

Cabinet Secretary for Economy and Transport – General and budget scrutiny

February 2018

1. Introduction

1. On 10 January 2018, the Cabinet Secretary for Economy and Transport (the Cabinet Secretary) appeared before the **Climate Change, Environment and Rural Affairs Committee** for general and budget scrutiny¹. This short report sets out the Committee's conclusions and recommendations arising from that session.

2. Alignment of economy and transport policies with other Welsh Government policies and legislation

2. Several overarching Welsh Government policies and legislation touch on the Cabinet Secretary's portfolio, including the Welsh Government's National Strategy – Prosperity for All; the Well-being of Future Generations (Wales) Act 2015; the Environment (Wales) Act 2016 and the Natural Resources Policy (2017), which is a requirement of that Act. It is vital that these initiatives are aligned to ensure that the maximum benefits are delivered.

3. The Committee believes there is a lack of clarity about how different Welsh Government policies work alongside each other. For example, the Natural Resources Policy (NRP) highlights the need for the Welsh Government to “align our policies to the delivery of the national priorities we have identified”. Furthermore, the NRP commits to “support businesses to improve their resource efficiency and, in doing so, improve the competitiveness and resilience of our economy”. The NRP includes commitments relating to transport, including to “take action on our transport network that enhances the resilience of our

¹A transcript of the meeting is available on the Committee's website.



ecosystems and reverses the decline of biodiversity”. However, it is unclear how the NRP will influence the future development of economy and transport policy. We believe the Cabinet Secretary should provide more detail about how his policies will take account of the NRP.

4. The Well-being of Future Generations (Wales) Act 2015 (‘the Act’) provides the Welsh Government with an overarching framework to inform its policymaking. Indeed, the Cabinet Secretary told the Committee that it is:

“the central organising principle of our plan, ensuring that our decisions take account of the economic, social, cultural and environmental objectives and impacts.”

5. However, the Committee has two primary concerns about the implementation of the Act arising from this scrutiny session with the Cabinet Secretary.

6. First, the Committee finds there to be a lack of evidence demonstrating how the Act has influenced policy and decision-making. This concern was also raised in this Committee’s draft Budget Report, in relation to the portfolios of the Cabinet Secretary for Energy, Planning and Rural Affairs and the Minister for Environment. We believe that the Welsh Government is yet to demonstrate the transformative change that was promised when the Act was passed.

7. Both the Cabinet Secretary for Energy, Planning and Rural Affairs and the Cabinet Secretary for Economy and Transport told the Committee that the Act and its principles are now embedded in policy-making in the Welsh Government. However, there have been very few, if any, examples provided of where policy has changed, or decisions have been affected, by the Act. Furthermore, we were unable to glean from our scrutiny session how the implementation of the Act was changing working practices in the Welsh Civil Service.

8. In its report on the draft Budget, the Committee stated that it believes that the Welsh Government should incorporate in its impact assessment process an assessment against the Welsh Government’s well-being objectives. We believe this is a first step to providing tangible evidence of the impact of the Act on policy making and will enable scrutiny of its application.

9. Our second concern relates to different interpretations of the Act. During the M4 Corridor Around Newport Public Local Inquiry, the Welsh Government’s legal representative said that “The ways of working [under the Act] acknowledge the fact that there may be trade-offs between desirable objectives and goals. The

sustainable development principle therefore involves striking a balance between different desiderata”.

10. However, the Future Generations Commissioner, in her response to the Inquiry, “fundamentally disagrees” with this statement:

“...the balancing in this revolutionary Act means giving as equal as possible weight to each element and not allowing one to tip the scale. I mean that all decisions must improve the economic, social, environmental and cultural well-being of Wales which is the duty to carry out sustainable development under the Act.”

11. Responding to that statement, the Welsh Government’s legal representative stated:

“I do not agree with the Commissioner that all decisions must improve all four aspects of well-being. This is not what section 2 of the Act says or means.”

12. The Committee is concerned that there is disagreement between the Commissioner and the Welsh Government about a central part of the Act. We would expect the Commissioner to challenge the Welsh Government about whether its policies fulfil the obligations of the Act. However, this is a dispute about the interpretation of the Act itself. The fact that there is such a fundamental disagreement between the Welsh Government as author of the Act and the Commissioner who was established by it is a serious cause for concern.

