, that the Deputy First Minister is open to reviewing the timing of funding rounds for the Nature Network Funding to maximise outcomes delivery. We would welcome an update on this matter in due course.

The Local Places for Nature programme is a critical source of funding to support delivery of on-the-ground action for nature. As highlighted by the Deputy First Minister, the programme goes beyond delivering positive nature outcomes - it increases nature connectedness, helps drive pro-environmental behaviour, supports green jobs and the development of green skills. We are concerned about the impact of the reduction in programme funding on delivery partners and outcomes delivery. We would welcome further details of how the Deputy First Minister will work with partners to mitigate this. We seek assurance that any additional funding that may be made available to the Deputy First Minister during the course of the year is used to address the shortfall in programme funding.

We are pleased to hear the Deputy First Minister's intends to continue to make representations to the UK Government on a replacement scheme for the EU LIFE funding programme. We would welcome details of any representations he has made to date.

Recommendation 9. Should additional funding be made available to the Deputy First Minister during the course of the year, he should commit to increase funding for the Local Places for Nature so that, as far as possible, it returns to 2024-25 levels.

Recommendation 10. The Deputy First Minister should explain how he will work with delivery partners to mitigate the impact of the reduction in allocation for the Local Places for Nature Programme.

Recommendation 11. The Deputy First Minister should engage with the National Lottery Heritage Fund to explore the feasibility of launching the next Nature Network Fund in the spring (with approval of projects by the autumn) to enable delivery in line with the seasons, and report back to the Committee on the outcome as soon as possible.

Recommendation 12. The Deputy First Minister should report back to the Committee on representations he has made to date to the UK Government on a replacement scheme for the EU LIFE funding programme, including key asks, and the outcomes.

5. Waste

45. The draft budget shows a 10.5% increase in the ‘resource efficiency and circular economy’ revenue BEL from £32.4m to £35.8m. The capital BEL has reduced by 10.7%, from £46.85m to £41.85m.

46. The Deputy First Minister’s written evidence says the additional resource funding is “to continue to build on Wales’ world leading performance on recycling and to realise the economic opportunities arising from keeping resources and materials in use for as long as possible and avoiding waste.” It says the reduction in capital funding reflects “the profile of projects in the pipeline”, but that demand for funding is expected to increase in future years.

Progress towards statutory recycling targets

47. The Welsh Government has set minimum statutory recycling targets. The 64% recycling target for 2019-20 must be met by each local authority every year until the target increases to 70% for 2024-25 onwards.

48. Latest statistics (October 2024) show 18 of the 22 authorities met the 64% recycling target in 2023-24. Six authorities have met the 70% target in 2023-24.

49. During his appearance before the Committee, the Deputy First Minister acknowledged authorities are at “different levels” in terms of recycling. He said the Welsh Government continues to work with and provide funding for authorities to improve recycling performance. He asserted that the UK-wide Extended Producer Responsibility scheme for plastic packaging, due to commence in April 2025, “will release additional funding back directly into local authorities to enable them to go even further on recycling”.

Extended Producer Responsibility

50. The EPR scheme will move the cost of dealing with packaging waste away from public finance and on to packaging producers, who will pay for the full cost of managing packaging waste from households. Payments will be passed on to local authorities to cover the costs of collecting, managing, recycling and disposing of household packaging waste.

51. The Deputy First Minister’s written evidence says the Welsh Government’s intention is that payments to authorities from the EPR scheme “should be

additional to the funding [they] previously received via the Local Government Settlement”.

A Deposit Return Scheme for Wales

52. The Welsh Government has been working with the UK Government and other devolved governments on a UK Deposit Return Scheme (DRS). The scheme was originally planned for October 2025 but has been delayed- by two years.

53. In November 2024, the Deputy First Minister announced the Welsh Government plans to develop a bespoke DRS for Wales.

54. The Deputy First Minister’s written evidence says funding has been allocated for 2025-26 for the development of a DRS for Wales. During his appearance before the Committee, the Deputy First Minister acknowledged that introducing a bespoke scheme would lead to an increase in costs, adding, “we recognise that and we’ve planned for that”. However, he asserted that a bespoke scheme is “the right thing to do”, saying:

“if we have to commit some resource to doing this, and doing it properly, and becoming not just the best in recycling, but the best in reuse, and developing those job opportunities that come from it, well, that’s an investment that’s worth doing.”

55. The Deputy First Minister said the Welsh Government would consult on proposals for the scheme in 2025-26, emphasising the importance of addressing concerns of some stakeholders about the approach being taken. He added that any additional resources needed to implement the scheme will be considered in the budget rounds for future years.

56. When asked about the timescale the Welsh Government is working towards for the introduction of the scheme, the Deputy First Minister said, it would be “As early as possible in the next Senedd” and not “far off” October 2027 (when the UK DRS is due to commence).

Our view

Wales’ position as the second best recycling nation in the world is a significant and commendable achievement. As already outlined in our letter to the Deputy First Minister (September 2024), progress has slowed in recent years and there remains considerable variation in performance across local authorities.

The Deputy First Minister told us EPR payments “will release additional funding back directly into local authorities to enable them to go even further on recycling”. This suggests that funding currently spent on managing plastic packaging waste will continue to be invested in recycling services.

Given competing demands on authorities’ budgets, it is possible that this “additional funding” will be re-directed into the provision of other priority services. We would welcome details of how the Welsh Government is engaging with authorities with a view to ensuring this “additional funding” will be used to deliver improvements in recycling performance and wider circular economy ambitions.

In our letter to the Deputy First Minister, we emphasised the need to ensure Welsh local authorities receive their fair share of funding through the EPR scheme. In response, he provided assurance that Welsh Government officials were working in collaboration with their counterparts across the UK to deliver on this. We understand that the basic payment model has now been agreed and will be based, at least in part, on “national policies and circumstances”. We would welcome an explanation of what this means in practice.

The Welsh Government has always made clear its intention for drinks containers made from glass to be included in a DRS in Wales. We acknowledge the decision to introduce a bespoke scheme for Wales is motivated by the desire to deliver on this. The Deputy First Minister told us consultation on the scheme proposal is planned for 2025-26. Given that much of the ground-work has already been done, we expect the Deputy First Minister to commit to an ambitious timeline for the consultation. The DRS has already been subject to a two-year delay. We are keen, therefore, to see rapid progress towards the development and implementation of a bespoke scheme

Notwithstanding our support for a DRS, we are aware of on-going concerns about the impact of the scheme on businesses, local authorities recycling processes, and on the authorities’ existing contracts with Materials Recycling Facilities. We expect the Deputy First Minister to continue engagement with stakeholders during the scheme’s development to identify ways to address these impacts.

