Cyswllt Amgylchedd Cymru | Wales Environment Link

Finance Committee: Pre-scrutiny for Welsh Government Draft Budget 2025-26

Friday 29th November 2024

Overview

The Finance Committee highlights several financial challenges facing Welsh Government in its inquiry questions, mostly around poverty, business support and inflation. All these are difficult realities to face, and there is only one question specifically on the environmental challenge: "*Are Welsh Government plans to build a greener economy clear and sufficiently ambitious? Do you think there is enough investment being targeted at tackling the climate change and nature emergency? Are there any potential skill gaps that need to be addressed to achieve these plans?*"

So, this response sets out our thoughts on this, as well as a broad overview of Welsh Government spend making the most impact for nature.

In September 2024, we updated our Pathways to 2030 report (originally published in March 2022) with costings to reflect net zero needs for agriculture, building on the previous estimates for farming to deliver for nature. The Welsh Government's response to the report suggests that we need to enable private investment, as public funds would not be enough, but no plans have yet been forthcoming from Welsh Government to do so. It needs to be led by government; NGOs can only do private investment one project at a time, and they are not the right vehicle to expand it for a country-wide model of investment. Much damage to nature can be prevented simply by stopping damaging actions, as also set out in the report, so not everything needs to rely on large-scale new pots of money.

Why must we spend more on nature restoration?

Time and time again, we still need to make the argument for the environment to be prioritised at all in budget discussions. It's still often seen as a 'nice to have' – a bonus area of spending to improve the look of a community – instead of something we need to invest in. The Sustainable Farming Scheme is the obvious vehicle to target

this, and we commend Welsh Government on trying to ensure nature is a significant part of the universal layer, in retaining the 10% habitats rule for all farmers entering the Scheme. As our press response highlighted though, we do not think the scale and pace reflect the urgency required to address the climate and nature crises.

As the pandemic showed us, it's the most taken-for-granted elements of our natural world that causes the most breakdown when not invested in and presumed to be self-sustaining. Just as we were not prepared for a global pandemic, we are not remotely prepared for climate breakdown and the wholesale loss of nature. Successive governments have dismissed nature as something we can take for granted and which the third sector alone will work to protect, that we can still allow pollution, subsidise unhelpful business practice and fail to upgrade creaking infrastructure, whilst global heating consumes our way of life.

In UK / England-based discussions, 'natural capital' is the most used term for the value of nature. In Wales, we might call it preventative spend, or simply tackling the nature crisis fully, but describing nature as a 'natural capital asset' can be a helpful way to talk about it in economic circles and to give a sense of its value beyond its intrinsic worth.

Marine natural capital

For example, in the sea, there is at least 113 million tonnes of carbon stored away in just the top 10cm of Welsh marine sediments. This is 170% of the carbon captured in Welsh forests. Our carbon stores in the sea and on our coast – from seagrass meadows to saltmarshes – are very valuable sources of natural capital and yet are still overlooked. Our seas still are nowhere near the Good Environmental Status we committed to as a target 14 years ago. The UK Marine Strategy has a wholly insignificant impact on the Welsh civil service's staffing, and the Marine and Biodiversity Division remains too understaffed and resourced to make any real progress on commitments like designating Marine Conservation Zones, planning for more spatial specification for marine planning and working towards holistic ecosystem management (especially for busy seas, that are under pressure from developers for aggregate sourcing and energy generation). In an ideal world, clear requirements would be placed on developers who benefit and profit from the sea's

natural processes to also fund and invest in its resilience and ability to recover from exploitation.

It's worth highlighting recommendations from Westminster's Natural Capital Committee, including increased government spending on the maintenance of natural capital. Although the UK Government's Treasury clearly has stronger levers to use on borrowing and spending, and marine matters should be undertaken on a UK-wide basis (our seas know no boundaries), the Welsh Government has a habit of overlooking our seas, despite having such a wide coastline in Wales. The offshore area was also late in being devolved, and whilst powers for over 350MW energy generation still sit with Westminster, it is a lopsided devolution settlement in some ways for our seas.

Maintaining and enhancing natural capital will create the enabling conditions for job creation, economic growth and scaling up private investment into a sustainable blue economy. As we have been degrading our stock of marine natural capital for a long time, investment is necessary to enhance marine natural capital to a more resilient level. Rather than solely relying on private or philanthropic funding to achieve this – as Welsh Government has previously highlighted, that private funding is necessary for the full amount we'd like to see spent on nature – we see the maintenance of natural capital as a necessary form of infrastructure spending, on both land and sea. A blended finance approach will be key to unlocking these additional opportunities, whereby public funding helps to de-risk and scale up projects sufficiently to make them economically viable to private investors.

