

Scrutiny of the Welsh Government Draft Budget 2024-25

February 2024

Introduction

Our approach

1. We took evidence from Julie James, MS, Minister for Climate Change (the Minister) and Lee Waters, MS, Deputy Minister for Climate Change (the Deputy Minister), at our meeting on 25 January 2024. The Minister and Deputy Minister provided written evidence to the Committee in advance of the session.
2. The Committee has undertaken separate scrutiny sessions with Transport for Wales (TfW) and Natural Resources Wales (NRW) and will produce reports on each organisation in due course, including on budget matters.

Overview of allocations

3. The Climate Change Main Expenditure Group's (MEG) total capital and revenue allocation has been reduced by 2.9% from the 2023-24 restated final budget. This represents a real-term cut of 4.5%.
4. The Minister's written evidence provides a breakdown of changes within the MEG. For 2024-25, the Climate Change MEG revenue (or 'resource') draft budget is £1,216m. This is an increase of £50.3m (4.3%) against the 2023-24 restated final budget of £1,165.7m. The capital allocation is £1,632.1m, a reduction of £134.2m (-7.6%) from £1,766.3m in the 2023-24 restated final budget.



5. The Minister's written evidence explains that £150.1m has been reallocated to ease pressures faced by TfW rail services. £116.3m of this comes from budget lines relevant to subject areas within the Committee's remit. However, the TfW revenue Budget Expenditure Line (BEL) shows £110.8m of additional funding.

6. Last year, reallocations to support rail services were made from within transport BELs, whereas this year, they come from across the Minister's portfolio. The Minister's written evidence says:

"A number of the reprofiled funding changes are in areas where there was a planned uplift in the baseline funding for a programme, where a programme was coming to an end and where historic patterns of spend have suggested possible rescoping of funding with limited impacts. Changes to planned delivery timescales have also been considered, rather than lack of delivery, as well as alternative approaches to delivery."

7. When she appeared before the Committee, the Minister highlighted efforts to reduce bureaucracy and administration costs within her portfolio budget, with the baseline review of NRW given as an example. The Minister emphasised the cultural and structural changes implemented in NRW, describing it as an ongoing journey. Similarly, there has been a revamped relationship with TfW focused on addressing budget challenges. The Minister reassured the Committee, "We've driven that right across the whole of the MEG."

8. The Minister discussed the Welsh Government's approach in the face of budget constraints, highlighting collaboration with directors across various departments. This focused on minimising the impact of budget cuts by slowing down or partially reducing funding for certain projects/programmes rather than completely stopping them. The Minister emphasised the importance of keeping programmes operational to enable them to be scaled up if financial circumstances improve.

9. The Minister noted that heads of TfW and NRW participate in quarterly meetings to ensure they are aware of the impact of their services on the wider budget.

Our general conclusions

We fully recognise the difficulties the Welsh Government has faced with the draft budget for 2024-25. During our meeting, it was described as a "perfect storm", with substantial additional funding required to maintain rail services, the ongoing effects of high inflation, and a £1.3 billion gap across the Welsh Government all adding to the challenge. Throughout our report, we make recommendations to the Welsh Government on ways to mitigate the effects of this.

At the heart of our concerns is the balance between ambitious projects and fiscal responsibility. For example, the ambitious vision of TfW in delivering significant infrastructure projects like the Metro is welcome, but we are concerned about financial sustainability. This encapsulates the challenge the Welsh Government faces in pursuing transformative projects within the constraints of a limited budget. We were pleased to hear about the close collaboration with TfW and NRW during the budget-setting process and efforts to reduce bureaucracy and administration costs across the Minister's portfolio. Continued collaboration and oversight will be vital with such a challenging budget settlement.

We welcome the decisive action taken by the Minister and Deputy Minister to support rail, but as we set out in our report, we are concerned about the impact the reallocation of funds has had across the portfolio. Last year, additional funding to support rail came from within transport budget lines, whereas the draft budget has necessitated the reallocation of funding from across the portfolio. The broader impact of this is clearly a concern. Nonetheless, we believe that ensuring that projects or programmes are scaled back rather than stopped, is a necessarily pragmatic approach in the circumstances.

Our ability to perform effective scrutiny is only as good as the information provided to us. The written evidence we received to support our scrutiny of the draft budget 2024-25 fell short of the standard we expect. Key information requested by the Committee was missing without acknowledgement or explanation, information said to be included was also missing, and other elements were inaccurate or incomplete. This lack of clarity not only impacts the Committee's ability to assess the government's plans but also reflects broader concerns about transparency in governance.

The draft budget must reflect an integrated, cross-government approach covering transport, the environment, and broader societal needs. This is particularly important given the current budgetary challenges. Addressing transport poverty, for example, will require interventions in housing, employment, and education policies. Similarly, the Welsh Government's environmental commitments, including biodiversity and renewable energy, must be reflected in broader development plans. The draft budget should be more than a financial document – it must be a roadmap for a more connected, accessible, and sustainable Wales.

1. Transport

Rail

10. In October 2023, TfW was awarded additional in-year funding of £125m. When he appeared before the Committee a month later, James Price from TfW explained that financial pressures had arisen because of a shortfall in expected revenue growth:

"What we have lost is three years of expected high growth, and that equates roughly to the £100 million figure that we are short of, and, obviously, if you roll that forward, whilst we will recover, I don't imagine that we will recover overnight."

11. In written evidence, the Minister said the additional funding had been essential for the continuation of rail services across Wales and explained:

"These pressures have been caused by the ongoing impact the pandemic has had on the ambitious revenue projections from the original KeolisAmey bid in 2018 alongside some operational costs having increased as a result of inflation."

12. The Committee questioned the apparent discrepancy between the written evidence, which suggested that £150m has been reallocated to ease pressures on rail, and the TfW revenue BEL which showed an uplift of £110.8m. Peter McDonald clarified that the £110 million was the net amount formally allocated to TfW. The initial figure of £150 million represented the original estimate of necessary funding, but had been reduced for several reasons, including additional revenue generated by TfW. He concluded, "In terms of the net additional in the coffers, it's the £110 million".

13. The Minister emphasised the importance of maintaining financial stability for rail services. She explained that the Welsh Government plans to invest in these services to attract more passengers, thereby boosting farebox revenue. Over time, this approach is expected to lessen the need for government subsidies.

14. When the Minister appeared before this Committee in December 2023 for scrutiny on transport matters, she highlighted the need to recalibrate TfW's revenue forecasts to reflect the realities of passenger numbers and capital costs.

15. The Minister’s written evidence stated that “the £125m announced in October that was needed to maintain rail operations across Wales has been baselined”. Peter McDonald explained that, unlike the previous financial year, the additional funding for 2024-25 was being allocated in advance. This pre-emptive approach addresses the gap between operational costs and farebox revenue.

16. In December 2023, the Committee was told that the gap between the cost of running rail services and farebox revenue was at its “maximum,” closing this gap will take time. During draft budget scrutiny, Peter McDonald explained that costs are incurred upfront for rail services, while farebox revenue comes later. He acknowledged that the period between 2023 and 2025-26 is financially challenging, and broader budget pressures within the Welsh Government would exacerbate this.

17. The Deputy Minister addressed the question of contingencies should fare box revenue fall short. He acknowledged the difficult budget situation and the need for TfW to be aware of the impact of their financial management on other vital areas. He stressed the need for ongoing management and adjustment to respond to unforeseen challenges as they arise.

