

## **Welsh Government response to the Finance Committee's inquiry into Post EU funding**

**Date** – Wednesday 22 June 2022

**Title** – Post-EU Funding Arrangements

### **Overview**

- This paper provides information to the Finance Committee on Post-EU funding arrangements.
- The UK Government 2019 election manifesto committed to replace and “at a minimum match the size” of former EU funding in each nation of the UK. It has failed to honour this frequently repeated commitment, at the same time as deliberately overriding the devolution settlement.
- The UK Government's approach is effectively taking away funding in devolved areas that has been for the Senedd to ultimately determine since the start of devolution.
- The UK Government has also failed to negotiate continued access to EU funding programmes, like Horizon Europe.

### **Loss of £1bn EU Funding**

1. On 4 May 2022, the Minister for Finance and Local Government issued a Written Statement<sup>1</sup> outlining the loss of funding to Wales as a result of the UK Government's arrangements for replacement EU Funding.
2. In summary, Wales was allocated £2.1bn for the 2014-2020 EU European Regional Development (ERDF) and European Social Funds (ESF). These would have been worth £1.404bn between January 2021 and March 2025, allowing for inflation and exchange rates in the same way as the UK Government has when calculating the level of UK Shared Prosperity Funding (SPF) to be allocated to Wales.
3. This funding would be additional to ongoing payments made from the Welsh Government's commitment of funding to projects in previous years under the 2014-2020 programmes.
4. The UK Government confirmed on 13 April 2022 that Wales will receive £585m through the SPF between April 2022 and March 2025. This includes £101m which is being top-sliced by the UK Government to support an adult numeracy programme called Multiply.

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<sup>1</sup> [Written Statement: Loss of funding to Wales as a result of the UK Government's arrangements for replacement EU funding \(4 May 2022\) | GOV.WALES](#)

5. Together with the £47m from the 2021-22 Community Renewal Fund pilot, Wales will receive £632m in replacement funds in the period, a shortfall of £772m.
6. On top of this, 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. This means Wales' rural communities are £243m worse off than had we remained in the EU.
7. Taken together, the £243m loss in rural funding and the £772m shortfall in EU structural funds add up to just more than £1bn. Applying the same inflation adjustment to rural funding as to the structural funds, the overall shortfall to the Welsh budget is more than £1.1bn.
8. Having less say over less money means there will be difficult decisions to make for the Welsh Government and other institutions across business, higher education (HE) and further education (FE), and the third sector who have used Structural and Investment Funds to support vital investments in research and innovation, business competitiveness, skills, employability, decarbonisation, sustainable communities, infrastructure and connectivity, and support for vulnerable people. These sectors have already raised concerns with the Welsh Government about the funding gaps they face as a result of the UK Government's actions.
9. These figures do not take into account the losses of funding from Wales' access to other EU funding programmes, including Erasmus, Horizon Europe and European Territorial Co-operation which have not been fully replaced by the UK Government.

### **The UK Community Renewal Fund and Shared Prosperity Fund**

10. The SPF was first announced in 2017. The Welsh Government had no input or role in the UK Government's 2021-22 Community Renewal Fund pilot for the SPF. We were only offered meaningful discussion and negotiation on the priorities and governance structures of the SPF in early April 2022 prior to the publication of the Fund prospectus on 13 April, ahead of the local government pre-election period.
11. Despite this unfeasible timetable, we sought to create a partnership approach to the Fund that respected the devolution settlement and aligned with the expressed wishes of people and organisations in Wales on how post-EU funding should be invested and delivered set out in the *Framework for Regional Investment*, which was developed with Welsh partners and the OECD, and supported by a public consultation<sup>2</sup>.
12. While we made some progress on investment priorities, we could not form a partnership with the UK Government on the following basis:

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<sup>2</sup> [Regional investment in Wales: framework | GOV.WALES](#)

