

# Scrutiny of the Welsh Government Draft Budget 2019-20

November 2018

## 1. Our approach

- 1.** We took oral evidence from the Cabinet Secretary for Energy, Planning and Rural Affairs, Lesley Griffiths AM, and the Minister for Environment, Hannah Blythyn AM, on 8 November. We also gathered written evidence from the Cabinet Secretary and stakeholders. A list of those who submitted evidence is included at Annex A.
- 2.** The Committee also took oral evidence from the Cabinet Secretary for Economy and Transport on matters relating to the Committee's remit. The Committee will publish a separate report on those matters.

## 2. General conclusions

- 3.** Total spend for the Energy, Planning and Rural Affairs Main Expenditure Group (MEG) increases from £353.9m in the June 2018-19 Supplementary Budget to £366.7m in the 2019-2020 draft budget. This is an increase in cash terms of 3.6% (£12.8m) and 2% in real terms (£7.1m).<sup>1</sup>

### 2. 1. Prosperity for all

- 4.** In October 2018, the Welsh Government published its Annual Report for 2018 on progress towards achieving Prosperity For All. In that Report, the Welsh Government said it had increased its priorities from five to six. Its sixth priority is decarbonisation.

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<sup>1</sup> A breakdown of the figures is included in the Cabinet Secretary's written evidence and the associated Budget Expenditure Line (BEL) tables. Comparisons throughout this report are between the 2019-20 New Plans of the Draft Budget and the 2018-19 June Supplementary Budget.



**5.** The Cabinet Secretary's written evidence does not reflect the six priorities. It omits decarbonisation, which is a key part of the Cabinet Secretary's portfolio. The Committee recognises that this is a fast moving policy area but such omissions do not reflect well on the Cabinet Secretary.

## 2. 2. Wellbeing of Future Generations Act

**6.** The Cabinet Secretary's written evidence refers to the Act in several places, including examples of interventions that will contribute to meeting its well-being goals:

“My draft budget preparations shows how I have sought to reflect the framework of the Wellbeing of Future Generations Act in setting our spending priorities. We reviewed current trends and future projections and their potential impacts in the short, medium and longer term. We did this to ensure, as far as possible, that short term responses do not have longer term detrimental impacts.”<sup>2</sup>

**7.** In this Committee's report on the Welsh Government's draft Budget for 2018-19, the Committee recommended that, “in order to demonstrate how the Wellbeing of Future Generations (Wales) Act 2015 informs the budget process, the Welsh Government should incorporate in its impact assessment process an assessment against its well-being objectives”.

**8.** This recommendation was accepted by the Welsh Government. However, there is no indication in the Cabinet Secretary's evidence that this recommendation has been given effect.

## 2. 3. Transparency and engagement

**9.** The Cabinet Secretary's written evidence makes no reference to engagement with stakeholders, other than Natural Resources Wales (NRW), during the development of the draft budget proposals.

**10.** In written evidence, Wales Environment Link (WEL) told the Committee:

“There has been no change to how WEL members have been involved in the budget process. We continue only to be able to have our views heard through the scrutiny process. There are models from other countries of how civil society and other stakeholders can be better involved in the budget setting process. With the WFG Act and

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<sup>2</sup> [http://senedd.assembly.wales/documents/s80286/CCERA\\_Draft\\_Budget.pdf](http://senedd.assembly.wales/documents/s80286/CCERA_Draft_Budget.pdf)

requirements in sustainable development principle to involve and collaborate, we would expect the Act to have led to better stakeholder involvement processes.”<sup>3</sup>

## 2. 4. Preventative spending

**11.** The Office of the Future Generations Commissioner has told the Committee that the Welsh Government has yet to demonstrate an appropriate shift in emphasis from treatment to prevention.

**12.** On the issue of preventative spending, WEL referred to the Wellbeing of Future Generation Act in its written evidence, saying:

“The pace of Welsh Government progress on this agenda is concerning. Three years have passed since the Well-being of Future Generations Act was brought into force, yet the Welsh Government seems to have done little to change its approach...For WEL members, the lack of pace and demonstrable impact regarding the preventative agenda and related budget approach is another sign the Wellbeing of Future Generations legislation is not driving change at the pace needed to tackle many of the challenges faced, particularly from an environmental degradation perspective.”<sup>4</sup>

**13.** In written evidence, the Cabinet Secretary said that “it is difficult to specify the proportion of our budgets which are preventative”. She provided several examples of preventative measures within her portfolio, including “provision of green infrastructure”; Flood and Coastal Erosion Risk Management; and improving energy efficiency in homes to help tackle fuel poverty.<sup>5</sup>

## Recommendations

**Recommendation 1.** The Welsh Government accepted this Committee’s recommendation in its report on the draft budget for 2018-19, that, “in order to demonstrate how the Wellbeing of Future Generations (Wales) Act 2015 informs the budget process, the Welsh Government should incorporate in its impact assessment process an assessment against its well-being objectives”. The Welsh Government should explain how its approach to the draft budget 2019-20 reflects the Committee’s recommendation.

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<sup>3</sup> <http://senedd.assembly.wales/mgConsultationDisplay.aspx?ID=327>

<sup>4</sup> *ibid*

<sup>5</sup> <http://senedd.assembly.wales/documents/s80286/CCERA Draft Budget.pdf>

**Recommendation 2.** The Welsh Government should report back to this Committee on any consultation with stakeholders it has undertaken to inform the development of the draft budget. If there has been no consultation, the Welsh Government should explain why.

**Recommendation 3.** The Welsh Government should report back to this Committee on the reasons for the omission of decarbonisation as a sixth Prosperity for All priority.