Recommendation 1. The Well-being of Future Generations (Wales) Act 2015 should underpin all Welsh Government policy decisions and the Welsh Government should demonstrate how the Act has influenced those decisions. The Act must be a central part of all impact assessment processes carried out by the Welsh Government. This should include an assessment of impact against each of the well-being objectives. This information should be set out clearly in any relevant policy or project documentation to ensure transparency and facilitate scrutiny.

Recommendation 2. The Cabinet Secretary should set out in detail how the working practices of officials in his department have changed as a result of the Well-being of Future Generations (Wales) Act 2015, including the training and guidance that has been provided to them to assist with policy development.

Recommendation 3. The Cabinet Secretary should set out in detail, within the next 6 months, how he will respond to the Natural Resources Policy and how it will be implemented and affect policy making in his portfolio.

3. Climate Change

13. The latest Welsh Government statistics show that the two sectors that produced the greatest emissions in 2014 were within the Cabinet Secretary's portfolio - business (64.67% of total emissions) and transport (12.77% of total emissions).

14. The Cabinet Secretary told the Committee that “strategic investments” in the draft Budget will be made with “full and proper” consideration of sustainability, environmental impact and “how they contribute to wider Welsh Government goals to help mitigate the impact of climate change”. He also said that the Economic Action Plan and the revised Wales Transport Strategy (WTS) will be “crucial in furthering this agenda”. He said that the Economic Action Plan is an indication of a shift to “a new direction, one that places decarbonisation at the heart of all considerations concerning economic development and transport development”.

15. There is, however, a lack of evidence of the extent to which these and other policies will support delivery of the Welsh Government's decarbonisation programme and obligations relating to climate change. There is no information contained in the Economy and Transport Budget to identify the funding of interventions that will be targeted specifically at decarbonisation. The Committee recognises that this is a complex area, but more clarity is needed to ensure that the impact of Welsh Government interventions can be monitored and assessed.

16. The Cabinet Secretary told the Committee that increased funding in the draft Budget for improvements to the A487 and the A470 “may also contribute [to] reducing carbon emissions” by improving traffic flow. The Committee would be grateful to see the evidence or modelling that supports this position. The Committee would also welcome further information on the proposed mechanism to monitor actual emissions from schemes once they have been commissioned, to test the assumptions and inform future scheme assessments.

17. The Cabinet Secretary told the Committee that the construction and use of the M4 relief road has been subject to detailed carbon calculations, which found that “user emissions on the South Wales network, despite forecast increases in traffic levels, would in fact slightly reduce due to strategic traffic having a shorter more efficient route”.

Recommendation 4. The Cabinet Secretary should report to this Committee within the next 6 months setting out in detail how the carbon emissions arising from highway improvement schemes in general, and the A487, A470 and M4 relief road in particular, will be monitored in the medium to long term once they have been commissioned.

UK Committee on Climate Change and the design of Welsh carbon targets

18. The Cabinet Secretary said that work is underway to introduce interim targets and carbon budgets by 2018, with the intention of aligning carbon budgets with financial budget planning cycles in 2019-20.

19. The Welsh Government commissioned the UK Committee on Climate Change (UK CCC) to provide it with advice, initially, on the design of Welsh carbon budgets and targets (April 2017), and, more recently (December 2017), on the level of emissions targets and carbon budgets required to meet its obligations as set out in the Environment (Wales) Act.

20. The Welsh Government accepted the recommendations in the UK CCC's initial advice. At the time of the Committee's scrutiny session, the Welsh Government had yet to respond to the more recent advice. The Committee believes that, as soon as possible, the Welsh Government should publish a formal response to the December 2017 advice from the UK CCC. Should the Welsh Government decide to accept the UK CCC's recommendations, the Committee believes the Cabinet Secretary for Economy and Transport should publish an assessment of the impact of implementing those recommendations on his portfolio.

21. Given the importance of ensuring that carbon budgets and financial planning are aligned by 2019-20, the Committee would be grateful for regular updates from the Cabinet Secretary in relation to this issue as it applies to his portfolio.