Recommendation 13. The Deputy First Minister should set out his understanding of how “national policies and circumstances” will be taken into account in the basic payment methodology for the EPR scheme.

Recommendation 14. The Deputy First Minister should clarify whether “additional funding” arising from the introduction of the EPR scheme for plastic packaging scheme will be ‘ring-fenced’ for recycling services or whether local authorities will be able to re-direct it into the provision of other services, for example, social care and education.

Recommendation 15. The Deputy First Minister should provide an estimate of the costs associated with the introduction of a bespoke Deposit Return Scheme for Wales.

6. Environmental governance

57. The ‘environment legislation and implementation, governance and communications’ revenue BEL has increased from £0.64m to £1.98m.

58. The Deputy First Minister’s written evidence explains this allocation includes budgetary cover for legislation, governance, and legal costs of environmental programmes, preparatory work for the new environmental governance body, and embedding work on the Environment (Wales) Act 2016 and the Natural Resource Policy, among other things.

The Interim Environmental Protection Assessor

59. Since March 2021, the Welsh Government has been operating interim environmental protection measures to bridge the gap between the end of the EU Exit transition period and the establishment of a new environmental governance body for Wales. The measures are headed by the Interim Environmental Protection Assessor for Wales (IEPAW).

60. The Deputy First Minister’s written evidence explains funding for the IEPAW has increased to meet the costs of two Deputy Assessors, who were appointed in May 2024. During his appearance before the Committee, the Deputy First Minister said he was “confident” this would lead to an increase in the IEPAW’s outputs (in the form of reports to the Welsh Ministers).

An environmental governance body for Wales

61. The Welsh Government has confirmed its intention to introduce the Environment (Governance, Principles and Biodiversity Targets) (Wales) Bill to the Senedd in June 2025. The Bill will make provision for the establishment of a new independent environmental governance body, among other things.

62. The Deputy First Minister’s written evidence says funding has been allocated for the initial development of proposals for the new body. It goes on to say that following the 2024 White Paper consultation, the Welsh Government is developing more detailed costings for the RIA that will accompany the Bill, but that “costs for 2025-26 are limited”. The Deputy First Minister told the Committee he was “cognisant of the fact that we’re going to have to adequately resource and fund [the new body]”.

63. The Committee asked the Deputy First Minister whether the Welsh Government intends to establish a shadow body in advance of the statutory body's formation. He said, "We're still considering that...It's one of the options we're looking at, but there are other ways of doing it".

Our view

In our November 2023 report, we recommended the early establishment of a shadow body to allow much of the groundwork to be done before the statutory body's formation. The Deputy First Minister's evidence suggests he has not ruled this out. While this is encouraging, time is fast running out. To realise the advantages of a shadow body, it would need to be established in the near term. We expect the Welsh Government to provide clarity on the approach it is taking to ensure a smooth transition from the interim environmental protection measures to the new statutory body.

Recommendation 16. The Deputy First Minister should ensure that the forthcoming Environment (Governance, Principles and Biodiversity Targets) (Wales) Bill makes provision for a sufficiently ambitious timeline for the establishment of the new independent, statutory environmental governance body.

Recommendation 17. The Deputy First Minister should:

- report back to the Committee on the options currently under consideration to ensure a smooth transition from the interim environmental protection measures to the new environmental governance body, including any assessment made of the associated costs for each option. He should clarify whether these costs will fall in 2025-26, and how this is reflected in budget allocations, and
- confirm when a final decision will be taken on his preferred option and report back to the Committee on this decision.

7. Countryside access

64. The ‘designated landscapes & countryside access’ revenue BEL has increased from £11.63m to £13.05m. Capital remains the same at £8.9m.

65. The Deputy First Minister’s written evidence explains this BEL includes funding for National Park Authorities, maintenance and promotion of the Wales Coast Path, and a number of programmes, services and interventions to deliver priorities around access and recreation, green spaces and allotments, among other things.

66. Responding to the Finance Committee’s consultation on the draft budget. Ramblers Cymru highlights research by the New Economics Foundation which found infrastructure enabling public access to the countryside “has been neglected”. According to the research, barriers include inaccessible structures (e.g. stiles or narrow gates), poor paths and signage, and lack of public information. Ramblers Cymru calls for an increase in the Access Improvement Grant¹ to improve access infrastructure.

67. In commenting on the above research findings, the Deputy First Minister told the Committee the Welsh Government has funded “near enough 500 projects across Wales; 125 kilometres of public right-of-way improvements just in the last two years alone”. Of those projects, just under 90 were to remove physical barriers to access and improve route accessibility. He said the Access Improvement Grant had been allocated “just short of £6 million funding during the last three years”, with £2m allocated for 2025-26 to continue work.

Our view

During our inquiry on biodiversity, we heard about the importance of improving access to nature in order to increase nature connectedness and drive positive behaviour as part of the nature recovery agenda.

We note the Welsh Government has funded a significant number of projects aimed at improving access in recent years. Nevertheless, concerns remain about infrastructure as a barrier to access. We would welcome an explanation of

¹ The Access Improvement Grant is provided to all Local and National Park Authorities that have public rights of way responsibilities. The grant aims to improve access to the countryside, green space and open access land. The grant is provided via a formula and is weighted according to length of public rights of way, amount of access, and population.

funding opportunities available, outside of the Access Improvement Grant, to address this.

We seek assurance from the Deputy First Minister that all local authorities have an up-to-date Rights of Way Improvement Plan and are making adequate progress towards delivery.

Recommendation 18. The Deputy First Minister should:

- clarify whether all local authorities have published revised 10-year Rights of Way Improvement Plan (RWIP) following the latest statutory review;
- report back to the Committee on how the Welsh Government is supporting authorities to ensure progress towards delivery of RWIPs
- provide details of funding opportunities available to authorities to support the delivery of RWIPs.

8. Marine

68. The revenue allocation to the ‘marine policy, evidence and funding’ BEL has increased from £1.66m to £2.36m. The Deputy First Minister’s written evidence says this will fund work to “focus on marine planning and licensing, biodiversity, and climate change policy development.”