18. On 10 January 2024, the Institute for Fiscal Studies (IFS) told the Senedd's Finance Committee that the recovery of passenger numbers post-pandemic in Wales is comparable to Scotland. Yet, the Scottish Government had not had to make “big in-year top-ups to the ScotRail operational subsidy”. It questioned whether this resulted from “differences in operational assumptions about growth” or passenger projections used by franchise bidders before the Covid-19 pandemic.

19. The issue was brought to the attention of the Deputy Minister. He emphasised that TfW is implementing the South Wales Metro, a major infrastructure initiative facing challenges due to inflation. Peter McDonald noted that Wales and Scotland were in different stages in their respective fiscal cycles.

20. Peter McDonald added that TfW was replacing almost all its rolling stock, with new trains being introduced approximately every 10-14 days.

Support for bus services

21. The draft budget includes a total revenue allocation of £123.4m for the Bus Support BEL, increasing from £61m in the indicative 2024-25 budget. However, the increase reflects the fact that £62.5m has been transferred out of the Concessionary Fares and Youth Discounted Travel Scheme revenue BELs to leave those at zero. The revenue budget for bus is broadly flat.

- 22.** The Bus Support Capital BEL is unchanged from the 2024-25 indicative final budget at £68m. This represents a £10m increase from the 2023-24 final budget.
- 23.** In written evidence, the Minister reiterated her ongoing support for the bus sector. As examples, the evidence referenced the financial support provided to bus operators in the past year through initiatives such as the Bus Emergency Scheme and the Bus Transition Fund.
- 24.** The Minister’s written evidence outlined that four bus funding streams have been reduced to zero (Bus Users UK Cymru Grant, School Transport, Bus Revenue Support and Community Transport Association Core Funding). A new “Bus Ancillary” funding stream has been established with £2.4m allocated to it.
- 25.** Peter McDonald explained that the changes to the grants were primarily administrative. This reflected a more flexible approach to budget management. The Deputy Minister said that consolidating the budget lines reflected a transition to a more planned and efficient approach to managing funding for bus services.
- 26.** The Minister’s written evidence announced the establishment of the Bus Network Support Grant for the upcoming year. This new funding scheme aims to empower local authorities to maintain socially necessary services. It will operate in conjunction with the existing Bus Services Support Grant.
- 27.** Peter McDonald explained that the new Bus Network Support Grant was intended to reduce uncertainty in the bus budget by providing a fixed level of funding to local authorities for contracting services. The Deputy Minister added that the aim was to establish a minimum core bus network commissioned from bus companies at a fixed price.
- 28.** The Minister’s written evidence stated that funding related to bus services continued to be provided to TfW. The funding was intended to be used for several purposes, including preparatory work for bus franchising, the management of the TrawsCymru network, Fflecsi services, and the provision of timetable information through Traveline Cymru.
- 29.** The Deputy Minister explained that a route map would be published shortly to outline details of the transition to bus franchising. The transition was expected to take seven years or more due to its complex and far-reaching nature.

Transport poverty

30. When he appeared before the Committee, the Deputy Minister acknowledged that the need to prioritise railway investment had impacted other potential areas for support, such as the funds available for buses, which he identified as a better investment from a social justice perspective. The Deputy Minister noted a UK-wide structural issue in transport policy, where rail services, often benefiting middle-class demographics, are preserved at the expense of expanding bus services, which are more crucial for lower-income groups, people with disabilities, and young people. This disparity highlights a need for a more balanced approach. He emphasised that TfW is working towards creating an integrated transport system where bus and rail services are better coordinated than in the past.

31. The Minister's written evidence acknowledged that TfW would need to increase rail fares in response to inflationary pressures. TfW was exploring fare structures based on impact assessments and usage patterns, which could lead to lower fare increases on specific routes or for particular groups.

32. The Minister referred to collaboration with the Economy and Education Ministers to address transport barriers for young people accessing education and employment. This was seen as a cross-government issue, needing comprehensive solutions beyond transport policies.

Active travel

33. The draft budget allocates £94m capital to the Sustainable and Active Travel BEL. Although this does not constitute a reduction in comparison to the 2023-24 final budget, it is £5m less than the indicative 2024-25 budget. The revenue allocation for this BEL has decreased from £1.9m in 2023-24 to £1.7m in the 2024-25 draft budget.

34. The Minister's written evidence detailed the progress made in addressing the recommendations from the Cross-Party Group on the Active Travel Act. This includes restructuring the Active Travel Board, enhanced scrutiny, and public engagement roles. TfW has contributed by developing a route prioritisation tool and providing active travel training to officers across Wales.

35. For 2024-25, the Minister emphasised the continued focus on broadening support and tools available to local authorities for delivering Active Travel Networks. This effort will involve building central expertise within TfW and

experimenting with new delivery approaches in collaboration with local authorities. A key focus will be the effective promotion of active travel, including guidance for local authorities on their duty to promote active travel.

36. The Minister highlighted the importance of the Active Travel Fund in supporting capital investment in active travel infrastructure. The written evidence said it is complemented by smaller funding programmes, such as the Safe Routes in Communities Grant, which focuses on school travel improvements.

37. The Minister’s written evidence outlines a focus on promoting active travel. In December, Peter McDonald told the Committee capital funding alone for active travel was insufficient. He emphasised the importance of revenue funding for active travel which has decreased in the draft budget.

38. When he appeared before the Committee, the Deputy Minister acknowledged the challenge of promoting active travel for secondary school students, especially in rural areas with greater distances and challenging terrain. He emphasised the potential of electric bikes to change the mode of travel in these areas. He mentioned a forthcoming discussion document to challenge the notion that sustainable transport and modal shift are primarily urban concerns. The Deputy Minister expressed regret that several initiatives aimed at expanding electric bike use, including the E-Move project and an interest-free loan for purchasing electric bikes, have been limited due to the current financial situation.

39. In response to a question about utilising community funds from wind farms for active travel, the Deputy Minister said pilot projects had been started, but progress had been slow due to budget restrictions.

Our view

Rail

The Committee recognises the scale of the challenge that TfW, led by the Minister and Deputy Minister, faces. Not only are they seeking to deliver a significant infrastructure project in the Metro, but also paving the way towards a new way of providing bus services. Undoubtedly, this is an ambitious and transformative vision. We note the Minister's remarks about the importance of making rail services financially sustainable and effective as a means to reduce government subsidies in the future and the need to “stay the course”.

The Committee supports the Minister's approach in principle, but the focus on rail has disadvantaged other areas of need. Although we recognise their

importance, TfW and rail cannot have a blank cheque. Bus franchising will create further contractual liabilities, increasing the risks for the Welsh Government and the public purse in carrying the revenue risk. The Minister and Deputy Minister should clarify how these risks will be managed in the event of pressures arising which are similar to those currently experienced by rail services.

The Welsh Government must ensure robust monitoring mechanisms are in place to oversee the development of TfW, a company that was established with a single purpose but is now transforming into a multimodal transport delivery body.

The Welsh Government should set out its understanding of the timelines for reducing the gap between costs and farebox revenue and when additional funding provided to TfW to address the shortfall will no longer be necessary. The Committee would like an explanation of the steps taken to assure the Minister that the significant uplift provided to TfW will be sufficient for the financial year 2024-25.