## 3. Brexit

### 3. 1. EU funding for agricultural support

**14.** The Welsh Government has committed to maintain current CAP support (the Basic Payment Scheme) for 2019 on the same basis as existing payments. The 2019 CAP scheme year will be the final year where CAP rules and funding apply.

**15.** The Welsh Government's consultation document, *Brexit and our land*, set out proposals for a new land management programme in Wales to replace the Common Agricultural Policy (CAP) post-Brexit. The consultation proposes a programme to replace current systems of financial support for agriculture that consists of two distinct schemes: the Economic Resilience scheme and the Public Goods scheme.

**16.** Under the proposals, CAP direct payments are expected to be phased out from 2020 to make way for the new proposed schemes. However, future funding for these schemes is yet to be determined.

**17.** The Cabinet Secretary explained that the Welsh Government has not been provided with "the clarity that we need that we will get the same amount of funding for agriculture that we've been having, so that's over £300 million a year". In referring to the proposals in *Brexit and our land*, she stated "it's very hard to come forward with a policy when you don't know what funding you're getting".<sup>6</sup> The Cabinet Secretary explained that future funding was discussed as a matter of course at quadrilateral meetings with Ministers from the UK Government and other devolved administrations.

**18.** In October 2018, the UK Government established an independent advisory panel to review the intra-UK allocation of domestic farm support funding for 2020 to 2022. The Cabinet Secretary welcomed the establishment of the panel, but

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<sup>6</sup> <http://record.assembly.wales/Committee/5084>

explained that she had “no input into the scope of the review or the terms of reference”.<sup>7</sup> She was currently considering the UK Government’s offer for a Welsh representative to sit on the panel.

## Our view

The Committee welcomes the UK Government’s commitment to protect overall funding for UK farm support in cash terms to the end of Parliament in 2022. The Committee also welcomes the decision not to apply the Barnett formula to changes in funding beyond the end of this Parliament in 2022. However, future funding arrangements in both the short and long term will depend on effective collaboration and joint working between the UK and Welsh Government. The Committee has serious concerns, therefore, about the apparent repeated lack of cooperation between the UK and Welsh Government. In this case, the UK Government has again announced a decision that affects Wales without consulting the Welsh Government in advance. This does not bode well for constructive inter-Governmental relationships after Brexit.

Given the Cabinet Secretary’s assertion that the outcome of the advisory panel’s review of the intra-UK allocation of farm support funding for 2020 to 2022 was likely “to set a precedent” for future funding arrangements, we emphasise the need for the Welsh Government to engage fully with this review.

We note that, as yet, no funding has been allocated for the establishment of the new schemes. The Committee seeks reassurance from the Cabinet Secretary that the costs for establishing new schemes will not be met from the funding available to support farmers, but that additional funding will be made available for that purpose. Given the Cabinet Secretary’s comments that “it’s very hard to come forward with a policy when you don’t know what funding you’re getting”, the Committee is surprised that she has been able to be so definitive about the types of payment schemes that will be introduced after Brexit.

**Recommendation 4.** The Welsh Government should seek a commitment from the UK Government that future funding arrangements for farming and land management support will be developed in partnership with the devolved administrations and that there will be parity of esteem between partners.

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<sup>7</sup> <http://record.assembly.wales/Committee/5084>.

**Recommendation 5.** The Welsh Government should give a commitment that additional, new funding will be made available for the establishment of the new schemes.

### 3. 2. Future agricultural policy in Wales

**19.** Brexit and our land proposes a new land management programme to replace the CAP. It states there will be a “multi-year transition period to manage the path to the new [programme]”. The transition period “will not begin before 2020”. The Welsh Government’s “high level ambition” is to complete implementation and be operating within the new programme by 2025.

**20.** The consultation document acknowledges that that the proposed Public Goods scheme “will take time and significant preparation to put in place”. As such, “there is good cause for allocating funds to pilot projects before full-scale implementation”.

**21.** The Research and Evaluation Budget Expenditure Line for 2019-20 remains unchanged at £520,000.

**22.** The Cabinet Secretary told the Committee that the draft budget 2019-20 did not include specific funding allocations to establish pilot schemes. However, she added, “that money will be there because there is money for Brexit across Government” and there was “scope within our current budget” to fund pilot schemes. The Cabinet Secretary was not able to confirm whether there was sufficient funding within the draft budget 2019-20 to meet the cost of establishing pilot schemes because she “[didn’t] know what schemes we are going to have”.<sup>8</sup>

**23.** The Cabinet Secretary’s official added that the intention was “to start the change of bringing in some pilots in 2020”. He went on:

“We’re still in the CAP for the first part of next year...I think next year is probably more about designing what [pilots] look like based on some of the things that are already experimental...As we move forward into 2020, 2021, we’ll be looking at other sorts of pilots that come through in those years, and we will have more flexibility in future budget years.”<sup>9</sup>

**24.** The Cabinet Secretary stated that the Research and Evaluation revenue budget had remained unchanged “because it’s for two specific projects”, namely

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<sup>8</sup> <http://record.assembly.wales/Committee/5084>

<sup>9</sup> *ibid*

the Farm Business Survey and the Food and Agricultural Policy Research Institute (FAPRI-UK). Her official explained that both these projects could be used to support modelling and impact assessments arising from proposals for the new land management scheme. He also stated:

“A lot of [the work on impact assessments] we can do in-house with our own resources...And part of our additional Brexit resources that we have been allocated will include more economists, statisticians, and so on, to be able to do much of that in-house. We may need to contract some of that out to academic bodies. We have funds within our general admin budget to be able to commission that work.”<sup>10</sup>

## Our view

The proposals set out in *Brexit and our land*, if adopted, will mean the most significant change to the way that Welsh farmers are supported in over 40 years. The proposed Public Goods scheme will need to be introduced on an unprecedented scale. The Committee’s recent work has highlighted the extent of the challenge for the Welsh Government if it is to develop and implement a scheme capable of delivering the objectives set out in the consultation document, by the end of the reform period in 2025.