- 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 **£1bn** less than what we would have expected to receive via the EU between January 2021 and March 2025.
13. The UK Government is placing local government under considerable pressure by making them administrators of the SPF, with responsibility for managing the expectations of other public, HE/FE, private and the third sectors, who have benefitted significantly from EU Structural and Investment Funds and are all seeking replacement EU funding from a vastly reduced pot.
14. This could have been avoided if the UK Government had respected the intensive work undertaken in Wales over recent years, to create the strongest possible model for post-EU regional investment in Wales, and allowed the Welsh Government to manage this funding through the *Framework for Regional Investment in Wales*, which included an element of devolved funding and autonomy for local government.
15. The Multiply numeracy scheme which forms part of the SPF represents an additional encroachment into a devolved policy area which will conflict with and duplicate existing provision in Wales. In addition, whilst the UK Government is using the fund to support their own UK-wide schemes, they are denying the Welsh Government the ability to fund Wales-wide schemes – despite EU funding supporting a range of critical pan-Wales business and skills programmes.
16. As things stand, the UK Government is delivering funding in devolved areas with no input from the Welsh Government on its plans, minimal stakeholder engagement, no public consultation and no regard to the distinct economic landscape shaped in Wales over 20 years of devolution.
17. This is not only constitutionally inappropriate; it also risks poor value for money for scarce public spending if the UK Government allocates funding without properly engaging with the Welsh Government and aligning with the regional economic strategies we have developed with our partners.
18. Our intention now is to support local government through the Corporate Joint Committee structures and work with stakeholders to mitigate, as much as possible, the problems they are facing as a result of the UK Government's actions, and to maximise the available funding for the benefit of our businesses, people and communities across Wales.

### *Mechanisms and structures*

19. Local authorities are required to produce SPF investment plans which contain details of partnership structures, regional interventions and outcomes, and an indication of the projects they are seeking funding for. The investment plans must be submitted between 30 June and 1 August, which will then be assessed by UK

civil servants and decided upon by Ministers at the UK Department for Levelling-Up, Housing and Communities.

20. There is a requirement for local government to convene a local partnership during the process of developing and delivering their investment plans. The UK Government requires representation on these partnerships from various sectors, as well as MPs. There is no requirement to include Members of the Senedd.
21. The UK Government requires any underspends to be returned at the end of each financial year, which is in contrast to the way the multi-annual EU funding programmes were administered.
22. The UK Government has not set out its evaluation processes for the Fund.

### ***Levelling-Up Fund***

23. The UK Government is using the UK Internal Market Act financial assistance powers to take spending decisions directly in devolved areas bypassing the Welsh Government and Senedd. One such area is the UK's Levelling-Up Fund (LUF). The LUF is not a direct replacement for EU funding, but it is operating in the space that EU funds have previously occupied.
24. The LUF effectively replaces the England Towns Fund. It was announced at the UK Spending Review in November 2020 as an England measure from which the Welsh Government would receive a Barnett consequential. However, in February 2021, the UK Government confirmed it would deliver the Fund on a UK-wide basis with no prior consultation or communication. The Welsh Government has had no role in its development or delivery.
25. The first funding round was launched in March 2021, with successful applicants announced in October 2021. In the first round, six local authorities in Wales (RCT, Powys, Carmarthenshire, Pembrokeshire, Ceredigion and Wrexham) secured funds for 10 bids worth a total of £121m. Unsuccessful bids in Wales were worth £172m.
26. The second round was opened on 23 March 2022 with a deadline of 6 July 2022 for bids.

### **2014-2020 EU Structural Funds Programme**

27. Responsibility for the delivery of ERDF and ESF programmes is delegated wholly to the Welsh European Funding Office (WEFO), which manages the funds jointly with the European Commission. Programme delivery is overseen by an independent Programme Monitoring Committee, and papers for the Committee are published as a matter of routine.<sup>3</sup> The programmes run over a ten year period and there is considerable flexibility across that period. As the delegated official, the Chief Executive of WEFO would be pleased to update the Committee

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<sup>3</sup> [Wales Programme Monitoring Committee | GOV.WALES](#)

on the ERDF and ESF programmes, as an understanding of the programmes is needed for information about them to be meaningful.

