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Llywodraeth Cymru
Welsh Government

Ein cyf/Our ref VG/0600/21

Paul Davies MS
Chair, Economy, Trade, and Rural Affairs Committee
Welsh Parliament
Cardiff Bay
CF99 1NA

5 October 2021

Dear Paul,

I am writing to you regarding the future of the UK Shared Prosperity Fund (SPF), and the Levelling Up Fund (LUF).

We have made clear that we consider the UK Government's actions on these funds to be unacceptable, as they cover an area of devolved competence and bypass devolution. Furthermore, we are facing a vast reduction in funding this year despite repeated promises that Wales would not be worse off financially.

I am concerned that the current approach is already negatively impacting upon local government, businesses, post 16 education and third sector organisations who are critical to delivery in our communities. The existing proposals also risk creating unconnected investments, poor value for money, negative competition and significant funding gaps across a range sectors. They also threaten national schemes which are critical to our recovery such as Business Wales, apprenticeships and the Development Bank of Wales.

By way of background, I am attaching a factual note covering these matters in more detail.

I have written to the new Secretary of State, Michael Gove, to congratulate him on his new role and to initiate a conversation about how we might work together to address our concerns.

Given the wide ranging impacts this agenda has on devolved matters in Wales, I would be keen to engage with your committee to explore the challenges Wales faces over the coming months and years.

Yours sincerely,

Vaughan Gething

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ANNEX

General points

- Regional investment is an area of devolved competence. Over the last three years the Welsh Government has worked with a wide range of stakeholders in Wales including local government, business, HE/FE and third sectors, undertaken a public consultation, and drawn on the expertise of the OECD to develop plans for how replacement Structural Funds should be delivered in Wales. All of this work has been overseen by a representative Steering Group for Regional Investment, (now called the Strategic Forum), chaired by Huw Irranca-Davies MS and is available on the Welsh Government website. The Framework for Regional Investment in Wales was published last November.

- As part of the Spending Review on 25 Nov 2020, the UK Government announced for the 2021-22 financial year that £220m will be available UK-wide for SPF 'pilot' Community Renewal Fund projects. The fund is run on a competitive basis, with Wales expected to receive around £10m this year, or £450,000 per local authority.

- The UK Government referred to monies in the pilot SPF year as being 'additional' funds and that the funding Wales stands to receive in 2021/22 will be larger than we would have received had we remained within the EU. To support its argument it is 'netting off' payments which will come from the EU in respect of existing commitments made under the current EU programmes (and which will continue to be paid from the EU budget). This is simply a mechanistic consequence of legal commitments that the Welsh Government has already made to organisations in Wales. Put simply, instead of having fresh or new money to commit each and every year, the UK Government is including spending committed under previous years in its calculation for this year's funding.

- The current European Structural and Investment programmes are worth over £375m annually over seven years, and had the UK remained within the EU, the Welsh Government would have been able to make, from January 2021, new legal commitments wholly independent of this pipeline of payments from the current programmes. For example, in the first two years of the 2014–2020 ERDF and ESF programmes, the Welsh Government made funding commitments worth over £1.1 billion to organisations and beneficiaries. Furthermore, since 2014, the HE/FE sector has benefited from funding of £405m; the private sector £272m (in addition to major allocations via Welsh Government business schemes), and the third sector £113m.

- The CRF fund is competitive, which is different to EU funding arrangements that had specific needs-based and multi-annual funding allocations to be spent across all parts of Wales.

- For the UK-wide £220m CRF fund, the UK Government identified 100 priority areas (using an index of economic resilience the UK Government has developed addressing levels of productivity, household income, unemployment, skills and population destiny) available here. The methodology behind it was published on 12 March.

- Following the 3 March budget, local authorities were required to appraise CRF bids and publish shortlists of projects by 18 June for assessment by the UK's Ministry of Housing, Communities and Local Government (MHCLG). All project interventions must be financially completed by 31 March 2022. The UK Government committed to making announcements on successful bids in July. This has been delayed by more than two months, meaning less time for organisations to deliver activities and spend in this financial year.

- The UK Government has indicated to expect no more than a high-level spending framework for the SPF to be published in the UK Spending Review on 27 October.

- On 3 March, the UK Government also published a prospectus on the UK-wide £4.8bn Levelling Up Fund (LUF), which is a 100% capital funded programme for Transport, Regeneration and Cultural investment over four years. The LUF replaces the Towns Fund previously operational in England only.

