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Llywodraeth Cymru
Welsh Government

Llyr Gruffydd MS
Chair, Climate Change, Environment and Infrastructure Committee

13 December 2022

Dear Llyr,

I am writing to you regarding a recommendation made by the Climate Change, Environment & Infrastructure Committee in its report on Scrutiny of the Welsh Government Draft Budget – 2022-23:

Recommendation 2. *The Welsh Government should provide a comprehensive explanation of work it is undertaking to leverage private investment to meet the cost of transitioning to Net Zero.*

In my response to the Committee's report on 7 March, I accepted this recommendation and committed to providing an update on this question alongside our first statement of progress on decarbonisation later this year. My officials have prepared the attached paper by way of meeting this commitment.

I hope you find this paper satisfactory, and I would like to thank the members of the Climate Change, Environment and Rural Affairs Committee for your report.

Yours sincerely

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

Annex – How the Welsh Government are leveraging private sector investment

Introduction

Net Zero Wales¹ set out the latest estimates on the approximate level of additional investment required for delivering net zero in Wales, based on analysis by the Climate Change Committee (CCC 2020)². These estimates suggest that to meet future statutory emissions targets, investment in the net zero transition needs to ramp up significantly over the short, medium and long-term.

Whilst the public sector has a very important role to play in financing some of the transition to net zero, the majority of investment is expected to be made by the private sector (CCC 2020). For example, the Office for Budget Responsibility (OBR) (2021)³ has produced scenarios to forecast how much the net zero transition would cost the public sector in the UK. Their central estimate assumed just over 25% of the cost up to 2050 would be met by the public sector, leaving almost 75% to be met by the private sector.

The actions taken by Government can have a major influence over the levels of private sector investment. Governments can drive private sector investment in a number of ways, for example by shaping incentives (like taxes on polluting and subsidies for low-carbon technology), removing barriers to investment, provision of information to address information gaps, command and control policies (like regulation), and investing in research and development to develop new technologies and bring future prices down.

The Senedd's Climate Change, Environment and Infrastructure Committee made a recommendation to provide a summary of the work which Welsh Government is undertaking to leverage investment by the private sector to meet the cost of transitioning to Net Zero. Whilst the UK Government holds many of the key levers in driving private investment, the Welsh Government has a range of tools which it can use to boost and encourage private investment. The Minister for Climate Change accepted the recommendation and below sets out some examples of how we are leveraging investment.

Examples of Welsh Government action to leverage private sector investment.

Agriculture

- In April 2022 the Welsh Government announced a package of support worth over £227 million over the next three financial years dedicated to support the resilience of the rural economy, which includes support for farm businesses to respond to the challenges of climate change. Utilising this budget, through a package of **transitional schemes**, the Welsh Government supports farm businesses to enhance their environmental performance and respond to the challenges of climate change.
- Infrastructure investments and support towards new technology and equipment is financed at a maximum 40% of eligible costs. Farm businesses therefore have to provide the **match funding** to be eligible for support (in this instance, funding 60% of the project costs). In 2022, our schemes will offer support totalling £23m which will lever in £57.5m of private sector investment, assuming the full take up of the budget offer.

¹ [Net Zero Wales Carbon Budget 2 \(2021 to 2025\) | GOV.WALES](#)

² [Sixth Carbon Budget - Climate Change Committee \(theccc.org.uk\)](#)

³ [Fiscal risks report – July 2021 - Office for Budget Responsibility \(obr.uk\)](#)

- We have also delivered a series of other **investment matching programmes** to incentivise farm businesses to invest in and enhance their environmental performance. For example, the **Farm Business Grant** (funding being provided by the EU Rural Development Programme) supported farmers to invest in new equipment and machinery to boost farm efficiencies and lower on-farm emissions. In addition, the Sustainable Production Grant provided contributions towards capital investment in equipment and machinery which reduces the impacts of agricultural pollution, thus safeguarding nutrient management, and boosting water, air and soil quality.
- The Welsh Government has also introduced **Control of Agricultural Pollution (CoAP) regulations**⁴, with some of these regulated measures likely resulting in reduced nitrous oxide emissions. These regulations will be fully implemented by August 2024, and will motivate farmers to invest in on-farm infrastructure to reduce agricultural pollution and nitrous oxide emissions. The Welsh Government will also provide financial support to farmers with on-farm infrastructure investment, paid at 40% the equivalent private sector investment, to help farmers reduce agricultural pollution.
- The **Wales Animal Health and Welfare Framework** drives investment in **improving animal health** in Wales, consequently improving efficiency of production and reducing on-farm emissions. The framework supports preventative veterinary interventions like animal health planning, biosecurity measures and vaccinations. The Welsh Government also provides other incentives for private investment in animal health, for example in influencing farm assurance standards and including animal health considerations (e.g. disease eradication programmes) in our support grants and knowledge exchange programmes.
- Finally, we have several schemes designed to **provide information and offer support** to farmers, which in many cases may encourage investment in areas which reduce on-farm agricultural emissions. One example is Farming Connect, a major programme providing subsidised independent, tailored business support on how to achieve optimum results from livestock, which in turn helps reduce emissions. Farming Connect also has an interactive tool developed to demonstrate different ways a typical Welsh farm could reduce emissions and invest in low-emission farming practices while increasing profitability.

