

Post-EU funding arrangements

September 2022



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Post-EU funding arrangements

September 2022



About the Committee

The Committee was established on 23 June 2021. Its remit can be found at:
www.senedd.wales/SeneddFinance

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Chair's foreword

The new funding arrangements established since the UK left the European Union represents a seismic shift in the way that money is allocated to Wales and the role of the Welsh and UK governments in that process.

The issue of EU replacement funding has a particular salience in Wales, given that it was the largest recipient of EU funding relative to its population of the UK nations. As a Committee we therefore considered this as a priority area and our inquiry was an initial deep-dive into replacement EU funds which aimed to clarify the level of funding received in Wales. As part of this we considered the UK Government's new funding schemes, namely the Community Renewal Fund (CRF), Levelling Up Fund (LUF) and the Shared Prosperity Fund (SPF).

Our overriding finding was that the successful implementation of these new funds in Wales is endangered by a lack of engagement between the Welsh and UK governments. The delivery of funding under these arrangements should not just be about sharing money across the UK; it also needs to be about the sharing of ideas and responsibilities if it is to be a truly partnership approach.

We also found that practical difficulties, such as the challenging timescales for local authorities to submit bids through CRF and LUF, was hindering their ability to match the intended policy outcomes of those funds.

However, we also acknowledge that these new funding processes are new and likely to experience teething-problems. We are therefore pleased that some lessons are already being learnt, such as moving away from a competitive funding approach through the SPF.

While the Committee understands it is necessary to explore the different perspectives around replacement funding through this inquiry, it is disappointing that it has had to spend so much time unpicking the basic principles of each governments' argument in relation to the level of funding for Wales. During the course of our inquiry more detailed information has been published by both governments, but had this information been published sooner, the Committee might have been able to go further.

To make sure that these new funds have maximum impact and reach the right places and people, we need a grown-up approach based on mature discourse and clarity: we found that this aspect of the new arrangements is currently lacking.

Ensuring that these funds reach the right people and are used in the best way, also requires clear lines of accountability and ample opportunities for scrutiny. The Committee reiterates concerns with the UK Government's approach of using these new arrangements to fund devolved areas and has sympathy with the Welsh Government that it is being bypassed as part of this process. We also believe that the Senedd is in danger of being side-lined and that further consideration is required to ensure that effective parliamentary scrutiny of these and any future replacements funds takes place in Wales.

More than anything there needs to be strong, robust engagement between all tiers of government to ensure that objectives align and strategic investment is targeted where it is most needed across Wales.

Replacement EU funding is a new and developing area which is highly complex and continually evolving. This report puts in place solid foundations and establishes clear principles for other Senedd Committees to build on so their impact can be maximised. It is a first step in shining a light on the levels of funding Wales receives under these arrangements, more importantly how the funds operate in Wales and their impact on the communities that need it most.



Peredur Owen Griffiths MS
Chair

Recommendations and Conclusions

Recommendation 1. The Committee recommends that, for future funds, the UK Government gives further consideration:

- to the time and resources required by local authorities to prepare bids;
- similar funding should be provided on the basis of need; and
- avoid a situation where time pressures influence the types of projects put forward.

..... Page 17

Recommendation 2. The Committee urges the UK Government to ensure the mechanisms around the Shared Prosperity Fund facilitate meaningful discussions with the Welsh and other devolved governments, in order to maximise the investment in Wales. Page 24

Recommendation 3. The Committee recommends the Welsh Government clarify whether/how it will support the delivery of the Shared Prosperity Fund and what mechanisms it will use to ensure, as far as possible, funding is complimentary to other funding streams and policy in Wales. Page 25

Recommendation 4. The Committee recommends that further information is provided by the Welsh and UK governments regarding the deprivation element of the distribution formula and how this was agreed. Page 25

Recommendation 5. The Committee recommends that increased engagement takes place between the UK Government, Welsh Government and local authorities to clarify how the Multiply programme will operate in Wales. Page 33

Recommendation 6. Given that education is a devolved area, the Committee is disappointed with the method of allocating funding through the Multiply programme and recommends that the UK Government provides flexibility to spend funds from the Multiply programme in other areas. Page 33

Recommendation 7. The Committee recommends that the Welsh Government assess the Multiply programme and consider its existing funding commitments in this area, with the aim of avoiding duplication of other existing approaches and schemes. Page 33

Recommendation 8. The Committee recommends that the UK Government provides further information on the team being established in Wales to operate the Funds, including the resources and staff to be deployed by the UK Government in Wales.Page 34

Recommendation 9. The Committee recommends that the UK Government provide further information on the role and responsibilities of UK-wide ministerial forum that will support delivery of the Fund, as well as any other relevant engagement and responsibilities of the Welsh Government.Page 34

Recommendation 10. The Committee recommends that the Welsh Government provides information as to how its officials will be involved in regional partnership groups and what role they will play in investment plan development.....Page 34

Recommendation 11. With the transition from EU funds to the Shared Prosperity Fund, the Committee recommends that the Welsh Government works with local authorities and stakeholders to identify any potential gaps and requests further information on the criteria and circumstances where the Welsh Government might intervene.....Page 36

Recommendation 12. The Committee recommends that the UK Government increases flexibility to move Shared Prosperity Funds between financial years and between projects, similar to that offered through EU Structural Funds programmes. The Committee further calls for increased flexibility on how underspends will be treated.Page 39

Recommendation 13. The Committee recommends that the UK Government provides clarity on its long term plans for replacement EU funding and the status of the Shared Prosperity Fund beyond 2025. If it is to be replaced by a successor fund, the Committee recommends that relevant engagement needs to be taking place with stakeholders immediately.Page 40

Recommendation 14. The Committee recommends that any successor to the current Shared Prosperity Fund:

- takes a longer term approach and is closer to the length of EU structural funding programmes than the current Shared Prosperity Fund; and,
- is aimed at creating growth and increasing GVA in Wales.Page 40

Recommendation 15. The Committee recommends that an independent body assesses both the Welsh and UK government's claims around the levels of future funding and how this compares to previous EU funding.....Page 50

Recommendation 16. The Committee recommends that the Minister for Finance and Local Government reports back to the Committee on the funding issues discussed at the meeting of the Finance: Inter-ministerial Standing Committee.Page 50

Recommendation 17. The Committee recommends that the Welsh Government provides further information on the dispute resolution position with the UK Government and when/how it might be used to resolve funding disputes.Page 50

Recommendation 18. The Committee recommends that the Welsh Government provides further information on the progress in resolving the issues that have been identified with other funding streams, including; Erasmus+, Horizon Europe and European Territorial Co-operation.Page 51

Recommendation 19. The Committee recommends that the Welsh Government provides the financial projections relating to the remaining £795 million funding from the European Social Fund and European Regional Development Fund.Page 51

Recommendation 20. The Committee recommends that the Welsh and UK governments publish the detail of the amount and profile of legacy funding that Wales is due to receive from the European Social Fund and the European Regional Development Fund.Page 51

Conclusion 1. The Committee is concerned by the lack of engagement between the Welsh and UK governments in the development of the Community Renewal Fund and Levelling Up Fund.Page 17

Conclusion 2. The Committee believes that any future inquiries by the Finance and/or other Senedd Committees should consider the delivery of projects through the Community Renewal and Levelling Up Funds including how those funds have operated.Page 18

Conclusion 3. The Committee welcomes the Shared Prosperity Fund moving away from the competitive funding process of the Community Renewal and Levelling Up Funds.Page 24

Conclusion 4. The Committee believes that the Senedd should consider its role in these Funds. These are new and significant funding arrangements that require resilient, transparent and accountable structures that reflect the constitutional realities of the UK.....Page 35

Conclusion 5. The Committee concludes that there is ongoing uncertainty in relation to a number of other EU funding streams and programmes. All parties must work to resolve these issues and provide clarity to relevant bodies.Page 50

1. Introduction

1. On 2 March 2022, the Finance Committee (the Committee) agreed to undertake a short inquiry into Post-EU funding arrangements. The terms of reference for the inquiry¹ were to consider:

- Progress in establishing and delivering replacement funds for EU structural funds, including;
 - the UK Shared Prosperity Fund;
 - the Community Renewal Fund; and
 - the Levelling Up Fund.
- How the funding proposed for Wales and funding received via continued UK participation in EU programmes, compares to the funding received while the UK was a member of the EU.
- The mechanisms and structures being established to administer those funds in Wales, the roles of those involved, in particular the Welsh and UK governments, and the consequent impact on accountability arrangements.
- The amount of legacy funding that Wales is due to receive following the UK's exit from the EU and associated with EU structural fund programmes.

2. Between 4 March 2022 and 1 May 2022, the Committee undertook a public consultation to inform its work, and received 16 responses².

3. During the course of the inquiry, on 13 April 2022, the UK Government published a prospectus for the UK Shared Prosperity Fund (UK SPF or SPF)³. This has formed a focus for the inquiry.

4. The Committee would like to thank all those who have contributed to this inquiry.

¹ Finance Committee, [Inquiry into Post-EU funding arrangements](#)

² Finance Committee, [Consultation responses](#)

³ UK Government, [UK Shared Prosperity Fund: prospectus](#)

2. Replacements for EU Structural Funds

5. On 1 January 2021, the Trade and Co-operation Agreement (TCA)⁴ took effect and established the UK's future relationship with the EU. The UK's access to future rounds of EU structural funding programmes was not agreed.⁵ The UK Government has developed new funding schemes, including:

- UK Community Renewal Fund⁶
- Levelling Up Fund⁷
- UK Shared Prosperity Fund.⁸

6. The UK Government's Internal Market Act 2020⁹ provides, among other things, powers that enable the UK Government to establish and operate these replacement funds in Wales.

7. The Finance Committee of the Fifth Senedd conducted an inquiry into the 'Preparations for replacing EU funding in Wales' in 2018. In the foreword to its report the Chair suggested there was "very little detail or information" on the SPF.¹⁰

8. Similarly in 2020, the Welsh Affairs Committee noted its disappointment that "negligible progress" had been made in developing a replacement for structural funds, following an inquiry into Wales and the Shared Prosperity Fund.¹¹

9. More recently, the Scottish Parliament's Finance and Public Administration Committee began work into Replacing EU Structural Funds in Scotland.¹² This comes as the UK Government publishes more detail on its approach to the replacement funds. The prospectus for the SPF was published in April¹³ and the Levelling Up white paper¹⁴, which sets out its aspirations for its levelling up agenda, was published in early February 2022.

⁴ UK Government, [UK/EU and EAEC: Trade and Cooperation Agreement \[TS.No.8/2021\]](#)

⁵ Senedd Research, [Is this the Brexit season finale?](#)

⁶ UK Government, [The UK Community Renewal Fund](#)

⁷ UK Government, [The Levelling Up Fund](#)

⁸ UK Government, [The UK Shared Prosperity Fund](#)

⁹ UK Government, [Internal Market Act 2020](#)

¹⁰ Finance Committee Fifth Senedd, [Preparations for replacing EU funding for Wales](#)

¹¹ Welsh Affairs Committee, [Wales and the Shared Prosperity Fund: Priorities for the replacement of EU structural funding](#)

¹² Scottish Parliament, Finance and Public Administration Committee, [Replacing EU Structural Funds in Scotland](#)

¹³ UK Government, [UK Shared Prosperity Fund: prospectus](#)

¹⁴ UK Government, [Levelling Up white paper](#)

3. The Community Renewal Fund and the Levelling Up Fund

Development

10. The UK Government's 2020 Spending Review (November 2020) identified £220 million funding in 2021-22 "to help local areas prepare... for the introduction of the UKSPF".¹⁵ The UK Government's March 2021 Budget¹⁶ was accompanied by publication of the Community Renewal Fund (CRF) prospectus.¹⁷ The budget outlined that the CRF:

"...will support communities across the UK in 2021-22 to pilot programmes and new approaches as the government moves away from the EU Structural Funds model and towards the UK Shared Prosperity Fund."