- The Chancellor had originally announced at the Spending Review last November that the LUF was to be an England-only fund with Barnettised/consequential funding of £800m over four years for the devolved governments, but an announcement on 24 February confirmed that the LUF would be UK-wide and be managed by the UK Government directly.

- LUF monies are expected to be ring-fenced in the first round (at least 9% of total UK allocations will be set aside for Scotland, 5% for Wales, and 3% for Northern Ireland). Assuming Wales receives 5% of the LUF that would amount to around £30m (if £600m is released for 2021/22 as has been indicated), or £1.3m per local authority in Wales.

- The LUF will support projects of up to £20m of funding, with the potential to rise to £50m for transport projects only. MPs can support one specific bid; where more than one parliamentary constituency is involved, each can support an additional bid. The fund is being jointly managed by HM Treasury, MHCLG and the Department for Transport.

- The LUF has similar delivery arrangements to the CRF in terms of the involvement of local authorities, a competitive bidding process and priority categories. However, the UK Government has used different criteria for the LUF priority areas, with the methodology behind it published on 11 March.

Business, Energy and Industrial Strategy Committee report into Levelling-Up

In July 2021, the cross-party Business, Enterprise and Industrial Strategy Committee published a report on its inquiry into the UK Government's Levelling-Up programme.

Key themes from the report:

- **The UK Government's Levelling-Up programme**

Report extracts

> ➢ We are disappointed at how little detail has been put forward to explain what the Government sees levelling up to mean and how it will be delivered.
>
> ➢ We are concerned that this lack of definition will result in a failure to deliver meaningful change for people across the country.
>
> ➢ It has been constantly repeated throughout this inquiry that, so far, the Government's levelling up agenda lacks clear aims or milestones or any way to measure progress and evaluate outcomes.
>
> ➢ A failure to publish Government priorities and metrics will make it impossible for us to understand what has, or has not, been delivered.
>
> ➢ Nor is it clear how levelling up is different to past regional policy and how it will therefore succeed in areas where previous regional policy has failed. Ministers offered no adequate response to this.

- **Design of the UK funds**

Report extract

> ➢ The funding available to achieve levelling up is disparate and lacking any overall coherent strategic purpose or focus.

- **Devolution settlements and Levelling Up**

Report extracts

> ➢ There has been no agreement with the devolved administrations how funding will be allocated in line with the devolution settlements.
>
> ➢ This lack of clarity around the territorial extent of the levelling up agenda, and the apparent absence of any meaningful strategic engagement with the devolved administrations around the levelling up agenda, amplifies the lack of clarity and focus around this major policy.

- **UK funding levels versus EU funding, and equality of distribution**

Report extracts

- ➢ Despite its large-scale ambition and promised additional funding, it is unclear whether the levels of funding available to local areas (via levelling up) will equal, never mind exceed, historic levels of UK and EU funding to local government.

- ➢ There is an inequality in the capacity of local areas to bid for government funds.

Welsh Affairs Committee

On 2 October 2020, the Welsh Affairs Committee (WAC) published its report on its inquiry: **Wales and the Shared Prosperity Fund**.

Extracts from the Report:

- …progress on developing, and consulting on, proposals for the SPF has been minimal and substantive information from Ministers has not been forthcoming. … with less than three months to go until the transition phase ends, and with the added impact of COVID-19, most of the fundamental questions about the scope, scale and administration of the scheme remain'.

- …Its repeated promises of a consultation and of imminent announcements have failed to materialise, demonstrating a lack of priority. Although we acknowledge that the COVID-19 pandemic has forced Ministers to reprioritise and refocus their attention, this does not excuse the lack of progress as a significant amount of time had passed before the COVID outbreak became a factor.

- The UK Government must urgently work with the devolved governments of Wales, Scotland and Northern Ireland to agree priorities for the Shared Prosperity Fund and to co-create the details regarding how the Fund will work.

- The UK Government has repeatedly committed to ensuring Wales does not lose out as a result of the switch from European Structural Funds to the Shared Prosperity Fund and the evidence overwhelmingly states that Wales should not end up worse off, particularly in light of COVID-19. A needs-based formula is required over a multi-year financial framework to allow a fair allocation and effective planning and delivery.

- Despite repeated assurances from UK Government that it would respect the devolution settlements of Wales, Scotland and Northern Ireland, there are considerable ambiguities about where power will lie in relation to the Shared Prosperity Fund. It is unclear whether, as a result of the provisions in the Internal Market Bill, Whitehall plans to oversee the administration of the Fund directly, or if the financial assistance powers contained within the Bill are intended to operate separately to the Fund. In either event, we believe the UK Government would be ill-advised to lose or ignore the expertise that has been built up in the devolved administration's European Funding Offices.