Although no firm decisions have been taken on future schemes, further detailed work, including modelling, impact assessments and the establishment of pilot schemes, will be necessary before the new schemes can be implemented. This is of particular importance given that access to the schemes is proposed to be widened to accommodate land managers, rather than only farmers. We share concerns expressed to the Committee about the lack of clear preparatory plans. If the Welsh Government intends to begin transition to these schemes in 2020, some preparatory work will need to be undertaken in the 2019-20 financial year. The Committee seeks further assurance that an appropriate level of funding is available for this purpose.

The Committee has written to the Cabinet Secretary separately seeking clarification on plans to undertake modelling, including timescales involved and resources available to support this work. It has also sought clarification on timelines for establishing pilot schemes, the scale of pilot schemes and how

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<sup>10</sup> <http://record.assembly.wales/Committee/5084>

they will be funded. We anticipate that a response will be available to coincide with the publication of this report.

**Recommendation 6.** The Welsh Government should provide further assurance that sufficient funding is available within the draft budget 2019-20 to enable preparatory work to be undertaken, including detailed modelling, impact assessments and the establishment of pilot schemes.

**Recommendation 7.** The Welsh Government should, as a matter of urgency, undertake an impact assessment of the decision to widen access to the proposed schemes from farmers to land managers.

### 3. 3. Farming support services

**25.** In the draft budget 2019-20, there has been a reallocation of £1.6m of revenue funding from the Technical Advice Services Budget Expenditure Line (BEL) to the Strategy and Government Relations BEL. This is a 90.1% reduction in cash terms for Technical Advice Services.

**26.** The Cabinet Secretary stated that the reallocation of £1.6 million funding was “simply moving current spend commitments to another budget line for presentational purposes” and would have “no direct investment implications”.<sup>11</sup>

**27.** In commenting on the extent to which the draft budget 2019-20 takes account of advice service requirements to support the transition to the proposed new schemes in Brexit and our land, the Cabinet Secretary’s official explained that Farming Connect was “refocusing its work” to respond to any change in emphasis in the advice being sought. He said:

“The new systems that we will put in place to deliver the vision in ‘Brexit and our land’—we aren’t at that stage yet. That’s probably next financial year.”<sup>12</sup>

### Our view

In the absence of any firm decisions or detailed timelines for the implementation of the new schemes, it is difficult to assess the level of funding required in the next financial year to support preparatory work.

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<sup>11</sup> <http://record.assembly.wales/Committee/5084>

<sup>12</sup> *ibid*

Given that the Welsh Government proposes to begin transition in 2020, we would have expected the draft budget 2019-20 to reflect an increased emphasis on the development and preparation of advisory services for outreach to farmers leading up to and during transition.

The Committee is concerned that a refocusing of Farming Connect will be nowhere near sufficient to prepare for transition. There is an urgent need for an assessment of the resources that will be required.

**Recommendation 8.** The Welsh Government should undertake an assessment of the resources that will be required to ensure there is sufficient advisory capacity before the transition to new schemes begins. This should include a breakdown for 2019-20 and 2020-21.

### 3. 4. Fisheries

**28.** The UK Fisheries Bill was introduced in Parliament on 25 October 2018. The Bill supports the process of moving away from the European Union’s Common Fisheries Policy.

**29.** In written evidence, the Cabinet Secretary explained:

“Officials are working closely with the UK Government and other Devolved Administrations on the shape of a UK Government Fisheries Bill...My officials are currently working through likely additional functions we made need to pick up as we exit the European Union. These largely relate to Control and Enforcement, Science, Policy, International work and Legislation. I will consider options for these additional functions in the near future as part of prioritising financing across my portfolio.”<sup>13</sup>

**30.** The Cabinet Secretary has said she intends to introduce a Welsh Fisheries Bill, although the timing of this is not known. She explained that, in 2019, she would be consulting on proposals to inform the development of fisheries policy post-Brexit, and would need to consider the financial implications following that work.

### Our view

A Legislative Consent Memorandum (LCM) for the UK Fisheries Bill was laid in the Assembly on 15 November. The Memorandum says that “there are no direct

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<sup>13</sup> <http://senedd.assembly.wales/documents/s80286/CCERA.Draft.Budget.pdf>

financial implications for Wales as a result of taking these provisions in this Bill". The Committee intends to scrutinise the provisions of the Bill and will prepare a separate report in due course.

The Committee was pleased to hear that the Cabinet Secretary plans to consult on the future of Welsh fisheries policy in 2019.

### 3. 5. Environmental Governance

**31.** The Committee's report, Environmental governance arrangements and environmental principles post-Brexit, outlines a potential environmental "governance gap" when EU governance systems no longer apply in the UK after Brexit. The Committee concluded that "a new [governance] system will require considerable resources, funding and expertise". It called on the Welsh Government to clarify its position on the establishment of UK-wide environmental governance body, and to assess the resources that would be required for a Wales-only body.

**32.** The UK Government is expected to introduce an Environmental Principles and Governance Bill by the end of 2018. It is unclear whether the Bill will include provision for a UK-wide or England-only body. The Cabinet Secretary said:

"We are currently in the process of consultation; the outcome of which would assist in the consideration to introduce a body for Wales. However, in the meantime, discussions are progressing with the UK Government to determine whether a UK approach will be appropriate...With regard to cost, it is too early to detail the costs."<sup>14</sup>

**33.** The Cabinet Secretary explained there was no allocation in the draft budget 2019-20 to fund the establishment of a new governance body and no unallocated funds within her department that could be used for this purpose. However, the Cabinet Secretary's official explained that, potentially, funding could be made available from the European Transition fund.