Land use:

- The **Woodland Finance Working Group** was formed following a recommendation from the “deep dive” tree planting exercise led by the Deputy Minister for Climate Change. The group is made up of forestry, finance and economics experts supported by Welsh Government officials. The working group aims to identify models to encourage non-Government investment in tree planting in Wales that avoid disadvantaging rural communities and disrupting existing patterns of land ownership. The recommendations from the group have been published⁵ and work is continuing on implementing these. Most woodland creation over the next 3 years will be funded through Welsh Government grant schemes whilst suitable private investment is secured. However, pilot projects to test approaches to private investment will be introduced in the short term.

Residential buildings:

- The Welsh Government have introduced new **Part L Building Regulations**⁶, which sets minimum standards for new build housing and conversions. The regulation requires a 37%

⁴ [The Water Resources \(Control of Agricultural Pollution\) \(Wales\) Regulations 2021: guidance for farmers and land managers | GOV.WALES](#)

⁵ [Woodland Finance Working Group: recommendations for woodland creation \[HTML\] | GOV.WALES](#)

⁶ [Building regulations guidance: part L \(conservation of fuel and power\) | GOV.WALES](#)

reduction in carbon emissions (compared with current standards) for new dwellings from the end of 2022. These improved standards will require the private sector to boost investment in new homes, whilst also generating long-run benefits from lower operating costs due to improved efficiency. We will make further changes to Building Regulations in 2025, raising the bar to require new homes to emit 75% less carbon dioxide than homes built to current requirements. We are also generating demand for new-build homes which meet new energy efficiency and building standards through delivering a **Help to Buy Wales**⁷ (HtBW) scheme, providing shared equity loans to eligible buyers of new-build homes.

- A revised **Welsh Housing Quality Standards (WHQS)**⁸ **2023** has recently been consulted on that would require higher Standard Assessment Procedure (SAP) ratings and energy efficiency improvements in existing social homes. The standards proposed a focus on fabric-first principles, and would seek to bring all social housing as close as feasible to EPC A or equivalent within a decade, as well as setting other targets on the future decarbonisation of homes. Some public funding is available to support Registered Social Landlords (RSL) with meeting these new standards, however significant private investment from landlords as well as from financial institutions will also be required. Currently the responses from the consultation are being considered and the final form of the standard may be adjusted following this feedback.
- The **Optimised Retrofit Programme (ORP)**⁹ provides funding to support RSLs and stock holding local authorities to retrofit social housing stock through part funding retrofit investments. The Welsh Government have provided £70mn during this term of government and a further £150mn is planned over the rest of the term, whilst also leveraging significant levels of private investment. This financial year, we are looking to offer grant support to all RSLs via a formula funded approach and are also looking to expand ORP into the private rented sector in the future.

Industry and Business:

- **The UK Emissions Trading Scheme (UK ETS)** is a 'cap and trade' scheme with participants being our largest carbon emitters (heavy industry, gas-fired power generators and aviation). It adopts a 'polluter pay's' principle, where participants must surrender an allowance for every tonne of carbon emissions emitted. The scheme works by setting a cap on the total greenhouse gas emissions allowed by all participants within the UK scheme. The cap decreases over time to help bring down total emissions. The cap is converted into tradable emission allowances, giving holders the right to emit one tonne of CO₂ equivalent per allowance. By applying a carbon price and allowing trading, where participants can invest to decarbonise at less cost than buying allowances, they will do so. This ensures decarbonisation is achieved at the lowest cost across the whole scheme.
- The Welsh Government is rolling out free **Sustainability and Decarbonisation Workshops tailored to the Food and Drink Industry**. Businesses who have attended the Sustainability Course are also eligible to apply for up to £15,000 funding to conduct feasibility studies to explore the best solutions for their specific business to reduce greenhouse gas emissions. Through providing this support, businesses will have a better understanding of what investments they can make to reduce emissions, whilst maximising profitability.