Nature Networks Fund

The Nature Networks Fund (NNF) is a very welcome form of investment that many of our WEL members have been able to utilise to great benefit for habitats and species. It is the only grant from Welsh Government enabling multi-year, partnership projects to improve the condition of protected sites, and therefore a key intervention in achieving the Biodiversity Deep Dive and Global Biodiversity Framework (GBF) commitments on the '30 by 30 target[1]'. It is also the only fund that enables the best practice following of the 'DECCA' principles of ecosystem resilience; diversity, extent,

[1] The target to expand the areas protected to 30% of land and sea cover by 2030

condition, connectivity, which lead to aspects of resilience (i.e. adaptation, resistance and recovery from pressures and demands). This is also promoted as best practice from NRW in their Resilient Ecological Networks practitioners' guide.

We welcome the reinstatement of large grants – up to £1m – and highlight its popularity as its consistently oversubscribed. If the number of awards can be increased, it would be a simple and helpful way of supporting NGOs to help Wales meet its nature targets and other GBF commitments. The third sector is equally under pressure of rising costs, due to National Insurance rises from the UK budget, and this would help ensure there is no real terms cut to the actual project spend. As we have pointed out repeatedly before, the loss of EU LIFE funds is a significant loss to the environment sector, and now that the UK Government seems to be re-profiling its 'Levelling Up Fund' – envisioned as a replacement of Structural Funds but not in any way a replacement of LIFE funds – this would be an excellent opportunity to work with them on trialling a cross-border (or at least accessible to all four UK nations) fund that can supply that kind of multi-million restoration project, that makes such a significant contribution to nature restoration.

We also endorse asks from RSPB to:

- Launch the next Nature Networks Fund round in the spring, with approval of projects by the autumn, to enable delivery in line with the seasons
- Longer term funding (5+ years would be ideal, but anything longer than current limits would be welcome)

Some members have also highlighted limitations that mean it cannot be used for ongoing management of sites, which is a significant barrier to NGOs' ongoing contribution to Wales' biodiversity targets. The NNF is more directed towards physical improvements, rather than ongoing day to day costs like nature reserve managers, which is a necessary cost for good practice management. Some of our members report other difficulties in bidding for actions that can't guarantee a community link or non-nature-related improvement. Natural Resources Wales are a big benefactor from the NNF too, which makes NGO access more limited as the fund is very competitive, although we're in favour of the principle of working together. This would be more welcome if NRW, like the Countryside Council for Wales (CCW), worked in more long-term partnership with NGOs. Our members appreciated the

long-term ways of working enabled by CCW's previous concordant with nature charities, which gave a much more reliable form of funding and therefore gave a better chance for long-term planning to restore natural areas.

We do not think the Wellbeing of Future Generations Act's Five Ways of Working is truly embedded in the NNF process, with only a limited period of time to bid and with relatively short project terms (less than three years) allowed, we do not think that long term planning is not being considered. Nature recovery takes longer than a year or two and funds available for this need to better reflect practical needs. We would very much welcome the next round of funding being extended, as the more reliable and longer term the funding is, the better the project can be and better partnerships can be embedded for future stewardship.

Reinvestment of fines for environmental offences

In England, the UK Government has agreed that fines resulting from Ofwat and Environment Agency enforcement activity against water companies will be reinvested in schemes that benefit the natural environment. We are disappointed that Welsh Government has not agreed with the Treasury that a similar policy should apply in Wales. This potentially deprives the Welsh environment from hundreds of thousands of pounds and puts the environment of Wales at a disadvantage compared to the situation in England. We believe a similar policy should be in place in Wales, with all fines imposed because of environmental offences used to directly improve the environment in Wales, not paid to the Treasury. This would also be in line with the 'polluter pays principle', expected to be embedded in upcoming law on environmental governance.

Private investment for nature and carbon

Land

We need Welsh Government to lead on creating a framework that easily enables private investment into nature restoration. It seems a missed opportunity to implement a visitor levy without any direction towards investing in nature. Given the difficult position all councils are in on maintaining basic services, it will almost certainly all go to sustaining essential provisions rather than enhancing green spaces, even though it's Welsh nature that draws most of our tourism. Whilst we don't doubt that councils will use those funds well, and it will help people visiting to have better

services, it would be welcomed if some could also be used for protecting and enhancing the natural areas that so many visitors come to see.

Our Innovative Funding paper – and our research into innovative funding mechanisms – sets out a range of ideas for taxes, levies and funds to be created from pollution products or processes, so that we have at least some small form of compensation to reinvest in our natural resources. For example, modifying the single use carrier bag charge to go to environmental causes (evolving it into a plastic tax in future) and working with UK Government on leveraging other polluting products and processes, such as a levy on car insurance, taxes on pesticides or developing a Climate and Nature Transaction Tax. We need to work creatively with investment companies to work towards their own net zero and nature-positive ambitions, to set us on a path where we can weather climate change and restore nature.