In relation to the apparent discrepancy between the written evidence (£150m reallocated) and the TfW revenue BEL (£110.8m uplift), the Committee would like further clarification about this difference in approximately £40m in funding – where it is held, when and how it might be used etc.

The Committee notes the Deputy Minister's explanation about the comments from the IFS comparing Wales and Scotland. However, the Committee would like assurance from the Deputy Minister that appropriate controls are in place to manage the delivery of the Metro project and the replacement of rolling stock. The Committee would be grateful for further clarification on the rollout of rolling stock, including the total number of trains on order of each type, how many have been delivered to date, where each will operate, and the planned phasing for the remainder.

Bus services

The Committee welcomes the Minister and Deputy Minister's assurances of their continued commitment to bus services. An effective bus service is critical to delivering modal shift and, in turn, meeting Wales' climate change commitments. We continue to be concerned about reductions in bus services and routes because of a lack of funding. As we have said, we recognise that this is a challenging budget settlement, and there has been a necessary focus on

rail. However, media reports that 10% of bus routes were lost during 2023 are alarming. We would be grateful for clarification from the Minister and Deputy Minister about any work undertaken to assess the potential impact of the 2024-25 draft budget allocations on bus service levels, given a broadly flat revenue budget and the effects of inflation.

We note the Deputy Minister's comments about the consolidation of grant funding, which will enable a more efficient approach than before. We welcome and agree with this in principle. However, we would welcome further clarification on this change of approach, including details of the new Bus Ancillary funding stream and its purpose, as well as how this differs from the discontinued funding streams and the benefit in each case.

We welcome the establishment of the Bus Network Support Grant as a means of potentially securing a more efficient use of limited funds. Further clarification is needed about its implementation, including the criteria that will be applied to its allocation and how the grant will be managed. We would like clarification on how the proposed approach to commissioning minimum service levels and procuring core bus services will work alongside a deregulated bus system.

The Welsh Government should publish guidance for local authorities on the operation of this grant. We would welcome clarification on how the grant will interact with the existing Bus Services Support Grant. Further, we would welcome an update on the grant's operation within the next six months.

Given the sector's importance and the need for certainty, particularly for operators, the projected seven-year timeline for the transition to bus franchising concerns the Committee. We welcome the Deputy Minister's announcement about the imminent publication of a route map and will consider it in due course.

The Welsh Government was able to provide a breakdown of bus revenue funding in its paper. Officials said the breakdown of capital funding was not ready at the time the paper was prepared. We ask that this be provided in responding to this report.

Transport poverty

TfW has identified that 13% of Welsh households do not have access to a car; 25% of bus users have a disability or long-term illness. University of South Wales research found that the most deprived areas saw the greatest decline in access to services due to the pandemic.

Considering the financial and service delivery pressures on bus and rail, the Committee would welcome clarification of the steps taken to mitigate transport poverty when prioritising allocations in the draft budget.

We note the Deputy Minister's comments that TfW will need to increase rail fares in response to financial pressures. Of course, there are risks that fare increases may deter passengers from travelling by rail, meaning closing the gap between farebox revenue and costs will take longer. Nonetheless, we were pleased that the Welsh Government has asked TfW to consider a nuanced approach to fare increases to minimise the impact on certain groups. The Welsh Government should report to this Committee on progress in the next six months.

We agree with the Minister and Deputy Minister about the importance of aligning transport plans with other development plans. However, up to now, there has been a lack of clarity around timescales for Strategic Development Plans. We would be grateful for an update from the Minister on this.

We were pleased to hear that the Minister is working with her colleagues across government to address transport barriers that young people face in accessing education and employment. We welcome the Minister's assurance that this issue is recognised as a cross-government concern. We would welcome further details on progress within the next six months.

Active travel

Despite increased Welsh Government capital funding in recent years, there is little evidence that active travel rates have increased since the Active Travel Act 2013 was passed.

We note that there have been reductions in the planned funding for active travel. During last year's budget scrutiny, the Deputy Minister indicated that funding was not at the level previously indicated due to capacity and capability constraints within local government. When he appeared before the Committee in November 2023, James Price indicated that progress was being made and local authorities have shown a renewed ambition in bringing forward active travel schemes. We would be grateful for an update on this issue.

We remain concerned by the potential broader impact on modal shift targets if active travel investment is insufficient. The Deputy Minister should clarify whether the allocated funding will be sufficient to fund all proposed schemes or whether some schemes will be prioritised. If it is the latter, the Deputy Minister

should set out the criteria for making such decisions. Furthermore, the Deputy Minister should share details with the Committee of the work TfW has undertaken to address local government capacity and capability issues to ensure effective use of available funds.

We were pleased that the Minister's evidence detailed progress in addressing recommendations from the Cross-Party Group on Active Travel. We would be grateful for a further update on progress within the next six months. We also welcome the government's focus on the promotion of active travel, including plans to issue guidance for local authorities, under the new Air Quality and Soundscapes Act. The Minister should clarify whether funding has been allocated to local authorities for this work.

The Deputy Minister highlighted the potential of electric bikes to facilitate active travel but noted that financial constraints have limited initiatives like the E-Move project and interest-free loans for electric bikes. We request further details on these plans, including whether innovative financing opportunities have been explored, such as from community benefits schemes related to renewable energy projects.

Finally, we would be grateful if the Deputy Minister would provide the Committee with a breakdown of the Sustainable and Active Travel capital BEL which the Welsh Government was unable to provide in its paper, despite our request, including the allocation of funding for active travel and the spend per capita for 2024-25.

Recommendations

Recommendation 1. The Minister should explain the discrepancy between the written evidence of £150 million reallocated and the TfW revenue Budget Expenditure Limit (BEL) of £110.8 million, specifying where the approximately £40 is held, and how / when it will be used.

Recommendation 2. The Minister should outline a clear and detailed plan, including timelines, for reducing the gap between rail costs and farebox revenue in the context of changing passenger use patterns and high inflation. This plan should articulate when additional funding provided to TfW will no longer be necessary.

Recommendation 3. The Minister should provide assurance that appropriate controls are in place to manage the delivery of the Metro project and the replacement of rolling stock.

Recommendation 4. The Minister should update the Committee on the introduction of rolling stock, including the total number of trains on order of each type, where each will operate, how many have been delivered and the planned phasing for the remainder.

Recommendation 5. The Minister should ensure that Tfw and local authorities are engaging effectively with passengers and other citizens to better explain the vision of a multi-modal public transport system and the process that is being taken to achieve that.

Recommendation 6. The Minister should set out what work has been undertaken to assess the impact of the allocations in the 2024-25 budget on bus service levels considering the broadly flat revenue budget and the effects of inflation.

Recommendation 7. The Minister should provide further information on the change of approach to bus funding, including details of the new Bus Ancillary funding stream and its purpose, as well as how this differs from each of the discontinued funding streams giving the benefit in each case.

Recommendation 8. The Minister should publish guidance for local authorities on the operation of the Bus Network Support Grant.

Recommendation 9. The Minister should clarify the criteria for allocating the Bus Network Support Grant and how it will interact with the existing Bus Services Support Grant. The Minister should update the Committee on the operation of the grant within the next six months.

Recommendation 10. The Minister should provide details on the progress of cross-government efforts to address transport barriers that young people face in accessing education and employment.

