Welsh Government response to the Economy, Trade and Rural Affairs Committee's inquiry into post-EU regional development funds

Date – Thursday 8 June 2023
Title – Post-EU regional development funds

Overview

- This paper provides information to the Economy, Trade and Rural Affairs Committee on Post-EU funding arrangements.

- The 2014-2020 EU Structural Funds programmes[1] are worth £2.1bn to Wales, driving a total investment of more than £3bn. To date, these programmes have created 33,900 new jobs and 6,700 new businesses, supported 19,300 businesses, helped 40,800 people into employment and helped people achieve 152,000 qualifications.

- 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 repeated commitment.

- The UK Government's approach is effectively taking away funding in devolved areas that has been for the Senedd to determine since the start of devolution.

- The Shared Prosperity Fund is smaller and narrower in scope than the EU funding it was designed to replace; for example, having no priority investment for research and innovation (R&I).

- The UK Government is using the UK Internal Market Act to make Levelling-Up Fund spending decisions in devolved areas on local projects in Wales.

Loss of £1bn EU Funding

1. On 4 May 2022, the Minister for Finance and Local Government issued a Written Statement[2] 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.

[1] Comprising the European Regional Development Fund and European Social Fund
[2] 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

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 its replacement EU funding scheme, 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.

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. These figures do not include 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.

Design of the Shared Prosperity Fund

9. Following the outcome of the 2016 EU Referendum, the Welsh Government worked with stakeholder organisations and the OECD to develop a new model for investing successor EU funds.

10. The Framework for Regional Investment was co-produced and published in 2020 following a public consultation. It included a portion of funding and autonomy for local government, and direct access to funding for non-government sectors.

11. The process was overseen by a representative steering group chaired by Huw Irranca-Davies MS and based on commitments that Brexit would involve no loss of funding or devolved powers.

12. The UK Government's replacement EU funding scheme, the SPF, was first announced in 2017. The Welsh Government had no input or role in its design or development ahead of its launch in April 2022.

13. The Welsh Government proposed a formula for allocating SPF funds with a 70% weighting to the Welsh Index of Multiple Deprivation in order to distribute funding fairly across Wales according to economic need. Instead, the UK Government is using a formula of 30% weighting for the WIMD, a 40% population weighting, and

a 30% weighting for its own Community Renewal Fund (CRF) index (the pilot fund to the SPF).

14. The SPF channels funding exclusively via local authorities on an annualised basis. This means that strategic multi-annual projects previously supported by EU funds are no longer possible.

15. The localised design of the SPF prevents continuity funding for pan-Wales projects previously supported by EU funds such as Business Wales, the Apprenticeship programme, business finance schemes run by the Development Bank for Wales and the WCVA's Active Inclusion Fund which supported vulnerable people into employment and training.

16. Sectors outside of local government can apply for funding although the SPF's narrower focus and the reduced amount of available funding has vastly reduced the potential for investment in the higher education, further education, business and third sectors.

17. The investment priorities of the SPF are narrower than the EU Structural Fund programmes. For example, around £380m of the 2014-2020 EU programmes was invested in Research & Innovation (R&I). This is not an eligible investment area meaning that multi-million pound R&I investments supporting business and academia collaborations for growth have no prospect of successor funding from the SPF.

18. This is resulting in reports by a range of sectors of significant levels of job losses and the closure of key projects in areas including decarbonisation, renewable energy and industrial skills.

19. For example, the Materials and Manufacturing Academy is led by Swansea University and supports industry focused Engineering Doctorates and Research Masters in the field of advanced materials and manufacturing. Backed by £16.6m EU funding, it began in 2015 and will cease in December 2023. Participating businesses have included TATA Steel, BASF, Royal Mint and Weartech International.

20. The third sector is also concerned about the lack of opportunity for involvement into how SPF is being delivered, particularly around decision-making on where support for communities and vulnerable people is most needed. In addition, the sector notes the limited opportunities for regional projects due to local authorities having individual allocations and arranging different SPF bidding and decision-making timescales. The third sector fears that the expertise and the very good examples of support available for communities and vulnerable people is therefore at risk of being lost and would welcome opportunities for better involvement and engagement in SPF delivery.

21. The design of the SPF lends itself to smaller, short-term localised projects similar to the approach taken to the 2000-2006 EU Structural Funds programmes. Lessons learned following independent evaluation led to larger, more strategic projects being supported in the 2007-2013 and 2014-2020 programmes to create greater economic impact and legacy.

Implementation of the Shared Prosperity Fund

22. Local authorities were required to submit SPF investment plans between 30 June and 1 August 2022, which were then assessed by UK civil servants and decided upon by Ministers at the UK Department for Levelling-Up, Housing and Communities (DLUHC).

