

Memorandum on the Economy and Infrastructure Draft Budget Proposals for 2018-19

Climate Change, Environment and Rural Affairs Committee – 16 November
2017

1.0 Introduction

This paper provides information on the Economy and Infrastructure (E&I) budget proposals as outlined in the 2018-19 Draft Budget published in October 2017 as far as they relate to the remit of the Climate Change, Environment and Rural Affairs Committee (CCERA).

Our proposals deliver a budget against a challenging backdrop of continuing austerity but one which maintains our focus on a sustainable and more environmentally friendly future. We are able to maintain our focus on decarbonisation and the longer-term impact this will have on communities across Wales, whilst also recognising the need to help mitigate the impact of climate change.

Climate change is fundamentally linked to sustainable growth and jobs. It has an impact on our economic prosperity and it is important that we harness the opportunities in renewable energy developments. The Environment (Wales) Act 2016 sets out the decarbonisation pathway for Wales to reduce emissions by at least 80% by 2050 in the context of UK and international obligations. Work is also underway to introduce a series of interim targets and carbon budgets by 2018.

We are looking at how we can align our carbon budget and financial budget planning cycles as part of our 2019-20 budget preparations. However my budget proposals directly contribute to this agenda as well as being supported by the wider pan public sector collaborative approach we have adopted.

The Welsh Government has published Taking Wales Forward 2016-21 which sets out its priorities to deliver more and better jobs through a stronger, fairer economy, improve and reform public services, and build a united, connected and sustainable Wales. *Prosperity for All*: the national strategy sets out how we are taking a cross government approach to delivering Taking Wales Forward over this term of government and laying the foundations for longer term improvements for the people of Wales.

The focus of our budget is to deliver our programme for government and the Wellbeing objectives set out in our national strategy *Prosperity for All*:

- Support people and businesses to drive prosperity
- Deliver modern and connected infrastructure
- Promote and protect Wales' place in the world
- Equip everyone with the right skills for a changing world
- Tackle regional inequality and promote fair work

- Drive sustainable growth and combat climate change
- Build resilient communities, culture and language.

We will be launching a new Economic Action Plan in the autumn that will help us work with the business community to respond to these key challenges.

The budget proposals will support the delivery of E&I key priorities under the four strategies outlined in Taking Wales Forward, making the best use of the available resources in as an environmentally friendly and sustainable manner as possible. The budget demonstrates our shared commitments through the agreement we have reached with Plaid Cymru. This furthers our environmental objectives with support for the key initiatives such as increased provision of £1m in 2018-19 and 2019-20 for electric charging points for cars to enable the move to lower emission forms of transport. The increased funding for north to south improvements of £15m in 2019-20 for the A487 and the A470 may also contribute in reducing carbon emissions.

The Well-being of Future Generations (Wales) Act 2015 has also provided the framework for developing our plan and we have adopted a long-term perspective and taken an integrated approach in our decision-making.

2.0 Overview of the Budget

The Draft Budget covers 2018-19 and 2019-20 for revenue and 2018-19 to 2020-21 for capital. This is the first year that an outline budget (Stage 1) was published on 3 October 2017 followed by a detailed budget (Stage 2) on 24 October 2017.

An overview of the budget allocations to support E&I activity is shown in the table below:

Economy & Infrastructure MEG	2018-19 Draft Budget New Plans £'000	2019-20 Draft Budget New Plans £'000	2020-21 Draft Budget New Plans £'000
Resource	800,497	766,655	-
Capital	411,421	487,035	504,624
TOTAL DEL	1,211,918	1,253,690	504,624
AME	38,632	166,867	-
TOTAL	1,250,550	1,420,557	504,624

The principle of sustainability is embedded into our decision making and plans.

2.1 Revenue

In shaping our spending plans for 2018-19 we have looked to minimise the impact of reductions on public transport services and growth and jobs in the short term. Over the longer term we will need to share resources across public services and collaborate with our partners to achieve long term efficiencies. We are involving people in the future decision making to inform our priorities.

Energy and environment budgets prioritise initiatives to support sustainable business development. The budget is £1.458m in 2018-19 and £1.753m in 2019-20. It includes development of supply chains such as Fit for Nuclear enabling companies to prepare for the opportunities in new sources of energy.

