

Scrutiny of the Welsh Government Draft Budget 2018-19

1 December 2017

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 22 November. We also gathered written evidence from relevant Welsh Government departments and drew on relevant evidence submitted to other Assembly committees.

2. The Committee had planned to take oral evidence from the Cabinet Secretary for Economy and Transport on matters relating to the Committee's remit, but was unable to do so in the time available. The Committee plans to meet the Cabinet Secretary early in 2018.



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1. Overview

3. The Environment and Rural Affairs budget has received the biggest reduction of all Welsh Government departments. Total spend for the Main Expenditure Group (MEG) has decreased from £386.6 million in the June 2017 Supplementary Budget to £346.1 million in this draft Budget. This is a decrease in cash terms of 10.5% (£40.5 million) and in real terms of 11.9% (£45.8 million).

4. The Environmental and Rural Affairs total Departmental Expenditure Limit (DEL) decreases from £384.2 million in the June 2017 Supplementary Budget to £343.7 million. This is a decrease in cash terms of 10.5% (£40.5 million) and in real terms of 11.9% (£45.8 million). When compared to the revised baseline (£371.2 million) the DEL decreases by 7.4% (£27.5 million).

Resource

5. The Resource DEL has decreased from £282.4 million in the June 2017 Supplementary Budget to £243 million. This is a decrease in cash terms of 13.9% (£39.4 million) and in real terms of 15.3% (£43.1 million). When compared to the revised baseline (£284.9 million) the Resource DEL decreases by 14.7% (£41.9 million) in cash terms.

6. The majority of the reduction in the Revenue DEL is as a result of the transfer of £35 million from the waste budget out of the Environmental and Rural Affairs MEG into the Local Government MEG. Excluding this transfer, the Revenue DEL decreases by 1.6% in cash terms when compared to the 2017 supplementary budget and 2.4% when compared to the revised baseline.

Capital

7. The Capital DEL has decreased from £101.7 million in the June 2017 Supplementary Budget to £100.6 million. This is a decrease in cash terms of 1.1% (£1.1 million) and in real terms of 2.6% (£2.6 million). When compared to the revised baseline (£86.2 million) the Capital DEL increases by 16.7% (£14.4 million) in cash terms.

8. In her paper, the Cabinet Secretary told the Committee that during the current budget-planning period, additional capital funding was allocated to the portfolio from reserves. This totals £14.5 million for 2018-19, £6 million for 2019-20 and £1.6 million for 2020-21, and includes funding for the Rural Development Programme (£5.4 million), flood and coastal risk management (£7.5 million), and the post Brexit rural payments system (£5 million).

Transparency and engagement

- 9.** The Welsh Government has worked with the Wales Council for Voluntary Action and Citizens Wales to run engagement sessions during October and November to gather understanding of participatory budgeting and views about how to engage, especially on budget priorities. This, it says, will help inform its approach to participatory budgeting in future budgets.
- 10.** The Welsh Government has also focused on digital tools to support budget engagement. A budget calculator has been made available alongside the detailed portfolio budget proposals.

OUR VIEW

- 11.** The Committee is concerned that there is a lack of evidence in the draft Budget of a strategic approach to prioritisation. In particular, it is unclear how Welsh legislation, such as the Well-being of Future Generations Act (Wales) 2015, has informed the budget allocation process. Moreover, it is unclear how the draft Budget allocations support the Welsh Government's carbon reduction ambitions.
- 12.** The Committee has received feedback from stakeholders that the way in which the draft Budget is presented is unclear. Stakeholders told the Committee that they believe that year-on-year changes are difficult to monitor and that it is difficult to assess the effectiveness of funding as it is not based on outcomes. They drew attention to the Scottish Government's approach as an example of good practice. The Committee is grateful that the Cabinet Secretary has agreed to consider whether aspects of the Scottish Government's approach can be applied in Wales. The Committee will write to the Finance Committee to draw these conclusions to its attention.
- 13.** The Committee welcomes greater involvement and discussion with stakeholders in the budget process. This, however, must be meaningful and the Cabinet Secretary should demonstrate how initiatives such as participatory budgeting have informed the decision-making process.
- 14.** When the draft Budget was published, stakeholders expressed considerable concern about the decision to transfer £35 million of funding for waste management from the Environment and Rural Affairs to the Local Government MEG. The Cabinet Secretary's evidence said that local authorities were represented on the Waste Ministerial Programme Board, which supported this decision, but it is unclear whether environmental stakeholders were involved. The Cabinet Secretary should consider how

such decisions should be communicated to stakeholders in future to mitigate any unnecessary concerns.

