

Rt Hon David TC Davies MP
Secretary of State for Wales
Ysgrifennydd Gwladol Cymru

Rt Hon Michael Gove MP
Secretary of State for Levelling Up, Housing and
Communities
Minister for Intergovernmental Relations

Peredur Owen Griffiths MS

Chair of the Finance Committee
Welsh Parliament
Cardiff Bay
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21 November 2022

Annwyl Peredur,

Response to the Senedd Finance Committee's report into post-EU funding arrangements

Thank you for your letter of 10 October. Given the Committee's inquiry relates to the work of both the Department for Levelling Up, Housing and Communities (DLUHC) and the Office of the Secretary of State for Wales (OSSW), we are issuing a joint response. Responses to each of the Committee's recommendations are provided alongside this letter.

We would like to thank the Committee for their report into post-EU funding arrangements in Wales, and to those who participated by submitting evidence. The UK Government welcomes the Committee's views, and we look forward to continuing our work together as we focus on delivering for communities across Wales.

Wales is at the heart of the UK Government's ambitious levelling up agenda. Recent UK Government investment in Wales has been extensive, with over £750m committed so far including:

- £585m allocated through the UK Shared Prosperity Fund (UKSPF) over the three financial years leading up to March 2025.
- £121m of investment in the first round of the Levelling Up Fund (LUF) supporting 10 large scale capital projects.
- £46m of investment through the Community Renewal Fund (CRF) to deliver over 160 projects across Wales.
- Over £450,000 of funding in the first round of the Community Ownership Fund (COF) which has enabled communities to take ownership of assets at risk of closure.

We will also be making further investment over the coming months as new projects are announced under the second rounds of both the LUF and COF. In addition, the establishment of a new Freeport in Wales will result in £26m of seed funding.

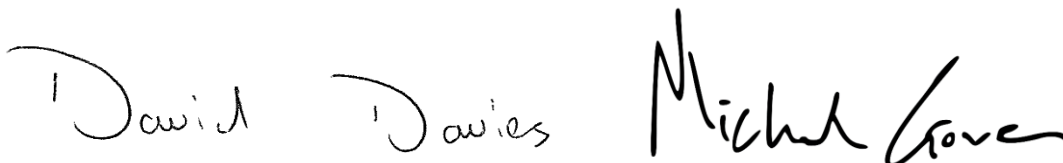
The UKSPF represents a new and dynamic opportunity for Wales which enables local places to decide how best to invest in their areas in supporting local growth – something that was not possible with previous EU funding schemes. Our approach provides local accountability alongside reduced bureaucracy, freeing up places to unleash their unique potential.

We reaffirm our view that we are fulfilling our commitment to at least match the funding that Wales received through the European Social Fund and the European Regional Development Fund, and we regret that that the Committee was unable to come to the same conclusion despite the evidence provided. We firmly believe that it is now in the interest of communities across Wales for all relevant parties to turn our collective focus to delivery, and the UK Government stands ready to support local partners in Wales by building on the solid relationships we have developed with them since leaving the EU. We are also eager to strengthen our working relationship with the Welsh Government by building on our effective collaboration on the Freeport Programme in Wales.

We would like to take this opportunity to thank local authorities and other partners across Wales for their tireless efforts and dedication over recent months, from developing proposals for the second round of the LUF to collaborating on the four regional UKSPF Investment Plans. This local expertise is integral to the delivery of the UK Government's levelling up ambitions.

Thank you for your letter and for the continued work of the Committee and representatives of the Senedd. Diolch yn fawr iawn.

With every good wish | Gyda phob dymuniad da,

The image shows two handwritten signatures in black ink. On the left is the signature 'David Davies' and on the right is the signature 'Michael Gove'. The signatures are written in a cursive, flowing style.

Rt Hon David TC Davies MP

Secretary of State for Wales

Ysgrifennydd Gwladol Cymru

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Communities

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RECOMMENDATIONS AND RESPONSES

RECOMMENDATION ONE

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.***

UK Government Response:

Over the last year the UK Government has allocated over £750m of levelling up funding into Wales, working with local authorities and other partner organisations. All funds have been designed in a way that limits the bureaucracy experienced under previous funding regimes whilst being adaptable to the unique needs of local places. The funds have also been designed with levelling up in mind, thereby ensuring those places that are in greater need receive proportionate support. This is achieved, in part, through using deprivation indices within our funding methodologies and through direct interaction with local leaders and partners.

