



Future Generations Commissioner for Wales: Response to Senedd Finance Committee's call for information on the Welsh Government Draft Budget for 2022-23

26 Nov 2021

Dear Peredur,

Thank you for the opportunity to provide input on the focus of the Finance Committee's scrutiny of the Welsh Government's 2022-23 budget.

This budget marks an important moment for the new Welsh Government. It has significance as the first budget since the Programme for Government (2021) and the publication of Welsh Government's new well-being objectives. It comes at a time when we are focused on the climate and nature emergencies following the UN Climate Conference COP26 and the launch of the Net Zero Wales plan for 2021-25, and during a critical period of shaping our economic recovery from the COVID-19 pandemic. As such, the need to put the well-being of future generations at the centre of this budget has never been more important.

With this in mind, I will be interested to see how Welsh Government demonstrate how their spend will help them meet their new well-being objectives and policy commitments in the new Programme for Government.

In recent years, my focus has been on the following policy areas, which I believe could have the biggest impact on current and future generations in Wales. I will be particularly interested to see how Government are prioritising spending in these areas for 2022-23 (further detail on each area provided below):

- investment in skills and training,
- decarbonisation of homes,
- responding to the nature emergency, and
- scrutinizing the Government's carbon impact assessment of its budget.

Alongside this, in recognition of the critical point in time of this budget in terms of the climate emergency, I will also be interested in understanding:

- whether the concrete commitments made in the budget deliver on the ambitions set out in Net Zero Wales and our national decarbonisation targets; and
- the synergy between Net Zero Wales, the budget, and priorities set out in the new Wales Infrastructure Investment Strategy.

A number of these areas overlap with the areas you highlight in your letter – climate change, inequality, key priorities for 'building back better' – as outlined below.

In terms of key policy investments that I've highlighted in recent reports, along with my *"Fit for the Future Programme for Government"* published in May, recommendations include:

- **Financing the decarbonisation of homes:** £14.75bn investment will be needed to 2030, which includes £1.7bn from Welsh Government; with specific recommendations to increase Welsh Government funding allocations as follows:

- £108m/year Social Housing Decarbonisation Grant and
- Doubling fuel poverty funding (through the Warm Homes programme) to £73m/year.
- **Skills:** my analysis has highlighted how investment to date has been inadequate. A skills pipeline along with investment is urgently needed for developing skills in key infrastructure projects in green industries and nature restoration, along with increasing opportunities for retraining, reskilling and transitioning to changing industries, providing a 'just transition' for workers.
- **National Nature Service:** this would deliver multiple wins of protecting nature and creating jobs. We estimate the total funding required to establish a NNS team would be £167,000 for 2021-22.

Below is some more detail on my areas of focus, which I hope will be of interest to Finance Committee as you consider your priorities for scrutiny:

1. Investment in Skills and Training

Earlier this year I published [my report with the New Economics Foundation](#) looking at the potential for investment in green jobs and skills versus how prepared our current skills, training and employability programmes are to cope with these changes. The main findings of the report are:

- Over 60,000 jobs could be created in the green economy in Wales over two years with infrastructure investment.
- However, the current skills pipeline is not prepared for this demand with our analysis suggesting low apprenticeship and training numbers in key sectors compared to potential job growth.
- There is a mismatch between levels of existing employment and potential; the level of job creation is significant compared to existing numbers.
- Funding to deal with this shortfall is insufficient to cope with demand and scale.
- Targeted and sustained action is needed to ensure green growth industries provide entry for Black, Asian and minority ethnic people; women; disabled people and those furthest from the labour market.

Even without the proposed investment, the report identifies significant shortfalls in the current upskilling infrastructure in Wales in its ability to deal with the scale and nature of the structural shifts our economy is experiencing. In the process, the report flags concerns regarding whether Wales is prepared for the delivery of a just transition, which makes good green jobs available for all.

In next year's draft budget, I will be looking at the level of budget provision for skills and retraining both as a critical pillar of decarbonisation and in supporting our economy to adjust to the changes brought about by the pandemic and Brexit. Recent Welsh Government commitments on skills have typically been short-term and limited in scale in comparison with the size of the transition needed. At the time, my report forecast double the allocated resources would be needed to deal with the multiple impacts of the pandemic, Brexit and transitioning to a low carbon economy. The investments announced to date are unlikely to be sufficient to provide the retraining and upskilling required or to offset the dramatic declines in participation in further education, adult and part-time higher education, and work-based learning seen over the past decade. Whilst the key policy drivers of these declines in adult learning sit with the UK Government, I am keen to see Welsh Government exploring all possible levers and financing mechanisms aimed at increasing investment in upskilling and retraining.