The Transport budget includes £51.620m in 2018-19 and £53.933m in 2019-20 for sustainable travel including provision for public transport to support the modal shift from cars to public transport such as concessionary fares, the rail franchise and walking and cycling.

The Bus Services Support Grant for example has been maintained at £25m annually to support local authorities in subsidising bus and community transport services. In view of challenging budget settlements we are consulting widely with all stakeholders to ensure that there are affordable, sustainable and quality local bus services in the long term. The first Bus Summit in January 2017 demonstrates our collaborative approach and supports the five ways of working in the Well Being and Future Generations Act.

2.2 Capital

Affordability of capital programmes over the three year budget period will continue to be challenging. We will continue to adopt a preventative spend approach, evaluating the long term benefits and outcomes of our strategic investments to maximise economic benefits and improve public services. Our strategic investments will be made with full and proper consideration as part of their development, of their sustainability, impact on the environment and how they contribute to wider Welsh Government goals to help mitigate the impact of climate change. Innovative finance and other opportunities to enhance our financial resource will be important, as will prioritisation and a flexible approach to our investment planning in delivering optimal results.

The Welsh Government has made use of the capital borrowing powers provided by the Wales Act 2017 to boost our available capital funding, in particular to support the financing of the new M4 subject to the outcome of the public inquiry. Funding of £740m is currently ear marked in central reserves.

The establishment of a new National Infrastructure Commission for Wales will be important in assessing the priorities for capital investment.

Our public transport improvements support our aspirations to reduce emissions by reducing car use and provide cleaner and more efficient vehicles, which is good for our health and our environment. For example the South Wales Metro will transform the way we travel around the Cardiff Capital Region, providing faster, more frequent and joined-up services using trains, buses and light rail. Rail investment of around £452m is included in the budget over the period 2018-19 to 2020-21. It includes an additional allocation for £50m capital over this budget period to develop a new rail station in Llanwern. It will provide extensive park and ride facilities and line improvements and improve connectivity for communities to the east of Newport, boosting economic development opportunities and aligning with other transport improvements such as the South Wales Metro and the M4.

An additional allocation of £15m has been provided in 2019-20 for north to south dualling improvements to A470 and A487 as part of the budget agreement with Plaid Cymru. These improvements will help address our plans to remove traffic pinch points and by reducing travel times help reduce our carbon emissions in line with our overarching ambition to reduce such emissions by 2050.

3.0 ECONOMIC DEVELOPMENT

3.1 How environmental considerations, including climate change, low carbon energy and sustainable development, are included in the decisions taken to support (or not) individual businesses, and how the impacts resulting from any support provided are assessed in total across your department.

Secure and affordable energy is essential to economic productivity and growth.

Within the Energy and Environment sector, the UK Committee on Climate Change Report highlighted, UK growth is expected to still account for circa 8% of GDP and support up to 2 million jobs by 2030, lifting to 13% of GDP with 5m jobs by 2050. The sector remains a focus for investment with growth in low carbon services projected to be particularly high, at 12-15% per annum.

The recent Energy Statement by the Cabinet Secretary for Environment and Rural Affairs, in setting renewable energy generation and consumption targets for Wales, demonstrates a further commitment to supporting decarbonising investments in Wales in the foreseeable future.

The Environment (Wales) Act 2016 places a statutory duty to reduce emissions in Wales with at least 80% reduction in emissions by 2050 and a series of interim targets and five yearly carbon budgets decarbonise to support their delivery. This is vital within the context of our existing UK and international obligations and sets a clear pathway for decarbonisation. It also provides certainty and clarity for business and investment and will require a

fundamental change to at least three major national infrastructure networks – Power, Transport and Heat. The challenge is to ensure this essential change is delivered in a way that maintains their effective functioning and affordability for consumers and business. The opportunity for Wales is to secure the economic benefit available from implementing such transformational change.

Within the Energy sector and support for the steel industry we have been supporting this transformation, most notably through the establishment and deployment of an Environmental Protection Scheme (EPS) fund which has and is being used to support some of our largest industrial employers to invest in state of the art emissions reductions and abatement technologies to their production facilities.