Recommendation 11. The Minister should provide an update to the Committee on efforts to address local government capacity and capability issues in relation to active travel. The Minister should set out what actions are being taken to encourage local authorities to increase collaboration to maximise capacity.

Recommendation 12. The Minister should clarify whether the allocated funding for active travel will be sufficient to fund proposed schemes and, if not, what criteria will be used for prioritising these schemes.

Recommendation 13. The Minister should provide an update within the next six months on progress taking forward the recommendations from the Cross-Party Group on Active Travel.

Recommendation 14. The Minister should clarify whether funding has been allocated to local authorities for the promotion of active travel as per their new duties under the Air Quality and Soundscapes Act.

Recommendation 15. The Deputy Minister should provide further details on plans for encouraging electric bike use, including whether innovative financing opportunities have been explored.

Recommendation 16. The Minister should provide a breakdown of the Bus Capital BEL and active travel funding, including the spend per capita. We ask that a five-year time series be provided for each as in past years.

Recommendation 17. The Minister should clarify how the sustainable transport hierarchy is reflected in budget allocations, both in terms of the budget process and the specific funding levels allocated to each level.

2. Biodiversity

40. The 'Biodiversity, Evidence and Plant Health' capital BEL has remained static at £12.5m. The revenue BEL has been reduced by £1.5m, from £13.3m in the 2024-25 Indicative Budget to £11.8m in the draft budget (-11.3%).

Financing nature recovery

41. In correspondence to the Committee, Wales Environment Link (WEL) raised concerns that investment in nature recovery will be deprioritised given current budgetary constraints.

42. In commenting on this, the Minister emphasised the importance of an integrated approach, adding she was working with the environmental sector, Natural Resources Wales, and other Welsh Government departments "to try and leverage all of the money in that we can [to invest in nature restoration]".

The importance of private investment

43. In written evidence to the Finance Committee, RSPB Cymru highlighted that public investment will not be sufficient to fund nature recovery. It emphasised the "critical role" of the Welsh Government "in enabling responsible private investment". WEL highlighted that there is no clear route or timetable to guide private investment.

44. The Minister's written evidence says that "budget has been allocated to support the development of an innovative future finance model" to tackle the natural emergency. In oral evidence, she provided an update on this work, saying, "We're working with a number of operators, including the global Under2 Coalition...in terms of how we can leverage green funding from across the globe". She emphasised the importance of avoiding "greenwashing".

45. The Minister's official explained that the next step would be to develop principles to guide decision making and ensure responsible investment. A set of "proposed principles were expected "in the first half of this year" and would, hopefully, be finalised "by the end of the year".

The importance of private investment

46. During last year's draft budget scrutiny session, the Minister acknowledged the need to do more to meet the Welsh Government's commitment to embed

biodiversity across the whole of government. During this year's session, the Minister and Deputy Minister provided several examples of how biodiversity is being mainstreamed, including through Llwybr Newydd i Natur (the Welsh Government's Nature Recovery Action Plan for the Strategic Road Network), which has already delivered positive outcomes.

47. The Minister acknowledged that spending on biodiversity was "very hard to identify" across the Welsh Government budget. She referred to the Sustainable Farming Scheme budget, which sits within the Rural Affairs portfolio, as an example of spending on biodiversity. The Minister explained that the Budget Improvement Advisory and Impact Group had agreed to consider how the Welsh Government can better integrate biodiversity into the budget planning process.

48. RSPB Cymru has suggested a cross-government costed Nature Recovery Action Plan (NARP) would allow strategic investment in nature. The Minister's written evidence says the NARP "is currently being refreshed to align with the targets and goals set out in the new Global Biodiversity Framework as well as defining actions required to deliver our proposed domestic statutory targets".

Nature Networks Programme funding

49. The Welsh Government's Draft Budget narrative says the reduction in revenue allocation in the 'Biodiversity, Evidence and Plant Health' BEL has been achieved through reprofiling the Nature Networks Programme" and that "investment will continue next year albeit at a smaller scale". Following the **Biodiversity Deep Dive**, the Welsh Government committed to "expanding and scaling up" the Nature Networks Programme. Projects are funded through the Nature Networks Fund (NNF). In October 2023, the Minister told the Committee that the Nature Networks Programme is "central" to reaching the 30x30 target.

50. During the draft budget scrutiny session, the Minister told the Committee:

"we had originally intended to increase the scale and pace of delivery for the [Nature Networks] programme. The overall allocation is now equivalent to that made this year, to secure and build on the investment... We haven't been able to scale it up in the way we originally planned, but we aren't scaling it back either, other than some efficiency in the revenue aspects of it."

Our view

The Welsh Government has committed to halting biodiversity loss by 2030 and driving recovery in line with the agreed Global Biodiversity Framework. With the [State of Nature report](#) (September 2023) showing no let-up in the decline of biodiversity, delivering on this commitment will be an immense challenge.

As outlined by the Minister, the Nature Network Programme is "central" to delivering the '30 by 30' goal. It is regrettable, therefore, that the budget allocation does not provide for the programme to be expanded and scaled up, as was promised. As WEL told us, "We need to restore nature whilst there is still some to work with...It will only get more expensive and difficult to do, the longer we go on". Should the Welsh Government's financial position improve, we expect the Minister to consider whether additional funding can be made available for the Nature Network Programme.

We support the call for a cross-government costed Nature Recovery Action Plan to allow strategic public investment in nature. This will enhance transparency and support scrutiny, which will be increasingly important when the statutory biodiversity targets are in place.

We are concerned about the indirect impact funding reductions across the Minister's portfolio will have on environmental NGOs. We recognise they are not funded directly by the Welsh Government, but they serve a valuable purpose in supporting policy delivery in many ways, including through monitoring and engaging with the public.

The Biodiversity Deep Dive recommendations aim to drive forward action to support the delivery of the '30 by 30' goal. It is unclear how much funding has been allocated to support the delivery of the recommendations or how delivery is progressing. The Minister has committed to updating the Senedd biannually on progress, but the second update is now overdue. We expect the Minister to address these matters.

We recognise that public investment alone will not be enough to ensure nature's recovery. Private investment is critical to address the 'nature funding gap'.

For several years, the Welsh Government has been working towards the development of an innovative and sustainable finance model for biodiversity, incorporating the use of private investment. We are pleased that progress is

finally being made, but it must continue at pace. We expect the finance model to be finalised ahead of the budget planning process for 2025-26 and used to inform spending decisions. The Minister should keep us updated on progress.

Recommendations

Recommendation 18. Should the Welsh Government's financial circumstances improve, the Minister should consider increasing the budget allocation for 2024-25 to expand and scale up the Nature Network Programme.

Recommendation 19. The Minister should commit to ensuring the revised Nature Recovery Action Plan is costed to support strategic public investment in nature, enhance transparency and support scrutiny.

Recommendation 20. The Minister should explain how she is working in collaboration with the Minister for Rural Affairs to maximise the impact of limited funds for biodiversity, including through the proposed Sustainable Development Scheme.

Recommendation 21. Within six months of the publication of this report, the Minister should report to the Committee on progress made towards developing an innovative and sustainable finance model to deliver nature recovery. This should include the draft guiding principles for responsible private investment to support nature recovery.