We acknowledge the resolute response by local authorities in Wales to what has been asked of them in recent months, and we applaud their efforts. The fruits of that work are already visible. Within the first round of the LUF, Wales received over 7% of the total funding allocated, significantly more than it would have received under a Barnettised system.

As referenced in the Committee's report, the UK Government has acknowledged that some local authorities have found recent timescales challenging. To strengthen capacity, local authorities were provided with additional financial assistance to help them respond to the requirements of individual funds including the CRF, LUF and UKSPF. We will continue to work with the Welsh Local Government Association (WLGA) and local authorities to gather feedback on their experiences as we roll out new funding opportunities across Wales.

RECOMMENDATION TWO

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.

UK Government Response:

During the development of the UKSPF engagement took place with the Welsh Government at both official and ministerial level. As a result, numerous elements of the fund have been adapted for Wales, such as the methodology for allocating funding to the four strategic geographies along with the list of interventions that can be included in Investment Plans.

The Welsh Government have been invited to work with the four strategic geographies in Wales to support with the delivery of their UKSPF Investment Plans. For example, there is an expectation placed on lead local authorities that Welsh Government officials are invited to attend local partnership groups, as outlined in the UKSPF prospectus which can be found [here](#). This will facilitate the UK

Government's aspiration that UKSPF programmes work with the grain of the Welsh Government's activity by complementing existing programmes and avoiding duplication.

Opportunities for engagement at a Ministerial level have also been provided to the Welsh Government as part of the UK Government's ongoing commitment to engage regularly with devolved governments. The Interministerial Group for Housing, Communities and Local Government was recently established to provide a platform for ministerial engagement on issues of mutual interest between governments. It first met on 24 May and was chaired by the Secretary of State for Levelling Up, Housing and Communities. Details of discussions held are published on gov.uk following these meetings. Ministers from any government can table the UKSPF to be discussed within this forum as needed.

We remain committed to building an effective working relationship with the Welsh Government in supporting the four strategic geographies to deliver their UKSPF Investment Plans.

RECOMMENDATION FOUR

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.

UK Government Response:

Full details on the methodology for allocating UKSPF funding have been published [here](#). Given the level of detail that has already been provided, we do not feel it is necessary to provide further information.

The allocation methodology for Wales differs from elsewhere in the UK as a result of conversations held with the Welsh Government and building on existing intelligence, including the Welsh Index of Multiple Deprivation. In summary, the methodology for allocating UKSPF comprises the following elements: 40% is distributed to each local authority based on population; 30% is distributed according to the Welsh Index of Multiple Deprivation; and 30% is distributed according to the index used for the CRF (full details of which can be found [here](#)).

We are content that the resulting allocations for the UKSPF in Wales are fair and take account of population density while also considering the needs of places across the whole of Wales.

RECOMMENDATION FIVE

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.

UK Government Response:

The UK Government is in regular dialogue with all local authorities and the WLGA to discuss the ongoing delivery of Multiply in Wales and the wider UKSPF. In addition, during summer 2022 DLUHC officials established a dedicated working group to discuss how Multiply will operate in Wales with representatives drawn from local authorities and an open invitation made to Welsh Government officials. Feedback from the working group was used to respond to operational queries relating to

Multiply with the aim of clarifying the scope of the programme and the relationship to other aspects of the UKSPF and existing Welsh Government programmes. We will continue to use feedback from local partners to inform the ongoing delivery of Multiply in Wales, building on the work achieved to date.

RECOMMENDATION SIX

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 the funds from the Multiply programme in other areas.

UK Government Response:

The UK Government is eager to see adult numeracy improved across Wales and the UK as a whole. Multiply is intended to complement existing Welsh Government provision in a way that empowers local areas to address the underlying numeracy skills needs experienced by their communities. In designing provision under the Multiply component of the UKSPF, local partners are expected to have regard to the overarching strategies and policies in this area, including those published by the Welsh Government.

There remains the flexibility for places to adapt the delivery of Multiply in response to their local needs. We will continue to use feedback from local partners to inform the ongoing delivery of Multiply in Wales, building on the work achieved to date.

RECOMMENDATION EIGHT

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.

UK Government Response:

In 2021 a dedicated Wales Area Team was established within DLUHC with the principle aim of supporting partners in Wales during the rollout of new UK Government funding opportunities and the wider levelling up agenda. At full capacity, this team consists of 11 full time employees including one Senior Civil Servant who are all based in Wales. The team is structured to work collaboratively with the four strategic geographies identified for Wales whilst maintaining continual dialogue with each individual local authority and other local partners. The team's structure is similar to those operated by the Welsh Government's Business and Regions Directorate, and there are equivalent teams in Scotland and Northern Ireland.