I am aware that Welsh Government are currently developing a Net Zero Skills plan, due for publication in Spring 2022, and it is imperative this budget provides sufficient resources and capacity to increase the scale and pace of change needed for our education, training and skill sectors.

2. Investment in the Decarbonisation of homes

A few months ago I published my "[Homes Fit For the Future: the Retrofit Challenge](#)" Report. This looked at the financing needs of the major home retrofit challenge faced in Wales, an investment essential both for meeting our climate goals, addressing fuel poverty and quality of life in Wales. It identifies a government investment need of around £5.3bn over the next ten years – £1.7 bn and £3.6 bn from Welsh and UK Governments respectively. Our modelling estimates that the total investment needed to upgrade or retrofit all homes in Wales is £14.75 with 64% of this coming from private finance. Our report also suggests various options for delivery and alternative finance mechanisms that should be explored urgently.

While pre-existing expenditure can meet some of this requirement, and recent announcements¹ suggest an additional £150m is forthcoming, a very significant gap remains. I will be looking to this draft budget to begin to put the foundations in place for a significant upscaling of our home retrofit programme that is urgently needed over the next few years. Welsh Government also need to be working closely with the UK Government to ensure that funding decarbonisation of homes is considered as essential infrastructure investment which could lead to significant economic benefits through creating new jobs, supporting local supply chains, as well as the health and environmental benefits that a national programme could deliver.

In their report "*Debt and the Pandemic*", the Equality and Social Justice Committee recommend that "The Welsh Government should provide clarity in its Draft Budget on how it will allocate sufficient funds up until 2024-25 to accelerate plans to bring all social homes up to Energy (EPC) Rating A to mitigate increased fuel poverty as a result of rising energy costs". The consultation on the forthcoming Warm Homes programme will need to signal how decarbonising fuel poor homes will be funded addressing the need to tackle 'the worst homes first' as has been acknowledged by Welsh Government.

3. Investment in Nature

Addressing the nature emergency is critical to protecting the well-being of future generations, and action cannot be isolated from the climate crisis.

While I welcomed Welsh Government's declaration of a nature emergency in June 2021, the actions and steps being taken in response are less clear. Spending on the nature recovery has been somewhat stagnant in recent Welsh Government budgets, with focus on the migration of EU agricultural spending into domestic budgets and progress in other areas stalling.

For example, in response to the draft budget for 2021-22, Wales Environment Link (WEL) highlighted that while there was an increase in the environment MEG in 2021-22, this was predominantly due to farming payments

¹ <https://www.insidehousing.co.uk/news/news/welsh-government-announces-additional-150m-to-retrofit-social-housing-73164>

being included and a realignment of ministerial portfolios. As a result, the bulk of the increase in 2021-22 could be attributed to those two reclassifications, rather than genuine new investment in the Welsh environment.

I was also disappointed to see relatively limited (financial) support in last year's budget for the recommendations set out by the Green Recovery Taskforce (being led by Natural Resources Wales). [The Dasgupta Review](#) highlights how our unsustainable engagement with nature is endangering the prosperity of current and future generations. This is why I believe better connecting people and communities with nature lies at the heart of tackling the nature emergency.

I am therefore keen to see plans for a National Nature Service (NNS) in Wales progressed with support and some financial investment from Welsh Government. I called for this in my '[Fit for the Future Programme for Government](#)' report earlier in the year. The NNS is a Wales-wide system intended to mobilise people in support of nature recovery, accelerating action at the pace and scale needed.

My office is working with key partners and engagement with Welsh Government Ministers and Officials is ongoing, with further detail being submitted in December. I'd be happy to share an overview of the NNS proposal with the Committee if this is of interest.

4. Overall Carbon impact of the Welsh Government budget

In advice to Government in 2020 we recommended² that they need to forensically analyse every aspect of their expenditure, especially capital spend, in terms of carbon impact and publish details on the overall carbon impact of their budget in a 'Carbon Impact Account'. Our suggestion was echoed in Recommendation 16 of the Senedd Finance Committee's report on the draft budget 2020-21:

Recommendation 16. The Committee recommends that the Welsh Government develops an understanding of the carbon impact of the budget and its spending decisions, and looks at how it can meaningfully demonstrate the carbon impact of future budgets.³

I note that since this advice was published, this call has been echoed by the UK Climate Change Committee in their 2021 advice to parliament, here termed a 'net zero test'.

A Net Zero Test would ensure that all Government policy, including planning decisions, is compatible with UK climate targets.⁴

Welsh Government responded positively to our advice, and for the first time alongside the 2021-22 budget an initial assessment was published of the carbon impact of Welsh Government spending. Unfortunately, the usefulness of this assessment for analysing the carbon impact of the budget was limited. The approach taken pursued a macroeconomic whole-of-economy approach to attributing the impact of Welsh Government spend.