11. The Levelling Up Fund (LUF) was outlined at the Spending Review 2020 (November 2020), with the objective to:

*"...invest in local infrastructure that has a visible impact on people and their communities and will support economic recovery."*¹⁸

12. The UK Government initially identified the £4 billion LUF for England only, with devolved nations sharing £800 million "in the usual way".¹⁹ However, the UK Government subsequently changed the approach to cover the whole of the UK. The focus of the Fund is infrastructure.²⁰ The Rt Hon Simon Hart MP, the then Secretary of State for Wales (then Secretary of State) suggested that this meant Wales received 7 per cent of the Fund "well over the 5 per cent base mark" and that it "was a good thing" that the UK changed the scope of the LUF to cover the whole of the UK, rather than it resulting in a consequential.²¹

13. At the time of this inquiry, two rounds of the LUF had been launched, in March 2021²² and March 2022²³.

¹⁵ UK Government, [Spending Review 2020](#)

¹⁶ UK Government, [Budget March 2021](#)

¹⁷ UK Government, [Community Renewal Fund prospectus](#)

¹⁸ UK Government, [Spending Review 2020](#)

¹⁹ UK Government's 2020, [Spending Review](#)

²⁰ UK Government, [Levelling Up Fund Prospectus](#)

²¹ Finance Committee, RoP, 30 June 2022, paragraph 401

²² UK Government, [Levelling Up Fund Prospectus](#)

²³ UK Government, [Levelling Up Fund Round 2 Prospectus](#)

14. The LUF round 1 prospectus said the funding structure of the LUF did not set a precedent for the SPF.²⁴ The Welsh Local Government Association (WLGA) suggested the LUF was a consequential arising from the English Towns Fund.²⁵

15. However, while the Welsh Government agreed with the WLGA it suggested the LUF is “operating in the space that EU funds have previously occupied”.²⁶

16. The Welsh Government stated it had no “input or role” in the CRF.²⁷ Similarly, the Welsh Government said it had no role in the development or delivery of the LUF.²⁸ Vaughan Gething MS, the Minister for Economy noted the lack of engagement and suggested the Fund:

“...ignored what we'd been designing over a number of years with partners. The regional investment framework involved local authorities and other partners.”²⁹

Timescales

17. The Committee received evidence and consultation responses outlining that timescales had been an issue for the two Funds. Wales Fiscal Analysis (WFA) also noted delays at the UK Government level in regard of introducing the CRF.³⁰

18. The WLGA outlined that ten local authorities did not bid to the LUF, which “reflects the pressure some authorities were under”. Elaborating on this, it said:

“...local authorities were not only having to develop their own community renewal fund bids, they had to run a competition for organisations in their area that also wanted to bid for CRF and, if they were going to do it, they had to prepare the levelling-up fund bid at the same time. For some small authorities, that was incredibly challenging.”³¹

19. The Minister for Economy made the same point:

²⁴ UK Government, [Levelling Up Fund Prospectus](#)

²⁵ Finance Committee, consultation response, WLGA

²⁶ Welsh Government, [Response to the Finance Committee's inquiry into Post EU funding](#)

²⁷ Welsh Government, [Response to the Finance Committee's inquiry into Post EU funding](#)

²⁸ Welsh Government, [Response to the Finance Committee's inquiry into Post EU funding](#)

²⁹ Finance Committee, RoP, 30 June 2022, paragraph 86

³⁰ Finance Committee, RoP, 11 May 2022, paragraph 141

³¹ Finance Committee, RoP, 11 May 2022, paragraph 26

*"...there was actually not a lot of time to get bids ready. This isn't a party political point, because, actually, if you look at local authorities across the piece with different leaderships, they couldn't get bids in."*³²

20. David TC Davies MP, the Parliamentary Under-Secretary of State for Wales (Under-Secretary of State) agreed that "some local authorities found the timescales challenging and that's something that I think has been noted" by the UK Government.³³

21. The Minister for Economy suggested this led to a "bias in favour of shovel-ready projects", which are "not always the best use of money".³⁴ This reflected a concern raised by the WLGA:

*"...if you've got a very short timescale to bid, you will either rush something and put in a lower quality bid than if you had more time, or you're going to draw on things that you've already got on the shelf that, perhaps, if they were a priority, they would have already been funded because they've been sitting around a while. So, that may mean that they're not your top priority."*³⁵

22. In terms of delivery timescales, the WLGA outlined the CRF was a "fairly short-term period", whereas there is a "little bit more flexibility to do the preparatory work" with the LUF timescales.³⁶

Funding approach

23. Wales was allocated £46.9 million or 23 per cent of the overall CRF funding.³⁷ The WLGA said that Wales was allocated a "good share".³⁸ However, the Welsh Government criticised how funding was allocated, referring to it as a "scattergun approach". It suggested that funding could have been better spent if deployed more strategically.³⁹ The Minister for Economy said:

"But the challenge was that that went back to, if you like, the first round of EU funds that we had where our own committees in this place and independent analysis said, 'You could have got much greater value for that if you'd chosen

³² Finance Committee, RoP, 30 June 2022, paragraph 84

³³ Finance Committee, RoP, 30 June 2022, paragraph 44

³⁴ Finance Committee, RoP, 22 June 2022, paragraph 84

³⁵ Finance Committee, RoP, 11 May 2022, paragraph 39

³⁶ Finance Committee, RoP, 11 May 2022, paragraph 40

³⁷ UK Government, [UK Community Renewal Fund: frequently asked questions](#)

³⁸ Finance Committee, RoP, 11 May 2022, paragraph 24

³⁹ Finance Committee, RoP, 30 June 2022, paragraph 83

*a smaller number of more strategic projects.' So, it was looking to unlearn those lessons."*⁴⁰

24. The competitive process around the CRF and LUF was also criticised by local authorities. Pembrokeshire County Council referred to the competitive process around the CRF as "inherently wasteful"⁴¹, with the WLGA explaining:

*"...when you have competition for the funding, then all the local authorities put in a lot of resource and all the other organisations that bid have to put time and effort into bidding with no guarantee of success. And then, of course, all of those applications have to be assessed. I think that over 1,000 bids went into the UK Government, which took a lot of time to assess, and not all of those were then going to be successful, and then you've got that quite bureaucratic process of assessing all those competitive bids..."*⁴²

25. WFA suggested both Funds had experienced "teething problems", adding:

*"On the levelling-up fund, we have the issue where the focus of investment proposals is on supporting high-priority and high-visibility projects, which might well be important projects in the local area, but they might not necessarily be the most important projects in the local area."*⁴³

26. In terms of value for money of the funding, the Minister for Economy said:

*"...I think it comes back to, not just comments we've made, but the UK select committees and their own Public Accounts Committee—this doesn't look like a great use of public funds, and not great value for money overall. So, I think it would be wrong to say that all the money will be spent poorly and there will be no impact on increasing GVA. The challenge is we think that it could have been better spent, and that's the point, isn't it?"*⁴⁴

27. He went on to say it was "no surprise" that local authorities were not able to be strategic, due to the timescales required to put bids together, suggesting they were put in an "impossible situation".⁴⁵

⁴⁰ Finance Committee, RoP, 30 June 2022, paragraph 83

⁴¹ Finance Committee, consultation responses, Pembrokeshire County Council

⁴² Finance Committee, RoP, 11 May 2022, paragraph 28

⁴³ Finance Committee, RoP, 11 May 2022, paragraph 141

⁴⁴ Finance Committee, RoP, 22 June 2022, paragraph 102

⁴⁵ Finance Committee, RoP, 22 June 2022, paragraph 103

28. The Minister for Economy also outlined issues with alignment of projects with Welsh Government priorities, saying it was “plain that some of the projects that have gone in aren’t aligned with Welsh Government priorities”.⁴⁶

Delivery

29. The Committee did not receive detailed information on delivery of projects through the CRF and LUF, with the WLGA explaining:

“...there’s been a relatively short period of time since those approvals to actually see delivery on the ground.”⁴⁷

30. The WLGA described the types of projects within the CRF, which:

“...relate to skills, local business support and entrepreneurship support. There are community-based initiatives, and there are also a number of schemes with support into employment, and a range of other things like digital, green technology, support for carers, mental health, and so on.”⁴⁸

31. The CRF prospectus discusses “cutting burdensome EU bureaucracy”⁴⁹, the WLGA commented:

“...if you look at the application forms and what was required for levelling-up fund bids, it was still quite an extensive range of evidence and material that had to be pulled together.”⁵⁰

32. The WLGA went on to say it was too soon to judge whether the new Funds were less bureaucratic than EU funds.⁵¹

Committee view

33. While the Committee broadly welcomes the funding through the CRF and LUF, in particular the proportion of funding Wales is due to receive, we note that this has not been without issue.

34. The Committee is particularly disappointed to hear about a lack of engagement between the Welsh and UK governments on the CRF and LUF. The Welsh Government’s experience of

⁴⁶ Finance Committee, RoP, 22 June 2022, paragraph 104

⁴⁷ Finance Committee, RoP, 11 May 2022, paragraph 23

⁴⁸ Finance Committee, RoP, 11 May 2022, paragraph 24

⁴⁹ UK Government, [UK Community Renewal Fund: prospectus 2021-22](#)

⁵⁰ Finance Committee, RoP, 11 May 2022, paragraph 32

⁵¹ Finance Committee, RoP, 11 May 2022, paragraph 35

the regional investment framework and working with local authorities and other partners would have been valuable in influencing the development of the Funds. There is a risk that a lack of dialogue could lead to misaligned objectives between local government, the Welsh Government and the UK Government. This is of particular concern in ensuring the value for money of projects delivered through these Funds. We believe we work best for the people of Wales when all tiers of government work together.

Conclusion 1. The Committee is concerned by the lack of engagement between the Welsh and UK governments in the development of the Community Renewal Fund and Levelling Up Fund.

35. The Committee heard that the timescales had been an issue for both Funds, with the Welsh and UK governments agreeing that some local authorities found it challenging. We heard that, in some instances, local authorities were submitting bids for the CRF and LUF simultaneously, which placed disproportionate pressures on smaller local authorities. Whilst the Committee appreciates that any new funding process is likely to experience teething problems, this pressure is predictable and should be avoided if possible. It is worrying to hear that those administrative pressures may have been a deciding factor in the types of bids submitted. The Committee believes that investment needs to be strategic to ensure that public money is targeted where it is most needed across Wales and needs to take into account that some local authorities have greater capacity than others to prepare bids at short notice.

36. The Committee is pleased that Wales received an appropriate level of funding through the CRF, with Wales allocated £46.9 million or 23 per cent of the overall funding. However, the Welsh Government was critical of the “scattergun” approach to how funding was allocated, suggesting funding could have been better spent if there had been a more a strategic approach to project selection. The Welsh Government also highlighted issues around alignment of projects with its own priorities. The Committee acknowledges the risks associated with such an approach and is keen that these Funds are delivered in a way that compliments other funding streams and policies.

Recommendation 1. The Committee recommends that, for future funds, the UK Government gives further consideration:

- to the time and resources required by local authorities to prepare bids;
- similar funding should be provided on the basis of need; and
- avoid a situation where time pressures influence the types of projects put forward.

