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David Rees MS
Chair, External Affairs and Additional
Legislation Committee

Llywodraeth Cymru
Welsh Government

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20 July 2020

Dear David,

Thank you for your letter of 25 June requesting an update to the Committee on the current EU funding programmes in Wales and the future of regional investment funding in Wales.

Please see below the further information you have requested.

Current EU funding programmes (2014-2020)

WEFO has committed 100% of the EU Structural Funds allocation for 2014-2020, investing over £2 billion, driving a total investment of over £3.9 billion (end of June figures) which also includes the repurposing of EU structural funds to support the COVID-19 response in Wales.

The European Union's Coronavirus Response Investment Initiative (CRII) has provided a package of flexibilities for the use of European Structural and Investment (ESI) Funds in response to the economic impacts of Covid-19. Measures to vary ESI Funds intervention rates, spending levels in Priority Axes and other flexibilities, provide a range of opportunities to address the different circumstances experienced by the UK and other EU Member States.

The new flexibility applies to what is eligible for EU support, to transfers between funds, to permitted intervention rates and to the timing of the approval process. There has been no significant change to the financial governance regime, so the usual requirements for clear objectives, measurable outputs and audit trails still apply.

WEFO is maximising the opportunities provided by CRII, earmarking up to £245m of EU funds to support the second wave of the Economic Resilience Fund, including investment loans made by the Development Bank of Wales, and health service costs connected to Covid-19, in particular to support the recruitment of additional medical staff and purchases of PPE.

It is also supporting the temporary redeployment of project staff to Covid-19 activity where appropriate and a specific Covid-19 call for proposals under the Welsh Council for Voluntary Action's Active Inclusion scheme.

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

With regards to the current European Regional Development Fund (ERDF) programme, most projects are running well despite the disruption of the COVID-19 pandemic and subsequent lockdown measures. However, there are some concerns in respect of a number of strategic infrastructure projects that may not complete activity or spend before the summer of 2023. WEFO is liaising with appropriate project leads to work towards potential improved timetables and alternative delivery models.

In contrast to the ERDF, the current Covid-19 lockdown restrictions have had an impact on the delivery of most European Social Fund (ESF) operations as many activities supporting participants have been curtailed, and the recruitment of new participants and employers to projects is much reduced. Some projects are continuing to provide distance learning or other support for participants remotely, where the nature of the project allows for this. WEFO is allowing EU-funded projects which provide training to businesses to relax rules on co-investment, as a way of helping companies to access training from these EU-funded schemes during the recovery from Covid-19.

The programme commitment for the Ireland-Wales Cooperation Programme stands at €75.2m – 95% of ERDF allocation. WEFO and its delivery partners in Ireland are discussing the most effective means of utilising the remaining programme funding. Consideration will be given to potential Covid-19 recovery measures as part of this exercise including any new activities that could be more relevant to a post crisis situation.

In terms of the Rural Development Programme (RDP), as at February 2020, the project level commitment is £689.5m, representing 82.6% commitment in funds (the total value of the programme is £834,816,280). Officials are currently assessing the impact of Covid-19 on individual RDP projects, as a number of activities planned during March and July are known to have been cancelled or postponed. A re-planning exercise is being undertaken to fully commit the RDP, taking advantage of the opportunity provided to continue to commit to projects after the end of the year, providing those projects are delivered by June 2023.

Please see **Annex A** for a further breakdown for the 2014-20 programme period.

Despite the pandemic, WEFO has continued to maintain all key functions working remotely, re-allocating resources to ensure the top priority of processing claims and making payments to beneficiaries continues to be delivered effectively. This has also ensured that WEFO's own cash management function, including drawing down cash from the EC, has been maintained throughout the pandemic.

Due to the COVID-19 lockdown across Wales and the UK, some on-the-spot expenditure verifications have been deferred, causing an inevitable backlog. However, as this is a UK-wide issue, the UK Managing Authorities are writing a joint letter to the EC to consider ways of managing this issue.