⁷ [Help to Buy – Wales | GOV.WALES](#)

⁸ [Welsh housing quality standard | GOV.WALES](#)

⁹ [Optimised RetroFit Programme | GOV.WALES](#)

- Following publication of a **shared vision for the Retail Sector**¹⁰, we are now co-producing a Delivery Plan with our Retail Forum that includes representatives from trade unions and other businesses representative organisations. The intention is for the Delivery plan to focus on several key areas, including Decarbonisation. This plan and engagement will advise on and encourage effective investment in measures resulting in reduced energy consumption and greenhouse gas emissions.
- **Net Zero Industry Wales (NZIW)**¹¹ is a new entity that has been created to provide the essential collaboration between industries, academia and government that will be needed on the journey towards net zero. NZIW will initially focus on South Wales by providing the governance to the South Wales Industrial Cluster (SWIC) but will have the capability to expand it to cover mid and North Wales at a future point in time, based on an industry requirement. NZIW will work with an existing group of forty business and academic partners operating within a wide range of energy-intensive industries to help them achieve Net Zero. This will include enabling industry to explore new economic growth opportunities by becoming a world-leader in low-carbon manufacturing - playing to Wales's existing strengths; Support future development of a Circular Economy in Wales; Stimulate and anchor new investments to create and retain high-skilled jobs; Engage with stakeholders to support public and private investment.
- The **Manufacturing Action Plan**¹² is driving a more collaborative approach to supporting the manufacturing sector to respond to major challenges like climate change and the need to decarbonise. It is promoting best practice and supporting industry through a range of activities to embed and invest in industry 4.0 technologies to become more efficient and reduce their carbon use.
- The **Economy Futures Fund (EFF)** pools together a number of existing funding streams to support businesses to invest in one of the five Calls to Action (outlined in the Economic Action Plan), one of which is decarbonisation. The fund will support businesses invest in areas which will drive the net zero transition, such as new technologies which reduce the carbon footprint of its goods and services, and invest in research and development for new low-carbon technologies or fuels.
- We published a report on the **Carbon Capture Utilisation and Storage Network for Wales**¹³ in October 2021, alongside a supplementary report¹⁴ in June 2022. These reports demonstrate that CCUS is a feasible technical option to support Wales in meeting Net Zero. Following publication of the latest report, we are considering the actions and recommendations, as well as engaging with industrial stakeholders on next steps, including consideration of the potential infrastructure required to utilise the technology in Wales.

Transport:

- To incentivise uptake and investment in electric vehicles in Wales, the Welsh Government has committed to delivering a network of **electric vehicle charging points** on the strategic trunk road network every 20 miles across Wales by 2025 and will ensure that there is at

¹⁰ [A shared strategic vision for the retail sector \[HTML\] | GOV.WALES](#)

¹¹ [Net Zero Industry Wales established to support decarbonisation of Welsh industry | GOV.WALES](#)

¹² [Written Statement: Manufacturing Action Plan for Wales \(25 February 2021\) | GOV.WALES](#)

¹³ [A carbon capture, utilisation, and storage network for Wales: report | GOV.WALES](#)

¹⁴ [Carbon capture, utilisation, and storage \(CCUS\) strategy sensitivity analysis: supplementary report | GOV.WALES](#)

least one publicly accessible charging point for between every 7 and 11 electric cars and vans in Wales.

- We have also committed to deliver a **zero tailpipe emission taxi and private hire fleet by 2028**. Although the majority of investment will be made by the private hire fleet, the Welsh Government will support this transition in a number of ways, for example through running a 'try before you buy' scheme, developing a complementary lease scheme for drivers with limited access to finance, and providing other financial incentives like capital grants, loans and support packages to incentivise investment in zero-emission wheelchair accessible vehicles.
- The Welsh Government have mandated targets for a **zero-emission bus fleet** by between 2028 and 2035, with the most polluting 50% of service buses to be replaced by zero-emission buses by 2028. We will support this transition, for example by providing funds through the Bus Services Support Grant, however significant private investment will also be required to decarbonise the bus fleet.
- Within our competence, we will trial new technologies for **zero-emission HGVs** using the financial incentives available from the UK Government. We will also support this innovation work through aligning trials for new technologies with emerging opportunities for the production of clean energy, such as the Holyhead Hydrogen Hub.