We continue to work with Tata Steel and the steelworks in Port Talbot. The plant is a major employer in Wales, makes a significant contribution to the Welsh economy and also has a major environmental impact given the nature of its activities. We have already provided £8m of support for the power plant in Port Talbot which will improve energy use and reduce carbon emissions from the plant. We are committed to further exploring how we can reduce the environmental impact of the plant.

We continue to support businesses to drive energy efficiency in production. The move to a circular economy will also benefit more economic value to Wales through our supply chains and make us more resilient for the long term. This is particularly important for employment opportunities closer to home.

The circular economy development in innovation provides an example of how we are working collaboratively to embed processes to achieve positive impacts in the long term. It is a key concept of the green economy, based on optimising systems rather than components, away from 'Resource to Waste' to resilient and productive circular systems. Strategic alliances with organisations such as Ellen MacArthur Foundation, McKinsey Company and multinational enterprises are at the forefront of circular economy exploration and application. The SMART Innovation team and companies assess key elements such as recyclability, re-use, greater utility, reduced obsolescence, reduced waste, and design for manufacture and material selection. This is in conjunction with the development of new products, processes and designs and will support delivery of a prosperous, resilient and globally responsible Wales.

We continue to invest in land and building to support business across the Welsh economy. Where we refurbish existing buildings or construct new buildings, where possible, these are intended to be constructed to a BREEAM 'excellent' standard and thereby ensure our interventions in the built environment are sustainable and have as low a carbon footprint and energy use as possible.

The UK is a signatory to a number of EU environment and climate standards. There remains some uncertainty about the impact that any Brexit deal may have on this position and we are working to ensure an exit deal will work for us in Wales and in accordance with our stated aims within the Environment (Wales) Act 2016 and the Wellbeing and Future Generations Act 2015.

Our National Strategy *Prosperity for All*, describes how we will build prosperity in a way that supports and sustains Wales' stunning natural environment, ensures that current and future generations will continue to benefit, and makes a tangible contribution to the fight against climate change. As part of this commitment I have asked my officials to provide options how we can ensure all our offers of support to businesses include a commitment for them to reduce their environmental impact.

3.2 How the 'Prosperous and Secure' strategy will seek to contribute to achieving the Welsh Government's environmental objectives, including its climate change, low carbon energy and sustainable development ambitions, and whether this will involve any significant changes in your department's activities or interventions.

Prosperous and Secure sets out the blueprint on how we will deliver a sustainable and resilient economy which makes the most of the natural resources available to Wales and preserves and protects these assets for future generations. Our budget plans focus on well being for all objectives including a drive for sustainable growth and to combat climate change. There are a number of actions reflected in these budget proposals which build on the good work we have in progress to deliver these ambitions.

Historically Wales has been an investment destination for low carbon and renewable energy investments, most notably in nuclear, on- and offshore wind, hydro-energy and other generation technologies. Many of the levers to deliver such projects have resided outside of Wales but nevertheless we have worked well with investors in such projects to deliver tangible benefits to Wales in terms of employment and local contracts.

For the future, Wylfa Newydd, should it proceed, at £10-12bn represents the largest private sector investment in Wales in a generation. It is necessary to coordinate a cross Welsh Government response by integrating Wylfa Newydd related activity across existing policies and programmes as needed. This includes delivering new packages of activity where this adds value, and contributes towards securing legacy benefits, to achieve the forecast economic outcomes.

Prosperous and Secure renewed our commitment to deliver further renewable energy generation in Wales. The recently announced target for Wales to generate 70% of our electricity consumption from renewable sources by 2030 will be supported with further investments in the sector. In the future we will have more control over consenting energy projects following the Wales Act 2017.

Uncertainty persists over the impact and implications of any Brexit deal on the sector, on attractiveness of the UK and thus Wales for investment, ongoing commitment to environmental standards and regulations, implications for cross-border trade in energy and until this is crystallised the impact on our strategy and how we will need to respond will remain uncertain.

Driving sustainable growth and tackling climate change will require us to manage changes to the energy infrastructure required by decarbonisation. Decarbonisation requires a fundamental change to at least three major national infrastructure networks, power, transport, and heat. It is essential this is done in a way that maintains their effective functioning and affordability and in a way which provides an opportunity for this to benefit Welsh supply chains.