Recommendation 5. The Welsh Government should publish its response to the latest tranche of advice from the UK CCC as soon as possible and should notify the Committee immediately of the date by which it will respond. As soon as possible after the publication of the Welsh Government's response, the Cabinet Secretary should publish an assessment of the impact on his portfolio of all recommendations that are accepted. The Cabinet Secretary should set out the date by which he intends this work to be completed.

The EU Emissions Trading System (EU ETS)

22. The EU ETS is an EU wide policy aimed at decarbonising energy generation and energy intensive industries across the EU. The Cabinet Secretary told the Committee that the Welsh Government has requested early discussions with the UK Government about future arrangements for businesses currently obliged to participate in the EU ETS. The Committee would be grateful for further information from the Cabinet Secretary about what he believes should be the requirements of a replacement for the EU ETS.

Recommendation 6. No later than 6 months of the publication of this report, the Welsh Government should: provide the Committee with details of what it believes should be the requirements of a replacement for the EU ETS; and report to this Committee on the progress of discussions with the UK Government on a potential replacement for the scheme.

4. Transport Policy

Review of the Wales Transport Strategy

23. The WTS, which was originally published in 2008, is currently being reviewed. The Cabinet Secretary told the Committee that the new strategy will be published in late 2018 and will:

“consider the goals and principles as set out in the Well-being of Future Generations (Wales) Act 2015, the Environment (Wales) Act 2016 and the Welsh Government’s National Strategy – Prosperity for All.”

24. The Cabinet Secretary has provided the Assembly with further information on his planned approach to the WTS:

“I am proposing a two-tier approach, comprising an overarching policy statement supported by a number of thematic policy statements. The overarching statement will set out our wider aims and objectives for the transport network in Wales. It will cover how we propose to take account of changes and, crucially, the wider Government policy agenda in relation to land use planning, public service delivery, the mitigation of and adaptation to climate change, and sustainable development.”

25. The Committee accepts this proposed approach. However, as set out earlier in this report, the Committee believes that the Cabinet Secretary must clearly demonstrate and provide evidence of the impact of existing policies on the WTS.

The Committee believes that “considering” the goals and principles of the Well-being of Future Generations (Wales) Act 2015, the central organising principle of the Welsh public sector, is insufficient.

26. The current WTS contains 17 indicators to monitor impact across social, economic and environmental categories. The Committee believes that, as part of the review process that will inform the revised strategy, the Cabinet Secretary should consider new monitoring arrangements. In addition to monitoring actions and outcomes, there should be a mechanism to assess the overall environmental impact of the strategy in a holistic way.

Recommendation 7. The Cabinet Secretary should set out clearly in the Wales Transport Strategy and associated thematic policy statements how the Well-being of Future Generations (Wales) Act 2015 and the Environment (Wales) Act 2016 have affected policy decisions directly.

The environmental impact of the M4 relief road

27. For many years, it has been recognised that there is severe congestion on the M4 around Newport. In February 2017, a Public Local Inquiry began into the Welsh Government’s plans for an M4 relief road. Many objections to the plans have been on environmental grounds. The Cabinet Secretary told the Committee that ‘land take’ from sites of specific scientific interest will be limited to 2% and environmental impacts will be mitigated. He also suggested the road will result in an improvement in air quality along the route of the current M4 and that the new road will lead to a slight reduction in emissions:

“along the road we'll see reduced congestion because there'll be the relief road, and also you'll have free-flowing traffic. So, you'll have the double benefit that will lead to an improvement in the quality of air for people living in that area.”

28. Given the public interest in this matter, the Committee seeks reassurance from the Cabinet Secretary that appropriate steps are being taken to mitigate the environmental impact of the proposed M4 relief road. In addition, the Committee would be grateful for further information about any independent assessment of the effectiveness of the proposed steps to mitigate the environmental impact.

Recommendation 8. The Cabinet Secretary should report to this Committee on how Welsh Transport Appraisal Guidance (WelTAG) 17 has been applied to the proposals for major infrastructure projects, including the M4 relief road.