Recommendation 1. In future, the draft Budget should be presented in such a way that intended outcomes are identified for all investment allocations, so that progress can be monitored.

2. Well-being of Future Generations (Wales) Act 2015

15. In reference to the extent to which the Well-being of Future Generations (Wales) Act 2015 ('the Act') had influenced decisions made on the budget proposals, the Cabinet Secretary told the Committee that:

“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.”

16. The narrative accompanying the draft Budget said the Welsh Government had been working with the Future Generations Commissioner to ensure the Act is embedded in the budget process:

“We have worked with the Future Generations Commissioner over the course of the budget round to make sure that the Well-being of Future Generations Act is embedded in the budget-making process and we will carry out our first participatory budgeting pilots following the publication of the draft Budget.”

17. In her paper, the Cabinet Secretary listed a number of initiatives that support the achievement of the well-being goals; for example, £6.5 million in the capital budget for the Circular Economy Capital Investment Fund, continued investment in Green Growth Wales and the Warm Homes Programme, and the introduction of the new Green Infrastructure Fund.

OUR VIEW

18. The Committee recognises that successful implementation of the Act requires a significant change in culture and ways of working. However, the Committee is disappointed by the lack of evidence of progress in embedding this legislation and

believes the Welsh Government is yet to demonstrate the transformative change that was promised when the Act was passed.

19. The Committee notes the comments from Welsh Government officials that the principles of the Act have informed the entire budget process. However, the Committee believes that the Welsh Government must demonstrate how the Act has directly influenced the decision-making process. Moreover, there is a lack of clarity as to how the Act is driving prioritisation in this portfolio.

20. The Committee believes that the Welsh Government should incorporate in its impact assessment process an assessment against the Welsh Government's well-being objectives.

Recommendation 2. 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.

3. Transfer of waste funding to Local Government MEG

21. The waste budget line decreases by £38.4 million from £72.2 million to £33.8 million. The majority of this decrease is as a result of the transfer of £35 million from the Environment Single Revenue Grant into the Revenue Support Grant (RSG), which is in the Local Government MEG.

22. The Environment Single Revenue Grant has been available to local authorities as a specific grant in previous years. The grant has supported local authorities to deliver waste services, including meeting recycling targets. The waste element of this funding (£35 million) will become part of the RSG in 2018-19 and will therefore become general, unhypothecated funding.

23. The Cabinet Secretary told the Committee that this approach was intended to streamline funding and that:

“By consolidating more grants into the local government revenue support grant and amalgamating some smaller grants, supported by outcome frameworks, we are increasing the flexibility for local authorities and helping to reduce the administrative burden associated with grant funding.”

24. The Cabinet Secretary was unable to specify the extent of the administrative savings arising from the transfer of the grant but, in the Committee's meeting, she recognised that savings of 5-10% would be typical.

25. In evidence to the Equality, Local Government and Communities Committee on 25 October, Welsh Local Government Association (WLGA) representatives told the Committee that, despite the grant being unhypothecated in future, it is unlikely that the funding would be spent on other areas because local authorities are bound by statutory recycling targets. They said that meeting the 70% recycling target by 2025 would be a challenge and would possibly require additional funding in this area.

26. The Cabinet Secretary told this Committee that the stakeholders she consulted with on the Waste Ministerial Programme Board had no concerns over meeting the 70% target by 2025. She went on to say:

“If anything, I'm looking at whether we should increase that target, because I do think we'll reach the 70% target way ahead of that.”