69. The Marine Protected Area (MPA) Network Management Framework for Wales 2018-2023 sets out information on management of MPAs and plans for improvement. There is no replacement for 2024 onwards. The annual MPA Network Management Action Plan sits alongside the framework and details priority actions to improve the management of the MPA network. The latest published action plan is for 2022-23.

70. The Deputy First Minister explained that the Welsh Government is actively progressing with the management of marine protected areas rather than waiting for a new framework. He said that “the MPA network management grant scheme...is in place and driving forward the actions.”

71. In response to a question, the Deputy First Minister acknowledged the challenge of balancing demands for offshore wind developments with marine conservation, saying “This is a learning process”.

Seagrass restoration and funding challenges

72. It is a Programme for Government commitment to “establish a targeted scheme to support restoration of seagrass and saltmarsh habitats along our coastline”. During this Committee’s recent biodiversity inquiry, stakeholders expressed frustration that organisations are having to bid for grant funding to support delivery of the National Seagrass Action Plan rather than it being funded directly. The Deputy First Minister’s written evidence said that funding to support seagrass restoration is “available through the Nature Networks Fund and the Marine Protected Area Management Grant Scheme”.

73. When he appeared before the Committee, the Deputy First Minister emphasised the Welsh Government’s commitment to seagrass and saltmarsh restoration, highlighting over £1 million allocated since 2021 through programs like the Nature Networks Programme and the coastal capacity building scheme.

74. On 10 January, the Deputy First Minister issued a written statement announcing “an additional £100,000 of funding to support the development of

Seagrass Network Cymru's (SNC) National Seagrass Action Plan in financial years 2024/25 and 2025/26." The statement said:

"The funding will also help Seagrass Network Cymru develop a governance structure and financing model. This will enable the Network to access sustainable funding from a range of sources in both the public and private sectors to support the implementation of the action plan."

Our view

The Committee is concerned by the lack of a current MPA Network Management Framework. While we note the Deputy First Minister's comments that active management continues through the grant scheme, this piecemeal approach risks undermining the Welsh Government's long-term conservation goals. We believe that the Welsh Government must prioritise finalising a new framework, in order to provide a clear, strategic direction for marine conservation that can be understood by all stakeholders.

We believe that seagrass and saltmarsh restoration are vital for biodiversity and carbon sequestration. We welcome the Deputy First Minister's announcement of an additional £100,000 in funding, which will support the development of a National Seagrass Action Plan.

Recommendation 19. The Deputy First Minister should prioritise the finalisation of a new MPA Network Management Framework to provide a clear, strategic direction for the Welsh Government's policies on marine conservation.

9. Natural Resources Wales

75. Revenue funding for Natural Resources Wales (NRW) has increased by £19.12m, from £124.34m to £143.4m. Capital funding has increased from £25.11m to £27.81m. The increase in allocations is mostly funded by a transfer from reserves.

76. The **draft budget narrative** says NRW will receive an uplift in funding, including an additional £5m to “enhance its capacity to progress infrastructure consents promptly and to provide necessary input in the land use and marine planning processes”.

77. In October 2024, the **Welsh Government provided a £19m loan** to NRW to cover unpaid tax liabilities following an investigation by HM Revenue and Customs (HMRC). The tax bill related to historical compliance issues with off-payroll working rules and the use of contractors. The Cabinet Secretary’s evidence paper said that discussions between NRW and HMRC to arrive at a final settlement are continuing. The Deputy First Minister confirmed that the £19 million increase in NRW’s resource allocation was not connected to the tax liability.

78. The Deputy First Minister said that a £2.7 million increase in capital funding was designated for NRW’s service transformation programme. This funding will support initiatives such as marine licensing and a new platform for regulatory and stakeholder engagement. He said:

“This is going to allow NRW to provide a much better service... improve its organisational capacity, and deliver more staff capacity to deliver more for the environment”.

79. During 2024, NRW undertook a **‘Case for Change’ process** to save £12m, streamline activities and focus on delivering essential services. The Deputy First Minister clarified that the increased allocations are separate from the “case for change” restructuring process. The Committee raised concerns about the outcome of this process, including the closure of visitor centres. The Deputy First Minister acknowledged these concerns, saying:

“I know that NRW will want to keep engaging... with Senedd Members and wider stakeholders on what now flows from the case for change.”

80. The Deputy First Minister's written evidence said NRW's flood funding has been moved into its main BEL. In response to a question about oversight of the new arrangements, the Deputy First Minister reassured the Committee they would be monitored closely. He explained:

"NRW will bring forward their proposals for capital funding each financial year... They'll be presented very specifically to the flood and coastal risk management board, the programme board, for agreement in February. My officials are in regular dialogue with NRW throughout the year to monitor this spend and the investment, the flood investment, reflects our Welsh Government strategic priorities and our commitments as well."

Our view

The £19 million loan to address tax issues highlighted serious governance failures at NRW. The Welsh Government must assure the Committee and stakeholders that it is satisfied that appropriate oversight is now in place, and that these issues will not be repeated. We would be grateful for an update from the Deputy First Minister on the latest position when it is appropriate, given the ongoing negotiations with HMRC. The update should include details of the plans for the loan, including whether the Welsh Government will require it to be repaid.

The £2.7 million capital funding increase to support NRW's service transformation programme is welcome, particularly for marine licensing improvements and a new customer platform. We will discuss this matter in detail with NRW in due course.

Concerns about several elements of the 'Case for Change' programme have been raised with the Committee. We are concerned that some proposed measures, such as the mothballing of visitor centres and outsourcing car park management at the centres, will make it less viable for others to take on these facilities. We will pursue these matters with NRW when they appear before the Committee for annual scrutiny.

The Deputy First Minister's comments about maintaining flood and coastal risk management funding were reassuring. However, the inclusion of this funding in NRW's main budget line risks reduced visibility and accountability. This is particularly important given the recent flooding events.

Recommendation 20. The Deputy First Minister should

- provide assurance that steps have been taken to strengthen internal governance and oversight in NRW, in the light of the need for a £19 million loan for historic tax issues, and
- provide an update on the latest position regarding the negotiations with HMRC as soon as possible, including details of whether NRW will be required to repay the Welsh Government's loan.