### Our view

At the time of writing this report, the Cabinet Secretary has yet to announce her decision on an approach to a new environmental governance body. Given this, and in the absence of a proposed timeline for the establishment of any new

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<sup>14</sup> <http://record.assembly.wales/Committee/5084>

body, it is difficult for the Committee to assess the level of funding required in the next financial year to support this work.

The Cabinet Secretary has made clear that “a substantial amount of analysis” will need to be undertaken ahead of establishing a new body. The Committee would expect some level of preparatory work to be required in 2019-20. The Committee is concerned that there is no specific allocation in the draft budget 2019-20 for this purpose.

The Committee is disappointed that no assessment has been made, to date, of the cost implications of either a UK-wide or a Wales-only body.

The Cabinet Secretary told the Committee that she plans to use the model for setting up the Well-being of Future Generations Commission as a comparison. The Committee would be grateful for an explanation of the Cabinet Secretary’s proposed approach.

**Recommendation 9.** The Welsh Government should provide further details on how any preparatory work associated with the establishment of a new environmental regulatory body will be met within existing allocations in the draft budget 2019-20.

**Recommendation 10.** The Welsh Government should report back on why it believes the Future Generations Commissioner’s Office is an appropriate model for the establishment of an environmental governance body.

### 3. 6. Brexit staffing

**34.** The Cabinet Secretary explained that, last financial year, 50 new posts were approved to support Brexit-related work. These would be funded from within the existing departmental budget. As of early October, 35 new staff had been recruited and further recruitment was underway. The Cabinet Secretary stated:

“The existing resources, even with 50 extra staff already identified, are insufficient to carry out [Brexit-related] tasks. There will need to be a burst of activity over the next 2 ½ years up to the end of 2020 to put in place the necessary framework and systems for the post Brexit world. However, I would not be able to fund any additional Brexit related staff.”<sup>15</sup>

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<sup>15</sup> <http://record.assembly.wales/Committee/5084>

**35.** She explained that funding had been made available from the Brexit-related consequential to fund 200 additional staff across the Welsh Government. This funding would be available for 2018-19 and 2019-20. Of the additional staff, 144 would be recruited to the Cabinet Secretary's department, "mainly on short-term two year contracts".<sup>16</sup>

**36.** The Cabinet Secretary explained that, at the appropriate time, she would need to consider the case for retaining the additional staff beyond 2020.

## Our view

The Committee acknowledges the demands of Brexit on the Cabinet Secretary's department and across government. The Welsh Government has a responsibility to ensure that Wales is prepared, as far as possible, to meet the challenges ahead. Inevitably, this has involved further increases in staff within the Cabinet Secretary's department.

Regardless of the on-going uncertainty around the terms of which the UK will leave the EU, there is no doubt that the demands on the department are only set to rise. While the next two years will be the most crucial, it is possible that demands on the department will continue beyond 2020, for example, as significant policy changes are implemented. The Committee questions how the new posts, which are mainly two year contracts, will be funded beyond 2020, if the need arises.

On a wider note, there is a significant, overall opportunity cost associated with funding Brexit preparations that cannot be ignored. Regardless of any opportunities for Wales that may arise from Brexit, it is clear that expenditure on preparations both within the Cabinet Secretary's department and across government is already sizeable. Against a background of cuts in UK Government funding for Wales, and sustained austerity, it is regrettable that this funding could not have been used by the Welsh Government to invest in its own priorities.

**Recommendation 11.** The Welsh Government should provide details of how and when decisions will be taken to determine whether the new posts to support Brexit work should be retained beyond 2020. The Welsh Government should clarify whether these decisions will be made in time to inform the next budget planning round.

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<sup>16</sup> <http://record.assembly.wales/Committee/5084>

## 4. Decarbonisation

**37.** In 2018, the Welsh Government added a sixth priority area, decarbonisation, to its national strategy “Prosperity for All”.

**38.** The Environment (Wales) Act 2016 requires the Welsh Government to bring forward a system of interim targets and “carbon budgets”, with the ultimate aim of achieving reductions of at least 80% in emissions below 1990 levels, by 2050. On 6 November 2018, the Welsh Government introduced five sets of Regulations, known collectively as The Climate Change (Wales) Regulations 2018, to give effect to these and other, related, commitments.

**39.** The Welsh Government has recently consulted on the actions it should take to 2030 to reduce emissions (“Achieving our Low-Carbon Pathway to 2030”). The results will inform the Welsh Government’s plan to deliver the first, and possibly subsequent, carbon budgets. Stakeholder views on the proposals have been mixed, with some expressing concern that the cost, benefits and wider impacts of proposed actions are yet to be assessed.

**40.** On this issue, the Cabinet Secretary said:

“As with all costs, there’s always uncertainty when you look long-term ...But, obviously, any new actions that we do take forward would have to be impact assessments and, obviously, cost analysis.”<sup>17</sup>

### 4. 1. Fuel poverty

**41.** Revenue funding for the Fuel Poverty Programme (BEL 1270), which includes funding for the Arbed and NEST schemes has decreased by £0.5m from £3.4m to £2.9m. This is a decrease in cash terms of 14.7% and in real terms of 16%. £27m of capital funding is planned for the programme in 2019-20, reducing to £23m in 2020-21. Funding for Energy Efficiency Programmes (BEL 3771) has reduced from £400,000 to zero.