37. Due to the relatively short period of time since the approval of bids, the Committee did not receive detailed information on delivery of projects through the Funds. However, we are pleased to hear that projects within the CRF are community-based initiatives that relate to skills, local business and entrepreneurship support as well as a range of schemes with support into employment, such as digital support and green technology. It will be important to assess the impact of these projects and to evaluate how the Funds have operated.

38. The Committee notes the UK Government objective to reduce bureaucracy, but is unable to reach a view on whether the new Funds are less bureaucratic than EU funds. Whilst the CRF prospectus discusses “cutting burdensome EU bureaucracy”, there was some evidence to suggest that application forms for the LUF required an extensive range of evidence and material.

Conclusion 2. The Committee believes that any future inquiries by the Finance and/or other Senedd Committees should consider the delivery of projects through the Community Renewal and Levelling Up Funds including how those funds have operated.

4. The UK Shared Prosperity Fund

Development and delivery of the UK Shared Prosperity Fund

Development

39. The SPF was launched on 13 April 2022 and will cover the years 2022-23, 2023-24 and 2024-25. It is valued at £2.6 billion across the UK.⁵²

40. The Finance Committee of the Fifth Senedd expressed disappointment regarding the lack of available information on the SPF in its reports on 'Preparations for replacing EU funding in Wales'⁵³ in 2018 and on the 'Welsh Government's Legislative Consent Memorandum on the United Kingdom Internal Market Bill' in 2020⁵⁴. This followed the Welsh Affairs Committee concluding in 2020 that, up to that point in time, there had been "a failure to properly engage with stakeholders, or Parliament".⁵⁵

41. Both Pembrokeshire County Council and Conwy Borough Council noted in their consultation responses that progress in bringing forward the SPF had been slow. Pembrokeshire County Council also highlighted that the development process had been "opaque in terms of the principles of engagement and consultation that are key to the conceptual underpinning of the 'Levelling-Up' agenda".⁵⁶

42. The WLGA said conversations with the UK Government around the SPF had taken place over the last three years, but "the more meaningful engagement only took place in recent months with discussion intensifying during the last few weeks prior to the formal launch of the Fund".⁵⁷ The Welsh Government described a similar experience, saying the UK Government only offered "meaningful discussion and negotiation" over the Fund in early April 2022.⁵⁸

43. However, the then Secretary of State disagreed with these comments, saying:

"We've been talking about SPF with Welsh Government for as long as I've been Secretary of State, sometimes through the medium of BBC Radio Wales,

⁵² UK Government, [UK Shared Prosperity Fund: prospectus](#)

⁵³ Finance Committee Fifth Senedd, [Preparations for replacing EU funding for Wales](#)

⁵⁴ Fifth Senedd Finance Committee, [Report on the Welsh Government's Legislative Consent Memorandum on the United Kingdom Internal Market Bill](#)

⁵⁵ House of Commons, [Welsh Affairs Committee report on Wales and the Shared Prosperity Fund](#)

⁵⁶ Finance Committee, consultation responses, Pembrokeshire County Council and Conwy County Borough Council

⁵⁷ Finance Committee, consultation responses, WLGA

⁵⁸ Welsh Government, [Response to the Finance Committee's inquiry into Post EU funding](#)

*but, actually, it almost makes it sound like it was a surprise. And it definitely wasn't a surprise."*⁵⁹

44. The WLGA described its involvement in a taskforce, set up around the Fund, although it also suggested a lot of those discussions were "retrospective" and that:

*"I wouldn't say it was the sort of engagement that really helped to shape the SPF as it came out."*⁶⁰

45. The WLGA also suggested that a political taskforce should have been set up.⁶¹

46. The Welsh Government has not endorsed the UK Government's approach to the SPF, citing the following three reasons:

- the funding formula redirects funds away from those areas where poverty is most concentrated;
- the role of the Welsh Government falls short of a genuine co-decision making function essential to maximising investment and respecting devolution in Wales; and
- the funding package for Wales is over £1 billion less than what it would have expected to receive via the EU between January 2021 and March 2025.⁶²

47. The Minister for Economy suggested the "two weeks of very intensive engagement" with the UK Government was driven by the UK Government's desire to make an announcement before the local elections and said:

*"...engagement even a few weeks earlier would, I think, have delivered a better result, and engagement several months before would have delivered a better still result, and that's what we were asking for."*⁶³

48. However, the Minister for Economy did "give some credit" to the UK Government on the lessons learnt from the CRF, stating:

"The first was that they themselves [UK Government] recognised that the scatter-gun approach was problematic and they wanted to have a plan to

⁵⁹ Finance Committee, RoP, paragraph 433, 30 June 2022

⁶⁰ Finance Committee, RoP, paragraph 56, 11 May 2022

⁶¹ Finance Committee, RoP, paragraph 56, 11 May 2022

⁶² Welsh Government, [Response to the Finance Committee's inquiry into Post EU funding](#)

⁶³ Finance Committee, RoP, paragraph 128, 22 June 2022

invest against that wasn't simply, 'Tell us what you've got, and we'll decide what we like.' So, there was some movement on that...

*The other thing that I think it's fair to recognise is there was a level of engagement with us, even over that two weeks, that made a difference to what we ultimately got, when there was nothing from the community renewal fund, and it also meant that we did get a different allocation methodology. So, whilst we're still not happy and aren't prepared to endorse it, it's different to what's happened in Scotland and in England, and they did move away from the funding formula used in the community renewal fund."*⁶⁴

49. The then Secretary of State said:

*"Actually, we think the correct answer would be to engage, to persuade, to lobby, to cajole and to co-operate and collaborate in making sure that, where there are differences, we can iron them out and achieve the same aim. So, rather than teddies out of the cot time, why not actually, 'Let's engage in a slightly more grown up way of resolving some of these differences'?"*⁶⁵

Allocations within Wales

50. Local allocations of the SPF in Wales are distributed on the basis of population (40 per cent of funding for Wales), the CRF index (30 per cent of funding for Wales) and the Welsh Index of Multiple Deprivation (WIMD) (30 per cent of the funding for Wales).⁶⁶ In terms of how this distribution differs to EU funding, WFA noted:

*"While it is not possible to compare allocations at local authority level with previous EU funding (due to most EU-project allocations spanning more than one area), there is an apparent shift away from the West Wales and the Valleys region towards East Wales..."*⁶⁷

51. The then Secretary of State outlined the disagreement over distribution with the Welsh Government. He suggested the Welsh Government proposals for the SPF put "too much

⁶⁴ Finance Committee, RoP, paragraph 130 & 131, 22 June 2022

⁶⁵ Finance Committee, RoP, paragraph 538, 30 June 2022

⁶⁶ UK Government, [UK Shared Prosperity Fund allocations: methodology note](#)

⁶⁷ Finance Committee, consultation response, Wales Fiscal Analysis

emphasis on south and south-east Wales, and not enough emphasis on mid Wales, rural areas or north Wales".⁶⁸

52. However, one of the reasons the Welsh Government said it could not form a partnership with the UK Government was that the funding formula "redirects funds away from those areas where poverty is most concentrated".⁶⁹ The then Secretary of State went on to say:

*"...we did hold our ground on that and we reached an uneasy truce, but we felt that levelling up was levelling up, and that that didn't mean pouring a vast proportion of the resource into one particular region. We wanted to recognise that there was hardship and deprivation in other parts of Wales too, and we wanted to recognise that."*⁷⁰

53. WFA suggested it was:

*"...strange, really, that the allocations by nation are being done on a previous EU funding model, and then the allocation inside Wales... is taken on a different rationale in terms of splitting that pot then inside of Wales."*⁷¹

54. However, the Committee also notes WFA stated:

*"Wales was by far the largest recipient of EU funding relative to its population of the UK nations. This position has been maintained by the SPF allocation methodology – funding per person will be nearly 5 times greater than the average across the UK."*⁷²

55. The IFS also highlighted an issue with the deprivation element of the formula, which it referred to as a "particular oddity" as it "takes no account of population", it explained:

*"So, for this element, Blaenau Gwent and Merthyr don't just get more per person than, for example, Rhondda Cynon Taf, because they are somewhat more deprived—they actually get more in total, despite having populations just a quarter to a third of the size for the deprivation element of the UK SPF."*⁷³

⁶⁸ Finance Committee, RoP, paragraph 439, 30 June 2022

⁶⁹ Welsh Government, [Response to the Finance Committee's inquiry into Post EU funding](#)

⁷⁰ Finance Committee, RoP, paragraph 439, 30 June 2022

⁷¹ Finance Committee, RoP, paragraph 159, 11 May 2022

⁷² Finance Committee, consultation response, [Wales Fiscal Analysis](#)

⁷³ Finance Committee, RoP, paragraph 162, 11 May 2022

56. The IFS went on to say that it wasn't clear how this element of the formula was established.⁷⁴

Delivery

57. Funding through the SPF will be deployed across the four regional 'strategic geographies', coterminous with the City and Growth Deal areas.⁷⁵ The WLGA welcomed this approach⁷⁶, suggesting it mirrors work already undertaken as part of the Framework for Regional Investment in Wales.⁷⁷

58. As with the CRF and LUF, the WLGA said timescales around the design, development and delivery of SPF projects are "extremely challenging".⁷⁸ However, the WLGA also said that the UK Government had indicated there would be a "light-touch" approach to reviewing investment plans.⁷⁹

59. Investment plans needed to be submitted between 30 June 2022 and 1 August 2022. The UK Government suggested this "recognises that places in Scotland and Wales, or places where local elections have been held, may need longer to submit their plans". Funding runs to March 2025 with first payments expected from October 2022.⁸⁰

60. The IFS was uncertain that the approach to allocations within the SPF, which moved away from a competitive approach, was "necessarily about lesson-learning from the other funds", adding:

"I think, really, it's about the different objectives of the UK SPF. I think first of all they wanted to make sure that everywhere got at least some UK SPF funding. I think that's why population was a major part of the allocations, particularly in England. I think, secondly, they wanted to make sure that, for example, there was a sufficient quantum of funding in each area... I think the third thing... is the UK Government really wanted to avoid political difficulties associated with reallocating funding between places, hence its pledge to match each nation's funding..."⁸¹

⁷⁴ Finance Committee, RoP, paragraph 163, 11 May 2022

⁷⁵ UK Government, [UK Shared Prosperity Fund: prospectus](#)

⁷⁶ Finance Committee, consultation response, WLGA

⁷⁷ Welsh Government, [Regional Investment in Wales framework](#)

⁷⁸ Finance Committee, consultation response, WLGA

⁷⁹ Finance Committee, RoP, paragraph 48, 11 May 2022

⁸⁰ UK Government, [UK Shared Prosperity Fund: prospectus](#)

⁸¹ Finance Committee, RoP, paragraph 145, 11 May 2022

Committee view

61. The UK Government first announced the SPF in 2017. Since then very little detail has emerged, an issue that has been highlighted by the Finance Committee of the Fifth Senedd on numerous occasions. It is therefore deeply regrettable to hear that the development process for the SPF has been slow and that meaningful engagement between the UK Government and the Welsh Government has only taken place relatively recently, coinciding with the Committee's inquiry. This is a new and crucial funding stream for Wales. The early principles associated with its establishment and implementation have the potential to guide funding in this area beyond the current lifecycle of the SPF and for many years to come. The onus for engagement is on the UK Government and this must increase. The lack of information in the build up to the SPF's launch should not be repeated.