In addition, the team draws on delivery experience from across DLUHC in a number of disciplines, including reporting, monitoring, assurance and evaluation, with some of these co-located with the Wales Area Team in the UK Government Hub in central Cardiff. The team also works closely with colleagues in the Office of the Secretary of State for Wales and other UK Government departments in delivering levelling up initiatives and other cross departmental priorities.

RECOMMENDATION NINE

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

UK Government Response:

We remain open to conversations with the Welsh Government on their role in any UK-wide ministerial forum and more broadly on the opportunities for them to engage with the UKSPF and other levelling up funding opportunities. This includes the invitation for Welsh Government officials to attend all local partnership groups for the UKSPF.

Our response to recommendation two provides an overview of the engagement which took place with the Welsh Government at both official and ministerial level prior to the publication of the prospectus.

RECOMMENDATION TWELVE

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.

UK Government Response:

The UKSPF is providing local leaders with the opportunity to spend funding as they see fit and to enable places across Wales to unleash their unique potential. Local leaders can focus on what works best for their communities unshackled by previous EU restrictions and bureaucracy. Significant flexibilities have been hardwired into the UKSPF which enable lead local authorities to make decisions locally in managing the delivery of the fund, including the ability to move funding between interventions and investment priorities within certain thresholds without having to consult with DLUHC. In addition, UKSPF payments are distributed to lead local authorities at the start of each financial year, rather than needing to be claimed retrospectively, giving areas the flexibility to redirect funding in response to changing circumstances and priorities. This flexible approach represents a key shift from the previous EU system.

Where a strategic geography within Wales is forecasting an underspend within its allocation for one financial year, they will be asked to develop credible plans on how to utilise this underspend in the next financial year. If necessary, the UK Government will consider withholding future payments until we have received such plans. All such details are set out in the additional information documentation published online in July, which can be found [here](#). The DLUHC Wales Area Team will continue to support lead local authorities to make sure they establish the appropriate programme management methods to maximise delivery and achieve spend to profile.

RECOMMENDATION THIRTEEN

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.

UK Government Response:

We have set out our approach to local growth funding through to the end of the current Spending Review period in 2024/25 through a combination of the UKSPF and a variety of other funding opportunities, including the CRF, LUF and COF. Any continuation of existing or successor funds will be informed by a combination of engagement with relevant partners and evaluation evidence. It would be inappropriate to pre-empt the structure and focus of future funds at this point in time, although the Committee's recommendation is noted. We believe that establishing the foundations of local accountability and the local partnerships developed through our funds will be crucial to achieving objectives for levelling up across the whole of Wales.

RECOMMENDATION FOURTEEN

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.***

UK Government Response:

As outlined in our response to recommendation thirteen, it would be inappropriate to pre-empt the structure and focus of future funds at this point in time, although the Committee's recommendation is noted.

We would note that the aims of the UKSPF go above and beyond the Committee's recommendation to focus on creating growth and increasing GVA in Wales. UKSPF exceeds these aims by responding to each of the levelling up objectives as outlined below:

- Boosting productivity, pay, jobs and living standards by growing the private sector, especially in those places where they are lagging
- Spreading opportunities and improving public services, especially in those places where they are weakest
- Restoring a sense of community, local pride and belonging, especially in those places where they have been lost
- Empowering local leaders and communities, especially in those places lacking local agency

RECOMMENDATION FIFTEEN

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.

UK Government Response:

As outlined in our evidence to the Committee, the UK Government is at least matching previous EU funding that Wales received through the European Social Fund and the European Regional Development Fund. This is achieved through the allocation of funding via the UKSPF which increases over the next three financial years as legacy EU funding into Wales tapers off.

The process of increasing UK Government investment into Wales will culminate in an allocation of £343m in the financial year 2024/25, matching the annual EU allocation into Wales. This figure does not take into account additional UK Government investment into Wales over the current Spending Review period, including £47m allocated through the CRF and £26m allocated to the Freeport Programme in Wales. In addition, 10 projects in Wales received over £121m through the first round of the LUF, with further investment to come forward when successful bids from the second round of the fund are announced.

Taking account of the above points, the UK Government is fulfilling the commitment to at least match previous EU funding into Wales. We are now wholly focused on working with local authorities and other local partners to support them in delivering for their communities.

RECOMMENDATION TWENTY

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.

UK Government Response:

The UK Government is not in a position to supply this information as this is a matter for the Welsh Government in relation to the role of the Welsh European Funding Office.