European Investment Bank

The European Investment Bank (EIB) has played a key role supporting long-term investment to improve social housing, education, energy infrastructure, transport, and water infrastructure across Wales.

This includes support for the second Severn Crossing and the A55 dual carriage way from Chester to Holyhead, as well as new roads in South and West Glamorgan, Dyfed and Gwent. Key investments by Ford at Bridgend, Norgine at Hengoed and by Welsh Water across the country have been supported, including at Stebonheath Primary School in Llanelli where the Rainscape project is helping to reduce sewage overflow into the Bristol Channel.

Recent EIB lending has supported education investment in Wales, including backing the new Swansea University Bay campus and cutting heating costs at Bangor University.

In terms of any impact to funded projects due to Brexit, the EIB Group made a [public commitment](#) on 31st January to honour the existing finance it has within the UK. Loans will continue to be governed by their respective finance contracts.

There have been additional benefits to being a subscribing partner of the EIB for Wales, through access to significant commercial expertise and best practice. The South Wales Metro project, for example, benefitted from the EIB's commercial expertise informing the procurement process.

Therefore in our White Paper, *Securing Wales' Future*, we argued that the UK should remain a subscribing partner as it brings direct benefits to our economy as well as improving economic capacity elsewhere, thus helping the global trading environment, which we support.

In 2018, we provided written evidence to the House of Lords Inquiry into the relationship between the UK and the EU following Brexit. We also wrote to UK Treasury Ministers, setting out concerns about the apparent lack of progress in developing policy options for our relationship with the EIB.

In February 2019 the House of Lords adopted a report where it noted that the UK's infrastructure had been the beneficiary of more than €118 billion of lending from the EIB. It noted the marked decline in funding from the EIB since the referendum and triggering of Article 50, and the fact that, despite our losing access to the EIB after Brexit, the Conservative Government had said little about any future relationship with the EIB or possible domestic alternatives.

We would have preferred the UK to remain a subscribing partner in the Bank. However, as that did not happen, we are seeking a mandate in place for continued EIB lending in the UK as soon as possible.

Future of regional investment in Wales

Our consultation 'A framework for the future of regional investment in Wales' closed on 10 June, having run for just over 14 weeks. To support this, we ran four regionally-based engagement webinars in the north, mid, south west and south east Wales during May, which attracted around 430 attendees. We also participated in online webinars arranged by other key stakeholders including Further Education, Higher Education, Business, and the Third Sector.

We also engaged with citizens, providing a short Citizen survey that was promoted by social media and a short explanatory film. A young people's survey was also undertaken, with support from Children in Wales.

Our engagement led to the submission of 134 responses from stakeholders and individuals to our main consultation questions, 285 citizen survey responses, and 42 young people survey responses. All of the feedback received is being analysed independently by a research company, but an initial analysis already shows that there is broad consensus on our proposals, while recognising the impact of COVID-19.

Our project with the OECD, which began in January 2019, to learn from international best practice, is also progressing well and has involved significant analysis and stakeholder engagement in order to produce a final report.

The OECD will be preparing its executive summary over the summer, while its remaining work involves the development of a flexible, self-assessment toolkit to help regional-level bodies assess their public investment and policy implementation capacity, and provide insight into areas for improvement, so that we can commit to having a mix of national, regional and local approaches in the delivery of future regional investment.

We plan to publish both reports in September, and I look forward to sharing and discussing the findings with your Committee in due course. In the meantime, Welsh Ministers will be considering the initial overview of consultation findings and the OECD's final report and will agree next steps for consideration by officials with partners over the summer and autumn months so that we remain on track to put in place new investment arrangements from early 2021.

In respect of your queries on the UK Shared Prosperity Fund, despite the UK Government noting that Wales will receive no less funding than current levels of EU funding (Conservative Party Manifesto 2019; March 2020 Budget), there has yet to be any confirmation on how the SPF will come to the Welsh Government. Here, the Welsh Government has always maintained that the UK Government should allocate a specific, clear and transparent allocation to the Welsh Government directly, badged as our share of the Shared Prosperity Fund, and for this to be devolved and allocated appropriately in line with the priorities to deliver inclusive growth agreed in consultation with our partners.