Recommendation 2. The Committee urges the UK Government to ensure the mechanisms around the Shared Prosperity Fund facilitate meaningful discussions with the Welsh and other devolved governments, in order to maximise the investment in Wales.

62. Whilst the Welsh Government has not endorsed the UK Government's approach to the SPF, we are pleased that it was able to secure changes to the approach, including the use of a different funding allocation methodology and ensuring that the UK Government will commit to a more purposeful plan to invest against. The SPF should not just be about sharing money across the UK; it also needs to be about the sharing of ideas and responsibility if it is to be a truly partnership approach. Based on evidence received it seems while there have been steps in this direction, there is potential to go further.

63. We heard criticism from local authorities that the competitive process for the CRF and LUF was "inherently wasteful" due to the amount of resource required by authorities to submit bids and the bureaucratic process for the UK Government to assess bids. The Committee therefore welcomes the move away from the competitive approach of funding through the SPF. However, as with the CRF and LUF, it is also disconcerting to hear that the timescales for the submission and assessment of SPF investment plans are challenging.

Conclusion 3. The Committee welcomes the Shared Prosperity Fund moving away from the competitive funding process of the Community Renewal and Levelling Up Funds.

64. The Committee notes that the Welsh Government disagrees with the method of SPF distribution within Wales. The Committee received evidence from WFA that it is "strange" that allocations by nation were calculated on the basis of the previous EU funding model, while the local allocations in Wales are made on the basis of population, the CRF index and the WIMD.

However, notwithstanding the arguments around the quantum of funding to be distributed, the Committee also notes that Wales was the largest recipient of EU funding relative to its population of the UK nations and that taking this approach to the SPF therefore maintains this overall position.

Recommendation 3. The Committee recommends the Welsh Government clarify whether/how it will support the delivery of the Shared Prosperity Fund and what mechanisms it will use to ensure, as far as possible, funding is complimentary to other funding streams and policy in Wales.

65. The Committee is also confused by comments around the deprivation element of the distribution formula, which the IFS told us was a “particular oddity” and did not account for population. The IFS suggested, in Wales, some areas won’t just receive more funding per person than other, more populated areas because of deprivation but will also receive more in total, despite having smaller populations. There was a lack of clarity as to why this is the case.

Recommendation 4. The Committee recommends that further information is provided by the Welsh and UK governments regarding the deprivation element of the distribution formula and how this was agreed.

The Shared Prosperity Fund and devolution

Internal Market Act 2020

66. In November 2020, the Finance Committee of the Fifth Senedd, reported on the Welsh Government’s Legislative Consent Memorandum on the United Kingdom Internal Market Bill.⁸² It concluded that:

“The majority of Committee Members consider that the constitutional and financial implications of this Bill passing, in its current form, would undermine the devolution settlement and sets up the prospect that funding available through the Welsh Block Grant could be reduced.”⁸³

67. The Welsh Government said powers in the Internal Market Act 2020⁸⁴ were being used to fund areas “that are plainly devolved”.⁸⁵ The then Secretary of State had previously explained to

⁸² Fifth Senedd Finance Committee, [Report on the Welsh Government’s Legislative Consent Memorandum on the United Kingdom Internal Market Bill](#)

⁸³ Fifth Senedd Finance Committee: [Report on the Welsh Government’s Legislative Consent Memorandum on the United Kingdom Internal Market Bill](#)

⁸⁴ [Internal Market Act 2020](#)

⁸⁵ Finance Committee, RoP, paragraph 115, 22 June 2022

the Finance Committee of the Fifth Senedd his view that the approach to operating the Fund, directly with local authorities, was “an extension of the devolution process”.⁸⁶

68. Members of the Welsh Government’s Strategic Forum for Regional Investment suggested in July 2021 this was a “fallacy”, and that local government was “more of an administrator”.⁸⁷

69. The Welsh Government suggested⁸⁸ the UK Government will “bypass” it by allocating funding directly to local authorities. In Plenary, the Minister for Economy has previously referred to the approach for the LUF and SPF as a “top-down throwback to pre-devolution economic policy” and was a “deliberate assault on Welsh devolution”.⁸⁹

70. The then Secretary of State reiterated his view, that:

“Devolution, I’ve always said, doesn’t stop in Cardiff. Devolution, for us, should extend to the 22 local authorities. That’s the true definition of devolution, and that’s what we’re doing.”⁹⁰

Multiply Programme

71. Around £559 million of the £2.6 billion SPF⁹¹ has been pre-allocated to the UK Government’s Multiply Programme.⁹² The programme is an adult numeracy programme operated by the UK Government Department for Education rolled out to the UK as a whole. This means that, of the total £585 million SPF allocated to Wales, £101 million is pre-allocated to Multiply across the three years (2022-23 to 2024-25).

72. WFA said the Multiply programme has been allocated along the same lines as the overall SPF, therefore the allocation for Wales is five times greater per person compared to the UK average,⁹³ going on to say:

“This large allocation will risk duplicating other existing approaches and schemes in what is a devolved area. As such, there is a strong case for the UK

⁸⁶ Fifth Senedd Finance Committee, RoP, paragraph 226, 10 March 2021

⁸⁷ Welsh Government, [Strategic Forum for Regional Investment in Wales](#)

⁸⁸ Welsh Government, [“UK Government plans to replace EU funds fails Wales financially and is a deliberate and unacceptable assault on Welsh devolution”](#)

⁸⁹ Plenary, RoP, paragraph 366, 15 June 2021

⁹⁰ Finance Committee, RoP, paragraph 417, 30 June 2022

⁹¹ UK Government, [UK Shared Prosperity Fund allocations: methodology note](#)

⁹² UK Government, Blog, [Everything you need to know about the new multiply programme](#)

⁹³ Finance Committee, consultation response, Wales Fiscal Analysis

*government to allow flexibility for some of this funding to go towards other interventions."*⁹⁴

73. WFA noted there was not "a clear rationale why adult numeracy spending needs to increase by five times as much per person in Wales compared to the UK".⁹⁵

74. The WLGA said there was an "urgency" about the discussions around Multiply.⁹⁶

75. The Minister for Economy commented on the funding pre-allocated to Multiply, saying:

*"...it's going straight into an area that's plainly devolved, and the second is that the way the funding works, we've got real concerns about how that money is going to be usefully spent. It doesn't mean that adult numeracy isn't important, but the scale of the funds and the way those funds are working, in rigid, 'You must spend all the money within financial years', is a real problem."*⁹⁷

76. The then Secretary of State suggested there was some alignment between governments in this area:

*"When you look at the aims of Welsh Government and the aims of UK Government in terms of adult numeracy, and indeed some of the other areas we're talking about, by and large, they're pretty well the same; it's actually about improving people's life prospects."*⁹⁸

77. In terms of providing Multiply funding in a devolved area, the then Secretary of State stated:

"...if this was just to become an argument about is it technically within or without the terms of the devolution settlement, that, for me, is losing sight of actually what we're attempting to achieve, and we're not attempting here to come up with some kind of complicated constitutional conundrum; we're actually trying to improve adult literacy levels, and I think it would be nice, if when we're sitting here talking about £100 million investment into this

⁹⁴ Finance Committee, consultation response, Wales Fiscal Analysis

⁹⁵ Finance Committee, RoP, paragraph 175, 11 May 2022

⁹⁶ Finance Committee, RoP, paragraph 85, 11 May 2022

⁹⁷ Finance Committee, RoP, Paragraph 19, 22 June 2022

⁹⁸ Finance Committee, RoP, Paragraph 502, 30 June 2022

scheme, which we want to do jointly with Welsh Government, that it somehow didn't happen because of a constitutional nicety."⁹⁹

Responsibility and accountability

78. When asked who has responsibility for the SPF, the then Secretary of State replied:

*"It's a UK Government scheme run by the department of levelling up".*¹⁰⁰

79. The UK Government will agree local authority investment plans with lead authorities.¹⁰¹ Neil O'Brien MP, the Parliamentary Under Secretary of State for Levelling Up, the Union and Constitution suggests the UK Government wants:

*"...to work with the Welsh Government and the WLGA to support work across the four regions to develop comprehensive accountable arrangements to administer the Fund in time for submission of each place's investment plan this summer."*¹⁰²

80. However, the Minister for Economy described the Welsh Government's role as one of "influencing" as opposed to "decision-making", and called that a "real problem".¹⁰³ He noted the Welsh Government would welcome further dialogue, citing work on freeports in Wales as an example of a "genuine partnership approach".¹⁰⁴

81. In a written statement in June 2022, the Minister for Economy said the Welsh Government would not deploy its resources to implement UK Government programmes in Wales that it considers "flawed and undermining of the devolution settlement".¹⁰⁵

82. The WLGA said "we think we deliver the best outcomes when the UK Government, the Welsh Government, and local authorities work together as closely as possible."¹⁰⁶

83. Local authorities will have a key role in delivering the SPF and the WLGA felt "councils are also well placed to lead, manage and coordinate the new replacement UK Funding

⁹⁹ Finance Committee, RoP, Paragraph 500, 30 June 2022

¹⁰⁰ Finance Committee, RoP, paragraph 524, 30 June 2022

¹⁰¹ UK Government, [UK Shared Prosperity Fund: prospectus](#)

¹⁰² [Letter from the Parliamentary Under Secretary of State for Levelling Up, the Union and Constitution, 6 May 2022](#)

¹⁰³ Finance Committee, RoP, paragraph 109, 22 June 2022

¹⁰⁴ Welsh Government, [Written Statement Confirmation of Welsh Government's position on the UK Government's Shared Prosperity Fund prospectus](#)

¹⁰⁵ Welsh Government, Written statement: [Confirmation of Welsh Government's position on the UK Government's Shared Prosperity Fund prospectus](#)

¹⁰⁶ Finance Committee, RoP, paragraph 71, 11 May 2022

Programmes".¹⁰⁷ It described "really intensive work going on in each of the regions" looking at how local authorities will take the SPF forward.¹⁰⁸

84. The WLGA was positive about the officer level relationships between local and UK Government, saying they had been "very good and very effective", going on to say:

*"I think in historic terms, they're probably as good as they've ever been, both in terms of the officials based in Wales with the Wales Office and other Government departments as well..."*¹⁰⁹

85. However, the WLGA was less positive about political engagement, suggesting there was a concern among its members that, while there had been considerable political engagement over the last 12 months, "in many instances, it was quite general and not very specific".¹¹⁰ It also said local government in England has a "longer history and experience" of working with the UK Government and officials. It said establishing and building new relationships has made it "more challenging for councils across the devolved nations".¹¹¹

86. Conwy County Borough Council said, in terms of relationships, it will now need to "'start again' with the Wales Office staff, whilst dealing with unfamiliar funding mechanisms and processes".¹¹²

87. The Welsh Government reported, in March 2021, that the then UK Ministry for Housing, Communities and Local Government was recruiting a team of civil servants to be based in Cardiff to "run the schemes in Wales".¹¹³ The then Secretary of State discussed relocating UK Government departments, going on to say:

"Instead of Welsh Government or local authorities having to deal with what can sometimes feel like a rather distant entity in the form of DLUHC in Whitehall, those officials—they already are, in fact—are recruited in Wales for Wales, and based in Wales. And so that will, I hope, give people confidence that there is a better, if nothing else, geographical understanding. We want to replicate that in north Wales over time, because we're conscious that there is