OUR VIEW

27. The Committee is concerned that the Welsh Government has not undertaken a detailed assessment of the impact of the transfer of the grant. Although the Committee accepts that there will be administrative savings arising from the transfer, there may be risks and disadvantages that have not been identified because of the lack of a robust process.

28. Given that stakeholders have expressed considerable concern about the potential impact of the transfer, the Committee believes that the Welsh Government should undertake an assessment of any potential risks arising from its decision. This will enable the Welsh Government to put in place measures to mitigate those risks.

29. The Committee will keep this decision under review to assess the extent to which it has delivered the intended savings and benefits.

30. The Committee notes the Cabinet Secretary's comments about the possibility of increasing recycling targets. The Welsh Government should report back to the Committee within the next six months on progress in this area.

Recommendation 3. The Welsh Government should report to the Committee within six months on its considerations regarding increasing local authority recycling targets.

Recommendation 4. The Welsh Government should undertake an assessment of the risks and estimated savings arising from the transfer of funding for waste management to the local authorities Revenue Support Grant, and should do so in consultation with stakeholders.

4. Brexit

31. Brexit will have a considerable impact on the Environment and Rural Affairs portfolio, arising from a potential loss of access to EU funds and the need to divert resources to support Brexit-related activity.

32. The Cabinet Secretary told the Committee that over 90% of her department's business is EU-related and that the 'challenges associated with Brexit fall heavily' on her portfolio.

33. Preparing for Brexit is likely to lead to displacement activity across the Welsh Government, as departments are required to prepare new policies, systems and

funding mechanisms. There is likely to be a need to divert financial and staff resources across and within departments.

34. The Cabinet Secretary stressed that preparatory work for Brexit ‘remains a top priority’ and that preparations for Brexit are being carried out by senior staff in the department ‘on top of the day job’. This ongoing work is funded from existing departmental budgets. She went on to say that it will be necessary for her to make further resourcing decisions as more clarity on the Brexit settlement emerges.

35. The UK Government has said that it will bring forward agriculture and fisheries Bills in 2018 to put in place arrangements for when the UK has left the EU. The Cabinet Secretary informed the Committee that the Welsh Government intends to bring forward its own Bills relating to agriculture and fisheries after Brexit.

OUR VIEW

36. Members of the Committee remain concerned that the impact of Brexit will affect the ability of the department to deliver other policy priorities in this area. The Committee notes that senior staff are balancing this additional work with existing priorities. The Committee was not sufficiently reassured that the arrangements that are currently in place are sustainable and the Committee was not provided with any evidence of an assessment of the staffing resource that will be needed in the longer term.

37. The Committee looks forward to receiving further information about the Welsh Government’s proposed agriculture and fisheries Bills. In particular, the Committee is interested in their status in relation to proposed UK Bills on these matters, their scope, any proposed consultation activity, and the timetable for Assembly scrutiny.

Recommendation 5. The Cabinet Secretary should undertake an assessment of the short and medium term staffing resource requirements within her department arising from Brexit. The Cabinet Secretary should report back to the Committee within six months on that assessment.

Recommendation 6. The Welsh Government should provide information on the status and scope of its planned legislation on agriculture and fisheries, along with details on any proposed consultation activity and the timetable for such legislation.

5. European funding

Common Agricultural Policy

38. Capital for the Rural Development Programme (RDP) 2014-20 has been increased by £1.7 million from £8.1 million to £9.8 million in 2018-19 and increases are planned for 2019-20 and 2020-21.

39. The Cabinet Secretary told the Committee that until the UK leaves the EU, funds such as the Common Agricultural Policy (CAP) will 'come to Wales as normal which means that we can be reasonably sure of funding up to 2020 and can approve projects that are committed during that period'.

40. The Committee heard that assurances were being sought from the Treasury that CAP funding would be provided at the current level until 2022. Welsh Government officials commented that discussions were proving to be challenging.

41. The Cabinet Secretary confirmed that the full amount of the RDP EU funds awarded to Wales have been committed 'through a combination of approved projects and ring-fencing of funds for activities ... and future application rounds'. She also stated that the Welsh Government's 'co-financing domestic budgets need to be flexible and we have to ensure that we maximise spend and lever in the EU contributions over the programme period 2014-2020.'