Recommendation 22. The Minister should commit to ensuring the innovative and sustainable finance model is finalised ahead of the budget planning process for 2025-26 and used to inform spending decisions.

Recommendation 23. The Minister should clarify how much funding has been allocated in the draft budget 2024-25 to support the delivery of the Biodiversity Deep Dive recommendations and actions, and commit to publishing the second biannual update on progress towards delivering the recommendations and actions before the end of February 2024.

3. Marine

51. The ‘Marine Evidence, Policy and Funding’ BEL shows a £250k decrease in revenue funding, from £1.9m to £1.7m.

Delayed completion of the MPA network

52. Following the Biodiversity Deep Dive recommendations, the Minister announced a pre-consultation engagement process for Marine Conservation Zone (MCZ) designation. Since then, engagement with stakeholders has taken place, and a formal consultation on proposed sites is expected in Spring 2024.

53. In response to this Committee’s 2023-24 draft budget report, the Minister assured the Committee that MCZ designation was an “active priority” and “adequately resourced”.

Delivering MPA management

54. Feature condition assessments are being undertaken by NRW to prioritise management action in MPAs. Indicative feature assessments were completed and published in 2018.

55. Evidence from WEL says that our seas are "often one of the lowest priorities for intervention" and draws attention to the Assessing Welsh fishing activities in MPAs project:

“... this started in 2016 and, seven years on, the assessments haven’t all been completed, let alone new management measures considered and put in place.”

56. In reference to the delivery of the Marine Protected Area Network Management Plan, the Minister’s written evidence said:

“Budget will be allocated for funding of successful projects that are awarded during the proposed call for actions, delivering on the priorities and objectives laid out in the MPA network management framework for Wales.”

57. The Minister addressed the impact of a £250,000 budget reduction for marine projects. She mentioned efforts to minimise this impact by exploring alternative funding streams, such as for Nature Networks, and enhancing resilience through partnerships like the Wales Coasts and Seas Partnership.

58. In response to concerns about further delays in completing the MPA network, the Minister said that the budget for this area has not been reduced but remains flat. She referred to ongoing work, including regulatory impact assessments and site location decisions, which is expected to be completed by 2025.

59. Despite budget constraints, the Minister reaffirmed her confidence in moving forward with MPA site designations before the end of the Senedd term.

Our view

The £250k decrease in revenue funding, from £1.9m to £1.7m, constitutes a significant reduction of over 13%. This would appear to be another blow for a policy area that has been under-resourced year after year. This ongoing lack of priority has led to delays across the policy area, for example, the "Assessing Welsh fishing activities in MPAs" project, which started in 2016 but has not yet been completed.

Following the Biodiversity Deep Dive, formal consultation on proposed MCZ sites is expected in Spring 2024. The Minister has previously assured the Committee that MCZ designation was an active priority and adequately resourced. We would be grateful for further reassurance from the Minister that the latest budget allocations will not affect the progress of this work.

The Minister mentioned efforts to minimise the impact of the £250,000 budget reduction by exploring alternative funding streams and enhancing resilience through partnerships. We would be grateful for further information on this issue, particularly the potentially innovative funding strategies for projects like seagrass conservation.

The Minister confirmed that the budget for the MPA network has not been reduced but remains flat. Work on regulatory impact assessments and site location decisions is ongoing and expected to be completed by 2025. We acknowledge that the Minister is confident that MPA site designations will be taken forward before the end of the Senedd term. However, given the information provided to us, we believe this timescale will be challenging. We would be grateful for clarification from the Minister regarding the timetable for completing the work on MPA site designation.

Recommendations

Recommendation 24. The Minister should reassure the Committee that the reduction in revenue funding from £1.9 million to £1.7 million will not adversely impact critical marine policy areas, particularly ongoing projects such as the "Assessing Welsh fishing activities in MPAs" project.

Recommendation 25. The Minister should provide details regarding alternative funding streams and partnership opportunities being explored to mitigate the impact of the £250,000 budget reduction. This should include specific strategies for funding projects in crucial areas like seagrass conservation.

Recommendation 26. The Minister should reiterate the commitment to the Marine Conservation Zone (MCZ) designation programme and confirm that the latest budget allocations will not hinder the progress of the formal consultation on proposed MCZ sites scheduled for Spring 2024.

Recommendation 27. The Minister should provide a clear and detailed timetable for delivering regulatory impact assessments and site location decisions for completing the Marine Protected Area (MPA) network.

Recommendation 28. The Minister should explain how she is working in collaboration with the Minister for Rural Affairs to maximise the impact of limited funds for marine policies, particularly through allocations for fisheries and associated matters.

4. Decarbonisation of housing

Warm Homes Programme

60. In the draft budget 2024-25, revenue and capital allocation for the Warm Homes Programme (WHP) within the ‘Fuel Poverty Programme’ BEL remain static, at £4.4m and £35m, respectively.

61. In June 2023, the Welsh Government published plans for the next iteration of WHP. The first phase of the WHP will see the current Nest scheme, which will end in March 2024, replaced by a “demand-led service”. Changes have been made to the eligibility criteria for support with energy efficiency measures,¹ low-carbon technologies will be prioritised (where it makes sense to do so), and the budget cap per household will be increased.

62. In oral evidence, the Minister told the Committee:

“it wasn’t possible to increase the allocation to the new Warm Homes programme for 2024-25, to account for the higher cost of carbon measures...but the scheme is scalable and can be expanded in future years...we’ve tried to maintain the programme so that we could scale them should better times arrive at any point.”

63. The Minister’s written evidence says the replacement demand-led service “is worth £250m over seven years”.

Optimised Retrofit Programme

64. The draft budget allocations for the ‘Residential Decarbonisation’ and Quality BEL show a £1m reduction in revenue allocation (from £2.7m in the 2024-25 indicative budget to £1.7m in the draft budget 2024-25). Capital allocation remains static at £92m.

65. When asked to explain the £1m reduction in revenue allocation, the Minister told the Committee “we’ve maintained the revenue to ensure that the social landlords are protected, alongside the Welsh net-zero carbon hub”. She added:

¹Eligibility for support with energy efficiency measures will be based on a low-income threshold rather than means-tested benefits.

“The revenue cut is largely accounted for through a loss of a number of revenue-funded programme posts, so that does affect the pace and momentum at which existing officials can progress current work programmes...the fewer people we have administering the schemes, the slower the schemes go, effectively.”

66. The Minister's written evidence says £70m has been allocated to social landlords to support the Optimised Retrofit Programme (ORP), with a further £18m allocated to support the implementation of the new Welsh Housing Quality Standard (WHQS).

67. The BEL analysis (accompanying the Minister's written evidence) says, “Distribution of ORP funding moved to a formula basis from April 2023 and will be reviewed over the coming year to agree a revised approach to supporting decarbonisation, delivery of WHQS and ongoing innovation”.

68. In written evidence to the Finance Committee, Community Housing Cymru said “the social housing sector is still awaiting a decision on the long-term approach to decarbonisation at scale”. It called for “a fully costed plan and deliverable timetable and strategy”.

69. In its Progress Report: Reducing emissions in Wales (June 2023), the UK Climate Change Committee recommended the Welsh Government “Fully assess the level of investment required to decarbonise social housing and make long-term plans for delivering the funding required”.