We have also called that replacement funding to Wales should continue to be allocated on a needs basis to reflect the structural challenges that Wales continues to face along with multi-annual SPF budgets as all of our conversations with partners and beneficiaries cite this as being essential for longer-term planning. Our positions have also been published as evidence to the UK Parliament Welsh Affairs Committee inquiry on Wales and the SPF, which ran between 11 February and 25 May.

I met with the Secretary of State for Wales on 10th February and we have since been building on that meeting to seek agreement on some key principles of how the UK and the Welsh Government might work together effectively in the immediate future.

In recent discussions with the UK Ministry for Housing, Communities and Local Government (MHCLG), officials are indicating that work on the SPF is now gathering pace as SPF discussions have recently been held with UK Cabinet Ministers. We understand, however, that there are a number of other factors impacting on this work including the White Paper on devolution in England and wider plans for COVID economic recovery. We do not expect an announcement on the SPF until the Comprehensive Spending Review in the autumn, making the delivery of new funding before the 2021/2022 financial year and a smooth transition between investment programmes for the benefit of businesses, communities and people across Wales unlikely.

Moving forward, we remain keen to work constructively with the UK Government so we can make contributions to the debate on a proposed future model of the SPF. Officials will also continue to work with the Regional Investment for Wales Steering Group, chaired by Huw Irranca-Davies MS, and technical sub groups over the coming months to help develop a long-term operating model based on the recommendations and views received from the OECD and our consultation, together with transitional arrangements for future investment that require COVID recovery consideration.

I hope this information provides a useful update on the latest situation of the current programmes and the future of regional investment in Wales. Should you require any further clarification on the issues addressed within this letter please let me know. I would also be happy to update members on developments, including the OECD and consultation reports, at a meeting of the Committee in the autumn term.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'JM', with a stylized flourish at the end.

Jeremy Miles AS/MS

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cc. Llyr Gruffydd MS, Chair, Welsh Parliament Finance Committee

Allocation of funding by region and type

We do not collect financial data by region or local authority area for the structural funds and rural development programmes (RDP). Most structural fund operations deliver benefits to more than one local authority area, including many that deliver across the programme area as a whole, as do many projects funded under the RDP, such as Farming Connect. It is not possible to identify the exact amount of funding a specific local authority area has 'received' because of the national/regional scope of so many of these projects and programmes.

We collect financial data for the lead beneficiary of operations and the table below is a summary of the amounts committed to local authorities, where local authorities are the lead beneficiary of those operations via the Structural Funds, European Territorial Co-operation (ETC) programme, the Wales Rural Development Programme (RDP) and the European Maritime and Fisheries Fund (EMFF). For the RDP and the EMFF the amount of money committed to Local Authorities is included but it is not possible to do this for each individual Local Authority.

Table 1: Summary of EU funds committed to local authorities for the 2014-20 programme period

Programme	Total
European Structural Funds (ESF & ERDF)	£230.8m
<i>of which:</i>	
Blaenau Gwent County Borough Council	£45.3m
Bridgend County Borough Council	£10.4m
Caerphilly County Borough Council	£3.6m
Carmarthenshire County Council	£4.3m
Ceredigion County Council	£0.6m
City and County of Swansea	£4.5m
Conwy County Borough Council	£7.0m
Cyngor Gwynedd Council	£11.8m
Denbighshire County Borough Council	£24.8m
Isle of Anglesey County Council	£8.8m
Neath Port Talbot County Borough Council	£29.2m
Newport City Council	£13.7m
Pembrokeshire County Council	£30.3m
Powys County Council	£2.1m
Rhondda Cynon Taf County Borough Council	£7.5m
Torfaen County Borough Council	£26.8m
European Maritime and Fisheries Fund	£0.5m
Welsh Rural Development Programme	£46.9m
European Territorial Co-operation Programme	€5.7m
<i>of which:</i>	
Carmarthenshire County Council	€1.6m
Pembrokeshire County Council	€4.1m