Recommendation 21. The Deputy First Minister should ensure that the adequacy and use of funding for flood management is monitored and evaluated, following its inclusion in NRW's main budget line.

Part 2 - Transport

Overview of approach and allocations

81. In presenting the draft transport budget 2025-26, the Cabinet Secretary highlighted that this was the first time the draft budget had included a MEG for transport. The aim was to increase clarity and transparency. Peter McDonald (Welsh Government) expanded on this and assured the Committee the changes in the budget expenditure lines (BELs) were a case of “evolution rather than revolution”. He cited allocations for the strategic road network as an example where the new approach had brought more clarity, as the budget details would now be “split out between contractual payments and maintenance, which should make for a more transparent budget picture”.

82. The Cabinet Secretary explained that the transport budget allocations align with the First Minister's priorities through a focus on "connecting communities" in four priority areas:

- Rail projects such as the core Valley lines and the south-east Wales Metro.
- Road improvements, including asset renewal and local authority road repairs.
- Advancing bus services with franchising and fleet upgrades.
- Supporting regional transport plans and grants.

83. The Cabinet Secretary's evidence paper said that the National and International Connectivity revenue BEL will fund work on “marine” and “on-going work on the future of Cardiff Airport”. In response to a question seeking clarification of ministerial responsibilities, the Cabinet Secretary explained that while Cardiff Airport and ports infrastructure are under the remit of the Cabinet Secretary for Economy, Energy and Planning, he retained policy oversight, in order to ensure “integration and alignment across all transport modes”.

Our view

The creation of a dedicated transport MEG is, in principle, a positive step in improving transparency. However, it is uncertain whether this is merely an administrative change, or whether it will lead to better funding decisions and

improved outcomes. We would be grateful for evidence from the Cabinet Secretary to show how this new approach has delivered tangible benefits compared to the previous one.

We were grateful to receive the Cabinet Secretary's evidence paper soon after the publication of the draft budget, which ensured that we had as much time available as possible to prepare for our scrutiny.

However, for the second consecutive year, we have been disappointed with the quality of the information provided to the Committee in the Welsh Government's evidence paper. The Welsh Government must ensure that future budget documents and evidence papers provide clear, detailed information and are fully quality checked. We appreciate that Welsh Government officials are seeking to prepare the written evidence to tight timescales, and would be content to accept clarification in the form of addendums to the evidence paper, if necessary.

Finally, on the question of ministerial responsibilities, we note the Cabinet Secretary's comments, but the Cabinet Responsibilities on the Welsh Government's website do not reflect his comments. We would be grateful for clarification of the division of responsibilities in relation to ports and Cardiff airport.

Recommendation 22. The Cabinet Secretary should clarify his role and responsibilities in relation to ports and Cardiff airport.

10. Local and regional transport policy

84. A new 'Regional Transport and Active Travel' BEL comprising £7.8m of revenue (with no baseline, as it is new) and £120m of capital, rising from a baseline of £40m, has been introduced.

85. Corporate Joint Committees (CJCs) are currently developing Regional Transport Plans (RTPs). The Welsh Government must decide whether to approve these by 30 June 2025. The transition from local to regional transport planning, therefore, falls within the period covered by the draft budget 2025-26.

86. The Committee discussed the Welsh Government's plans to transition to regional transport planning with the Cabinet Secretary. In his written evidence, the Cabinet Secretary said:

"I have re-organised the budgets which support local authority transport investment ... This affects the budget lines previously described as 'Local Transport Priorities', 'Sustainable and Active Travel' and 'Road Safety'. In future, the 'Regional Transport and Active Travel' budget line will cover investment by local authorities and Transport for Wales to support the delivery of the Regional Transport Plans, which are currently being developed by Corporate Joint Committees."

87. The Cabinet Secretary described a phased approach, which would culminate in full devolution by 2026-27. He explained that the 2025-26 budget includes funding for CJCs to finalise regional transport plans, with support from Transport for Wales (TfW).

88. As part of the phased approach, CJCs will review local authority funding applications in 2025-26 to ensure that they are aligned with regional priorities. The Cabinet Secretary said this process "steps nicely for devolution in 2026-27" as part of the phased approach "in a safe way that guarantees value for money".

89. Members queried how the Welsh Government would ensure that regional plans are not in conflict with the Wales Transport Strategy. The Cabinet Secretary reassured the Committee that there is a statutory requirement for regional transport plans to align with the national transport strategy. Addressing the Committee's concerns that a regional approach might lessen local accountability, he said:

“Local authorities will still be responsible for delivery of the projects within the regional transport plans, and so there will still be that local accountability, there will still be that local participation by citizens, who can comment on the regional transport plans, who can make submissions about them.”

90. The Cabinet Secretary acknowledged the importance of attracting private finance to maximise the impact of existing funding. He said:

“It is our ambition that corporate joint committees will be able to lever in funding from the private sector to complement the funding that they themselves allocate to projects, as well as the funding that we allocate, and, indeed, potentially that UK Government allocate as well. So, the success will actually be determined by how much they're able to lever in from the private sector.”

91. Welsh Government guidance says RTPs are required to include monitoring and evaluation plans. The Cabinet Secretary addressed the challenge of evaluating the impact and value for money of mixed-source funding but said he was committed to developing "a robust plan for evaluation and monitoring" of Welsh Government funding in this area. The Cabinet Secretary agreed to share the evaluation and monitoring plan with the Committee in due course.

Our view

The transfer of transport planning and funding to CJsCs will constitute a significant change in governance. CJsCs will have key responsibilities, including developing RTPs, reviewing local authority funding proposals, and eventually managing transport funding.

However, there are concerns about whether CJsCs have the capacity and resources to take on these responsibilities. Given that the aim is for the new approach to be fully in place by 2026-27, the Cabinet Secretary should set out his understanding of the extent of the preparedness of the CJsCs to take on these functions.

We note the Cabinet Secretary's comments about this being a phased process. As the arrangements move to the next phase, there is a potential conflict of interest in CJsCs reviewing local authority grant applications for 2025-26. We

would welcome assurance from the Cabinet Secretary that clear safeguards are in place to address any concerns in this regard.

The Cabinet Secretary has highlighted the need for private sector investment to support public funding in transport. We believe it is vital that these partnerships work in the public interest and do not undermine local priorities. The Welsh Government should set out how to support CJsCs in developing partnerships with sources of private funding.