3.3 Whether the new 'Prosperous and Secure' strategy will involve any significant changes to the support available to the energy and environment sectors in Wales.

Energy is a defined priority sector for Welsh Government and is a key economic imperative which underpins our aims for a 'Prosperous and Secure' Wales. Secure and affordable energy is essential to economic productivity and growth.

In terms of opportunities, this means supporting large energy investments in on-shore renewables, marine, nuclear and so on, including our two largest energy investment projects, Wylfa Newydd and the proposed Swansea Bay Tidal Lagoon.

To deliver secure and affordable low carbon energy, we need a mix of different technologies and sizes, from community scale to major projects.

More broadly, in developing our cross-cutting strategies we will be considering how we can better support the sustainable use of our natural resources so that they deliver economic, social and environmental benefits to our people and communities.

Renewable energy has an important role to play in achieving our decarbonisation target. Our Low Carbon Delivery Plan will show how we will support renewable energy.

Renewable energy incentives have also benefited individuals, communities and businesses by providing an income stream from the sale of energy.

The EU Emissions Trading Scheme (EU-ETS) is a key EU wide policy aimed at decarbonising energy generation and energy intensive industries across the EU at lowest cost. The Welsh Government has requested early discussion with the UK Government to scope what future arrangements may look like for those businesses currently obliged to participate in the EU ETS to ensure any future trading scheme or alternative policy balances the need for industry to

decarbonise with concerns regarding business competitiveness, carbon leakage and job security.

The UK has led the EU on clean investments, accounting for 37% of European clean energy investment in 2016. There is a risk in leaving the EU there will be a hiatus in clean investment in the UK and also in the wider EU following the loss of the UK contribution to the EU budget and possibly to the European Investment Bank.

The Welsh Government recognises that marine and tidal projects can be catalysts to secure long-lasting legacy benefits for Wales and the commitment to support, in principle, the development of more renewable energy projects, including tidal lagoons, is set out in the Programme for Government, *Taking Wales Forward*.

4 TRANSPORT – M4

4.1 How the Welsh Government's planned M4 relief road fits within a sustainable transport policy.

The National Transport Finance Plan 2015 includes an environmental impact assessment which is available at the attached link:

<http://gov.wales/topics/transport/planning-strategies/ntp/?lang=en>

A long list of over 100 options has been considered over many years to tackle the longstanding problems associated with the M4 around Newport. The proposed solution has been through a 'Strategic Environmental Assessment' which included health impact assessment and equality impact assessment, before being tested at Judicial Review in 2015.

The project has been developed using the Welsh Transport Appraisal Guidance, or 'WelTAG', which considers all economic, environmental, social and cultural factors. The latest published reporting also includes a detailed Environmental Statement setting out all the impacts and the proposed mitigation, taking into account, of course, climate change.

In light of the introduction of the Wellbeing of Future Generations Act a Sustainable Development report has been published to consider how the project aligns with its goals. A link to the report is below:

<http://bailey.persona-pi.com/Public-Inquiries/M4-Newport/C%20-%20Core%20Documents/2.%20Orders/2.3.11%20-%20M4%20Corridor%20around%20Newport%20Sustainable%20Development%20Report.pdf>

The project is currently being scrutinised by independent inspectors at Public Inquiry to test whether it is the long-term, sustainable, solution to the problems associated with the M4 around Newport. Their report will inform a final decision on whether to proceed with construction.

4.2 How you have addressed environmental and sustainable development issues in developing the project.

The route has been carefully planned taking into account the environmental sensitivities of the Gwent Levels and River Usk. More than half of the route is on brownfield land, less than 2% of the area of the Gwent Levels Sites of Special Scientific Interest (SSSIs) is needed and impacts would be mitigated.

The River Usk is of international importance for its migratory fish and otters and is legally protected. The design and construction of the new bridge across the Usk would avoid any impacts on these species.

A number of areas will experience a large improvement in air quality as a result of the scheme, most notably in urban areas adjacent to the existing M4 corridor.

The M4 project has had detailed carbon calculations of its construction and in-use footprint. User emissions on the South Wales network, despite forecast increases in traffic levels, would in fact slightly reduce due to strategic traffic having a shorter more efficient route.