28. There is often a considerable delay between a beneficiary incurring expenditure which is eligible for EU support, and the submission of a claim for that support to WEFO. Many beneficiaries are experiencing additional delays due to Covid related difficulties. Furthermore, WEFO commonly allows beneficiaries to draw down grant funding as it is needed, rather than at an even rate across the life of the project (which may be several years long). This feature of the programmes was one that beneficiaries consistently requested to be retained in any replacement funding arrangements. The multi-annual framework also means that some particularly large projects were always intended to deliver at the back end of the programme period, including transport infrastructure and marine energy projects.
29. Figures for any given window in the ten year delivery period therefore need to be understood in the context of the programme as a whole. For example, the amount that WEFO drew down in the period between EU exit and today will relate to expenditure incurred by beneficiaries both before and during that period, and much of the eligible expenditure in that period has yet to be declared. The only way to take a meaningful annual figure for EU funding is to take an average over the programme period.
30. WEFO has fully committed the estimated<sup>4</sup> £2.1bn value of the European Regional Development Fund and European Social Fund for the 2014-2020 programmes, driving a total investment of nearly £4 billion.
31. So far, based on project Sponsor payment claims submitted to and approved by WEFO, 62% EU Funds (£1.3bn) has been spent under these programmes, which compares well with the performance of other UK and EU regions. WEFO has exceeded all annual ERDF and ESF spend targets set by the European Commission, and have already achieved two out of the four programmes end of calendar year 2022 spend targets. The Commission attends meetings of the independent Programme Monitoring Committee and is content with Wales' progress.

### **European Agricultural Fund for Rural Development**

32. The UK Government, when providing replacement funding, is deducting ongoing EU receipts due to Wales through the 2014-2020 Rural Development Programme.
33. This means Wales' rural communities are worse off by £243m than had we remained in the EU. We raised concerns about this at the 2020 and 2021 spending reviews, but UK Government has not altered its approach.

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<sup>4</sup> The ceiling of ERDF and ESF funding that can be drawn down is set at the beginning of the programme period in Euros. WEFO has to estimate what that ceiling will be worth in Sterling as the programme develops and claims are submitted. WEFO plans against a range of possibilities in that respect, but figures quoted are based on the current formal planning rate of €1.17/£.

34. This figure consists of:

- £42m transferred from CAP Pillar 1 into our Pillar 2 Rural Development Programme in 2020 which was ignored when replacement for direct payments were provided in financial year (FY) 2020-21 and/or FY 2021-22.
- £95m of EU receipts which the UK Government has 'netted off' from replacement funding as part of the 2020 Spending Review affecting FY 2021-22.
- £106m of netting-off confirmed in the 2021 Spending Review, affecting FY 2022-23 and 2023-24.

35. The UK Government Spending Review 2021 set out replacement funding up to 2024-25:

Description	2021-22	2022-23	2023-24	2024-25
CAP replacement	£242.2m	£252.19m	£315.01	£337
Shortfall to £337m	£94.8m	£84.81m	£21.99m	£0

36. In addition to the replacement funding received from the UK Government, we are providing at least £77m of match funding over the next three years. Given the pressures on the Welsh Government's budget and the difficult choices this leads to, this demonstrates our ongoing commitment to supporting farmers and land managers to help achieve our objectives.

37. Over the next three years we are also making £275m available to support our farmers, foresters, land managers and food businesses to promote the sustainable production of food and support the rural economy on the path to a net zero, nature positive Wales.

38. This funding responds to the ending of the EU Rural Development Programme (RDP), which will close in 2023. The Welsh Government has stepped in to ensure continuity of support for important actions previously funded under the RDP and also to support the transition to the Sustainable Farming Scheme (SFS).

### **European Marine Fisheries Fund (EMFF)**

39. Under the 2014-2020 European Maritime and Fisheries Fund (EMFF). Wales benefited from €19.7m euros of funding from the European Union. The UK Government has allocated £6.2m over the next three financial years (2022-2025) which is broadly in line with the EMFF allocation.

40. Marine and Fisheries funding proposals for 2022-23 are under development and officials are undertaking further engagement with stakeholders to ensure co-production of a scheme which will effect positive change to the marine and fisheries sector and support commitments in our *Programme for Government*.