European Maritime and Fisheries Fund

42. Under the Common Fisheries Policy, the UK receives funding from the EU via the European Maritime and Fisheries Fund (EMFF). EMFF funding amounts to approximately £13.8 million and is managed by the Welsh Government.

43. This Committee's report on the management of Marine Protected Areas ('Turning the tide') recommended that the Welsh Government should explain how it intends to address the potential EMFF funding shortfall post-Brexit. The Cabinet Secretary's response was that the delivery of funding commitments made during the referendum campaign was a matter for the UK Government.

Coastal Risk Management Programme

44. The European Investment Bank (EIB), through its European Fund for Strategic Investment (EFSI), has funded a number of infrastructure projects in Wales. In March 2016, the then Finance Minister set out projects that the Welsh Government intended to deliver using funds from the EIB, which included the £150 million Coastal Risk Management Programme, which is due to begin in 2019-20. It has been reported that

it is unlikely that the EIB will commit funding to long term projects due to conclude following the UK's withdrawal from the EU.

45. The Cabinet Secretary suggested that the Coastal Risk Management Programme will be funded via the Local Government Borrowing Initiative:

“Flood Revenue budgets have been protected and Capital budgets have been profiled to fund the current Programme commitments and capital for the Coastal Risk Management Programme (CRMP). The additional revenue funding of £2.4m in 2019-20 is the start of a long-term revenue stream to finance local authorities' capital investment in the programme through a Local Government Borrowing Initiative.”

Bovine TB

46. The Cabinet Secretary's paper says that the 2017 UK TB Eradication Plan has been approved with €27.6 million of co-financing and that Wales normally receives between £2 million and £4 million annually, approximately 10% of the Welsh budget. In correspondence from the Cabinet Secretary to the Committee during its inquiry into the Welsh Government's refreshed TB eradication programme, the total EU Income as a percentage of total expenditure for 2015/16 was stated as being 15.11%, up from 10.98% in 2012/13.

47. TB EU Income shows £2.8 million of EU funds being received in 2018-19. Resources allocated for TB Slaughter and TB Eradication remain the same at £9.4 million and £7.5 million respectively.

New areas of responsibility

48. Several EU bodies and agencies currently undertake functions on behalf of Member States, such as the European Food Safety Authority and the European Environment Agency. These functions will need to be transferred to existing UK or devolved bodies or new bodies will need to be created.

OUR VIEW

49. Given the contribution of EU funding to the delivery of environment and rural affairs policies, the Committee believes the Welsh Government should undertake an assessment of the potential shortfall in funding if the UK Government does not maintain current levels of funding after Brexit. The Welsh Government must also demonstrate that its contingency planning is robust to mitigate any potential shortfall.

50. The Committee is concerned that the question of whether CAP funding will be guaranteed at the present level until 2022 is yet to be resolved.

51. Given the importance of the European Maritime and Fisheries Fund, the Committee reiterates its recommendation that the Welsh Government should progress contingency planning and update the Committee on the progress of discussions with the Treasury to secure funding at commensurate levels in the short term.

52. The Committee notes the comments from the Chief Veterinary Officer for Wales that the efforts to eradicate Bovine TB will mean that the need for funding in this area should decrease in the long term. The Committee endorses this ambition and calls on the Welsh Government to provide an update on its projections for the eradication of Bovine TB in Wales.

53. Finally, in relation to the functions currently being undertaken by European bodies or agencies, the Committee believes that the Welsh Government should undertake an assessment of the costs of exercising those functions in devolved areas after Brexit.

Recommendation 7. The Welsh Government should undertake an assessment of the potential shortfall in funding if the UK Government does not maintain current levels of EU funding after Brexit.

Recommendation 8. The Welsh Government should progress contingency planning to address any shortfall in funding if the UK Government does not maintain current levels of EU funding after Brexit.