70. In oral evidence, the Minister explained “we've just, as part of the Welsh housing quality standard, asked for a full-stock survey from every single social landlord in Wales, councils and RSLs alike”. The surveys will be undertaken over a three-year period, and findings will be used to consider the funding requirements to decarbonise social housing.

Support for the private housing sector

71. When asked about how the draft budget 2024-25 supports the 'able-to-pay' sector to decarbonise, the Minister reaffirmed the Welsh Government's policy “is centred on the social housing sector for this Senedd term”. However, she explained that the residential housing decarbonisation route map, being developed by the Decarbonisation Implementation Group (DIG), would provide the foundation for further work to support the private housing sector. The route map is likely to be completed by the end of the spring term.

72. The Minister also told the Committee, “We've started evaluating a variety of options for financing retrofit in the owner-occupied and PRS sections [sic], including grant funding and repayable finance”. However, she said, Financial Transactions Capital (FTC)² “has been cut in this last budget” and “We don't have spare ordinary capital budget [to fund repayable finance schemes] at the moment”. She added, “we've been working with the Development Bank of Wales and other bodies to see how we might be able to do that”.

Our view

Warm Homes Programme

Decarbonising Wales' housing stock is one of the main challenges facing this and future Welsh Governments. Fundamental questions remain about the level of investment needed to decarbonise existing stock and where the costs will fall. The Future Generations Commissioner for Wales' report, [Homes Fit for the Future: The Retrofit Challenge](#) (July 2021), estimated that the Welsh Government would need to invest £1.7bn over ten years to address fuel poverty and decarbonise the social housing sector. Current investment levels fall significantly short of this.

The ‘new’ WHP provides an opportunity for the Welsh Government to learn lessons from past efforts, ensuring investment levels support the delivery of retrofit at scale and pace. It is regrettable, therefore, that funding for the ‘new’ WHP remains static.

The ‘new’ WHP rightly places greater emphasis on decarbonisation than its predecessor. However, the cost of low carbon technologies and higher budget cap mean investment will not stretch as far. Fewer homes will likely benefit from the ‘new’ WHP in 2024-25 than the current financial year. Given the deepening fuel poverty crisis and the need to ramp up efforts to decarbonise Wales' homes, this is of concern.

According to the Minister, the demand-led service is “worth over £270m over seven years” – the equivalent of £38.5m per year. This fails to provide the assurance we are seeking that investment levels in the short to medium term will be sufficient to ensure rapid progress towards eradicating fuel poverty and reducing housing sector emissions.

² Financial transactions capital refers to loans or equity investment by the government into the private sector.

Social housing sector

There is ongoing concern about how the social housing sector will meet the cost of decarbonising. In its latest [Progress Report: Reducing emissions in Wales](#) (June 2023), the UK Climate Change Committee called for the Welsh Government "to fully assess the level of investment required to decarbonise social housing and make long-term plans for delivering the funding required". Until this assessment has been completed, the Welsh Government is making spending decisions in the dark.

While we note the Minister's evidence that stock assessments are underway, we are concerned that a fully costed plan to inform future investment decisions is still years off. We would welcome clarification from the Minister on the timeline she is working towards for the development of such a plan. We would also welcome details of the findings of the review of the distribution of ORP funding, and on progress towards agreeing a long-term funding approach to support the sector to decarbonise.

Private housing sector

In our report, [Decarbonising the private housing sector](#) (February 2023), we emphasised the need for the Welsh Government to accelerate work to develop proposals for financial solutions for the 'able to pay' sector. We are disappointed, therefore, that the 'test and learn' pilot scheme (being developed by the Development Bank for Wales), which was due to begin in 2023-24, has been delayed. It is unclear whether the delay was due to budgetary constraints. We are keen for the scheme to start as soon as possible. We seek assurance from the Minister that funding will be made available for the scheme for 2024-25.

Recommendations

Recommendation 29. The Minister should explain the expected outcomes from the £35m capital investment in the Warm Homes Programme for 2024-25, including a projection of the number of homes that will benefit from energy efficiency measures.

Recommendation 30. The Minister should provide an indicative timeline for the development of a fully costed plan for decarbonising existing social housing stock.

Recommendation 31. The Minister should report back to the Committee on:

- the findings of the review of the distribution of Optimised Retrofit Programme funding; and
- progress towards agreeing a long-term funding approach to support the social housing sector to decarbonise.

Recommendation 32. The Minister should explain how the Welsh Government is engaging with the ‘able-to-pay’ sector to actively encourage householders to retrofit their homes.

Recommendation 33. The Minister should:

- clarify the level of funding available for 2024-25 to support the ‘test and learn’ pilot scheme for able-to-pay owner occupiers; and
- provide further details of the pilot scheme, including its duration and how the outcomes of the scheme will be monitored and evaluated.

5. Renewable energy

73. The 'Clean Energy' resource BEL has seen a reduction of £7.9m (from £10.8m in the 2024-25 indicative budget to £2.9m in the 2024-25 draft budget). This includes a £2.5m transfer within the MEG to a new Ynni Cymru BEL (see below) and a further £5.4m reduction from the indicative budget.

74. The Minister's written evidence says the Welsh Government continues "to prioritise resources within the Clean Energy BEL to implement the recommendations of the Renewable Energy Deep Dive". It outlines a broad range of other work funded through the BEL.

75. In oral evidence, the Minister explained that the reduction in allocation for the Clean Energy BEL reflects "a reclassification of project development costs for Trydan Gwyrdd Cymru" (the publicly-owned renewable energy developer), with £4.5m revenue reclassified as capital (to support the development of assets). She added that the remainder of the reduction has been managed through the development of policy around hydrogen, and carbon capture and storage "using in-house expertise, rather than commissioning external support".

Ynni Cymru

76. In August 2023, the Welsh Government announced the establishment of Ynni Cymru to expand community-owned renewable energy generation across Wales. This meets a commitment in the 2021 Co-operation Agreement.

77. The 'Ynni Cymru' BEL includes £10m capital allocation and £2.5m revenue allocation, both from transfers within the MEG.

78. The Minister's written evidence says a small team has been recruited to lead the delivery of Ynni Cymru, and over £900,000 in grant funding has been made available to support building capacity and capability within the community energy sector.

Trydan Gwyrdd Cymru

79. The Minister's written evidence explains that Trydan Gwyrdd Cymru will be established by April 2024 and will "consult with people on the initial potential project locations over the next year".

80. Last year, the Minister said the indicative budget allocated to support the developer for 2024-25 was £1.8m, "which will be refined as actual costs are established during the next year".

Our view

There have been some encouraging signs over the last 12 months that the Welsh Government is making progress towards its commitments on renewable energy. It has announced the establishment of Ynni Cymru and Trydan Gwyrdd Cymru and introduced the Infrastructure (Wales) Bill. But, with the setting of more stretching targets for renewable energy generation, the Welsh Government needs to turn action into results. While we welcome the new targets, it is unclear whether and how they have influenced draft budget allocations for 2024-25. The Minister should address this issue.

We are pleased that the Welsh Government remains on track to establish Trydan Gwyrdd Cymru in April 2024. However, limited information is available about the company's aims, its short, medium, and long-term objectives, and operational arrangements between Trydan Gwyrdd Cymru and the Welsh Government. The Minister should address this.