## Other EU funding programmes

### ***EU Research and Innovation Framework Programme (FP): FP7, Horizon 2020, Horizon Europe.***

#### Horizon 2020 (2014 – 2020 EU programmes)

41. Welsh organisations secured a total of €150m from the EU's flagship research and innovation programme, Horizon 2020, during the 2014-2020 programme period. However, during this period, we estimate Wales has also missed out on around €38m in Horizon funding due to EU exit-related uncertainties.
42. This is based on divergence of the UK performance from that of Germany. It correlates with analysis by the Royal Society in October 2019 which highlighted how uncertainty following the EU referendum reduced the UK's annual share of Horizon 2020 funding by almost a third, or nearly half a billion Euros in 2018 compared with 2015. The same trend can be seen in Wales.

#### Horizon Europe (2021–2027 EU programmes)

43. Welsh applicants are provisionally eligible and many continue to apply for Horizon Europe funding. The EU assesses applications but cannot sign grant agreements prior to formalisation of UK association. UK applicants successful in the EU process can claim funding from UKRI (the UK Research and Innovation Agency). The UK says that it is ready to associate but the political setting is preventing the EU from formalising association.
44. Uncertainty over formal association is clearly disadvantageous to Welsh participation, but there is insufficient data at present to estimate the level of funding that might have been lost to Wales since Horizon Europe opened in January 2021. Conversations with universities indicate that from a very low base in 2020, applications picked up in 2021 due to the promise of association, but this is now under serious threat as the delay continues along with the associated administrative difficulties.
45. Applicants face unnecessary barriers accessing Horizon Europe due to the lack of agreement on association. The administration involved in changing status from a partner to an associated partner and seeking funding from UKRI is significant, particularly for doctoral networks.
46. The situation has reached such a point that some stakeholders are considering whether a clear, well-funded and well-administered third country scheme would be *temporarily* preferable to the current uncertainty and administrative difficulty. This would be with a view to re-entering Horizon Europe if and when the UK resolves the political issues.
47. In the event the UK Government is unable to achieve formal association to Horizon, the funding allocated to Horizon Europe association will go to a UK-based alternative R&D programme. Wales could make use of this UK fund, but the benefits would depend on the details which have not been set out yet. There

is recognition that Horizon Europe's multilateral programme and brands cannot be replicated.

48. There are also new EU initiatives emerging for which expenditure in the UK is ineligible, for example the EU's Innovation Fund, The European Defence Fund, the Just Transition Fund and the European Investment Bank.

### ***Erasmus Plus and replacements***

49. The UK Government decided not to participate in Erasmus+ despite the Welsh Government being clear that remaining in Erasmus+ was our preference.
50. Wales received an average of €9.64m per year from Erasmus+ from 2014-20. In 2020, it received €13.14m. The new Erasmus+ Programme from 2021-27 received a budget increase of 79%. Assuming Wales' share increased in proportion with the overall increases to funding, Wales would have received on average around €17.2m/year from Erasmus+.
51. Instead, the UK Government has introduced the Turing Scheme on a UK-wide basis to replace some elements of Erasmus+. This has been established using the UK Internal Market Act without consent of Welsh Government Ministers. It has a budget of £110m/year, of which approximately £100m is funding for providers. It does not replace the staff, youth, or inward mobility elements of Erasmus+ or provide any funding for strategic projects. In 2021, Wales received £5.19m from the Turing Scheme.
52. The Turing Scheme has Welsh Government official level representation on its Assurance Board and on the Project Assessment Boards. We do not have a role in scrutiny/oversight or decision making.
53. Projects from the previous Erasmus+ programme will be able to run until 2023, meaning that a limited number of projects will continue to provide mobility opportunities. The remaining funding from the €13.14m allocated in 2020 is unknown, but many providers have reported there will be little funding available from these projects for the final year of projects that run until 2023.
54. The Welsh Government international learning exchange programme – Taith – was announced in March 2021 and applications for the first year of funding closed in May 2022. Taith will provide £65m of total funding for mobility and collaboration opportunities for all education sectors in Wales.