I am mindful of our requirements to reduce CO2 emissions 80% by 2050. The M4 Project, as with other congestion pinchpoint schemes, will contribute to achieving our goal, alongside Metro and of course electrification of the rail network and the implementation of electric cars.

4.3 Any further action you propose to take in this regard.

I am passionate that our approach to developing a modern and integrated transport network for all of Wales be an exemplar of sustainable development. For example - the new M4 Glan Llyn junction has been purposely located to serve the planned 4,000 home, 6,000 job community on the old Llanwern site and will further environmental considerations by incorporating cycle routes and linking into proposed Metro facilities to encourage a modal shift.

5 TRANSPORT POLICY DEVELOPMENT AND DELIVERY

5.1 Improve the sustainability and reduce the environmental impact of transport services, assets and infrastructure.

The Wales Transport Strategy (WTS) “connecting the nation” sets out the high-level vision; to promote sustainable transport networks that safeguard the environment while strengthening our country’s economic social and life. The strategy sets long term outcomes and ambitions for our social economic and environmental agendas and which underpin Taking Wales Forward and Prosperity for All.

As this strategy was published in 2008, I have asked Officials to review its content and update to reflect the legislative changes that have occurred since its publication. I anticipate publishing the new strategy in late 2018. The

strategy will consider the goals and principles as set out in the Well-being of Future Generations (Wales) Act 2015, the Environmental (Wales) Act 2016 and the Welsh Government's National Strategy – Prosperity for All. The WTS will set out the transport vision that will promote sustainable transport networks and services that safeguard the environment while strengthening our country's economic social and life.

In addition to reviewing the WTS I will this autumn launch our new Welsh Transport Appraisal Guidance. The Welsh Transport Appraisal Guidance, or 'WelTAG', considers all economic, environmental, social and cultural factors which need to be considered when designing and developing new transport proposals for Wales.

5.2 Contribute to the achievement of Welsh Government targets for reductions in Greenhouse Gas Emissions.

We are currently developing our transport policies that will ensure we play a full role to deliver the 2050 target to reduce greenhouse gas emissions. Our policies need to consider the carbon emissions generated by the transport sector in Wales and the areas over which we have control. The transport sector accounts for approximately 13% of Wales' carbon emissions generated by the different range of transport modes available to consumers

Decarbonisation of the transport sector is key if we are to meet our Environment Act (Wales) 2016 duty to deliver at least an 80% emission reductions by 2050 and in delivering on our obligations set out in the Air Quality Standards (Wales) regulations 2010. Whilst many of these levers remain with the UK Government there are certain actions within the Welsh Government's control which will contribute to delivering our commitment to reduce greenhouse gas emissions.

The M4 project for example has had detailed carbon calculations of its construction and in-use footprint. User emissions on the South Wales network, despite forecast increases in traffic levels, would in fact slightly reduce due to strategic traffic having a shorter more efficient route once the new M4 is built.

The M4 Project is one contribution alongside other congestion pinch-point schemes, which will contribute to achieving our goal, alongside Metro and other public transport promotion, electrification of the rail network, cycling and walking and the implementation of alternative fuel ultra-low emission vehicles in both private and public fleets.

Our review of the Wales Transport Strategy provides an opportunity to develop closer links with land use planning which can lead to reducing the need to travel. It could for example test if adopting as a first principle minimising the need to travel and as a second principle, ensure the trips are made in the most sustainable way. There will still be a need to address congestion and reduce their impact on the environment and specifically air quality.

5.3 Adapt to the impact of climate change.

The UK Climate Change Committee's Climate Change Risk Assessment 2017 Evidence Report identifies the risks to Wales from a changing climate. It describes specific risks to infrastructure, business and industry, and provides recommendations regarding future action. In response, the Welsh Government will be developing a Climate Change Adaptation Plan for Wales in 2018.

5.4 Reduce and minimise air, land and water pollution.

Reducing the impact of transport infrastructure and services on air or water quality is an important consideration during the development and delivery of new road schemes and improvements to the existing network.

We also deliver a programme of improvements through our Air Quality Management Areas and Noise action Planning Priority programmes.