One of the few taxes available to environmental projects in Wales – the Landfill Community Tax – is very successful at sustainable investment, and we'd like to see more mechanisms like this utilised; we were extremely concerned to see its future uncertain in the last budget round and relieved that it's continuing for now.

Learning from the rest of the UK

Biodiversity net gain finance

Offsetting processes are not an ideal scenario for nature investment – they are the last in the mitigation hierarchy of 'avoid, minimise, restore and offset impacts' – but as Welsh Government conducts ongoing work on 'biodiversity net gain' mechanisms, we thought it worth pointing out England's biodiversity credits system, created from the Biodiversity Net Gain model set out in the UK Environment Act 2021. This is a rudimentary way of channelling private funds into environmental projects; not all our members endorse this as a way forward, and we'd all like to see a bespoke Welsh approach, but as Welsh Government has repeatedly said that private sector funds need to be better leveraged into environmental projects, we highlight this as an example we could learn lessons from.

Many of England's Wildlife Trusts projects have been funded directly from Biodiversity Units, directed from intermediaries like the Environment Bank, which makes it as simple as possible for developers to do their part. Developers prefer to

know what to expect, and Scotland and Northern Ireland have their own versions too. Many will give over and above the 10% required, which also gives investors confidence for NGOs' other projects, as they have some resilience created from that initial financial floor.

Long-term sustainability is also often embedded in some way, as the Hampshire and Isle of Wight Wildlife Trust explains: "In England, there should be a net gain for biodiversity of at least 10% and gains must be maintained for a minimum of 30 years. Conservation covenants and planning obligations such as section 106 agreements will secure the management of these sites for this period. Habitats can't be traded down, habitats created should be of the same quality or of higher quality than the habitat lost though development. Where possible these gains should be achieved on site, but if this is not possible, off site mitigation should be sought as close to the development as possible." Nutrient neutrality credits are being used in a similar way.

At present, it is down to individual charities to set up their own partnerships for private sector investment – such as Aviva's partnership with Wildlife Trusts Wales on the Atlantic Rainforest Restoration project – but a model supported by Welsh Government as a way of channelling private development funds into biodiversity projects would likely be welcomed by developers that want to help but don't know where to start.

It is hard to support the general principle of 'offsetting', as it implies that an ancient valuable habitat can in any way be 'replaced' by a new area, and this is rarely the case. It also defies the very principle that we need to reduce negative impacts on nature, and we can't just buy our way back to reversing that. When species are lost, they cannot usually be easily transplanted to another place.

However, we highlight this as we would endorse the Senedd learning from other models, examining the good and the bad, and seeing if there's a way forward that can more easily leverage those funds – perhaps in a way similar to how Welsh Government and the Heritage Lottery Fund match fund projects – rather than on a case by case basis, initiated and sustained solely between NGOs and private companies.

Blue finance

A study by WWF revealed that globally, 66% of publicly listed companies have exposure and dependencies on ocean health, with $8.4 trillion USD of assets and revenues at risk over the subsequent 15 years in a business-as-usual scenario. Ocean investments are now on the radar of financial institutions, for protecting financial value but also for exploring impact investments and profit-seeking opportunities. Currently, there are barriers to private investment in marine projects that targeted spending and policy measures could help to address. These barriers include:

- The size and supply of investible projects.
- Competition for space and subsidies for harmful activities.
- High costs and high risk linked to ecological conditions (such as poor water quality).
- A lack of public funding support.
- A lack of data, standards and verification to monetise the benefits that projects deliver.
- A lack of policy support to ensure marine ecosystems are adequately protected.

These barriers can be addressed through various policy interventions and allocation of resources, including:

1) Creating the enabling ecological conditions for marine ecosystems to thrive. This includes addressing fundamental threats like poor water quality and integrating the value of marine natural capital into the core of marine spatial planning and economic decisions.
2) Building economic strategies around the potential of regenerative coastal and marine activities to support jobs and livelihoods, centred in coastal communities as stewards of the natural environment.
3) Creating innovative blended finance mechanisms where public spending can be used to fund, scale-up and de-risk regenerative projects so that private investment becomes economically viable.

All of this is difficult to do within only devolved intervention, so discussions should be undertaken with UK Government on unlocking ‘blue finance’ as a shared

environmental goal. As well as funding the UK Marine Strategy's target of 'Good Environmental Status of our Seas' by 2020 (we did not hit this target on the vast majority of indicators, and neither does it look like we will be 2030 or 2040, at this rate).

Rural Affairs budget for sustainable farming

The UK Government has now set out that agriculture funding for devolved governments will no longer be ringfenced. They set out in the 2024 budget's Statement of Funding Policy: "From 2025-26, the Barnett formula will apply in the usual way to funding for agriculture and fisheries, rather than the devolved governments receiving a ringfenced addition to the block grant as they did for Spending Review 2021. Funding from 2024-25 has been baselined in each devolved government's block grant."