¹⁰⁷ Finance Committee, consultation response, WLGA

¹⁰⁸ Finance Committee, RoP, paragraph 67, 11 May 2022

¹⁰⁹ Finance Committee, RoP, paragraph 44, 11 May 2022

¹¹⁰ Finance Committee, RoP, paragraph 44, 11 May 2022

¹¹¹ Finance Committee, consultation response, WLGA

¹¹² Finance Committee, consultation response, Conwy County Borough Council

¹¹³ Welsh Government, Meeting of the Regional Investment in Wales Steering Group minutes, 24 March 2021

*a very different economic ecosystem, and we don't want everything to be south-east Wales-centric."*¹¹⁴

88. The Welsh Government has been invited to be part of a UK-wide ministerial forum with the aim of supporting delivery of the Fund and Welsh Government officials have been asked to attend the regional partnership groups that "will be set up to support investment plan development".¹¹⁵

89. WFA noted that there will be three tiers of government spending in the same area, adding:

*"The problem is that we haven't seen the level of engagement between particularly the Welsh Government and the UK Government to prevent things like the duplication of spending, which could be a big problem in terms of similar projects being funded during this current period and what have you."*¹¹⁶

90. It went on to highlight a further risk:

*"...in the past, there were Wales-wide initiatives that were funded through EU funding, and we're now doing it at a local authority level. Okay, there's scope to do regional levels as well, but we might lose that broader scope by having the focus on local authorities. Of course, it's not impossible to have lead authorities working together, but perhaps having more actors involved in the process makes things sometimes more complicated."*¹¹⁷

91. The Minister for Economy suggested that Welsh Government officials would continue to work with the Welsh regions to "try to make sure we do get the best fit for Welsh Government priorities and what each region wants to achieve".¹¹⁸ He said that funding going to local authorities needed to be considered alongside core funding provided by the Welsh Government in order to deliver value for money.¹¹⁹

Scrutiny role of the Senedd

¹¹⁴ Finance Committee, RoP, paragraph 437, 30 June 2022

¹¹⁵ [Letter from the Parliamentary Under Secretary of State for Levelling Up, the Union and Constitution, 6 May 2022](#)

¹¹⁶ Finance Committee, RoP, paragraph 172, 11 May 2022

¹¹⁷ Finance Committee, RoP, paragraph 173, 11 May 2022

¹¹⁸ Finance Committee, RoP, paragraph 106, 22 June 2022

¹¹⁹ Finance Committee, RoP, paragraphs 109 & 110, 22 June 2022

92. For the LUF, there is a specific role identified for MPs, with the expectation an MP will back one bid which they see as a priority.¹²⁰ While there is no formal role for Members of the Senedd, they are outlined as stakeholders that should be consulted in the round 2 prospectus.¹²¹ Round 1 had requirements to consult “the Scottish and Welsh Territorial Offices” on “relevant bids”¹²² and, in round 2 it suggested UK Government departments would seek advice from devolved governments “where appropriate”.¹²³

93. The Minister for Economy commented on the role of MPs, suggesting it was “problematic”:

“...because it's an area that's plainly devolved; it's an area where Members of this place, elected to the Welsh Parliament, weren't asked to have any of that engagement, and it puts local authorities, as the meat between the sandwich, in a really, really difficult place.”¹²⁴

94. The Minister for Economy raised the issue of how the SPF would be scrutinised, saying:

“How are you going to scrutinise how that programme is working? How are you going to be able to scrutinise the use of public money, when you've got different Ministers, who don't always attend? Welsh Ministers attend on a regular basis here. Will you have Ministers from different UK departments coming to talk to you? Will Neil O'Brien or Michael Gove be coming to talk to you about what they're doing and the choices they, ultimately, make in signing off the shared prosperity fund? Because the Secretary of State for Wales isn't going to make those choices.”¹²⁵

95. While discussing the role of the Senedd, the former Secretary of State said:

“I suppose you could argue it has the same role it has in pretty well the rest of the whole spectrum of Government. It has responsibility, obviously, in areas that are devolved. We have a responsibility in areas that are reserved. There's always a little bit of an overlap in the middle, which seems to be the source of, sometimes, I think, rather unnecessary tension. But in my experience, Welsh Government has never been shy, nor has the Senedd in its

¹²⁰ UK Government, [Levelling Up Fund: prospectus](#)

¹²¹ UK Government, [Levelling Up Fund Round 2: prospectus](#)

¹²² UK Government, [Levelling Up Fund: prospectus](#)

¹²³ UK Government, [Levelling Up Fund Round 2: prospectus](#)

¹²⁴ Finance Committee, RoP, paragraph 93, 22 June 2022

¹²⁵ Finance Committee, RoP, paragraph 155, 22 June 2022

*wider incarnation, in expressing an opinion about the performance, or otherwise, of UK Government. So, imagine that will continue."*¹²⁶

96. The Under-Secretary of State later suggested he:

*"...can't remember EU officials being summoned to any select committee of either the Senedd or the UK Government. They came occasionally..."*¹²⁷

97. He continued:

*"I can absolutely assure you that it will be much, much easier to persuade a UK Government Minister in the Wales Office to come and give evidence at this select committee than it would have been to persuade a European Union official or a European Union politician to come and give evidence on the same issue."*¹²⁸

98. The Under-Secretary of State also said:

*"...you have the ability to call on UK Government Ministers to appear before this committee and we will come. You also have the ability to call on local authority leaders to appear before this committee."*¹²⁹

99. In terms of the role of the Members of the Senedd, the Minister for Economy suggested they were being treated differently to MPs and that was "really unhelpful".¹³⁰ However, the then Secretary of State suggested:

*"...there is absolutely nothing to stop—I hope the evidence supports this—Senedd Members—indeed, anybody else, local councillors and others—from making their feelings, as I know they have, very strongly to local authorities as part of the bidding process."*¹³¹

Committee view

100. The Committee reiterates concerns that powers in the Internal Market Act 2020 are being used to fund devolved areas and has sympathy with the Welsh Government that it is being "bypassed" as part of this process. However, we have concerns with the Welsh Government's blanket assertion that it will not deploy resources to implement UK Government programmes in

¹²⁶ Finance Committee, RoP, paragraph 526, 30 June 2022

¹²⁷ Finance Committee, RoP, paragraph 563, 30 June 2022

¹²⁸ Finance Committee, RoP, paragraph 565, 30 June 2022

¹²⁹ Finance Committee, RoP, paragraph 542, 30 June 2022

¹³⁰ Finance Committee, RoP, paragraph 109, 22 June 2022

¹³¹ Finance Committee, RoP, paragraph 405, 30 June 2022

Wales that it considers “flawed and undermining of the devolution settlement”. Although such sentiments are not without basis, the Committee urges the Welsh Government to take a pragmatic approach in engaging with these funds to get the best outcomes for Wales.

101. Both the Welsh and UK governments should work together to ensure a partnership approach. The Welsh Government should also work with local authorities to influence how money flows to Wales to ensure it is spent on delivering the right outcomes and to mitigate against potential duplication.

102. The Multiply programme has been allocated along the same lines as the overall SPF, with Wales’s allocation five times greater per person compared to the UK average. The Committee expresses its disappointment that this funding is being constrained in this way and is concerned that the UK Government is acting in a devolved area which sets a dangerous precedent. Furthermore, we have reservations regarding the uncertainty of the programme’s operation in Wales, the level of funding committed to this area, and the potential for duplication. Whilst not endorsing this funding method, we agree with the WFA’s view that “there is a strong case for the UK government to allow flexibility for some of this funding to go towards other interventions”.

103. This approach also raises wider questions around how the UK Government allocates funding within devolved areas, and whether it should be allowed to do so unilaterally without consulting the Welsh Government or being held to account by the Senedd. The looseness of the UK’s fiscal arrangements are often ad-hoc, informal and based on goodwill. This programme is in danger of undermining that approach and may suggest that more solid foundations are needed to ensure a robust, transparent and fair funding system that respects the UK’s constitutional make-up.

Recommendation 5. The Committee recommends that increased engagement takes place between the UK Government, Welsh Government and local authorities to clarify how the Multiply programme will operate in Wales.

Recommendation 6. Given that education is a devolved area, the Committee is disappointed with the method of allocating funding through the Multiply programme and recommends that the UK Government provides flexibility to spend funds from the Multiply programme in other areas.

Recommendation 7. The Committee recommends that the Welsh Government assess the Multiply programme and consider its existing funding commitments in this area, with the aim of avoiding duplication of other existing approaches and schemes.

104. The Committee welcomes the engagement from the UK Government with local authorities at an officer level regarding the mechanisms and structures being established to administer the Funds in Wales. It is particularly reassuring to hear that in historic terms, officer level relationships are “probably as good as they’ve ever been”. We understand that a team of civil servants based within UK Government offices in Wales will be recruited. However, some concerns have been raised by authorities in terms of the development of these new relationships, whilst also dealing with unfamiliar funding mechanisms and processes. The Committee would like further information, as this develops, including the resources and staff to be deployed by the UK Government in Wales.

Recommendation 8. The Committee recommends that the UK Government provides further information on the team being established in Wales to operate the Funds, including the resources and staff to be deployed by the UK Government in Wales.

105. The Committee heard that local authorities will have a key role in operating the SPF, however, it is less clear what role the Welsh Government will play. The risks of duplicating spending with the various tiers of government involved in the process is concerning. In addition, there is a further risk around the loss of Wales-wide initiatives with the SPF operating at a local authority level and the Committee believes where possible lead authorities should work together so as to not lose this feature. The Committee welcomes the steps taken by the UK Government to invite the Welsh Government to be part of a UK-wide ministerial forum and for officials to attend the regional partnership groups that will support investment plan development, but we would welcome further information on how these will function.

Recommendation 9. The Committee recommends that the UK Government provide further information on the role and responsibilities of UK-wide ministerial forum that will support delivery of the Fund, as well as any other relevant engagement and responsibilities of the Welsh Government.

Recommendation 10. The Committee recommends that the Welsh Government provides information as to how its officials will be involved in regional partnership groups and what role they will play in investment plan development.

106. The Committee has concerns over the role of the Senedd in scrutinising the delivery and outcomes of relevant funding. The Committee notes the Under-Secretary of State’s view that we have “the ability to call on UK Government Ministers to appear before this committee and we will come” and appreciates the sentiment that stakeholders can still make their feelings strongly to local authorities. However, whilst the Committee greatly appreciates the attendance of the then Secretary of State and Under-Secretary of State, we are disappointed the relevant UK

Minister with responsibility for the Funds under consideration did not agree to do so. This is an experience we have faced in the past with UK Ministers refusing to attend Committee to discuss issues that have the potential to have a significant impact on Wales.

107. Whilst we acknowledge that UK Ministers are not directly accountable to the Senedd, their refusal to attend Committees has the potential to undermine the value of the scrutiny process - a process we undertake in the interests of the people of Wales. If the UK Government intends to act in devolved areas, as these Funds demonstrate, this should not be done at Westminster only.