² <https://www.futuregenerations.wales/wp-content/uploads/2020/11/FGC-Budget-Briefing-for-Committee-Members-ENGLISH.pdf>

³ <https://business.senedd.wales/mgIssueHistoryHome.aspx?Iid=25830>

⁴ <https://www.theccc.org.uk/publication/2021-progress-report-to-parliament/>

By contrast, the approach I recommended involved a bottom-up, investment-by-investment approach utilising the government's pre-existing tools for project carbon impact assessment.

Progress was made to this end in the Net Zero Wales plan. I was pleased to see an assessment made of the relative contribution to decarbonisation of policies proposed by Welsh Government's Transport department. While I recognise that such assessments are not perfect, and the undertaking of such assessments should not involve disproportionate expenditure, such analysis is important for understanding the true extent of progress the actions of Welsh Government are delivering in terms of addressing the climate crisis. I am keen to see such assessment further rolled out, across other departments, particularly where capital expenditure is involved, and when new policy announcements are made.

Until a comprehensive assessment of the Welsh Government budget is made available, it is not possible to know whether budget decisions are in fact having a net positive (or indeed negative) impact on decarbonisation in Wales. However, with support from the New Economics Foundation, I have been conducting my own highly-simplified approach to assessing changes in carbon spend. This analysis shows positive year-on-year improvements in the level of spending in key areas of the budget relevant to decarbonisation (see Table below).

I have recently asked the Finance Minister to clarify:

- How they are undertaking the carbon impact assessment of the budget this year;
- How will the policies and priorities in the forthcoming Net Zero Wales plan be considered within the budget process;
- Whether they have considered how the approach developed by Transport officials could be scaled up across other Welsh Government departments; and
- Whether they will be publicly committing to undertake a "Net Zero test" of the annual budget and the projects in the forthcoming Wales Infrastructure Investment Strategy to support Government's commitment to net zero.

5. Budget links to the Net Zero Wales plan

The recently published "Net Zero Wales" plan details a wide range of policies which Welsh Government hopes will deliver Wales' net zero by 2050 target, with a focus on actions that are needed during the second carbon budget (2021-25). I note, however, that without detailed carbon impact assessment of the majority of policies in the plan it is not possible to fully assess whether the plan is indeed of sufficient scope. There is no clarity provided on the approach being taken to assess carbon impact of budget decisions apart from a commitment to "aim to improve [our] understanding of how to effectively count the carbon impact of decisions and how multiple decisions interact to impact our overall targets". Welsh Government have already committed to aligning their financial and carbon budget cycles, so I will be interested to see whether the 2022-23 Draft Budget supports this alignment, ensuring investment is prioritised for key decarbonisation policies and actions in the new plan.

6. Equalities

I have recently published "[Inequality in a Future Wales](#)", in partnership with Public Health Wales. The research analysed the equalities impact of three future trends - the future of work, climate and demographic change. The

main finding of the report is that existing socio-economic inequalities in Wales risk being carried into the future unless they are specifically addressed. It suggests taking action on this would involve: looking for opportunities to promote equality in policy development across all areas; and creating opportunities for equalities advocates and policymakers to think and plan for the long-term in partnership as part of policy development processes. This reflects the ways of working set out in the Well-being of Future Generations Act; particularly integration, involvement and long-term.

I will be interested in understanding how the Government is demonstrating how they are addressing inequalities through their spending decisions, helping to support a just transition in addition to other well-being priorities.

Thank you for the opportunity to submit this evidence to your call for information. I look forward to discussing these issues with your Committee in January.

Yours sincerely,

Sophie Howe



Comisiynydd Cenedlaethau'r Dyfodol Cymru / Future Generations Commissioner for Wales

Table: NEF assessment of year-on-year changes in budget lines relevant to decarbonisation

	Tier 1	Tier 2	Tier 3	Tier 1+2+3	Non decarb spend
Budget	Primary decarbonisation spend	An unknown but likely small proportion of these budget lines goes on primary decarbonisation	With the right legislation in place a proportion of this spend goes on enabling decarbonisation	Sum of spending lines relevant to decarbonisation	Spending lines not clearly relevant to decarbonisation (primarily salaries and benefits)
Example	<i>Active travel spend</i>	<i>Regeneration spend</i>	<i>Social housing grants</i>		
19-20	2.09%	2.51%	5.62%	10.22%	89.78%
20-21	2.50%	2.53%	5.39%	10.42%	89.58%
21-22	2.94%	2.51%	5.88%	11.32%	88.68%