This means farming funds will now be competing with other parts of the Welsh Government's budget, but it does also allow for a truly Welsh approach to modernising farming practice and moving towards the Sustainable Farming Scheme. It's important this opportunity isn't missed and that the transition encourages as many applicants as possible to do as many nature-based actions as possible, that isn't just keeping to previous damaging practices.

We would urge for WWF's calls for a net zero test for budget setting to be applied to the Welsh Government's spending plans. It's only through such a measurement that we can see if government spending is overall helping or hindering tackling the nature and climate crises. This was committed to by the UK Labour Party in manifesto material, prior to their election as the UK Government, but is yet to materialise.

Skills gaps in creating a 'green/blue economy'

In 2023, CIEEM commissioned research into the capacity and skills crises in the environmental sector and provide a suite of recommendations to improve it. Key findings include:

- A capacity crisis and skills gap in the ecology sector which puts our ability to tackle the climate and biodiversity emergencies at risk.
- There is a heavy reliance on unpaid voluntary work in order to gain the essential skills and experience needed for new entrants to start their first

ecology job. This expectation is not seen or required in any other sector of the workforce. It devalues the work carried out by ecologists and is a significant barrier for those who cannot afford to work on a voluntary basis.

- Jobs in ecology are unappealing compared to other sectors due to low pay, temporary contracts, irregular working hours, requirements for car ownership, unclear career progression and insufficient professional development.
- Recruitment often relies on graduates and postgraduates in ecology and related subjects, with most roles requiring a degree by default. This is a key barrier to those with vocational backgrounds and qualifications.
  Employers currently struggle to recruit for the many vacancies they have. There is an urgent need to 'open up' ecology, both as a career for young people and to mid-career changers.
- The sector is looking for leadership from governments and large public sector employers, but there is no funding or concrete plan.

One solution to this would be to provide support for Nature Service Wales, a vehicle devised between many environment partners as part of NRW's Green Recovery work from the pandemic. We urge for support for it, in order to become a central partner in building a resilient green economy that addresses the nature and climate emergencies. Nature Service Wales aims to mobilise a national movement to restore Wales's natural heritage, empower citizens with green skills, and provide pathways for people of all backgrounds to engage in nature recovery. Support for it would be a vehicle for increased investment in skills development, community-led conservation, inclusive access to nature-based career opportunities, awareness raising and early intervention through environmental education, all of which align with Welsh Government priorities while building climate, environmental and community resilience across Wales.

As mentioned above, since the UK Government has confirmed it is now reviewing the Levelling Up Fund set up under the previous government, this would be a prime opportunity for a UK-wide collaborative scheme that would both create jobs and vital expertise in the ecology sector, ensuring the next generation can help tackle the problems that will only be exacerbated by global heating and nature's erosion. A combined fund that would train up people in skills, provide good jobs that will address our growing needs in ecology expertise and practice, and utilise those skills

in large-scale restoration projects, could make a significant intervention in Welsh nature, for now and the future.

We are also at risk of ignoring our 'blue economy', as coastal restoration creates new 'blue jobs'. These should be seen as those that actively protect and enhance the value of the marine environment to society. Many of the jobs involved in coastal restoration require an active workforce that could not be replaced by AI, ensuring longevity and security for local communities. Different facets of restoration also create additional jobs as a healthy marine environment creates new opportunities for coastal recreation, leisure, and tourism, and knock on impacts for hospitality and foundational economy spend in the area.

By not paying attention to blue skills or sustainable management of marine ecosystems, we are decreasing jobs and contributing to a failing blue economy. For example, aquaculture and fisheries that are dependent on a healthy sea will disappear. Amid high costs and falling fish stocks, the fishing industry is facing big challenges. However, restoring fish species to their maximum sustainable yields would create a more resilient fishing sector that supports small-scale fisheries and aquaculture businesses.

Coastal communities are famously difficult to sustain after successive years of poor public finance, austerity and cost of living crises. Much of Wales' coastal towns and villages struggle deeply to keep up with being anything more than a second home holiday destination in the warmer months. By taking a community-based approach to skills – i.e. giving coastal communities ownership of their local assets, supporting the plastic-free efforts to take control of their own circular economies, and listening to their needs on hospitality, recreation and tourism spend – local skills and multi-generational livelihoods will follow.

Wales Environment Link (WEL) is a network of environmental, countryside and heritage Non-Governmental Organisations in Wales. WEL is a respected intermediary body connecting the government and the environmental NGO sector. Our vision is a thriving Welsh environment for future generations.

This paper represents the consensus view of a group of WEL members working in this specialist area. Members may also produce information individually in order to raise more detailed issues that are important to their particular organisation.

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