Electricity and heat generation:

- Welsh Government is funding the **development of plans across Wales, at local, regional and national levels**¹⁵ to set out the changes needed to decarbonise the energy system, across power, heat and transport. These plans will provide evidence that will generate a range of projects and add confidence for investors. They will enable regions and local authorities to develop partnerships with the private sector to invest in these projects. The four regional energy strategies have each set out an estimate of the level of investment required under their plans to 2035.
- Since April 2019, Welsh Ministers **powers to consent** have been expanded from the upper limit of 50MW onshore to 350MW both on and offshore (excluding onshore wind, the consenting for which is already devolved). We will continue to increase renewable energy developments through our planning regime within the Future Wales framework, and we will improve and unify the consenting of energy generation projects in Wales to provide a quicker and more proportionate consenting regime for energy infrastructure.
- Many of the powers and financial mechanisms with respect to reducing emissions in the power sector sit with the UK Government. The principle barrier to deployment of renewables in Wales (and the rest of the UK) is the lack of a consistent and predictable route to market. We are therefore asking the UK Government for a long-term approach which supports a broad range of renewable technologies, creating a sustainable market for the wide range of low carbon heat technologies.

Public sector:

- Public Sector Decarbonisation provides technical and financial support to organisations across the Welsh public sector. This support is to help the public sector decarbonise and reach the collective ambition of a net zero public sector by 2030. Projects are financed and paid back from annual savings/revenues from the investment. Two examples of

¹⁵ Development plans can be found here: [Low carbon energy | Sub-topic | GOV.WALES](#)

projects financed by this support, are; 1) Flintshire schools received £59,022 for LED lighting across 4 sites, 2) Swansea Bay Health Board received £3.3mn for Solar PV and battery storage. Whilst these projects are funded by public finance, they are delivered by the private sector, thus helping to develop the supply chain and develop necessary skills to facilitate future decarbonisation projects.

Cross cutting

- The **Circular Economy Fund (CEF)**¹⁶ was launched in April 2019 as a 3-year, £6.5mn capital investment scheme to help Wales move towards a Circular Economy and boost private investment in resource efficient manufacturing processes. The fund was delivered by WRAP Cymru on behalf of the Welsh Government. CEF supports investment in manufacturing processes in Wales to increase the use of recycled and re-used content in products or components, or extend the lifetime of products/materials through preparation for re-use, refurbishing or re-manufacturing activities. Funding was available from £25,000 to £200,000 at a maximum 60% intervention rate, or from £200,000 to £750,000 at an intervention rate of 35% to 70% of total capital costs. According to WRAP research, over the past 3 years, CEF has delivered significant emissions savings through more efficient use of resources, boosted manufacturers profitability and spurred private sector investment in more resource efficient production. We will continue to scope options for the future direction of the fund, beyond the 3-year pilot.
- As an arm's length body of the Welsh Government, the **Development Bank of Wales (DBW)** provides loans to and makes equity investments in businesses from £1k to £10m from a range of funds which support decarbonisation activities. In doing so, it co-invests alongside private sector funders. DBW investments can cover all business needs from short-term working capital (up to 12-month loans) to longer term patient capital loans (6 to 15 years). This will include providing finance for businesses which are making capex investments of any type. However, it will also include finance to decarbonise their businesses. So, for example, if a business needed £1m for insulation, new LED lighting or a new heat pump system, DBW may provide £600k and a high street bank may provide the other £400k. In 2021/22 DBW invested £109m into business and also attracted £64m of private sector investment (a breakdown of how much of this investment was related to the net zero transition is not available, although it will be investigating how it can capture such information in the future). In its 5-year corporate plan¹⁷, published recently, it is targeted to invest £651mn into businesses, and attract £651mn of private sector investment – an increasing proportion of this investment will contribute to the net zero transition. DBW is also developing specific new decarbonisation products for launch to the market from 2023/24. These include Green Loans and Incentives for Businesses and housing retrofit loans for the owner-occupied market.

The above presents an overview of examples across the different emissions sectors. Over Carbon Budget 2 (2021-2025) and 3 (2026-2030), we will continue to look for opportunities for leveraging investment and call on UK Government and others to work with us in doing so.

¹⁶ [£6.5 million Circular Economy Fund launches to increase the use of recycled materials | GOV.WALES, Circular Economy Fund | WRAP \(wrapcymru.org.uk\)](#)

¹⁷ [Development Bank of Wales corporate plan](#)