**42.** The Official accompanying the Cabinet Secretary explained that the reason for the reduction in revenue funding was “a result of the team actually re-tendering for the process, and, through that, they actually got a better

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<sup>17</sup> <http://record.assembly.wales/Committee/5084>

procurement outcome that actually allowed us to save money to put elsewhere. But the overall capital pot stayed the same”.<sup>18</sup>

**43.** The Welsh Government has a statutory obligation<sup>19</sup> to eradicate fuel poverty, as far as is reasonably practicable, in all households in Wales by 2018. In its response to this Committee’s report on draft budget 2018-19, the Cabinet Secretary said:

“Updated fuel poverty figures will also be available at the end of 2018 as part of the Welsh Housing Conditions Survey and we will use this data, once available, to help determine our future actions and realistic timescales.”<sup>20</sup>

**44.** She went on to say that that the results would inform the “development of a new fuel poverty plan”, but before then:

“Publication of the headline, national level results has been announced for November 2018 in line with the Code of Practice for Statistics. In early 2019 detailed analysis of the resultant Fuel Poverty estimates will also be published.”<sup>21</sup>

**45.** In response to this Committee’s annual report on climate change mitigation for 2018-19, the Cabinet Secretary said that:

“The Housing Conditions Evidence Programme is currently funded to the end of March 2019. A decision to extend the Programme, to continue utilising the data, will need to be taken in the near future.”<sup>22</sup>

## Our view

There is little evidence that the inclusion of decarbonisation as the sixth priority in Prosperity for All has informed decisions about budget allocations this year. In next year’s draft budget, we expect to see clear evidence of this change and, moreover, it should be evident across Cabinet portfolios.

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<sup>18</sup> <http://record.assembly.wales/Committee/5084>

<sup>19</sup> Under the Fuel Poverty Commitment for Wales 2003, as required by the *Warm Homes and Energy Conservation Act 2000*.

<sup>20</sup> <http://record.assembly.wales/Committee/5084>

<sup>21</sup> *ibid*

<sup>22</sup> [www.assembly.wales/laid%20documents/gen-ld11668/gen-ld11668-e.pdf](http://www.assembly.wales/laid%20documents/gen-ld11668/gen-ld11668-e.pdf)

The Regulatory Impact Assessment (RIA) accompanying The Climate Change (Wales) Regulations says that an additional £2bn will be incurred to meet the first carbon budget (2016-20). The RIA is clear that this sum refers to overall costs incurred, and not only the costs of Welsh Government interventions. However, the Committee is concerned that there is no evidence in the draft budget of funding allocations for new or additional interventions.

According to the latest publicly available Welsh Government estimate, 291,000 (or 23%), of Welsh households are living in fuel poverty. The Cabinet Secretary has confirmed that the 2018 target is unlikely to be met.

In this Committee's report on Low Carbon Housing (July 2018), we commented on the lack of urgency in addressing this and other issues. The Cabinet Secretary had, in her response, said that a Ministerial "Decarbonisation Advisory Group" had been asked to look at this and related matters and would report in Summer 2019. There is no evidence of no additional allocations in the 2019-20 draft budget to respond to, or take forward, the recommendations of this Group. The Committee reiterates its concern about a lack of urgency in the Welsh Government's response in this area. In particular, we are disappointed by an inadequate response to its failure to meet its fuel poverty targets.

**Recommendation 12.** The Welsh Government should provide this, and other relevant Assembly Committees, with its forthcoming carbon delivery plan, and future iterations, in draft to enable the Assembly to inform its development.

**Recommendation 13.** The Welsh Government must publish, alongside its carbon delivery plan, a detailed cost benefit analysis of each of the actions included in the plan.

**Recommendation 14.** The Welsh Government must use its detailed analysis of Fuel Poverty estimates, expected in early 2019, to set a timetable for the eradication of fuel poverty. It should report back on this Committee as soon as it has done so.

**Recommendation 15.** The Welsh Government should report back to this Committee on its timetable for the development of a new fuel poverty plan. It should provide this Committee, and other relevant Assembly Committees, with its fuel poverty plan in draft, to enable the Assembly to inform its development.

**Recommendation 16.** The Welsh Government should report back to this Committee at an appropriate time on whether it has decided to continue funding the Housing Conditions Evidence Programme beyond March 2019.

## 5. Natural Resources Wales

**46.** Revenue for Natural Resources Wales (NRW) (BEL 2451) decreases by £2.1m from £68.4m to £66.3. This is a 3% cut in cash terms (4.5% in real terms). Capital for NRW (BEL 2451) decreases by £0.6m from £3.3m to £2.7m. This is a 18.4% cut in cash terms (19.7% in real terms). A further decrease of £1m is planned for 2020-21.

**47.** During recent years, NRW has faced considerable budget reductions. This has coincided with Assembly legislation, such as the Environment Act, placing additional obligations on the organisation. In written evidence, the Cabinet Secretary said that NRW could not be protected from revenue reductions and that she had reduced Grant in Aid by 5% for 2018-2019 and a further 5% for 2019-20.

**48.** Written evidence submitted by NRW stated that:

- A reduction in revenue funding “does threaten the services and new duties that we can offer”;
- Since its creation in April 2013, its baseline non-flood Grant in Aid will have reduced by £14m (20% in cash terms, 35% in real terms);
- NRW is working closely with the Welsh Government to put in place a “more participatory process” for 2020-21 onwards; and
- NRW will submit a business case in early 2019 “to properly fund” its implementation of the Well-being of Future Generations Act and the Environment Act in 2020-21.