We are concerned about the lack of transparency and clarity about funding for Trydan Gwyrdd Cymru. Unlike Ynni Cymru and the Welsh Government Energy Service, Trydan Gwyrdd Cymru does not have a separate BEL. While we note Trydan Gwyrdd Cymru has been allocated £4.5m capital to support the development of assets, it is unclear within which BEL this sits. The amount of revenue allocated for 2024-25 to support its work is also unclear. We would welcome an explanation from the Minister on these matters.

In response to our report on the draft budget for 2023-24, the Minister told us work was underway to develop funding approaches to ensure Welsh ownership of renewable-energy projects on the public estate can be retained. We would welcome an update from the Minister on this matter.

We note the £10m capital allocation in the draft budget for Ynni Cymru. We would welcome clarification on what projects/outputs this will deliver.

Recommendations

Recommendation 34. The Minister should:

- provide details of work undertaken by the Welsh Government to assess short and medium-term investment needs for the delivery of its new renewable energy targets; and
- explain how these targets have influenced the draft budget 2024-25 allocations.

Recommendation 35. The Minister should explain how she is working in collaboration with the Minister for the Economy to build skills and expertise within the workforce to support the delivery of the new renewable energy targets.

Recommendation 36. The Minister should provide further details of the aims of Trydan Gwyrdd Cymru; its short, medium, and long-term objectives; and operational arrangements between the company and the Welsh Government.

Recommendation 37. The Minister should clarify:

- the revenue allocation in the draft budget 2024-25 to support the work of Trydan Gwyrdd Cymru; and
- which BEL the £4.5m capital allocation for Trydan Gwyrdd Cymru sits within, and what outputs this allocation is expected to deliver.

Recommendation 38. The Minister should ensure that, for future draft budgets, Trydan Gwyrdd Cymru has a separate BEL (in line with the approach taken for Ynni Cymru and the Welsh Government Energy Service) to improve transparency and support scrutiny.

Recommendation 39. The Minister should provide an update on work to develop funding approaches to ensure Welsh ownership of future large-scale renewable energy projects on the public estate can be retained.

Recommendation 40. The Minister should clarify what projects/outputs the £10m capital allocation for Ynni Cymru is expected to deliver.

6. Waste

Supporting the circular economy

81. The 'Resource and Circular Economy' BEL shows a reduction in revenue allocation from £35.2m to £32.4m and a decrease in capital allocation from £60m to £46.9m.

82. The Minister's written evidence says the draft budget provides for the work associated with delivering the Workplace Recycling Regulations and developing the legislation for Extended Producer Responsibility (EPR) and a Deposit Return Scheme (DRS) but does not refer to specific allocations.

83. In oral evidence, the Minister told the Committee:

"We don't anticipate [the reduction in allocation] to impact the pace and momentum of the work to support local authorities, or the continuation of the rollout of the ultra-low emission vehicles".

84. She added, "it's the same story as elsewhere in the MEG, we were thinking of scaling it right up, and we're not able to do that. We're able to hold it, but we've had to make the cut somewhere".

85. The Minister reported that four of the 22 local authorities had achieved the statutory target of 70% recycling by 2025, and another three authorities were within 2% of the target. She said, "If we want to get that improvement made, then the waste management grant will need to make an important contribution to this, and any reduction will just make it harder to get to that target across Wales".

Landfill Disposals Tax Communities Scheme

86. There has been a reduction in allocation of £1m for the Landfill Disposals Tax Communities Scheme (from £1.5m in the Final Indicative Budget 2024-25 to £0.5m in the draft budget 2024-25).

87. WCVA and Wildlife Trust Wales have raised concerns about the "cessation" of the Scheme. The Minister's written evidence says, "The budget for 2024-25 is to continue with existing commitments already made".

Our view

Wales has an impressive track record when it comes to recycling. While recycling rates remain higher than the rest of the UK, [latest statistics](#) (December 2023) suggest progress has slowed. Given this, we are concerned about the impact of the reduction in funding on the delivery of the statutory target of 70% recycling by 2025. The Minister has suggested that grant funding to support local authorities in meeting the statutory target will be unaffected by the reduction. However, the Welsh Government's Draft Budget narrative suggests otherwise (referring to impacts on support for frontline services in local authorities). We would welcome clarification from the Minister on this issue.

The Welsh Government has committed to working with local authorities and key partners to develop new statutory recycling targets beyond 70%. We would welcome an update from the Minister on how this work is progressing.

We have previously expressed frustration at the delay in introducing a Deposit Return Scheme (DRS). The Minister reassured us: "There is no reason why agreement cannot be reached on the scope of the scheme". We would welcome an explanation from the Minister on budget allocation to prepare for introducing the DRS, which is currently planned for October 2025.

We note stakeholders' concerns about the future of the Landfill Disposals Tax Communities Scheme. The Minister should clarify her position on the future of the Scheme and explain how the impact of the reduced funding for the Scheme will be monitored.

Recommendations

Recommendation 41. The Minister should clarify whether grant funding for local authorities for 2024-25 will be maintained to support the delivery of the statutory target of 70% recycling by 2025.

Recommendation 42. The Minister should explain how the impact of the reduction in revenue and capital allocation for 2024-25 on progress towards waste targets for 2025 (set out in Beyond Recycling) will be monitored.

Recommendation 43. Within six months of the publication of this report, the Minister should report back to the Committee on progress towards the development of new statutory recycling targets.

Recommendation 44. The Minister should provide details of budget allocation for 2024-25 to prepare for the introduction of the Deposit Return Scheme and Extended Producer Responsibility for packaging.

Recommendation 45. Within six months of the publication of this report, the Minister should report back to the Committee on progress towards the introduction of the Deposit Return Scheme. This should include whether the DRS remains on track to go live in October 2025.

Recommendation 46. The Minister should:

- explain how the impact of the reduction in funding for the Landfill Disposals Tax Communities Scheme will be monitored; and
- clarify her position on the future of the Scheme.

7. Natural Resources Wales

88. In the 2024-25 draft budget, NRW's resource allocation is £88.2m, a £18.5m increase from the indicative budget, resulting from a combination of in-MEG transfers and allocations from reserves (£17.5m). Additionally, NRW's capital budget is £25m, a £22.8m increase from the indicative budget, resulting from in-MEG transfers.

89. The Minister's written evidence emphasised the ongoing collaboration between her officials and NRW. This partnership aims to ensure that NRW's resources are commensurate with their needs and aligned with their statutory responsibilities and Programme for Government commitments. NRW and the Welsh Government have developed Service Level Agreements (SLAs) in ten priority areas, identifying the resources required to deliver different service levels. NRW has said it will develop further SLAs to cover all aspects of its business.

90. On 18 January 2024, Clare Pillman, the CEO of NRW, told this Committee:

“we do not have the resources that we had, and we are having to prioritise really ruthlessly, and the services that we will deliver will be affected. You cannot work with a lower budget and fewer people and deliver the same services.”

91. In written evidence, the Minister for Climate Change expressed her commitment to permanently closing the funding gap for NRW. The Minister reported that in April, she had agreed to provide NRW with an additional £18.2m for the 2023-24 period. The Minister and NRW's leadership initially believed that the increase would be enough to close NRW's funding gap. However, unforeseen circumstances, including high inflation and staff pay pressures, meant this was not the case.