We note that TfW is developing a monitoring and evaluation framework for RTPs.

Firstly, the framework must show clearly how public money is being spent, including funds from the Welsh Government, so that the value for money of the investment can be assessed. Second, the Welsh Government must ensure this framework is in place from the very start of the new funding approach. Third, reporting on RTPs must show how money is spent across all areas, including active travel projects and wider transport initiatives. We welcome the Cabinet Secretary's commitment to share the finalised plan with the Committee when it is ready.

Recommendation 23. The Cabinet Secretary should assess and set out the extent of the preparedness of CJsCs to take on their new transport planning and funding responsibilities, including details of staffing and other resources, ensuring they have the capacity and resources required for full implementation by 2026-27.

Recommendation 24. The Cabinet Secretary should establish and communicate clear safeguards to prevent potential conflicts of interest in the review of local authority grant applications by CJsCs, particularly for the 2025-26 funding period.

Recommendation 25. The Cabinet Secretary should set out how he will support CJsCs in forming partnerships with private sector investors, and ensure that these partnerships align with local interests.

Recommendation 26. The Cabinet Secretary should ensure that the monitoring and evaluation framework for RTPs, being developed by TfW, is operational from the start of the new funding system and can demonstrate clearly how public money, including Welsh Government funding, is being used.

Recommendation 27. The Cabinet Secretary should require that reporting on RTPs includes comprehensive details of how funds are allocated and spent across

all areas, for example, active travel projects and wider transport initiatives, including details of how much is spent in each area.

11. Active travel

92. The Welsh Government has supported local authorities with annual funding to deliver active travel schemes, the majority of which is distributed through the Active Travel Fund administered by TfW. This includes a core allocation for small-scale continuous improvements, with the remainder as competitive funding for larger, developed schemes.

93. The draft budget 2025-26 has been restructured with a new regional transport and active travel BEL. However, the Cabinet Secretary's paper states that active travel funding for 2025-26 is "to be confirmed".

94. When he appeared before the Committee, the Cabinet Secretary confirmed that "the active travel funding for 2025-26 has been maintained within the budget". He confirmed that, for the following financial year, active travel funding would be transferred to regional budgets.

95. The Cabinet Secretary emphasised his priority is making active travel inclusive, stating, "If streets are safe for the most vulnerable people in society... then streets are going to be safe for us all." He highlighted the 2025-26 budget's focus on improving streets, pavements, and bus stop accessibility, along with implementing tactile paving and dropped kerbs to ensure "inclusive movement and inclusive travel."

96. The Committee raised concerns that the shift in priorities to "walking and wheeling" could mean less focus on cycling infrastructure in future. In response, the Cabinet Secretary pointed to the implementation of a 20 mph speed limit as a major safety improvement, from which cycling had benefitted: "We've recently implemented the biggest road safety initiative in 25 years... making roads safer, and that has made cycling safer."

97. The Cabinet Secretary confirmed that he would be approving active travel grant awards before the start of the 2025-26 financial year. He added that:

"the amounts that will be allocated will depend—I think rightly so—on the assessment of local authority applications. And as I've already outlined, corporate joint committees are going to be able to provide feedback and comment on the applications so that they do align fully with the emerging regional transport plans."

98. The Cabinet Secretary explained that, for this round, each local authority had been limited to one application under the competitive funding element of the fund. He said this would reduce unnecessary costs, stating, “Some local authorities were spending between 80 per cent and 90 per cent on consultancy fees... rather than actually on delivery.” He added that the Welsh Government was now “mandating that a minimum of 60 per cent of the core allocation should be spent on direct improvements”.

99. In response to concerns that competing pressures could mean that active travel might be given a lesser priority under regional transport plans, the Cabinet Secretary reassured the Committee that this would not be the case. He said:

“The Active Travel (Wales) Act 2013 requires corporate joint committees to have regard to the integrated network maps for active travel when formulating their regional transport plans. Our guidance for corporate joint committees for developing those plans reinforces this—it signposts to our active travel Act guidance. And, also, active travel plays, I think, a huge role in the emerging regional transport plans.”

100. In September 2024, Audit Wales published a report on active travel, concluding that “the Welsh Government remains a long way from achieving the step change in active travel intended through the Active Travel (Wales) Act 2013.” The Cabinet Secretary confirmed that the Active Travel Act was being reviewed and shortcomings or failures identified by the review would be addressed. He said that the national travel survey would be key in providing data to assess the extent to which the Act had succeeded or failed.

101. The Audit Wales report highlighted shortcomings in monitoring and evaluating Active Travel Fund expenditure. The Cabinet Secretary confirmed that improvements in this area will be integrated into the regional funding approach, with monitoring built into regional transport delivery plans.

Our view

We welcome the Cabinet Secretary’s focus on inclusive travel, which we believe will be a positive step toward creating safer, more accessible infrastructure for vulnerable groups. However, we would be grateful for clarification of several key issues.

The planned transition of active travel funding to regional budgets by 2026-27 has, understandably, caused concern about prioritisation. Without safeguards being in place, there is a risk that other transport initiatives will be prioritised in favour of active travel. This is particularly the case as the Cabinet Secretary has confirmed that active travel funding will not be ringfenced in future. The Welsh Government must ensure that active travel remains a core priority within regional transport plans, even when faced with competing demands. We would be grateful for reassurance from the Cabinet Secretary of how he will ensure that active travel initiatives are given appropriate status within RTPs.

We welcome the steps that are being taken to streamline the application process for active travel grants, including efforts to reduce reliance on consultancy fees. We would be grateful for an update on the Cabinet Secretary's assessment of how effective these measures have been.

We note the Cabinet Secretary's comments that 60% of the grant will be required to be spent directly on active travel initiatives. We would also appreciate clarification from the Cabinet Secretary on how the remaining proportion of the grant can be spent.

We would be grateful for further information from the Cabinet Secretary of how the 60% figure has been reached and the steps that will be taken to seek to increase the amounts spent directly on active travel initiatives in future.

The Cabinet Secretary told us that the Active Travel (Wales) Act is being reviewed. We would appreciate more detail on the scope of this review and a commitment from the Cabinet Secretary that the findings will be published. During the scrutiny session, we raised concerns about strict criteria for designating active travel routes. We believe the review should be used as a mechanism to consider how more flexibility can be provided to local authorities to make implementation smoother, while preserving the Act's ambition.