**49.** NRW and the Welsh Government are discussing how these issues can be addressed. Options that are being explored include: NRW retaining wind farm option fees on NRW-managed land (rather than the fees going to the Welsh Government); NRW being able to charge for more of the services that it regulates; and multi-year funding settlements.

**50.** The Cabinet Secretary said:

“They’ve [NRW] been subject to an increase in legislative requirements, as you’ve just described. At the moment, I’m confident that they are managing their budget in a way that ensures that they fulfil all their

statutory responsibilities and that they are looking for new and imaginative ways to increase the funding.”<sup>23</sup>

**51.** She went on to say that “if we put further requirements on them [NRW], we would have to look very carefully at how they would fund them”.<sup>24</sup>

**52.** In written evidence, WEL told the Committee:

“It is our view that key NRW functions – integral to restoring our degraded ecosystems – are chronically under-resourced. For example, there has been no condition assessment of Wales’ nationally important sites for biodiversity (Sites of Special Scientific Interest) since CCW’s ‘Rapid Review’ in 2006, and the budget for management agreements to enable land managers to enhance the status of protected site features continues to diminish.”<sup>25</sup>

**53.** During last year’s budget scrutiny, NRW told the Committee that it planned to re-design the organisation with fewer staff. The process was expected to be completed by 1 April 2019 and realise £10m in savings. In written evidence, the Cabinet Secretary said she has allocated an additional £0.7m in relation to the outcome of NRW’s job evaluation exercise.

**54.** In written evidence, NRW expressed concern about its capital allocation of £0.8m (excluding allocation for the Wales Coastal Path) against a requirement of over £5m. The most significant issue is funding newly designated improvements to reservoirs required under the Reservoirs Act 1975. In response to a question on this issue, the Cabinet Secretary said:

“... as often happens, they’ve had to take responsibilities on from the UK Government, but the funding hasn’t followed. So, we’ve certainly made representations to the Treasury, because I think—you know, you need additional funding. When we have additional responsibilities or powers, we need the additional funding. So, again, I am looking specifically at their capital, because I am aware of this problem that they’ve got. But also I think we do need to make sure we get some extra funding from the UK Government.”<sup>26</sup>

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<sup>23</sup> <http://record.assembly.wales/Committee/5084>

<sup>24</sup> *ibid*

<sup>25</sup> <http://senedd.assembly.wales/mgConsultationDisplay.aspx?ID=327>

<sup>26</sup> <http://record.assembly.wales/Committee/5084>

## Our View

The Committee is not persuaded that the continued reduction in funding for NRW has not had an impact on its ability to deliver core services. The Committee recognises that funding has been allocated against a background of a difficult financial settlement from the UK Government. The Cabinet Secretary has said that she believes that NRW can still continue to deliver their statutory responsibilities. However, we are concerned about the impact this will have on its other, non-statutory responsibilities and duties. We would be grateful for further information of the services that NRW will cease delivering and an assessment of the impact of those decisions.

NRW will submit a business case in early 2019 “to properly fund” its implementation of the Well-being of Future Generations Act and the Environment Act in 2020-21. This implies that NRW believes its funding will not be sufficient to deliver its statutory responsibilities in the near future.

We are pleased that NRW and Welsh Government officials are exploring opportunities to increase NRW’s income and to provide longer-term certainty over funding. We welcome the Cabinet Secretary’s commitment that any further requirements placed on NRW will require an increase in funding.

The Cabinet Secretary reported to this Committee in June 2018 on the progress of discussions with NRW on issues relating to organisational design and future funding arrangements. The Committee would be grateful for further information on progress, including the additional £0.7m that has been allocated in relation to the outcome of NRW’s job evaluation exercise.

The Committee intends to hold its regular annual scrutiny session with NRW early in 2019.

**Recommendation 17.** The Welsh Government should report back to this Committee on progress on securing additional funding from the UK Government to address the funding shortfall arising from newly designated improvements to reservoirs required under the Reservoirs Act 1975.

**Recommendation 18.** The Welsh Government should report back to this Committee within the next six months on the progress of discussions relating to NRW funding, including options to increase NRW’s ability to generate income and for a longer-term funding settlement.

**Recommendation 19.** The Welsh Government should set out any additional or new duties it expects NRW to implement during this budgetary period and identify the funding that has been allocated for those purposes.

**Recommendation 20.** The Welsh Government should provide further details about the additional £0.7m that has been allocated in relation to the outcome of NRW's job evaluation exercise.

## 6. Bovine TB

**55.** The revenue budget for TB eradication and compensation for 2019-2020 is £7.5m for TB Eradication (BEL 2273) and £9.4m for TB Slaughter Payments Costs & Receipts (BEL 2272). This constitutes a reduction in real terms of 1.6% (£464,000) for TB Eradication and 1.7% (£126,000) for compensation.

**56.** In written evidence, the Cabinet Secretary said she “expects to be able to manage this demand-led programme within the overall Animal Health budget package”.<sup>27</sup> She acknowledged that any disease outbreak could have cost implications for her portfolio.

**57.** The Welsh Government's TB Eradication Programme commenced in October 2017 and includes a variety of interventions. The programme also reduces the amount of compensation paid to farmers for cattle slaughtered because of TB. From 1 October 2017, the £15,000 cap on TB compensation payable per animal was reduced to £5,000. The Cabinet Secretary said that compensation levels might be reconsidered in the light of data that was collected on compensation payments during the first full year following the reduction.

**58.** The Welsh Government previously introduced a vaccination programme for badgers, which had to be postponed due to a global shortage of the TB vaccine. The Cabinet Secretary told this Committee on 18 July 2018 that she expects the vaccination programme to restart later in 2018. The Cabinet Secretary told the Committee that there isn't enough vaccine available for the whole programme. Instead, there will be funding for pilot schemes.