### ***EU LIFE Programme***

55. The EU LIFE Programme 2014-2022 had a budget of €3.4 billion to support biodiversity. Wales has on average received £3m per annum of EU LIFE funding for the period 2014-2019.
56. The EU has agreed to continue funding current projects to the end of their lifetime. In Wales, this includes 4 existing projects and also an additional 2

projects which have been successful as part of the last tranche led by Natural Resources Wales and match funded by Welsh Government.

57. From 2021, no new funding has been available through the EU LIFE programme. Discussions are ongoing through the 4 countries biodiversity group and with the UK Government regarding options on a replacement scheme and funding. Defra has indicated at policy level that any such replacement scheme would need to be funded from contributions from each countries block grant. Issues being considered are whether any replacement scheme would operate at a UK level and /or at country level and who would administer such a scheme at a UK level.
58. Such schemes are essential to continue delivering our biodiversity programme ensuring we meet our domestic and international obligations with regard to our protected sites network and emerging targets from COP 15.

### ***Creative Europe***

59. Under the Creative Europe programme (2014 – 2020), 15 organisations directly received funding in Wales totalling €2,575,369 to support the cultural, creative and audio-visual sectors.
60. €1,910,565 was directly awarded to Welsh companies and organisations through Culture, accounting for 6.3% of the €30 million Culture funding awarded UK wide. €664,804 was awarded to Welsh companies and organisations through MEDIA accounting for 1.48% of the €45 million Culture funding awarded UK wide.
61. The funding received was just part of the programme's benefits. The European partnerships, training and markets were arguably of greater value.
62. Despite our expressed preference to remain a part of Creative Europe, the UK Government decided not to continue participation and instead launched a pilot programme, the UK Global Screen Fund (established using the Internal Market Act financial assistance powers) last year. The Fund had an allocated budget of £7m, of this Wales directly received circa £300k. The Scheme has Welsh Government representation on its Steering Group, but we do not have a say in scrutiny/oversight or decision-making.
63. This programme has been expanded over the next three years as part of UK support for the creative industries with an allocated budget of £50m. It is not yet known how much of this funding will be allocated directly in Wales.

### ***Other EU Funds including - European Territorial Co-operation and the PEACE project***

64. The European Territorial Co-operation (ETC) programmes are worth around €7.5m per year for Wales. These include the Ireland-Wales and wider transnational and inter-regional ETC programmes which are providing solutions to key challenges which transcend borders, creating much more than just financial benefits for stakeholders.

65. The UK Government has chosen not to pursue participation in the 2021-2027 ETC programmes (other than PEACE PLUS in Northern Ireland). This decision has put at significant risk important partnerships and related economic opportunities across the Irish Sea, Europe and beyond.
66. Despite the UK Government position, we are working with other Devolved Governments to explore alternative ways in which our stakeholders might continue to engage in 2021-2027 ETC programmes through 'Third Country' provisions in the EU Regulations, at the very least on a "project-by-project" basis.
67. The Welsh Government, through its International Strategy and work on co-operation across the Irish Sea, is committed to continuing those partnerships, where possible, to raise Wales' presence globally and make us more competitive, but this will be restricted by the funding challenge.

**Detail of the Welsh Government's assessment that Wales would receive at least £375 million a year, had Wales and the UK remained in the EU.**

68. The White Paper *Securing Wales's Future*<sup>5</sup> Chapter 6 sets out the financial implications for Wales in respect of the European and Structural and Investment programmes. The overall figure comprises, on average across seven years, £295 million annually for the ERDF and ESF Structural Funds programmes, £80 million for the Rural Development programme and £2 million for the European Maritime and Fisheries Fund. In addition, Welsh partners benefit from approximately €7.5m per annum of ERDF through participation in the European Territorial and Co-operation (ETC) programmes. The figure of at least £375m does not take into account the losses of funding from our access to other EU funding programmes, including Erasmus and Horizon.

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<sup>5</sup> [SECURING WALES' FUTURE ENGLISH \(gov.wales\)](https://gov.wales/secure-wales-future-english)