23. There was a requirement for local government to convene a local partnership during the process of developing and delivering their investment plans. The UK Government required representation on these partnerships from various sectors, as well as MPs. There was no requirement to include Members of the Senedd.

24. The UK Government was due to approve plans and start payments in October 2022; however despite plans being submitted on time by 2 August 2022, DLUHC only approved the plans on 5 December.

25. Funding for the financial year 2022/23 (worth £74m) was released to local authorities at the end of January 2023. Around £15m was initially withheld by the UK Government due to ongoing issues around the deliverability of its *Multiply* programme.

26. We understand the £15m will be released to spend in 2023/24; however, the narrow focus of Multiply remains which will make it difficult for local authorities to spend the full Multiply allocations.

27. While there is not a universal picture across and within regions; local authorities are using the funding to support local government projects and have gradually opened funding rounds for external sectors. These funding rounds have opened at different times and with different arrangements and assessment criteria, and many reporting that the demand for funding is far exceeding the funding available.

28. SPF project activity will need to cease by December 2024 so that all spending is completed by 31 March 2025. This means that despite being a three-year scheme, the SPF will only have around 18 months of project delivery.

29. The UK Government has placed local government under considerable pressure by making them administrators of the SPF, with responsibility for managing the expectations of other public, HE/FE, business and the third sectors, which have benefitted significantly from EU Structural and Investment Funds and are all seeking replacement EU funding from a vastly reduced pot.

30. This pressure has been exacerbated by UK Government delays in launching the SPF, approving investment plans and releasing the funds.

31. Due to time pressures, reduced funding levels and short delivery timescales, local authorities are being forced to support short-term, sub-optimal projects with more limited economic potential than the projects supported through EU Structural Funds.

32. There is no formal role for the Welsh Government to play in the SPF as all key decisions (programme design, funding levels, allocation methodology, investment priorities and local government focus) were made by the UK Government prior to the SPF's launch in April 2022.

33. The Welsh Government has been working with local authorities to ensure duplication in areas such as skills and business support is avoided as far as possible. The Welsh Government is also continuing to hold regular meetings of the Strategic Forum for Regional Investment in Wales, chaired by Huw Irranca-Davies MS, to share information and lessons learned among Welsh partners.

34. However, with both local authorities and Welsh Government serving the same audiences and given the scale and volume of projects now in operation, a sub-optimal environment for business support and skills provision has been created.

35. We have also needed to make tough decisions around our budget priorities to maintain our commitment to Apprenticeships and Business Wales schemes which previously benefited from EU funding support. For example, we are investing an additional £20.9m per year of Welsh Government funding to up until March 2025 to fill the gap and extend the core Business Wales service beyond the end of EU funding this year.

36. We have also provided an increase in research funding through HEFCW and its QR fund for universities, and we are continuing to work with HEFCW on how to increase competitive grant capture in the Welsh research system.

Multiply

37. The Multiply numeracy scheme, which forms part of the SPF, represents an additional encroachment into a devolved policy area.

38. Furthermore, while the UK Government is using the fund to support its 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.

39. Adult numeracy is devolved and Multiply operates in direct competition with Adult Community Learning provision, which is already available in Wales. It also risks duplication with the well-established Essential Skills Wales programme. This will mean that learners in Wales face a confused and complicated range of options.

Levelling-Up Fund

40. The Levelling-Up Fund (LUF) is another example of the UK Government using the UK Internal Market Act financial assistance powers to take spending decisions directly in devolved areas bypassing the Welsh Government and Senedd.

41. The LUF 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.

42. However, in February 2021, the UK Government confirmed it would deliver the LUF on a UK-wide basis with no prior consultation or communication. The Welsh Government has had no role in its development or delivery.

43. In the first LUF round (2021), 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.

44. In the second LUF round (2023), 11 local authorities in Wales (Anglesey, Blaenau Gwent, Bridgend, Caerphilly, Cardiff, Conwy, Denbighshire, Gwynedd, Neath Port Talbot, Swansea, Torfaen) were successful with one bid each worth a total of £208m. The value of unsuccessful bids was £582m.

45. The UK Government announced the successful second round projects on 19 January 2023 having been due to make the announcement in Autumn 2022. This delay has put extra delivery pressures on local authorities and exposed projects to rising inflation.

46. Flintshire, Merthyr Tydfil, Monmouthshire, Newport and the Vale of Glamorgan are yet to receive any funding from the first two LUF rounds.

47. A third and final round is expected in 2024 although it is likely to be significantly smaller than the first two rounds given that around £1bn remains UK-wide from the total three-year LUF funding allocation of £4.8bn.

48. LUF projects are expected to close in December 2024 with funding having to be completed by 31 March 2025 (barring exceptional circumstances).