- There are differences of opinion as to where the precise balance of power and responsibility should lie for the oversight and administration of the Shared Prosperity Fund. However, whether the UK Government takes on a commissioning role for, or fully devolves the administration of, the Fund, the Shared Prosperity Fund should be built upon the principle of cooperation and partnership between the UK Government, the devolved administrations and local government.

- The UK Government should work with the devolved administrations and local government to develop a memorandum of understanding that will underpin the operation of the Shared Prosperity Fund, this memorandum should be built around a partnership approach and provide a guarantee of genuine joint working and engagement for all stakeholders, including the third sector.

- … We note that the Welsh Government has brought forward proposals which would enable local authorities to establish Corporate Joint Committees to facilitate joint working, including in areas covered by City and Growth deals. It would seem sensible for the Shared Prosperity Fund to be designed so that it could, in future, work with City and Growth deals.

Report's concluding remarks

- … However, with that [EU] funding due to taper off in less than three months' time, communication from Ministers, and substantive proposals for the Shared Prosperity Fund, have been conspicuous in their absence. For more than three years, we have witnessed a failure to properly engage with stakeholders, or Parliament. As a result, there is no clarity as to what the Shared Prosperity Fund will look like, how it will be administered, nor how it will be funded. This is unacceptable, and the UK Government must, as a priority, publish detailed proposals for how the Fund will operate.

- … Given the publication of the UK Government's Internal Market Bill, it is all the more urgent that clarity and detail is provided about the Shared Prosperity Fund. However designed, the expertise gained in administering structural funds should not be lost, and Ministers must embrace a partnership approach that draws upon the expertise and resources of the devolved administrations, local government and the third sector.

All-Party Parliamentary Group on the UK Shared Prosperity Fund

The following points were discussed and agreed by the APPG at its meeting on 18 March 2021, taking the announcements in the November 2020 Spending Review as its starting point and addressing the outstanding issues that need to resolved in the UK SPF Investment Framework, which at that time was scheduled to be published by the UK Government in the Spring of 2021.

- The UK SPF should operate on the basis of multiannual financial allocations of the longest practicable duration

- The financial allocations to each of the four nations of the UK should be not less than they previously received from the EU

- Funding allocations to local areas should be determined by a formula, not by competitive bidding

- Sub-regions remain the best basis for allocating and managing funding to local areas

- The shift to the UK SPF should not unduly disadvantage parts of the country that would have received substantial EU funding

- The proper role for competitive bidding is between potential projects within each local area

- The government should exercise a 'light touch' in defining the priorities for UK SPF spending

- The devolved administrations should be integrated into decision-making and management structures

- Simplification of management and administration needs to be delivered

- Speedy operational implementation of the UK SPF is essential if a hiatus in activity is to be avoided

APPG Report on its initial Inquiry into the UK Shared Prosperity Fund (November 2018)

- We recommend that the annual budget for the UK Shared Prosperity Fund is no less, in real terms, than the EU and UK funding streams it replaces.

- We recommend that the UK Shared Prosperity Fund operates on the basis of multiannual financial allocations of the longest practicable duration.

- We recommend that, for the moment, the UK government adopts a pragmatic approach and rolls forward the four nations' existing shares of EU funding into the UK Shared Prosperity Fund.

- We encourage the UK government to recognise that, within the framework of agreed guidelines, the allocation of the funding to local areas within the devolved nations should be a devolved matter.

- We recommend that if any element of competitive bidding were to be incorporated into the UK Shared Prosperity Fund it should be marginal to the main formula-based allocation.

- We recommend that local partners are given flexibility to define the types of projects on which the UK Shared Prosperity Fund is spent, so long as the activities remain consistent with the wider objectives of the Fund.

- We recommend that requirements to fund specific activities should be kept to a minimum, but we would also expect the spending plans of local partners to be a balanced portfolio.

- We expect the UK government to respect the devolution settlement and therefore any guidelines for the Fund as a whole should be kept at a strategic broad level and agreed jointly between the UK government and the devolved administrations.

- We also recommend that, within the framework of the agreed guidelines, the UK government should transfer responsibility for the detailed design and delivery of the relevant parts of the UK Shared Prosperity Fund to the devolved administrations and their partners.

- We further recommend that, reflecting this devolved responsibility, the Fund should be re-branded to reflect the four nations, i.e. UKSPF England, UKSPF Scotland, UKSPF Wales and UKSPF Northern Ireland.