92. NRW faces additional financial challenges due to fluctuating timber income, a significant revenue source for the organisation. The recent decline in verified timber costs worldwide has led to a dramatic fall in this income. The Minister suggested that timber income go directly to the government, which would fund NRW based on service requirements. This change would protect NRW from market fluctuations, but current budget constraints and ongoing negotiations with the Treasury complicate the matter. The Minister said:

“That's an ongoing conversation with the Treasury; it's obviously a much more difficult conversation with the Treasury given the

budgetary constraints we're currently under, but it does mean that NRW are having to balance a market force as well as everything else that they've got to manage, which I'm very sorry not to have been able to sort this year."

Our view

We welcome the Minister's commitment to permanently closing NRW's funding gap. We note, however, that unforeseen circumstances such as high inflation levels and staff pay pressures have meant that this additional funding has not fully bridged the gap as hoped. We further welcome the Minister's intention to baseline the £18.2 million increase in NRW's budget allocation.

Clare Pillman told the Committee that the real-term reduction in funding will directly impact NRW's ability to deliver services. We would be grateful for further details from the Minister about any discussions she has had with NRW about the services that will be prioritised, and those which will be reduced or not delivered.

We have previously indicated our support for SLAs as mechanisms to ensure that NRW's resources reflect their statutory duties and functions. We note that, thus far, SLAs have been developed across ten priority areas, and there are plans for SLAs to cover the remaining aspects of its business. We would like an outline of the next phase of the SLA work, including the areas to be covered and a timeline for their development and implementation.

We note the significant challenge for NRW posed by the fluctuating income from timber, which is a key revenue source. We believe the Minister's suggested restructuring of NRW's funding model so that timber income will go directly to the Welsh Government could provide additional certainty for NRW. We would be grateful for an update from the Minister within the next six months on progress towards resolving this issue.

Recommendations

Recommendation 47. The Minister should provide a detailed outline of the next phase of developing Service Level Agreements (SLAs). This should include the areas to be covered and timelines for their implementation.

Recommendation 48. The Minister should engage in further discussions with NRW about the impact of the real-terms reduction in funding on NRW's ability to

deliver its services. The Minister should report back to the Committee on the outcomes of these discussions and should include information about the service areas that will be affected.

Recommendation 49. The Minister should update the Committee within the next six months on progress towards restructuring NRW's funding model regarding timber income.

8. Flooding and water

93. BEL 2230 'Flood Risk Management & Water Policy Delivery' shows an overall £33.5m decrease in revenue allocation from £52.4m (Indicative Final Budget 2024-25) to £18.9m. This comprises £8.5m, which has been reprioritised, and £25m transferred within the MEG. There has been a reduction in capital allocation from £49m to £27m (£22m transferred within the MEG).

Flood and coastal risk management

94. The Minister's written evidence highlights the Welsh Government's commitment to fund additional flood protection for more than 45,000 homes. In 2022-23, a three-year capital budget totalling £102 million was agreed to allow the Welsh Government "to better plan our investment from 2022/3 to 2024/5 to support at-risk communities". In 2023-24, £75m of capital and revenue funding was allocated to the Flood and Coastal Risk Management Programme, the Welsh Government's "highest investment in a single year to date".

Improving water quality

95. The Minister's written evidence emphasised the importance of an "integrated cross-sectoral approach" to ensure long term water quality improvement. Over £40m of additional funding has been provided between 2022-23 and 2024-25 to address water quality.

96. In 2023-4, the Welsh Government provided NRW with £15m capital funding to improve compliance with the Water Environment (Water Framework Directive) (England and Wales) Regulations 2017 and related legislation.

97. The Minister's written evidence highlights £1.1m funding has been made available to Nutrient Management Boards to support the delivery of priority actions in failing Special Area of Conservation (SAC) river catchments.

Our view

There is an urgent need to ensure that investment in flood risk management keeps pace with the increasingly severe effects of climate change. NRW's recent report, Long-term Investment Requirement for Flood Defences (January 2024), shows that 3.4 times current funding levels would be needed to address the flood risk created by future climate change projections. At a time when funding for flood risk management needs to be increased, it has been reduced. This is

regrettable. We would welcome an explanation from the Minister on how the findings of NRW's report will be used to inform future spending decisions.

We are concerned about the impact of the revenue reduction on the delivery of local authority flood risk activities. We would welcome an explanation from the Minister on how the effect on flood risk preparedness will be monitored.

There has been a significant reduction (£22m) in capital allocation for flood risk management and water policy delivery. The Minister should clarify whether this is due to the end of the three-year settlement (of £102m) for the flood capital programme.

We note that £40m has been allocated between 2022-2023 and 2024-25 to improve water quality. We would welcome a breakdown of these allocations and details of the actions delivered to date.

Recommendations

Recommendation 50. The Minister should explain how the findings of NRW's report, Long Term Investment Requirement for Flood Defences (January 2024), will be used to help shape future investment decisions concerning flood and risk management.

Recommendation 51. The Minister should explain how the impact of the reduction in revenue allocation on flood risk preparedness and the response to future flood events will be monitored.

Recommendation 52. The Minister should explain the £22m reduction in capital allocation for 2024-25 for flood risk management and water policy delivery.

Recommendation 53. The Minister should provide a breakdown of the £40m allocation between 2022-2023 and 2024-25 to improve water quality. This should include allocation to date, actions delivered, and details of allocation for 2024-25.

9. Environmental governance

Resource for the Interim Environmental Assessor for Wales

98. 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 an Interim Environmental Protection Assessor for Wales (IEPAW).

99. According to the Minister's written evidence, "costs incurred for the Interim Environmental Protection Assessor come out of a budget of £45,000 that is set aside for the IEPAW's functions".

Towards a new environmental governance body

100. The Welsh Government has committed to establishing a new environmental governance before the end of the Sixth Senedd. On 30 January 2024, the Welsh Government published a White Paper for a Bill on Environmental Governance and Biodiversity Targets (EG&BT Bill). The accompanying draft Regulatory Impact Assessment provides initial cost estimates for establishing a new body.

101. The Minister's written evidence says a budget of £480,000 is available for work towards the establishment of a new body. It points out, "The full financial impact of [the White Paper] proposals is not expected until after the Bill has been passed by the Senedd, which would likely mean FY 2026-27".

Our view

Following a recommendation made by the Committee in its [Report on the operation of interim environmental protection measures](#) (September 2022), the Welsh Government undertook a review of the IEPAW's resources. As a result of the review, the IEPAW's budget for 2023-24 was increased by £75,000, allowing for a Deputy IEPAW to be appointed and for extra drafting capacity and specialist and legal support. The evidence we received from the Minister suggests there has been no uplift to the IEPAW's budget for 2024-25. We reiterate the need for adequate resources to be made available to ensure the IEPAW can carry out her role effectively.

Since the start of the Sixth Senedd we have been calling for the Welsh Government to accelerate progress towards the establishment of a new environmental governance body. We are pleased, therefore, that the White Paper for an Environmental Governance and Biodiversity Targets Bill has finally been published. We seek assurance from the Minister that adequate funding for the IEPAW service is made available until such time as the new body is established.

Recommendations

Recommendation 54. The Minister should:

- clarify the budget allocation for 2024-25 for the Interim Environmental Protection Assessor for Wales's (IEPAW) functions. If the budget does not include a £75,000 uplift, she should explain the reason; and
- commit to ensuring adequate funding for the IEPAW service is made available until such time as the new environmental governance body is established.