Recommendation 9. The Welsh Government should publish its projections for when Bovine TB will be eradicated in Wales and should provide information on the associated cost reductions.

6. Natural Resources Wales

54. Resource for Natural Resources Wales (NRW) decreases by £4.3 million from £72.7 million to £68.4 million. This is a 6% cut in cash terms. A further decrease of £3 million is outlined for 2019-20.

55. Capital for NRW increases by £1.6 million from £1.7 million to £3.3 million. A further £1 million has been allocated for 2019-20, when compared to 2019-20 capital spend set out in the 2016-17 final budget.

56. NRW attended a Committee meeting for annual scrutiny on 16 November. Its submission to the Committee said that:

- NRW is concerned about its 'ability to fully capitalise on the opportunities presented by the new legislative framework' and to sustain current service levels, if its Grant-in-Aid continues to reduce.
- NRW had recently written to the Cabinet Secretary advising her of the impact of reducing Grant-in-Aid for the next two years: a further 5% decrease per annum will mean a real terms reduction of 35% for non-flood and 20% for flood funding since NRW was established.
- NRW would be able to plan and manage its business 'far more effectively' if it were given multi-year budgets, rather than annual budgets.
- Due to recent changes in legislation and policy, as well as anticipated financial pressures in the coming years, NRW has decided to 're-design the organisation' with fewer staff than it has currently. This process is expected to be completed by 1 April 2019 and should realise £10 million in savings per annum in both staff and non-staff related costs.

57. NRW has received a number of additional powers and responsibilities in recent years, particularly under the Environment (Wales) Act 2016. NRW may also have a compliance and enforcement role, delegated from the Welsh Revenue Authority, related to the delivery of the Landfill Disposals Tax (Wales) Act 2017 (which comes into force in April 2018).

58. The Cabinet Secretary assured the Committee that the £10 million reduction in costs arising from the further redesign of the organisation would not affect NRW's resilience. The Cabinet Secretary also told the Committee that she would like to see NRW take better advantage of commercial opportunities to raise revenue.

OUR VIEW

59. The Committee is concerned by the divergence in opinion between NRW and the Cabinet Secretary about the impact of reductions in funding. The Cabinet Secretary assured the Committee that the £10 million reduction in staff costs would not affect NRW's resilience. This is clearly at odds with NRW's concerns that it will not be able to deliver its functions with reductions in revenue and staff.

60. The Committee notes the Cabinet Secretary's view that NRW should increase its revenue from commercial opportunities. However, given the recent high profile criticism of NRW's procurement practices by the Assembly's Public Accounts

Committee, this Committee has serious concerns about NRW's capability and expertise in this area. The proposed organisational redesign could potentially lead to a further reduction in the organisation's capacity in this area.

Recommendation 10. The Welsh Government must, in discussion with Natural Resources Wales (NRW), keep under review the capacity of NRW to fulfil its responsibilities and statutory functions. The Welsh Government should provide an initial report on this matter to the Committee within six months.

7. Marine and fisheries

61. Resource for marine and fisheries increases by £0.5 million from £1.8 million to £2.3 million.

62. The Cabinet Secretary told the Committee the additional funding is to manage the costs associated with identifying and designating five new Marine Protected Areas (MPAs). The funding will also be used to meet additional budget pressures, including:

- Preparing for Brexit and marine and fisheries sector readiness;
- Implementing the Wales Act 2017;
- Developing and implementing the final phase of Wales' first Marine Plan; and
- Building the current programme to help ensure MPAs achieve and remain in favourable condition.

63. Under the Wales Act 2017, powers for designating Marine Conservation Zones in the offshore area will be transferred to Welsh Ministers, as well as marine licensing for devolved areas of responsibility (with marine licensing functions delegated to NRW).

OUR VIEW

64. The Committee welcomes the additional funding in this area, but there is a lack of clarity about how the additional funding will be allocated between the range of marine policy priorities identified by the Cabinet Secretary e.g. marine planning and marine conservation.

65. In its report on the management of MPAs, the Committee recommended that the Welsh Government should explore the potential of funding an area-based approach to MPA management, with each management area having a dedicated officer. Given that additional funding has been made available in this area, the Committee is eager to know what consideration was given to such an approach.