The Cabinet Secretary described the introduction of 20 mph speed limits as an intervention that will improve safety for cyclists. We expect TfW's evaluation of the 20 mph policy to consider its impact on cyclist safety. The evaluation should also address public opinion, as perceptions of safety are a significant barrier to increasing cycling uptake.

Audit Wales has highlighted several issues with monitoring and the evaluation of active travel funding. The Welsh Government must set out how it will ensure

that there are appropriate monitoring arrangements in place under regional transport plans.

Recommendation 28. The Cabinet Secretary should provide a breakdown of active travel funding by programme, including breakdown of each core allocation and the competitive element of the funding. It should also include information on historic levels of funding, to enable the Committee to clearly see how funding levels have changed over recent years.

Recommendation 29. The Cabinet Secretary should set out how he will ensure that active travel remains a core priority within Regional Transport Plans in regions facing other transport pressures.

Recommendation 30. The Cabinet Secretary should provide an update within the next six months on the effectiveness of measures taken to streamline the application process for active travel grants, including efforts to reduce reliance on consultancy fees and increase capacity and skills in local authorities. The Cabinet Secretary should clarify how the 60% figure has been reached for direct spending on active travel initiatives and explain what the remaining funding can be spent on.

Recommendation 31. The Cabinet Secretary should provide detailed information on the review of the Active Travel (Wales) Act, including its scope, the stakeholders involved, the expected timeline for completion, and a commitment to publish the findings. The review should explore opportunities to introduce greater flexibility in designating active travel routes.

Recommendation 32. The Cabinet Secretary should ensure that Transport for Wales evaluates the impact of the 20 mph speed limit policy on cyclist safety, including whether it has impacted on the perception of safety to address this key barrier to increasing cycling uptake.

Recommendation 33. The Cabinet Secretary should set out how the impact of active travel investments will be monitored under the regional funding model.

12. Highway maintenance

102. While capital funding for Strategic Road Network (SRN) operations and renewals has increased by a small amount (£1.1m) to £186.4m, the Cabinet Secretary's evidence paper notes that the uplift in revenue "allows for more efficient use of capital budgets." The revenue allocation, excluding the contractual payments BEL, has increased by £10.58m to £60.05m.

103. The Welsh Government's overall draft budget narrative states:

"We are investing an additional £27m resource funding in the Strategic Road Network (SRN), which will help to address the significant maintenance backlog and deliver on our commitment to fix the state of roads. We will create a £25m road improvement fund to improve the SRN which will enable us to improve 100km of the network and reduce and prevent potholes."

104. The Cabinet Secretary emphasised that the additional £27m in revenue funding and the £25m road improvement fund reflect a proactive approach to maintenance. Andy Falley (Welsh Government) said the £25m fund will address 100km of roads and approximately 30,000 potholes and will also improve road conditions to prevent future problems. In terms of value for money, he assured the Committee that the impact of the funding would be monitored.

105. The draft budget narrative confirms that the 2025-26 draft budget includes £5m "recurrent" revenue funding for a new local government borrowing initiative, enabling local authorities to borrow up to £60m for local road network maintenance. The Cabinet Secretary said this could be used to address an estimated 60,000 to 70,000 potholes. Members questioned whether local authorities had sufficient clarity regarding the funding available and, in particular, whether the borrowing initiative would continue in the future. The Cabinet Secretary responded that:

"My understanding is that local authorities would like that to be replicated in future years. That's something that I'd very much like to see happen, but this is the beginning, I hope, of what will be a concerted effort to address the condition of the road network."

Our View

The growing impact of climate change on road infrastructure, including worsening drainage and structural issues, highlights the urgent need for a strategic approach to maintenance.

There is a need for greater clarity regarding the £27 million funding uplift for the SRN. The Cabinet Secretary's evidence paper indicates that the revenue budget for the SRN, excluding the new contractual payments BEL, has only increased by £10.58 million. This raises questions about whether the additional £27 million includes funding allocated to contractual payments, such as maintenance costs for the A465. Funding that is already tied up in contractual obligations, will not be available for other purposes and presumably limited to maintaining these specific roads. We would be grateful for clarification from the Cabinet Secretary on this issue, including details of how much of the additional £27m will be for the A465 (and other roads managed under contract) and how much for the wider SRN

We welcome the creation of the £25 million road improvement fund. The Welsh Government must adopt a robust monitoring and evaluation framework to assess the funding's impact. Key indicators should include measurable improvements in road conditions, a reduction in maintenance costs, and increased road user satisfaction. We believe the Cabinet Secretary should commit to regular reporting on these indicators.

The £60 million local borrowing initiative is potentially another valuable tool for supporting road maintenance. Local authorities require clear guidance on how the borrowing scheme will operate, and early confirmation of the funding available to them, particularly given concerns about the need for early planning to secure maintenance contracts and to ensure value for money.

Recommendation 34. The Cabinet Secretary should clarify whether the additional £27 million funding for the Strategic Road Network includes allocations tied to contractual payments, such as maintenance costs for the A465, including how much of the additional £27m will be for the A465 and other roads managed under contract and how much for maintenance of the wider SRN.

Recommendation 35. The Cabinet Secretary should ensure the £25 million road improvement fund is supported by a robust monitoring and evaluation framework. This should include key performance indicators such as measurable improvements in road conditions, a reduction in maintenance costs, and road

user satisfaction. The Cabinet Secretary should commit to regular public reporting on these performance indicators.

Recommendation 36. The Cabinet Secretary should provide clear guidance to local authorities on the operation of the £60 million local borrowing initiative for road maintenance and set out when budgets will be confirmed to individual local authorities to ensure they are able to maximise value for money in planning maintenance. This should include clarity that the £5 million available to local authorities will cover all of the costs of borrowing under the initiative.

13. Rail

106. £380.7m of revenue funding is allocated for rail service support – an increase of £13.7m against the 2024-25 final budget. The draft budget allocates £181.6m capital funding for rail service support – an increase of £86.1m compared to the 2025-26 baseline, £54.7m of which has come from transfers within the MEG, and a £34.1m transfer from reserves.

107. In response to a question about the source of the £54.7m funding that had been transferred, Peter McDonald said that “we have had to make some difficult budget choices while we conclude the CVL[Core Valleys Lines project]”. He added:

“The end is in sight and we are nearly past the point of maximum risk, but it is difficult in a balance sheet of our size to do multiple big things all at once, and we are doing the A465 and the south-east Wales metro at the same time. That limits the amount of ambition we can have in other areas.”

