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6 May 2022

Thank you for your letter of 14 March to Rt Hon Michael Gove MP, regarding the inquiry by the Senedd Cymru's Finance Committee into post-EU funding arrangements and the implications for Wales. I have been asked to reply as this matter falls within my ministerial responsibilities.

Wales is front and centre of our plans to level up the UK. It has already benefitted from over £166m from a range of new funding opportunities that we have put in place over the last 12 months, including the Community Renewal Fund (CRF), Levelling Up Fund (LUF), and Community Ownership Fund (COF). This is in addition to the Spending Review 2021 settlement, which set the largest annual block grant of any Spending Review settlement since devolution. The UK Government is providing an average of £2.5 billion per year through the Barnett formula on top of the Welsh Government's £15.9 billion annual baseline. Over the Spending Review 2021 period the government is providing 20% more per person for the Welsh Government than equivalent UK Government spending.

I have addressed each of the substantive points raised in your letter below:

1. **Progress in establishing and delivering replacement funds for EU structural funds**

The UK Shared Prosperity Fund (UKSPF) Prospectus was published on 13 April and is publicly available at:

https://www.gov.uk/government/publications/uk-shared-prosperity-fund-prospectus/uk-shared-prosperity-fund-prospectus.

This followed engagement with representatives from Local Authorities (LAs) in Wales, the Welsh Local Government Association (WLGA), and the Welsh Government which helped inform and develop our approach to the UKSPF in Wales across many aspects of the fund.

In addition to the work on the UKSPF, officials are fully engaged with LAs in progressing over £166m of funding approved in Wales over the last 12 months. This includes the ten successful projects from the first round of the LUF and over 160 projects worth over £45m via the Community Renewal Fund.

I would also highlight that the prospectus for round two of the LUF was published on 23 March and I am looking forward to receiving further bids from LAs in Wales. Further information on round two of the LUF are published online at: https://www.gov.uk/government/publications/levelling-up-fund-round-2-prospectus/levelling-up-fund-round-2-prospectus.

2. **How the funding proposed for Wales and funding received via continued UK participation in EU programmes, compared to the funding received while the UK was a member of the EU.**

The UK Government will match EU funds (the European Regional Development Fund and the European Social Fund), through Wales's £585m share of the total £2.6bn UKSPF. This figure ramps up to £343m in 2024/25 when EU spending fully tails off. This significant funding is in addition to other local growth funding, mentioned earlier.

Each place in Wales has an allocation, which has been developed using a transparent and publicly available methodology. The methodology to determine the allocation in Wales was informed and developed by engagement with both the Welsh Government and WLGA.

That methodology has been published publicly: https://www.gov.uk/government/publications/uk-shared-prosperity-fund-allocations-methodology/uk-shared-prosperity-fund-allocations-methodology-note.

I anticipate that the UKSPF will be spent much sooner and with less bureaucracy than previous EU Funding, providing greater flexibility to local partners in Wales. Wales will also continue to benefit from EU funding until 2024/2025.

3. **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 UKSPF has been designed to seize the opportunities of leaving the European Union, to enable local decision making and better target the priorities of place. To do this the UKSPF in Wales will follow a delegated delivery model with responsibility given to local government to identify interventions, develop investment plans and then take responsibility for delivery. The UK Government will have responsibility for assessment and the sign off of investment plans, which will unlock places' allocations. The Fund will operate UK-wide and use the financial assistance powers in the UK Internal Market Act 2020 to deliver funding to places across the UK.

Local authorities across each of the four regional strategic geographies in Wales have been invited to collaborate in developing regional investment plans, to build on the support, experience and success of regional working in Wales.

To enable this, we want 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.

This work follows on from mine and my official's engagement with counterparts from the Welsh Government prior to the publication of the Prospectus, which helped to develop and inform the design of the fund. Along with the allocation methodology, we also engaged with the Welsh Government to tailor the interventions which places in Wales can select from as part of their UKSPF plans, to help ensure better value for money, avoid duplication and support many of the shared goals and objectives we have.

We want to continue this engagement over the lifetime of the fund. Ministers from the Welsh Government have been invited to sit on a UK-wide ministerial forum that will support delivery of the fund. We have also asked officials from the Welsh Government to attend the regional partnership groups that will be set up to support investment plan development.

As the fund has been designed to empower local places across the UK, we also engaged with the WLGA ahead of the publication of the prospectus.

4. **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.**

Wales is being funded like never before and through a range of sources, including:

- The Spending Review 2021 settlement, which set the largest annual block grant of any Spending Review settlement since devolution. This included an average of £2.5 billion per year through the Barnett formula on top of the Welsh Government's £15.9 billion annual baseline.

- A £585m share of the £2.6bn UKSPF over the Spending Review period. UKSPF funding per head in Wales is more than six times higher than in England, and fourteen times higher than the South East of England.

- More than £790m for four City and Growth Deals covering the entirety of Wales.

The Welsh Government is the Managing Authority for European Structural and Investment Funds (ESIF) in Wales and is therefore best placed to provide information on EU legacy funding to the Committee.

5. **The Welsh Government's claim that Wales was due to receive £375 million a year and is now due to be "nearly £1 billion a year worse off by 2024."**

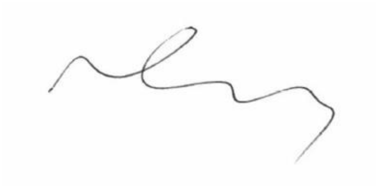
The Welsh Government has not set out publicly the assumptions around inflation, exchange rates or any methodology that underpins the £375m figure, which makes it difficult to comment on.

In the absence of that detail, it is worth noting that the UKSPF has been designed specifically as an improved domestic successor to the European Social Fund and European Regional Development Fund. Despite that focus it is often the case that other estimates include other European programmes in their calculations, for example, LEADER or the European Territorial Co-operation (ETC) fund.

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. The ETC was not allocated in the same way as other cohesion funds; it was a competitive process, so it would be speculation to include a figure within any alternative allocation.

The UK Government has set out in full the calculations, assumptions and methodology used to develop the full UKSPF allocation methodology alongside the UKSPF prospectus on GOV.UK. This allocation 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.

With kind regards,



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