Recommendation 11. The Welsh Government should report back to the Committee within the next six months with details of how the £2.3 million of funding is allocated for marine and fisheries. This should include details of the spending plans for the additional £0.5 million allocated to marine and fisheries.

Recommendation 12. The Welsh Government should provide further information to the Committee on any discussions with the MPA Management Steering Group in determining how the additional funding for marine and fisheries should be allocated, including whether any consideration was given to funding an area-based approach to MPA management.

8. National Parks

66. Resource for National Parks decreases by £0.5 million from £10 million to £9.5 million. A further decrease of £0.5 million is outlined for 2019-20.

67. Capital for National Parks planned over the next three years is removed altogether and transferred to the budget line for implementing the Commons Act 2006 (£0.5 million in 2018-19 and £0.3 million in 2019-20 and 2020-21).

68. Documentation accompanying the draft Budget did not explain the reasons for the decrease, but the Welsh Government's [detailed budget proposals document](#) states that the Welsh Government will work with the National Park Authorities to 'realise efficiency savings while protecting their statutory functions'.

69. In May 2017, the Welsh Government published its report 'Future Landscapes: Delivering for Wales'. It emphasises the opportunity to realise the economic potential of communities and promote green growth and the resilience of ecosystems through these landscapes.

OUR VIEW

70. In light of the considerable and unexpected funding cuts described above, the Committee recommends that the Welsh Government examine ways in which National Parks could raise revenue, and support them to develop plans to realise their potential for income generation.

71. The Committee believes that income generation potentially has wider benefits, in addition to helping to fill the gap left by the funding cuts. For example, any income generated could contribute to looking after the environment, managing access to natural resources and protecting Wales' ecosystems.

Recommendation 13. The Welsh Government should work with National Parks to explore how they can raise revenue. This should include support to develop plans to realise their potential for income generation. The Welsh Government should report back on progress within six months.

9. Fuel poverty

72. Capital for the Fuel Poverty Programme, which includes funding for the Arbed and NEST schemes, decreases by £1.2 million from £28.2 million to £27 million. £27 million of capital funding is also planned for 2019-20, reducing to £23 million in 2020-21.

73. The Welsh Government has a statutory obligation to eradicate fuel poverty, as far as is reasonably practicable, in all households in Wales by 2018. Figures on the Welsh Government website estimate that there are 291,000 households living in fuel poverty. This is equivalent to 23% of households in Wales.

74. The Cabinet Secretary's paper states:

The most effective way in which we can tackle fuel poverty in the long term is to improve the energy efficiency of homes. By investing into tackling fuel poverty, we make a contribution to tackling a range of negative impacts including cold related health conditions, excess winter deaths, educational attainment of children and time off school and work due to sickness.

75. In the Committee's meeting, the Cabinet Secretary said that the Welsh Government is not on course to meet its 2018 fuel poverty eradication target.

OUR VIEW

76. The Committee was concerned to hear that the Welsh Government may not meet its fuel poverty eradication target. The Committee believes that more detail on the Welsh Government's progress against this target is needed, including the current data and a revised date by which the Cabinet Secretary expects to reach the target for eradicating fuel poverty.

Recommendation 14. The Welsh Government should update the Committee on its projections for when it will meet its fuel poverty target.

10.Can and glass deposit scheme

77. The Committee is aware that the budget agreement the Welsh Government has reached with Plaid Cymru includes a number of measures, including a £0.5 million feasibility study of a can and glass deposit scheme in 2018-19.

OUR VIEW

78. The Committee notes that a similar scheme, which has been piloted in Scotland, has encountered some issues. In light of this, the Committee recommends that the Welsh Government should learn from experiences in Scotland before introducing a similar pilot scheme in Wales.

Recommendation 15. The Welsh Government should consider the lessons learnt from the pilot can and bottle deposit scheme in Scotland before progressing any such pilot work in Wales. The Welsh Government should keep the Committee updated on progress in this area.