

Simon Thomas AM
Chair of the Finance Committee
National Assembly for Wales

18 November 2016

Dear Simon,

Scrutiny of the Welsh Government's draft budget for 2017-18 – the Environment and Rural Affairs Main Expenditure Group

We considered the Welsh Government's draft budget for 2017-18 on 2 November 2016. I set out our headline observations below.

In addition to this letter, I have written to the Cabinet Secretary for Environment and Rural Affairs to request additional information in number of areas.

In general, we note that the Environment and Rural Affairs Main Expenditure Group (MEG) faces a significant reduction in capital allocations. In light of the work needed to deliver the Government's climate change duties and commitments, reductions to the capital budget within the climate change and sustainability Spending Programme Area (SPA) could be perceived as a risk to the delivery of these commitments (though the Cabinet Secretary assured us that delivery was not at risk). Time will tell and our programme of work in relation to climate change scrutiny will be monitoring delivery.

1 Budget process

1.1 Presentation of information

We are grateful to the Cabinet Secretary and her officials for the provision of information to BEL level. This level of information is essential to our financial scrutiny work and in ensuring transparency.



Notwithstanding the above comments, we would like to see more information relating to changes in expenditure lines provided under the ‘comments’ column. There were a number of decreases in expenditure that were not clearly explained. When questions were put to the Cabinet Secretary in relation to these lines, her officials were able to offer some explanation. Had the decreases been explained in further detail then it may have avoided the need to explore these during the evidence session. I will be writing to the Cabinet Secretary to request this additional detail for future sessions.

1.2 Carbon and fiscal budgets

We are pleased that the Cabinet Secretary is planning to align carbon and fiscal budgets in future and commend this approach. We will follow this development with keen interest and this may be an area of interest to the Finance Committee in the future.

1.3 External sources of funding

It was apparent to us that the Cabinet Secretary is relying on funding from external sources to deliver several objectives. European funding and local authority borrowing are two examples.

She is also hoping for additional allocations from reserves before the draft budget is finalised, subject to the Chancellor of the Exchequer’s Autumn Statement.

In order for us to look holistically at the Cabinet Secretary’s spending plans and to assess the level of risk that might be attached to some of these approaches, we believe that information regarding the funding that is expected from these external sources should be provided to us in future.

1.4 Implementing the Well-being of Future Generations Act and the Strategic Integrated Impact Assessment

We believe more needs to be done to demonstrate how budget decisions are being shaped by the Well-being of Future Generations Act. We have requested further



information from the Cabinet Secretary and hope that this will yield evidence of where particular budget lines have been created, stopped, increased or reduced as a direct consequence of meeting the requirements of this Act.

In terms of the Strategic Integrated Impact Assessment, we were disappointed that no specific reference was made to how issues of socio-economic disadvantage, equality, the Welsh language, sustainable development, children's rights and tackling poverty were considered within the environment portfolio. As with the point we make above in relation to the Well-being of Future Generations Act, we expect more detail of how considering these cross-cutting issues shaped budget allocations. Without this detail, the impression given is that these issues are treated superficially rather than being central to the decision-making process.

1.5 Natural Resources Wales

The Chief Executive of Natural Resources Wales has requested that NRW be provided with a three-year budget settlement. We are sympathetic to this request. In addition to assisting NRW in managing the significant challenges it faces, it would help provide a degree of certainty to NRW's staff. This, in turn, could make some small contribution towards improving staff morale within the organisation.

The Auditor General for Wales also recognised this as an issue in his report *The Development of Natural Resources Wales* published in February 2016.

2 Prioritisation, affordability and value for money

2.1 Fuel poverty

The Cabinet Secretary identified the eradication of fuel poverty as a priority in her budget paper, yet the relevant BEL shows a considerable reduction over the budget period. Whilst officials suggested that this would be compensated for through accessing European funding, we remain concerned about the lack of core funding for such a stated priority; particularly as it has the potential to offer significant benefits in terms of preventing spend in other areas and making a significant contribution to meeting carbon reduction targets.



2.2 Flood protection and coastal risk management

The Cabinet Secretary stated that flood protection was one of the key priorities for her portfolio, and emphasised that maintaining the flood risk management budget is essential to sustain and build resilience to flooding and future climate change.

In his *Coastal flood and erosion risk management in Wales* report, the Auditor General for Wales recognised that recent Welsh Government investment has improved coastal protection and delivered some wider benefits. However, he also raised concerns about the capacity within the Welsh Government and local authorities to manage the risks of erosion and flooding in the future.

As the budget currently stands, it appears to us that the Welsh Government is planning to allocate less capital funding for flood risk management during the course of this Assembly than it did in the last, with a planned decrease from £29 million in 2017–18 to £17 million per year for 2018–19 and 2019–20.

We understand that the Welsh Government hopes that local authorities will be able to access additional funding through borrowing but we remain concerned about this reliance on local authorities – particularly in light of the Auditor General’s findings.

Additionally, the Government has previously indicated that it saw the European Investment Bank as a source of funding for the forthcoming Coastal Risk Management Programme. Whilst it is possible for the EIB to invest in projects outside the European Union, 90% of its investments are made within the European Union. This adds to the uncertainty around the future sources of funding for the Government’s approach.

We intend to undertake an inquiry into this area during the next year and will consider affordability and value for money as part of this work.



We thank the Finance Committee for considering our views and hope they are of use to its work. This letter is copied to the Cabinet Secretary and it will also be published to the Assembly's website.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'M Reckless', written in a cursive style.

Mark Reckless AM

Chair of the Climate Change, Environment and Rural Affairs Committee