Conclusion 4. The Committee believes that the Senedd should consider its role in these Funds. These are new and significant funding arrangements that require resilient, transparent and accountable structures that reflect the constitutional realities of the UK

Transition from EU funding

108. The Welsh Government's written evidence described a number of sectors that have raised concerns over a gap in funding between EU and replacement funds.¹³² This was also described in Colegau Cymru's consultation response, which noted that slow progress in establishing the SPF is "now likely to create a distinct gap between the current EU structural funds and funds being received via the UK SPF programme".¹³³ This reflects concerns in the third sector that certain projects may be forced to close or downsize.¹³⁴

109. The WLGA said it will work with the UK and Welsh governments in order to maximise funding and "avoid some potential major gaps in provision".¹³⁵ However, the Minister for Economy said:

*"...I think it's inevitable that some of the projects that people recognise have value will be wound down, partly because the money isn't there to carry them on, but it's also partly because of the way that the investment plans need to be created."*¹³⁶

110. He went on to indicate that the Welsh Government would, in some circumstances, consider support for certain projects, saying "it's a really high bar that's going to be set".¹³⁷

¹³² Welsh Government, [Response to the Finance Committee's inquiry into Post EU funding](#)

¹³³ Finance Committee, consultation response, ColegauCymru

¹³⁴ WCVA, [Replacement funding limbo for vital voluntary sector support services](#)

¹³⁵ Finance Committee, consultation response, WLGA

¹³⁶ Finance Committee, RoP, paragraph 140, 22 June 2022

¹³⁷ Finance Committee, RoP, paragraph 142, 22 June 2022

111. The Under-Secretary of State said organisations would have been promised funding over a certain period when contracts were placed “which wouldn’t necessarily have been when we left the EU, but when the tail ran out”.¹³⁸ He suggested some may have applied for the CRF but:

“...others will have to make their case to their lead local authorities, and I’m sure they’ll be doing that.”¹³⁹

Committee view

112. The Committee notes the views expressed by a number of stakeholders that slow progress in establishing the SPF could create a gap between the current EU structural funds and funds being received via the SPF. The Committee shares this concern, both in terms of the value of replacement Funds and access to those Funds. The Committee believes the Welsh and UK governments need to work with stakeholders to maximise funding and prevent potential funding gaps. The first stage of that process is identifying where those gaps exist or may occur. The Committee welcomes the Welsh Government’s suggestion it could step in to support certain projects, however, any such intervention needs to have a clear rationale and be transparent.

Recommendation 11. With the transition from EU funds to the Shared Prosperity Fund, the Committee recommends that the Welsh Government works with local authorities and stakeholders to identify any potential gaps and requests further information on the criteria and circumstances where the Welsh Government might intervene.

Flexibility and future funding

Funding flexibility

113. As well as suggesting local authorities are concerned with a lack of lead in time for developing and delivering projects, the WLGA highlighted a lack of ability to move funds between financial years, noting this is “in stark contrast to the flexibility afforded by the multi-annual EU Funding Programmes that enabled delivery over a 10-year period”.¹⁴⁰

114. The WLGA advocated for increased flexibility around funding through the ability to move funding between projects, saying more flexibility would help “enormously”.¹⁴¹ The Minister for Economy reiterated this point:

¹³⁸ Finance Committee, RoP, paragraph 579, 30 June 2022

¹³⁹ Finance Committee, RoP, paragraph 579, 30 June 2022

¹⁴⁰ Finance Committee, consultation response, WLGA

¹⁴¹ Finance Committee, RoP, paragraph 76, 11 May 2022

*"A three-year funding cycle doesn't allow the same flexibility as 10 years to spend the money, and that in itself is a wider problem. Of course, there'll be a general election within that time. But just to be clear about is there any willingness to look again at that, because it would make a practical difference, carrying money over."*¹⁴²

115. WFA referred to the annual allocations of the SPF as "quite rigid", explaining:

*"I think one of the benefits of the EU funding regime was the fact that you had seven-year funding allocations with an additional three-period in which you could spend that funding. Whereas the shared prosperity fund will be a period now of two and half years and with annual amounts allocated that have to be spent, and if they're not spent by that time, they're going to have to be returned."*¹⁴³

116. The Wales European Funding Office (WEFO) discussed the flexibility of Structural Funds, saying they are "kind of blind to UK financial years; it just works as a block, over—effectively—10 years of the EU funding round". It said that flexibility has been "hugely important to beneficiaries".¹⁴⁴ The Minister for Economy said:

*"...there's a rigid structure around financial years and spend. And if that flexibility, or that inflexibility, remains the case, then, again, you could find people wanting to spend money to get it out the door, and not thinking, 'This is the best way to spend the money', because they can't carry the money over into different financial years..."*¹⁴⁵

117. The then Secretary of State provided the Committee with what he referred to as the "official position"¹⁴⁶, quoting:

*"In England, Scotland and Wales, we will consider withholding the next annual instalment until we have received credible plans setting out how the lead local authority will utilise underspends in the next year and/or appropriate milestones and spend have been achieved for the previous year."*¹⁴⁷

¹⁴² Finance Committee, RoP, paragraph 156, 22 June 2022

¹⁴³ Finance Committee, RoP, paragraph 127, 11 May 2022

¹⁴⁴ Finance Committee, RoP, paragraph 33, 22 June 2022

¹⁴⁵ Finance Committee, RoP, paragraph 136, 22 June 2022

¹⁴⁶ Finance Committee, RoP, paragraph 567, 30 June 2022

¹⁴⁷ Finance Committee, RoP, paragraph 568, 30 June 2022

118. On 14 July, the Rt Hon Sir Robert Buckland KBE KC MP, the newly appointed Secretary of State for Wales (Secretary of State)¹⁴⁸ wrote to the Committee providing information that the Committee had requested during the evidence session on 30 June 2022. The letter confirmed the above position on underspends.¹⁴⁹

Funding beyond 2024-25

119. The SPF is due to operate over the period 2022-2025, across three financial years. WFA highlighted the risks around the length of the programme:

*"...the main risk is a political one. After 2024-25, I imagine it becomes a political question again about maintaining this distribution between the nations at the next general election, the UK general election. And there's no certainty in funding; there's nothing that's saying that this will be carried forward beyond 2025."*¹⁵⁰

120. WFA later added:

*"The EU funding would be over seven years, 2021-27, and wouldn't have to be spent down until 2030, with that run-off. This is a much shorter time horizon. We're talking about two and a half years, effectively, after the funds go out of the door this October."*¹⁵¹

121. WFA highlighted a risk that Wales would have to "come back to the table every few years and make a demand on funding".¹⁵²

122. The Minister for Finance and Local Government suggested a longer term programme enables more ambition, but said:

*"...we haven't had any indication as to what might happen after 2024-25. But that's not surprising in the sense that the engagement so far from the UK Government has just been absolutely woeful. There's just been absolutely no information shared with us in terms of their intentions whatsoever."*¹⁵³

¹⁴⁸ The Rt Hon Robert Buckland KC MP was appointed Secretary of State for Wales on 7 July 2022

¹⁴⁹ Letter from the Secretary of State for Wales, 14 July 2022

¹⁵⁰ Finance Committee, RoP, Paragraph 150, 11 May 2022

¹⁵¹ Finance Committee, RoP, paragraph 156, 11 May 2022

¹⁵² Finance Committee, RoP, paragraph 156, 11 May 2022

¹⁵³ Finance Committee, RoP, paragraph 63, 22 June 2022

123. The then Secretary of State suggested the three-year SPF fits with the “normal” spending review period.¹⁵⁴ He said a seven-year spending cycle could be “unnecessarily restrictive”¹⁵⁵ and told the Committee the “UK SPF is here to stay”.¹⁵⁶

Committee view

124. Concerns were raised about the inflexibility of funding associated with the SPF. The current restrictions on moving funds between projects and financial years was identified as a disbenefit compared to how EU funds operated. EU funding programmes were delivered over a 10-year period, whereas SPF funding has a three-year funding cycle. The Committee heard that the flexibility of the 10-year EU funding had been hugely important. Furthermore, returning underspends could lead to projects being proposed in order to ensure money is spent, rather than ensuring priorities are dealt with.

125. Nonetheless, we are pleased to hear the UK Government will adopt a “light-touch review” of investment plans, which will provide more flexibility and corresponds with the UK Government’s comments around the devolution of funding. The Committee supports that approach and urges the UK Government to provide as much flexibility as is reasonable in how funds are managed from one financial year to the next.

Recommendation 12. The Committee recommends that the UK Government increases flexibility to move Shared Prosperity Funds between financial years and between projects, similar to that offered through EU Structural Funds programmes. The Committee further calls for increased flexibility on how underspends will be treated.

126. The Committee has concerns about the lack of clarity regarding funding after 2025. While the Committee appreciates the then Secretary of States comments that the “UK SPF is here to stay”, there is no detail on what the SPF looks like once the current programme ends. The experience of the previous Finance Committee and others shows us that developing the current SPF has taken time. The UK Government will need to build relationships with all tiers of government in Wales for the current SPF to be successful and must use those relationships to develop and inform whatever comes after the current SPF programme. Given comments by stakeholders in the lead-up to the launch of the Fund, the Committee believes conversations around what happens after the current SPF programme need to be happening already. If the SPF is to continue we would welcome clarity from the UK Government on this.

¹⁵⁴ Finance Committee, RoP, paragraph 360, 30 June 2022

¹⁵⁵ Finance Committee, RoP, paragraph 366, 30 June 2022

¹⁵⁶ Finance Committee, RoP, paragraph 369, 30 June 2022

127. The Committee advocates a longer funding period that would provide more certainty and flexibility for investment plans. The Committee notes the UK Government's view that the three-year SPF period fits with the "normal" UK spending review period and understands the potential impact of future general elections. However, a commitment to longer term funding following the current SPF programme could help provide clarity and promote a long term strategic approach to investment.

Recommendation 13. The Committee recommends that the UK Government provides clarity on its long term plans for replacement EU funding and the status of the Shared Prosperity Fund beyond 2025. If it is to be replaced by a successor fund, the Committee recommends that relevant engagement needs to be taking place with stakeholders immediately.

Recommendation 14. The Committee recommends that any successor to the current Shared Prosperity Fund:

- takes a longer term approach and is closer to the length of EU structural funding programmes than the current Shared Prosperity Fund; and,
- is aimed at creating growth and increasing GVA in Wales.

5. Funding proposed for Wales

Estimates of EU Structural Funds

128. The Welsh Government quantified the average annual value of the European Social Fund (ESF) and the European Regional Development Fund (ERDF) to be £295 million.¹⁵⁷ The UK Government said it is matching EU funds, specifically the ESF and ERDF, through the SPF.¹⁵⁸ The Welsh Government's figures broadly match the UK Government's calculations¹⁵⁹ of nominal average annual funding to Wales through those funds - £291 million per annum.

129. The SPF methodology note estimates the average annual funding available through the ESF and ERDF for each of the UK nations in real terms. This is £1.5 billion for the whole of the UK, including £343 million for Wales (£291 million in nominal terms).¹⁶⁰

'Ramping up' the Shared Prosperity Fund

130. The key difference of opinion between the Welsh and UK governments has been how the new funding accounts for the tail off of remaining EU funding. That is, how the annual allocations provided by the UK Government via the SPF increase, as remaining EU funding decreases.

131. The Withdrawal Agreement maintained the existing arrangements for ESIF until the end of 2020¹⁶¹, funding agreed prior to this date can still be spent until 2023¹⁶².