108. TfW was awarded additional in-year funding in 2023 to ensure services continued to operate. In December that year the Welsh Government told the Committee the uplift was not enough and farebox revenue needed to increase. It also suggested the gap between operating costs and farebox revenue was at its “maximum”. TfW data shows that both passenger numbers and farebox revenue have increased in recent rail performance periods with the operational cost per passenger carried falling.

109. The Cabinet Secretary was optimistic about TfW’s progress in increasing revenue, reporting a 17% rise in farebox revenue this year, which had been attributed to a 25% increase in passenger numbers in the last quarter. He said:

“We’re going to be preciously close to seeing the farebox smash through £200 million for the very first time.”

110. The Cabinet Secretary added that revenue was projected to increase by 13% next year.

111. Rail fares are divided into regulated and unregulated fares. Regulated fares typically increase each year, but this is capped by the government. Increases for 2024-25 were capped at 4.9% in England and Wales. Unregulated fares are not capped and are set by TfW.

112. The Cabinet Secretary explained the complexities of fare pricing, including historical disparities between regions. He outlined TfW is developing a fares simplification strategy, which focuses on distance-based pricing and airline-style ticketing for longer journeys to improve fairness and transparency. Peter McDonald acknowledged that affordable fares were key in increasing patronage and, in turn, decreasing the need for public subsidy.

113. The Cabinet Secretary discussed aspirations for metro projects beyond South Wales. The Cabinet Secretary noted that, outside the CVL, rail infrastructure is owned by Network Rail, and therefore would require partnership with the UK Government. He said:

“In all other parts of Wales, the rail network is in the hands of Network Rail. So, we’re seeking to work in partnership with the UK Government to deliver rail investment here in Wales through the Wales rail board—ultimately, when GBR is established, through a Wales business unit—to provide the investment that is required to bring our rail network up to the standard that passengers should expect, and rightly should expect.”

Our view

We note the Cabinet Secretary’s comments about the need to prioritise the CVL project, given that it is a substantial project with potentially high risk in terms of the costs arising from delays. Ensuring this project is delivered successfully will be an important step in increasing farebox revenue and reducing public subsidy. We note that the Cabinet Secretary told us that potential delays to the CVL project were his biggest concern, given the financial impact they would have. We understand that there have been delays in the provision of rolling stock, and we are concerned about the impact this may have on delivery of the CVL project.

The Cabinet Secretary acknowledged the challenges involved in reallocating £54 million within the transport budget to fund the project. As we said in last years’ report on the draft budget, we are supportive of the project, but rail cannot be presented with a blank cheque. It remains unclear where this funding was sourced from and which areas may have faced cuts as a result. We would be grateful for clarification on this point so that we can fully understand the trade-offs that the Cabinet Secretary has needed to make.

We welcome the positive news about increases in passenger numbers and note the comments that increases in farebox revenue will lessen the need for public subsidy. Given that TfW is in control of unregulated fares, it is important to ensure a balance between increasing revenue and maintaining affordability for passengers. We would be grateful for clarification from the Cabinet Secretary on whether he has set a timeline or targets for the reduction of public subsidies and how he will ensure that TfW's unregulated fares are affordable.

We welcome the strategy to simplify fares, particularly as it seeks to address long-standing regional disparities. We will seek further detail on the development of this strategy with TfW when it appears before the Committee for annual scrutiny.

Recommendation 37. The Cabinet Secretary should clarify the sources of the £54 million reallocated within the transport budget to fund the Core Valley Lines (CVL) project, including details of the areas that have faced reductions as a result.

Recommendation 38. The Cabinet Secretary should establish a timeline and clear targets for reducing public subsidy for the CVL project and clarify how Transport for Wales (TfW) will strike the appropriate balance to ensure that unregulated fares are affordable.

Recommendation 39. The Cabinet Secretary should provide an update on delays to the manufacture of rolling stock, and its impact on rail services and targets.

14. Bus services

114. The Bus Service Support revenue BEL has increased by £9.16m to £132.5m, while the capital BEL has reduced by £37m to £31m.

115. The Welsh Government provides revenue funding to support bus services through the Bus Services Support Grant (BSSG) and the Bus Network Grant (BNG). Other funding is allocated to connected areas, such as concessionary fares and youth-discounted travel.

116. The Cabinet Secretary acknowledged that the Confederation of Passenger Transport had called for a 15% increase in funding for bus services, but the budget allocation had constituted only a 7.4% increase. He said that bus services “are competing with other areas of our budget, and so I think that we've been able to allocate an increase as best as we possibly can”. He emphasised that “protecting the existing network” is a priority “as we move towards franchising”.

117. The Cabinet Secretary said that approximately half of the £18.5 million allocated for buses, depots, and charging infrastructure will be spent on low-emission vehicles for the TrawsCymru network. He said:

“TfW will be purchasing them and then leasing them to the operators for the TrawsCymru service.”

118. In a 10 December statement on bus reform, the Cabinet Secretary referred to plans to acquire “strategic bus depots in key areas of Wales.” When he appeared before the Committee, the Cabinet Secretary confirmed plans to purchase strategic bus depots, particularly in south-west Wales, where the franchising approach was due to start.

119. The Committee’s report on the 2024-25 draft budget recommended that the Welsh Government assess the budget’s impact on bus services. In its response, the Welsh Government said, “The vast majority of local authorities supplement the revenue support from Welsh Government with their own funds. It is therefore not possible to assess the impact of our budget on bus service levels.”

120. In response to a question on this issue, Peter McDonald explained difficulties in assessing the precise impact of Welsh Government spending on bus services, because of the involvement of private bus companies. He said:

“We cannot tell a direct relationship story between how each £1 of Welsh Government money went into the black box of the bus balance sheet.”

121. However, he noted that the franchising approach would provide greater transparency in the future.

Post-COVID Bus Patronage Recovery

122. Department for Transport (DfT) bus patronage data for the year to March 2024 shows Wales lagging behind England and Scotland in post-COVID recovery.