Sustainable transport and support for low carbon vehicles

29. The Cabinet Secretary told the Committee that sustainable development is at the heart of the decision making process for the Welsh Government's budget:

“Our public transport proposals included in these budget proposals, for example support our aspirations to reduce emissions by reducing car use and provide cleaner and more efficient vehicles.”

30. He also said:

“Reducing carbon was an important consideration in our decision to allocate a further £50m of funding to develop a new rail station at Llanwern. The scheme will have a positive impact on carbon reductions and with the extensive park and ride facilities and line improvements our investment will bring, will encourage a modal shift in passengers from private car to rail.”

31. The Committee notes the Cabinet Secretary's comments that funding support for transport should be considered holistically, and a distinction between “sustainable” and “not sustainable” transport is not useful. However, such an approach makes it difficult to assess the extent to which individual transport policy and project decisions are sustainable. The Committee believes that the Cabinet Secretary should set out how he intends to assess the value for money and sustainability of specific projects and policy decisions, in the light of his preferred holistic approach.

32. The draft transport budget includes £1m in each of 2018-19 and 2019-20 (£2m in total) for electric charging points, an element of the budget deal with Plaid Cymru. The Committee discussed this budget allocation with the Cabinet Secretary for Energy, Planning and Rural Affairs on 22 November 2017. She told the Committee that discussions with the Cabinet Secretary for Economy and Transport had been ongoing for the last 18 months, as “I think we're falling behind in relation to installing them”. The Committee seeks reassurance from the Cabinet Secretary that he believes that this allocation is sufficient. We would also be grateful for details of what this allocation is intended to fund.

Recommendation 9. The Cabinet Secretary should report to this Committee within the next 6 months about how he will assess the sustainability of specific interventions relating to transport and how this will be highlighted in future in policy and project documents.

Recommendation 10. The Cabinet Secretary should report to this Committee within the next 6 months on progress relating to the allocation of funds for installing electric charging points.

5. Air quality

33. On 5 December 2017, the Minister for Environment told the Assembly that she is “taking immediate action, through a comprehensive cross-Government programme of work, to improve air quality in Wales” which will include “the development and publication of a clean air plan for Wales in 2018”.

34. The Committee believes that urgent action is required to address air quality in Wales. Our most deprived areas are often the worst affected and there are significant consequences for health and wellbeing of citizens in those areas. In particular, we are concerned about the impact on schools and hospitals. The Committee undertook some work on this matter in early 2017 and intends to keep it under review.

35. Given that most local air pollution problems are caused by emissions from road vehicles, the Committee is eager to hear what role the Cabinet Secretary will play in taking forward the cross-Government programme of work. We also believe that targets for improving air quality should be included in the WTS.

Recommendation 11. The Welsh Government should report to this Committee within the next 6 months on progress in developing a cross-Government programme of work to improve air quality in Wales.

Recommendation 12. The Cabinet Secretary should report to this Committee within the next 6 months on steps he is taking to improve air quality.

Recommendation 13. The Wales Transport Strategy should include targets and mechanisms to monitor air quality in Wales, with specific reference to locations such as schools and hospitals.

6. Support for business

36. The Welsh Government published “Prosperity for All: Economic Action Plan” on 12 December 2017. The plan’s executive summary states that the “Economic Contract” will require businesses seeking Welsh Government investment to demonstrate “Progress in reducing carbon footprint” as a minimum requirement.

37. The Committee believes that it is vital that the Welsh Government puts in place support mechanisms to assist businesses to contribute to decarbonisation goals. The Cabinet Secretary should set out how the Welsh Government’s “Economic Action Plan” and “new economic contract” will support businesses to reduce their environmental impact. Furthermore, the Cabinet Secretary should outline how decarbonisation commitments by individual businesses will be used to assess funding applications.

38. The action plan says the Welsh Government “Will streamline and simplify...[its]...approach into a single, consolidated Economy Futures Fund”. The Committee would be grateful for more detail on the operation and intended outcomes of the new ‘Economic Futures Fund and the portion of this fund that will be invested in proposals focusing on decarbonisation.

Recommendation 14. The Cabinet Secretary should report to this Committee within 6 months on progress relating to the economic action plan, including further information about how decarbonisation commitments will be used in the assessment process for financial support.