- We recommend that there is a strong emphasis on allowing local partners to define and measure target outcomes.

Institute for Government report on the UK Shared Prosperity Fund

In July 2021, the Institute for Government published its report *The UK Shared Prosperity Fund: Strengthening the union or undermining devolution?*

Key themes from the report:

- **Previous Conservative-led UK Government cited Welsh Government management of EU funds as commitment to devolution**

  Report extracts

  - The UK government at the time [in 2014] cited the arrangements for delivering EU structural funds as evidence of their commitment to devolution.

  - The coalition government noted that: “The Government’s policy on European Structural Funds spending is that it is appropriate for England, Scotland, Wales and Northern Ireland to take responsibility for their own expenditure…it shows that the Government is committed to devolving powers, where appropriate, to Welsh ministers and demonstrates its commitment to regional spending being controlled at a regional level.”

- **Devolution and Role of Devolved Governments**

Report extracts

- ➢ While the design of the UKSPF has not been finalised, the limited information in the public domain makes clear that the devolved administrations are set to have less control over how the UKSPF is spent in their territories than was the case with EU structural funds.

- ➢ The devolved governments are expected to play a marginal role in allocation decisions within their own territories, even though the fund will spend money on matters that lie primarily within the responsibility of the devolved governments, such as transport, skills and economic development.

- ➢ Politicians at Westminster will be able to set policy in devolved domains such as education, transport and economic development. There is little precedent for the UK government to spend money on devolved functions in this way without the consent of the devolved administrations.

- ➢ The UK government will be spending on policy functions that are predominantly devolved responsibilities. We have outlined the risk that this will produce unhelpful duplication of functions and fragmentation of service provision. This risk has been amplified by the low level of formal consultation during the design of the UKSPF.

- ➢ [The Devolved Governments] have also said they would be willing to work with the UK government to design alternative approaches to delivering UKSPF spending – but that this offer has not been taken up by the UK government.

- **UK Government and the Dunlop Review**

  Report extracts

- ➢ Joint management of the UKSPF would also be in line with the recommendations of the Dunlop Review of UK Government Union Capability published by the UK government in March 2021.

- ➢ This proposed the establishment of a new fund for UK-wide projects, which would be spent by the UK government and devolved governments "working in co-operation". It also noted that "funding by the UK government in devolved areas must not replace core funding and must be applied with the support of the devolved governments".

- **UK Government centralisation**

  Report extracts

- ➢ UK ministers' approach so far to designing the UKSPF (and other related initiatives such as the Levelling Up Fund) suggests that the government intends to keep tight control of the system, rather than proceeding on the basis of partnership with devolved, regional or local governments.

- **Lack of partnership approach**

  Report extracts

  - Since the government's funding priorities for the UKSPF cover policy areas that are largely devolved, there is a risk that the fund could duplicate projects and policy initiatives led by the devolved administrations.

  - This approach from the UK government carries risks that could both reduce the effectiveness of the UKSPF and undermine its own objectives. These include:

    - Duplication of functions
    - Fragmented provision of services
    - Confused accountability
    - Funding uncertainty
    - Increased tensions

  - These risks are exacerbated by the limited extent to which the UK government has engaged with the devolved governments and other stakeholders. It is also yet to conduct a public consultation on the fund.

  - The lead department for the UKSPF, the Ministry of Housing, Communities and Local Government (MHCLG), has operated almost entirely as an English rather than a UK department, as the policy areas for which it holds responsibility are almost entirely devolved. Indeed, according to the 2020 spending review, at least 99.6% of MHCLG spending is for the benefit of England alone, with the devolved administrations given resources to fund similar functions themselves.

  - This means that as a department MHCLG has little experience of working within the devolved territories or knowledge of the distinct policy context in which the UKSPF will operate outside of England. By contrast, the devolved administrations have well-established mechanisms for delivering EU structural funds and long-standing relationships in their territories with recipient organisations in the education sector, industry and civil society.

- **Funding commitments**

  Report extracts

  - The UK government was elected in 2019 on a manifesto commitment that spending under the UKSPF would "at a minimum" match structural funds allocation in each of the four nations of the UK.

  - The 2020 spending review's commitment was more vague: "Total domestic UK-wide funding will at least match receipts from EU structural funds." It did not reiterate the commitment that funding in each nation would be maintained.

- **IfG recommending devolved input to UKSPF framework**

  Report extract

  - Improve consultation with devolved administrations as an immediate priority, with ministers authorising officials to share far more information than at present and to seek devolved input at all stages of development of the UKSPF investment framework.