132. The UK Government's calculation uses information in the UK and EU's 2014-20 Partnership Agreement.¹⁶³ The Parliamentary Under Secretary of State for Levelling Up, the Union and Constitution, outlined for Wales:

*"This figure ramps up to £343m in 2024/25 when EU spending fully tails off."*¹⁶⁴

133. The Parliamentary Under Secretary went on to state that the allocation methodology:

¹⁵⁷ Welsh Government, [Response to the Finance Committee's inquiry into Post EU funding](#)

¹⁵⁸ [Letter from the Parliamentary Under Secretary of State for Levelling Up, the Union and Constitution, 6 May 2022](#)

¹⁵⁹ UK Government, [UK Shared Prosperity Fund allocations: methodology note](#)

¹⁶⁰ UK Government, [UK Shared Prosperity Fund allocations: methodology note](#)

¹⁶¹ Welsh Government & WEFO, [EU Exit Transition Period and EU Structural Funds 2014-20 Programmes. Frequently Asked Questions](#)

¹⁶² UK Government, [Press Release \(November 2021\)](#)

¹⁶³ UK Government, [Partnership Agreement](#)

¹⁶⁴ [Letter from the Parliamentary Under Secretary of State for Levelling Up, the Union and Constitution, 6 May 2022](#)

*"...ensures that domestic UK-wide funding will at least match EU receipts, reaching around £1.5bn a year in 2024-25 when EU funding ceases, while also providing for a smooth transition onto the new, domestic regime."*¹⁶⁵

134. The methodology note does not explicitly set out the assumptions around the EU funding still to be spent. In 2022-23, Wales's share of the SPF is due to be £89 million of a UK wide £380 million and in 2023-24 this will be £153 million of a UK wide £650 million, before it reaches the full UK Government estimated value of EU funding in 2024-25 of £343 million of £1.5 billion.¹⁶⁶

135. However, this remains a contentious areas and the Committee also received evidence suggesting this 'ramping up' would mean Wales receives less funding. The WLGA said:

*"I think this is a contestable question, really. I think the UK Government takes one view, we know the Welsh Government has taken a different view. In the discussions we've had with our elected members, I think the view was that there was a shortfall."*¹⁶⁷

136. In its consultation response, Conwy County Borough Council suggested the "funding streams falls short of that previously enjoyed".¹⁶⁸ Pembrokeshire County Council noted "most commentators agree that the level of funding announced to date is well short of what Wales would have received if the UK had remained a member of the EU".¹⁶⁹

137. The Minister for Economy said:

*"Well, I don't think it's terribly difficult, actually. The manifesto commitment was to replace and, at a minimum, match the size of former EU funding to nations in the UK. So, that's pretty unambiguous and that isn't what's happening...What's essentially happened is the UK Government have tried to net off the funds we're still getting from previous rounds of European funds, and say that counts towards them matching the size."*¹⁷⁰

138. The Minister for Economy elaborated, saying:

"What I think it's also worth mentioning in terms of some of the differences is that having netted off in a way that we disagree with, the challenge is that

¹⁶⁵ Letter from the Parliamentary Under Secretary of State for Levelling Up, the Union and Constitution, 6 May 2022

¹⁶⁶ UK Government, UK Shared Prosperity Fund allocations: methodology note

¹⁶⁷ Finance Committee, RoP, paragraph 53, 11 May 2022

¹⁶⁸ Finance Committee, consultation response, Conwy County Borough Council

¹⁶⁹ Finance Committee, consultation response, Pembrokeshire County Council

¹⁷⁰ Finance Committee, RoP, paragraph 18, 22 June 2022

there isn't any plan or any commitment at all in future years to invest that money that they're netting off against. So, the loss is permanent."¹⁷¹

139. WFA suggest it is not possible to say definitively either way whether the UK Government was delivering on its commitment.¹⁷² The IFS explained one element of the disagreement:

*"It partly depends on whether you're talking about when money can be committed and allocated, which I think is what the Welsh Government talks about, or when it is actually being spent, which I think is what the UK Government's talking about."*¹⁷³

140. The IFS went on to say:

*"My assessment is that if one is thinking about how much money is available to be committed to projects over that period, then I think it would be a fair assessment to say that there is a funding gap on the amount that can be committed to projects over that period. If, however, it's the amount that can be spent over that period or the amount that is spent over that period—. If you look at the detail of the UK SPF, it talks about money being clawed back, potentially, if it's not being spent within these years. Then, if you look at the money being spent, I don't think that that is a fair assessment of the level of funding under the UK SPF compared to the EU funds."*¹⁷⁴

141. The then Secretary of State said, looking at other funding sources, the UK Government is exceeding its commitment:

*"I think in the overall funding arrangements, what we've tried to do is look at every funding source from 2017 and forward projections to 2024-25, divided into UK Government block grant, EU funding tail-off, UK shared prosperity fund, agricultural payments and UKG local growth funds, looking at those individually and the overall quantum, and the trend over that spending period, and that unquestionably shows significantly more funds pouring into Wales than would have been the case in other circumstances."*¹⁷⁵

¹⁷¹ Finance Committee, RoP, paragraph 61, 22 June 2022

¹⁷² Finance Committee, RoP, paragraph 96, 11 May 2022

¹⁷³ Finance Committee, RoP, paragraph 98, 11 May 2022

¹⁷⁴ Finance Committee, RoP, paragraph 101, 11 May 2022

¹⁷⁵ Finance Committee, RoP, paragraph 304, 30 June 2022

142. The letter from the Secretary of State of 14 July provided a breakdown of combined UK Government funding to Wales over the five year period from 2020-21 to 2024-25.¹⁷⁶

Estimate of future EU funding

143. The Welsh Government estimates the ESF and ERDF would have been worth £1.4 billion between January 2021 and March 2025.¹⁷⁷ The WLGA said that it was difficult to assess how much funding Wales would have received in the 2021-27 Structural Funds programme.¹⁷⁸

144. However, WEFO told the Committee “the core of the basis of that estimate is pretty solid”.¹⁷⁹ It added:

“So, we have a very good idea of what the funding allocation would have been, because of that core framework, which is made clear well in advance, and my colleagues were planning around that back in 2018.”¹⁸⁰

145. Both WFA and the IFS described that it would take time for any new EU funding programme to ramp up, with the WFA outlining that, historically, it took “a few years” into each EU funding programme for this to be achieved.¹⁸¹ The IFS suggested it would be difficult to spend large amounts of funding, effectively, at the start of a programme.¹⁸²

146. However, WEFO suggested planning would be undertaken early:

“...such that the moment that the ink is dry on the final approvals of the commission, we can approve projects, and in some cases the projects would have started already, because the confidence is such that people can commit to doing that, knowing that they will get the approval in due course.”¹⁸³

147. Later WEFO elaborated on this saying “I think we would have been able to get projects going very quickly. We certainly did last time”.¹⁸⁴ However, in terms of the funding spent in the first year of the 2014-20 programme, WEFO outlined:

“I think we spent about £3 million, and that seems like a small amount, but projects were up and running and spending the money. What we spent isn't

¹⁷⁶ Letter from the Secretary of State for Wales, 14 July 2022

¹⁷⁷ Welsh Government, [Response to the Finance Committee's inquiry into Post EU funding](#)

¹⁷⁸ Finance Committee, RoP, paragraphs 53 & 54, 11 May 2022

¹⁷⁹ Finance Committee, RoP, paragraph 36, 22 June 2022

¹⁸⁰ Finance Committee, RoP, paragraph 37, 22 June 2022

¹⁸¹ Finance Committee, RoP, paragraphs 99, 11 May 2022

¹⁸² Finance Committee, RoP, paragraphs 113, 11 May 2022

¹⁸³ Finance Committee, RoP, paragraph 37, 22 June 2022

¹⁸⁴ Finance Committee, RoP, paragraph 55, 22 June 2022

*a reflection, necessarily, of what's happening out there; at any given point, there is a huge amount of money that beneficiaries have spent but haven't yet claimed."*¹⁸⁵

148. The Minister for Finance and Local Government suggested the "only honest answer" the UK Government could give to the question of whether Wales will receive less new funding than it would have done had it remained in the EU was "we will receive less funding".¹⁸⁶ The Minister for Finance and Local Government indicated that she had referred the issue to the next meeting of the 'Finance: Inter-ministerial Standing Committee' (F:ISC).¹⁸⁷ However, the Under-Secretary of State said the Welsh Government had "no idea how much money the UK would have received had we remained in the European Union", he said the EU were "still trying to work that out".¹⁸⁸

149. The then Secretary of State also questioned the ability to be precise in estimating future EU funding. Referring to WFA and the IFS's evidence, he suggested:

*"I think what that did was confirm that there is some legitimate difference of opinion as to what the actual quantum may be. It's actually pointing at Welsh Government, to some extent, I think, a polite but accusing finger, saying that, actually, the numbers upon which they are relying are based on hypotheticals and an unknown future funding formula in order to make that point."*¹⁸⁹

Farm funding

150. The SPF is a successor to the ESF and ERDF, the methodology note accompanying the SPF prospectus states:

*"Other European Funds, such as the European Agricultural Fund for Rural Development (EAFRD), are being replaced separately."*¹⁹⁰

151. In a letter to the Committee, the UK Government talked about farm funding and LEADER¹⁹¹ saying:

¹⁸⁵ Finance Committee, RoP, paragraph 59, 22 June 2022

¹⁸⁶ Finance Committee, RoP, paragraph 28, 22 June 2022

¹⁸⁷ Finance Committee, RoP, paragraph 25, 22 June 2022

¹⁸⁸ Finance Committee, RoP, paragraph 338, 30 June 2022

¹⁸⁹ Finance Committee, RoP, paragraph 303, 30 June 2022

¹⁹⁰ UK Government, [UK Shared Prosperity Fund allocations: methodology note](#)

¹⁹¹ [European Network for Rural Development, LEADER/CLLD](#)

*"LEADER is being replaced in full as part of the domestic farm settlement which replaces UK participation in the EU Common Agriculture Policy, this is separate to the UKSPF funding."*¹⁹²

152. The Welsh Government outlined a similar issue for agriculture funding as has been raised with the replacement Structural Funds, it noted:

*"...the UK Government, when providing replacement EU farm funding, is deducting EU payments due to Wales for work which was part of the 2014-2020 Rural Development programme."*¹⁹³

153. The Minister for Rural Affairs and North Wales, and Trefnydd suggested this was leading to a £243 million shortfall.¹⁹⁴ The Minister also raised issues around a £40 million pillar transfer payment.¹⁹⁵ In terms of the overall funding, WFA said:

*"On the farm payment element of the structural funds, if you look at the funding added on top of the block grant, it suggests, by 2024-25, that that will be replaced, at least in cash terms, by 2024-25."*¹⁹⁶

154. The Minister for Rural Affairs and North Wales, and Trefnydd later said:

*"At one point we were looking at the resolution position. We haven't pressed that button before, but it's something that we do feel so very strongly about. One of the things I'm constantly being asked as we do the transition from BPS to the sustainable farming scheme is, 'How much will I have?' Well, I really don't know. Beyond 2023 I have no idea what funding we will get for our agricultural sector and our rural communities."*¹⁹⁷

155. The Under-Secretary of State referred to the issue across both farm and structural funding:

*"...the Welsh Government are trying to, I think, or perhaps inadvertently are causing some confusion by suggesting that they're losing out on funding. Because they seem to be expecting to get that £343 million and £337 million and the tail-off funding on top, and that's not something that was ever suggested."*¹⁹⁸

¹⁹² Letter from the Parliamentary Under-Secretary of State for Levelling Up, the Union and Constitution, 6 May 2022

¹⁹³ Welsh Government, [Response to the Finance Committee's inquiry into Post EU funding](#)

¹⁹⁴ Finance Committee, RoP, paragraph 68, 22 June 2022

¹⁹⁵ Finance Committee, RoP, paragraph 73, 22 June 2022

¹⁹⁶ Finance Committee, RoP, paragraph 96, 11 May 2022

¹⁹⁷ Finance Committee, RoP, paragraph 99, 22 June 2022

¹⁹⁸ Finance Committee, RoP, paragraph 535, 30 June 2022

156. The letter from the Secretary of State of 14 July, provided a breakdown of agricultural funding.¹⁹⁹

Other funding

157. Additionally, the Committee received evidence on a variety of other EU funding streams. The Welsh Government highlighted losses in EU funding programmes including; Erasmus+, Horizon Europe and European Territorial Co-operation. It suggests these have not been fully replaced by the UK Government.²⁰⁰