**59.** The Chief Veterinary Officer referred to a trial that was being conducted in the Gower peninsula. She said:

“we'll be providing the vaccine to them—we'll be paying for that—and also putting some additional funding in to help support that project,

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<sup>27</sup> <http://record.assembly.wales/Committee/5084>

but they will need other funding, so they're seeking other sources in a very imaginative way at the moment. And the work won't just be about vaccinating badgers. It'll be about working together on the cattle side as well. So, it's a really good example of collaboration."<sup>28</sup>

## Our view

The Committee welcomes the Cabinet Secretary's commitment to make a statement on progress of the TB Eradication Programme in April 2019. This should include an update on the payment of compensation. In due course, the Cabinet Secretary should report back to this Committee on any analysis of the appropriateness of compensation levels.

We reiterate the Committee's recommendation in its report on Bovine TB (May, 2017), that the Welsh Government should pay farmers a reasonable compensation sum for cattle slaughtered as part of the TB eradication programme. This sum should be kept under review, in consultation with stakeholders.

We would be grateful for further information from the Welsh Government about its plans for the use of the TB vaccination, including the associated costs of such a programme.

**Recommendation 21.** The Welsh Government should report back to this Committee in April 2019 on progress of the TB Eradication Programme. This should include an update on the reduction of the incidence of bovine TB and the payment of compensation.

**Recommendation 22.** The Welsh Government should report back to this Committee on the progress of TB vaccination pilots. This should include information on their anticipated scale and cost.

## 7. Air quality

**60.** The Cabinet Secretary's written evidence says she is making additional allocations to support air quality. This consists of UK consequential funding to support this work, with £0.6m revenue funding in 2019-20, £6.5m capital in 2019-20 and a further £2.8m capital in 2020-21.

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<sup>28</sup> <http://record.assembly.wales/Committee/5084>

**61.** On 24 April 2018, the Minister for Environment announced the introduction of the Clean Air Wales Programme. The immediate aim of the programme will be to achieve compliance with existing air quality obligations. The Minister said its wider aim will be to reduce the burden of poor air quality on human health and the environment.

**62.** The Minister said that a core component of the Clean Air Wales Programme will be a Clean Air Plan, which will be subject to consultation by the end of 2018.

**63.** Also announced on 24 April 2018 was a new, £20m fund to reduce emissions and improve the environment in Wales. The “Air Quality Fund”, which will run until 2021, is intended to support local authorities to comply with nitrogen dioxide limits and improve air quality in their areas.

**64.** In written evidence, the Cabinet Secretary said that funding of £0.6m revenue in 2019-20 and £6.475m capital in 2019-20 and a further £2.815m capital in 2020-21 had been allocated to establish an Air Quality Monitoring and Assessment Centre for Wales.

## Our view

The Welsh Government has been found during a judicial review to have failed to satisfy the requirements of the ambient air quality directive and associated Welsh regulations. Part of its immediate response has been to create a £20m Air Quality fund. The Welsh Government should provide the Committee with an update at the earliest opportunity on take-up and progress towards meeting the legal requirements.

There is no allocation in the draft budget for the implementation of a Clean Air plan. Given that the plan will be published in 2019, the Committee would have expected to see related funding allocations in the 2019-20 draft budget.

**Recommendation 23.** The Welsh Government must report back to Committee on the take-up of the Air Quality fund. This should include information about the local authorities that have drawn on the fund and the progress that has been made as a result of that funding. The Welsh Government should also explain how it will evaluate the effectiveness of the use of allocations from the fund.

**Recommendation 24.** The Welsh Government should provide this Committee with its Clean Air plan in draft, so that the Committee can inform its development.

**Recommendation 25.** The Welsh Government should report back to this Committee on progress towards establishing the Air Quality and Assessment Centre for Wales.

## 8. Flood and coastal erosion risk management

**65.** Revenue funding for Flood Risk Management and Water (BEL 2230) increases by £2.4m from £22.4m to £24.8m. This is a 10.5% increase in cash terms (8.8% in real terms). Capital for Flood Risk Management and Water (BEL 2230) decreases by £7.5m from £34.5m to £27m. This is a 21.7% cut in cash terms (22.9% in real terms).

**66.** The Cabinet Secretary's written evidence highlights investment in flood and coastal erosion risk management as an example of preventative spend. In relation to the focus of this investment, the Minister told the Committee that:

“The risk isn't static, which is why we're always keen to review and to assess what we're doing, and to work with NRW as one of our partners, but also in terms of making sure that we prioritise our investment in those areas that we know from our criteria are most at risk.”<sup>29</sup>

**67.** The Cabinet Secretary's written evidence stated that work has commenced on a new national strategy for flood and coastal risk management. A new Flood and Coastal Erosion Committee has been established to advise the Minister and risk management authorities (NRW, local authorities and water companies).

**68.** The additional £2.4m of revenue funding in the draft budget is to support payments to local authorities under the Coastal Risk Management Programme (CRMP). The CRMP will be funded via the Local Government Borrowing Initiative (LGBI). In last year's draft budget scrutiny session, the Cabinet Secretary told the Committee that the Welsh Government will “fund 75 per cent of this and the other 25 per cent will be funded locally. Our 75 per cent of the funding would be given to local authorities as revenue in order to support the repayments under the initiative”. In response to a question about exploring innovative approaches to funding, the Minister said:

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<sup>29</sup> <http://record.assembly.wales/Committee/5084>

“we’re always keen to look at more innovative ways of doing that, and that links in in terms of the whole stakeholder and community involvement as well.”<sup>30</sup>

**69.** The £7.5m reduction in capital reflects the fact that last year’s budget included an increase to develop certain specific schemes. The written evidence states that the reduction returns the capital budget to previously agreed levels.