5.5 Minimise impact on, and seek to enhance, biodiversity.

When investing in new transport infrastructure wherever possible, our designs incorporate green infrastructure, create green corridors and wider ecological networks, and are located to avoid fragmenting habitats.

6 GENERAL

6.1 How environmental considerations are reflected in the budget setting process and also in allocations for the current draft budget including details of any changes made within the current draft budget to address environmental issues.

Sustainable development, of which environmental considerations from a key part are at the heart of our decision making process.

Our public transport proposals included in these budget proposals, for example support our aspirations to reduce emissions by reducing car use and provide cleaner and more efficient vehicles, which is good for our health and our environment. For example the South Wales Metro will transform the way we travel around the Cardiff Capital Region, providing faster, more frequent and joined-up services using trains, buses and light rail.

Reducing carbon was an important consideration in our decision to allocate a further £50m of funding to develop a new rail station at Llanwern. The scheme will have a positive impact on carbon reductions and with the extensive park and ride facilities and line improvements our investment will bring, will encourage a modal shift in passengers from private car to rail.

6.2 How you monitor and evaluate environmental impact within your portfolio, including details of specific indicators, recent performance

and examples of action taken or policy changes implemented to address any areas of underperformance.

Outcomes are monitored for each of the projects and contracts that are managed within the portfolio. Feasibility studies are undertaken prior to the commencement of key projects to assess suitability for going forward in delivering against our wellbeing goals. This assessment will include consideration of environmental impacts but the extent of this consideration will depend on the nature of the investment. Our support for skills and jobs for example, to ensure people have the right skills to equip them to provide a meaningful contribution to society, will be assessed on quality of education provided and will have less of a focus on environmental considerations. Our investment in the M4 and our road investments for example follow the 'WeITAG' process and will consider all economic, environmental, social and cultural factors. These will continually be assessed as the project is delivered.

Evaluation of projects and programmes is undertaken during and at the end of the projects and can be undertaken internally or by external contractors.

Gateway reviews for large projects are undertaken to assess value for money and both internal and external audits have and will be undertaken, which provide further evidence to support policy outcomes.

<http://ppi.w.org.uk/files/2016/10/PPIW-Summary-of-Expert-Workshop-Improving-the-Economic-Performance-of-Wales.pdf>

Commissioning evaluations and research is one way of gathering evidence on policies and programmes, but is not the only way and is not always the most appropriate.

The portfolio uses a variety of approaches in gathering evidence and for evaluation of policy and programmes. Some of these inform the process through expert advice and learning.

6.3 How the department has amended or changed its policy or practice as a result of the Welsh Government's obligation to maximise its contribution to achieving the well-being goals, and embracing the five ways of working, required by the *Well-being of Future Generations (Wales) Act 2015*.

Our budget proposals have continued to look at how we embed the five ways of working to help us maximise our impact, inform plans which support Taking Wales Forward and take an integrated approach to considering impacts on protected groups, support a focus on our shared national goals and deliver a sustainable economy and nation for future generations.

The Wellbeing of Future Generations Act is the central organising principle of our plan, ensuring that our decisions take account of the economic, social, cultural and environmental objectives and impacts. In so doing, we are adopting an approach to embed involvement, collaboration, integration, long

term investment and prevention into our policies and delivery. As part of this work we have been developing with the Future Generations Commissioner a toolkit for the development of infrastructure projects which will enable us to maximise our contributions to the shared national goals.

Proposals for any business activity are required to provide evidence that they are aligned to deliver one or more of the seven Well-being Goals as well as one or more of the Welsh Government's Well-being objectives. Additionally, delivery areas are required to show that the five principles of sustainable working have been applied where possible in preparing business cases. When agreeing allocations with business areas, we assess the impacts of these elements along with other factors to ensure that decisions on budgets are made that support the most appropriate business cases.

I met with the Future Generations Act Commissioner last December to discuss the M4 and other projects. Her views are very much welcomed on how decision making must consider all the goals and ways of working of the Act.

We have revised 'WelTAG' working with the Office of the Future Generations and Wellbeing Commissioner to provide for better guidance and more closely alignment with the 5 Ways of working in meeting the WBFGA objectives.