158. On Horizon, the Minister for Economy said:

"...we're still trying to engage in a process to get association as the preferred option, and, to be fair on this, the UK Government want to achieve association status as well. That would make our ability to engage in those projects much, much simpler, easier to facilitate, and higher education and others are really keen to be able to do that. Whether that happens is really about relationships between the UK and the EU..."²⁰¹

159. He went on to say the Welsh Government is "actively working on what a plan B might look like".²⁰² The then Secretary of State suggested "it's all wrapped up with the Northern Ireland protocol, which is an area of some sensitivity".²⁰³

160. In relation to post-Horizon funding in Wales, the letter from the Secretary of State of 14 July stated:

"The UK is continuing to push for association to Horizon Europe at the earliest opportunity but unfortunately there have been persistent delays from the EU. We recognise these delays have led to uncertainty for researchers, businesses and innovators. However, to provide reassurance to UK applicants, the UK Government is guaranteeing funding for eligible, successful applicants to Horizon Europe who are expected to sign grant agreements with the EU. We have always been clear that our priority is to support the UK's research

¹⁹⁹ Letter from the Secretary of State for Wales, 14 July 2022

²⁰⁰ Welsh Government, Response to the Finance Committee's inquiry into Post EU funding

²⁰¹ Finance Committee, RoP, paragraph 97, 22 June 2022

²⁰² Finance Committee, RoP, paragraph 97, 22 June 2022

²⁰³ Finance Committee, RoP, paragraph 469, 30 June 2022

*and development sector and we will continue to do this in all future scenarios."*²⁰⁴

Legacy Funding

161. Initial discussions showed a lack of published information, with WFA outlining a "breakdown of expected legacy funding for Wales" has not been published.²⁰⁵ On this issue, Wales Council for Voluntary Action (WCVA) said:

*"It's difficult to disaggregate the level of funding received prior to and post the UK's departure from the EU, as budgets and delivery profiles for operations are approved for several years."*²⁰⁶

162. WEFO provided some information the level of funding remaining:

*"Well, across the programmes that I'm responsible for, there's about £795 million still to spend—about 38 per cent of the programme value. There'll be a bit more on the rural side as well, which puts us in about the same position as my colleagues across Europe."*²⁰⁷

163. However, while WEFO confirmed the information that had been shared between the Welsh and UK governments, it said that information had changed "practically every day since then" and providing that information to the Committee "wouldn't be terribly informative at this stage".²⁰⁸

164. The IFS and WFA suggested both governments could be more transparent. The IFS said:

*"Whilst, clearly, Governments will have different political views on how the project should be managed, how they should be designed, what the allocation should be, it does a disservice to people in Wales if information's being hidden by either side, or not necessarily hidden, but not being transparent about it in order to make political points about it. You can have political differences and be very frank about those, but that should be based on differences about how the policy should be designed..."*²⁰⁹

²⁰⁴ [Letter from the Secretary of State for Wales, 14 July 2022](#)

²⁰⁵ Finance Committee, consultation response, Wales Fiscal Analysis

²⁰⁶ Finance Committee, consultation response, Wales Council for Voluntary Action

²⁰⁷ Finance Committee, RoP, paragraph 33, 22 June 2022

²⁰⁸ Finance Committee, RoP, paragraph 49, 22 June 2022

²⁰⁹ Finance Committee, RoP, paragraph 117, 11 May 2022

Committee view

165. It is clear that the Welsh and UK governments are not considering how the new funding proposed for Wales compares to the funding received while the UK was a member of the EU, in the same way. Therefore, the Committee is not able to take a view on whether Wales is due to receive more/less/the same funding through replacement EU funds as it did when the UK was a member of the EU. This is further complicated by the fact the Committee does not know the UK Government's funding plans for years beyond the SPF, which will be key to ascertaining whether previous funding levels have been maintained.

166. While the Committee understands that it was necessary to explore the different perspectives around replacement funding through this inquiry, it is disappointing that we have had to spend so much time unpicking the basic principles of each governments' argument. Over the course of the inquiry we have seen more detailed information published by both governments, and the Committee is grateful for this. However, had the Welsh and UK governments published fuller information, sooner, the Committee might have been able to go further. It is unhelpful in terms of transparency and public understanding for governments to disagree as they have, and to not promptly and fully publish the detail of their perspective.

167. The Committee is of the view that both the Welsh and UK governments estimate the overall annual level of funding through ESF and ERDF at broadly the same level. The key difference of opinion between the two governments therefore relates to how the new funding accounts for the tail off of remaining EU funding. The Committee has received evidence suggesting that the level of funding announced to date by the UK Government is short of what Wales would have received if the UK had remained a member of the EU. However, the Committee acknowledges that the Welsh Government has estimated the potential future EU funding due to Wales, and there is a level of uncertainty about that value. The Committee is pleased to hear that the Minister for Finance has referred the issue to the next meeting of the F:ISC.

168. The Committee believes that it might be helpful for an independent body (for example, the Office for Budget Responsibility (OBR)) to assess both governments' claims around the levels of future funding and how this compares to previous EU funding. As such, we believe it would be appropriate for the F:ISC to consider how best to take this forward. In advance of reporting, the Committee wrote to the Minister for Finance and Local Government to ask her to raise this issue at the next meeting and report back to us in due course.²¹⁰

²¹⁰ Letter to the Minister for Finance and Local Government: F:ISC, 27 July 2020

Recommendation 15. The Committee recommends that an independent body assesses both the Welsh and UK government's claims around the levels of future funding and how this compares to previous EU funding.

Recommendation 16. The Committee recommends that the Minister for Finance and Local Government reports back to the Committee on the funding issues discussed at the meeting of the Finance: Inter-ministerial Standing Committee.

169. In addition to ESF and ERDF, the Committee received evidence regarding other EU funding streams, such as the European Agricultural Fund for Rural Development (EAFRD), which are being replaced separately. The Welsh Government outlined a similar issue for agriculture funding with the UK Government deducting EU funding already due to Wales, resulting in a £243 million shortfall. The Minister for Rural Affairs and North Wales, and Trefnydd suggested the resolution process with the UK Government could be engaged. The previous Finance Committee considered the process for challenging funding decisions taken by the UK Government as part of its inquiry into the Fiscal Framework and concluded that "there needs to be an independent process for challenging these decisions".²¹¹ This Committee echoes that view and that the UK Government should not act as judge and jury on the issue.

Conclusion 5. The Committee concludes that there is ongoing uncertainty in relation to a number of other EU funding streams and programmes. All parties must work to resolve these issues and provide clarity to relevant bodies.

Recommendation 17. The Committee recommends that the Welsh Government provides further information on the dispute resolution position with the UK Government and when/how it might be used to resolve funding disputes.

170. The Committee also heard about programmes like Horizon, where uncertainty remains. We are grateful to the Secretary of State for Wales for providing an update, that the UK Government continues to push for association to Horizon Europe at the earliest opportunity. We are pleased that the UK Government is guaranteeing funding for eligible, successful applicants to Horizon Europe who are expected to sign grant agreements with the EU. However, we urge the UK Government to continue to engage with the EU as it is important that these matters are resolved as soon as practicable.

²¹¹ Fifth Senedd Finance Committee, [Inquiry into the implementation of the Wales Act 2014 and operation of the Fiscal Framework](#)

Recommendation 18. The Committee recommends that the Welsh Government provides further information on the progress in resolving the issues that have been identified with other funding streams, including; Erasmus+, Horizon Europe and European Territorial Co-operation.

171. The Committee was told that around £795 million of ESF and ERDF funding remains to be spent in Wales. The Committee would like further information on the profile of that expenditure.

Recommendation 19. The Committee recommends that the Welsh Government provides the financial projections relating to the remaining £795 million funding from the European Social Fund and European Regional Development Fund.

172. The Committee is disappointed that there has been a lack of published data in relation to the expected legacy funding for Wales including the assumptions that underpin that information, particularly given information was being shared between the Welsh and UK governments. The Committee believes both governments should be more transparent and reiterates its calls for them to publish information in order to aid the wider conversation around funding through the SPF.

Recommendation 20. The Committee recommends that the Welsh and UK governments publish the detail of the amount and profile of legacy funding that Wales is due to receive from the European Social Fund and the European Regional Development Fund.

Annex A: List of oral evidence sessions

The following witnesses provided oral evidence to the committee on the dates noted below. Transcripts of all oral evidence sessions can be viewed on the [**Committee's website**](#).

Date	Name and Organisation
11 May 2022	<p>David Phillips, Associate Director Institute for Fiscal Studies</p> <p>Dr Chris Llewelyn, Chief Executive Welsh Local Government Association</p> <p>Dr Tim Peppin, Director of Regeneration and Sustainable Development Welsh Local Government Association</p> <p>Dr Ed Poole, Senior Lecturer Wales Governance Centre</p> <p>Guto Ifan, Research Associate Wales Governance Centre</p>
22 June 2022	<p>Rebecca Evans MS, Minister for Finance and Local Government Welsh Government</p> <p>Vaughan Gething MS, Minister for Economy Welsh Government</p> <p>Lesley Griffiths MS, Minister for Rural Affairs, and North Wales and Trefnydd Welsh Government</p> <p>Sarah Govier, Head of Intergovernmental Relations Welsh Government</p> <p>Peter Ryland, Chief Executive Welsh European Funding Office</p> <p>Gian Marco Currado, Director Environment and Marine Welsh Government</p>
30 June 2022	Rt Hon Simon Hart MP, then Secretary of State for Wales

Date	Name and Organisation
	UK Government ²¹² David TC Davies MP, Parliamentary Under-Secretary of State for Wales UK Government

²¹² The Rt Hon Simon Hart MP resigned as Secretary of State for Wales on 6 July 2022

Annex B: List of written evidence

The following people and organisations provided written evidence to the Committee. All Consultation responses and additional written information can be viewed on the Committee's website.

Reference	Organisation
PEU 01	<u>Cardiff University</u>
PEU 02	<u>Wales Council for Voluntary Action (WCVA)</u>
PEU 03	<u>Pembrokeshire County Council</u>
PEU 04	<u>Federation of Small Businesses Wales (FSB)</u>
PEU 05	<u>Conwy County Borough Council</u>
PEU 06	<u>Higher Education Funding Council for Wales (HEFCW)</u>
PEU 07	<u>Industrial Communities Alliance Wales</u>
PEU 08	<u>Royal Society of Chemistry</u>
PEU 09	<u>Welsh NHS Confederation</u>
PEU 10	<u>Colleges Wales</u>
PEU 11	<u>Farmers' Union of Wales</u>
PEU 12	<u>NFU Cymru</u>
PEU 13	<u>Chwarae Teg</u>
PEU 14	<u>Wales Fiscal Analysis</u>
PEU 15	<u>Universities Wales</u>
PEU 16	<u>Welsh Local Government Association (WLGA)</u>

Additional Information

Title	Date
<u>Letter from Neil O'Brien MP, Parliamentary Under Secretary of State for Levelling Up, the Union and Constitution</u>	6 May 2022
<u>Written Evidence from the Institute of Physics</u>	May 2022
<u>Written Evidence from the Welsh Government</u>	22 June 2022
<u>Letter from the Rt Hon Sir Robert Buckland KBE KC MP, Secretary of State for Wales</u>	14 July 2022
<u>Letter from Rebecca Evans MS, Minister for Finance and Local Government</u>	22 August 2022