Table 1: Passenger Journeys on Local Bus Services

	Year to March 2020 (million journeys)	Year to March 2024 (million journeys)	Percentage of pre-Covid total
Wales	92	72	78.3%
Scotland	361	334	92.5%
England	4,053	3,629	89.5%
England outside London	1,962	1,781	90.8%
Great Britain	4,506	4,035	89.5%

Source: [Department for Transport Annual Bus Statistics](#)

123. The Committee raised concerns about declining bus patronage, particularly among concessionary pass holders post-COVID. In response to a question about why Wales is behind other UK, nations, Peter McDonald said “it’s probably most interesting to compare us with comparable regions in England, rather than the England aggregate, because what we don’t have is the more concentrated urban areas that we often find bring up the averages.” He added:

“I’m afraid I don’t have a better answer other than it’s just the general ecosystem at the moment. But what the investment in the rail network shows is that you can buck the trend if you invest in it, and, certainly, as we come to the end of the big CVL project, we’ll have a much more wider range of budget choices on the capital side, which Ministers and the committee will be interested in reflecting on, where we seek to spend the money that we’ll be no longer spending on the CVL project.”

124. The Welsh Government's Young Person's Guarantee National Conversation (2023) found that 41% of 16 to 24-year-olds identified transport as the primary barrier to accessing education, training, or employment. The Cabinet Secretary expressed a desire to introduce fairer fare schemes for young people. He cited ongoing pilot programs, such as a capped fare scheme in north Wales, and expressed ambition for broader support if more funding becomes available. However, he noted challenges observed in other regions, such as Scotland's free bus travel for under-22s.

Our view

The Welsh Government's decision to increase funding for bus services by 7.4% is a positive step but falls short of the 15% increase requested by the Confederation of Passenger Transport. The Cabinet Secretary has emphasised that protecting the existing network is a priority, nevertheless, this significant funding gap raises concerns about whether the allocation is sufficient to sustain current levels of service.

The Welsh Government should provide a detailed, multi-year breakdown of revenue and capital funding by grant or spending area, as previously requested by the Committee, and provided in recent years. This information is vital for effective scrutiny and to ensure transparency in how funding decisions are made.

We note the Cabinet Secretary's comments about the £18.5 million capital allocation for new buses. However, this funding is not referenced in the evidence paper or the budget narrative. The Cabinet Secretary should provide the Committee with further information on this funding allocation.

Further, the Welsh Government should confirm whether it is intended that TFW will own capital assets such as buses and depots as part of the transition to franchised services. This would be a significant commitment, given that it will require significant funding on an ongoing basis. We would be grateful for clarification from the Cabinet Secretary on this matter.

We are concerned that bus patronage in Wales remains the slowest to recover post-COVID compared to other parts of the UK. While various explanations were suggested, it was apparent that there is no clear understanding of the reasons for low patronage. We query how an effective franchise network can be developed without fully understanding this – for example whether the fare and

ticketing products, routes etc are being developed to address the current underlying patronage issues?

The Welsh Government and TfW must identify the factors driving this trend and ensure they take clear steps to address it in the implementing franchising.

The Cabinet Secretary mentioned plans to improve concessions for young people's access to public transport, if funding becomes available. This would be a positive step toward enhancing access to education, training, and employment opportunities. The Committee would be grateful for more information on how these proposals could be taken forward quickly, if funding becomes available.

Recommendation 40. The Cabinet Secretary should provide a detailed, multi-year breakdown of revenue and capital funding for bus services, categorised by grant or spending area.

Recommendation 41. The Cabinet Secretary should provide further information on the £18.5 million capital allocation for new buses, including details of how this funding will be used, given its absence from the evidence paper and budget narrative.

Recommendation 42. The Cabinet Secretary should confirm whether it is intended that Transport for Wales will own capital assets, such as buses and depots, as part of the transition to franchised bus services and outline the financial implications of this approach.

Recommendation 43. The Cabinet Secretary should ensure the franchising process clearly understands the factors contributing to the slow recovery of bus patronage in Wales post-COVID compared to other parts of the UK and outline the steps the Welsh Government will take to address this issue through that franchising process.

Recommendation 44. The Cabinet Secretary should develop plans to improve concessions for young people's access to public transport, so they can be implemented quickly if additional funding becomes available.

15. Transport for Wales

125. The Committee discussed the performance management of TfW during transport scrutiny in December 2023. The then Minister for Climate Change, Julie James MS, described a new approach, consisting of a “new performance board” with representatives of local government and the Welsh Government “holding TfW to account”.

126. The Cabinet Secretary highlighted improvements in governance due to better alignment of corporate plans with ministerial objectives and enhanced oversight. Peter McDonald referred to the performance board, saying “*The board dynamic is much stronger now,*” following the changes that had been introduced. He added that:

“Welsh Government officials hold TfW to account on a quarterly basis, and we use the TfW business plan as our framework for doing that.”

127. Peter McDonald went on to say that he was currently exploring with TfW the challenge of moving from an annual budget-setting process to a multi-year approach.

128. In recent years, this Committee has consistently recommended that TfWs’ full budget should be available at the same time as the Welsh Government’s draft budget. When asked about this, Peter McDonald said this was a significant challenge due to the nature of the process and associated timelines. He added:

“I’m afraid that this may just be the nature of the system, albeit that we will always commit to provide a TfW addendum, just like we have done, once the draft budget is published but before we have this scrutiny session. We are open minded on options, I just fear that this is a structural part of the system.”

Our view

We note the comments about the changes to governance and performance management in relation to TfW, such as the introduction of non-executive members and key observers. We would be grateful for further information about how the performance board operates and specifically how it has delivered measurable improvements and value for money.

We welcome the comments in relation to encouraging TfW to transition to multi-annual budget planning. However, the Committee requires more detail on this proposal, including why such multi-annual budgeting is not also being considered for other matters, such as local authority highway maintenance, given the benefits of multi-annual planning for value for money.

We note the Cabinet Secretary's comments that it is unlikely that TfW's budget will be published at the same time as the Welsh Government's draft budget. We consider the approach taken by the Welsh Government this year as an acceptable compromise. We would appreciate a commitment from the Cabinet Secretary that the same approach will be taken in future years.

Recommendation 45. The Cabinet Secretary should provide further information, including specific examples, on how the changes to TfW's governance and performance management arrangements operate and have delivered measurable improvements and value for money.

Recommendation 46. The Cabinet Secretary should commit to continuing the practice of providing an addendum setting out TfW's budget in time for consideration during subject Committee scrutiny of the draft budget.