## Our view

The Committee welcomes the investment in flooding and coastal erosion risk management. We would be grateful for further information about the timetable for introduction of the new national strategy and clarification from the Cabinet Secretary about whether there are any allocations in the draft budget for the implementation of the strategy, or any actions arising from it.

When the Coastal Risk Management Programme (CRMP) was announced, it was expected that it would be worth £150m, would be funded by the European Investment Bank’s European Fund for Strategic Investment, and would run between 2018-22. The Welsh Government has since announced that the programme will be funded via the Local Government Borrowing Initiative. The Committee would be grateful for further information about the impact of this change and the take up of the Programme so far.

The Committee welcomes the Minister’s comments in relation to alternative sources of investment and would be grateful for further information on this matter.

The Committee recognises the need for sustainable and preventative spend in relation to flood management and plans to look at this subject in further detail in early 2019.

**Recommendation 26.** The Welsh Government must report back to Committee on the take-up of the Coastal Risk Management Programme (CRMP) within 6 months. This should include information about the local authorities that have drawn on the fund and the progress that has been made as a result of that funding. The Welsh Government should also explain how it will evaluate the effectiveness of the use of allocations from the fund.

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<sup>30</sup> <http://record.assembly.wales/Committee/5084>

**Recommendation 27.** The Welsh Government should report back to this Committee on its progress in attracting alternative sources of investment for flooding and coastal risk management interventions.

## 9. Land use planning

**70.** Resource for Planning and Regulation Expenditure (BEL 2250) decreases by £0.2m from £5.2m to £5m. This is a 3.8% decrease in cash terms (5.3% in real terms).

### 9.1. National Development Framework

**71.** The Planning (Wales) Act 2015 requires the Welsh Ministers to develop a National Development Framework (NDF), a 20 year strategic framework with development plan status. The final NDF is due to be published, following Assembly consideration, in September 2020.

**72.** The Cabinet Secretary's written evidence states that during 2019-20 the cost of producing the draft NDF will be approximately £0.4m. This will be met from the Planning Directorate's existing budget.

### 9.2. New infrastructure consenting arrangements

**73.** The Wales Act 2017 devolved further energy consenting powers, including for energy generating stations with a capacity of up to and including 350MW. The new powers are to be commenced on 1 April 2019.

**74.** Due to the short timescale for implementing the new arrangements, the Welsh Government plans to introduce an interim approach by 1 April 2019, to be followed by a permanent solution after 2020. The permanent solution will involve establishing a bespoke major infrastructure consenting process for Wales and will require primary legislation.

**75.** The Cabinet Secretary's written evidence states that the Planning Directorate is on course to deliver the interim approach. Having consulted on the interim arrangements, work is underway to produce a package of subordinate legislation needed to introduce the consenting arrangements by 1 April 2019.

### Our view

A significant amount of work will need to be undertaken to develop the Bill for the proposed permanent consenting process. However, there is no allocation in

the draft budget for preparatory work. The Committee would be grateful for further information about the timetable for this Bill.

**Recommendation 28.** The Welsh Government should report back to this Committee on its anticipated timetable for the energy consenting Bill.

**Recommendation 29.** The Welsh Government should provide an update on the implications of the reduction in the planning inspectorate budget for the operations of the planning inspectorate. The Cabinet Secretary should set out her plans for this policy area.

## 10. Other matters

### Third sector funding

**76.** In April 2018, several grants<sup>31</sup> were merged into one project-based scheme, the “Enabling Natural Resources and Well Being Grant”. The Cabinet Secretary has described this as “a move away from the previous separate sector grants towards a more collaborative grant, the focus on project funding”.

**77.** In written evidence,<sup>32</sup> Wales Environment Link (WEL) raised concerns about this change in approach, as its ongoing policy and advocacy work is not project-based. The loss of core funding will have a significant impact on other third sector organisations in similar circumstances.

**78.** The Cabinet Secretary told the Committee:

“I met with Wales Environment Link last week... and had a discussion. I know they were concerned about that. I think there’s some misinterpretations of it and I think it’s really important that we have transparency when we’re spending public money. So, I think, moving from core funding to project funding will enable that and I think it will be much clearer what everyone’s getting for their money.”<sup>33</sup>

### Waste

**79.** Revenue allocations for Waste (BEL 2190) have increased from £32.059 million in the 2018-19 final budget to £36.655m for 2019-20. The additional

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<sup>31</sup> Including the Environment Core Grant and the Green Infrastructure Capital Grant

<sup>32</sup> <http://senedd.assembly.wales/mgConsultationDisplay.aspx?id=309>

<sup>33</sup> <http://record.assembly.wales/Committee/5084>

allocation consists of £2.8m for the “re-establishment” of waste specific grants. This is described in the Cabinet Secretary’s written evidence as the “reversal of [a] previous cut”.<sup>34</sup>

## Recommendations

**Recommendation 30.** The Welsh Government should report back to this Committee about any impact assessment that has been undertaken in relation to her decision to merge several grants into one project-based grant, the “Enabling Natural Resources and Well Being Grant”. The Welsh Government should provide further information about what it believes the impact of this decision will be.

**Recommendation 31.** The Welsh Government should provide further information about the allocation of £2.8m to give effect to the “reversal of [a] previous cut” in relation to the Waste Specific Grant to Local Authorities. This should explain the purpose of the grant; the reasons for the previous reduction; and the reasons for reversing the reduction.

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<sup>34</sup> <http://senedd.assembly.wales/documents/s80286/CCERA Draft Budget.pdf>