Welsh Government response to recommendations from the Economy, Trade and Rural Affairs Committee's Report: Post-EU Regional Development Funding

The Welsh Government welcomes the Economy, Trade and Rural Affairs Committee's report on Post-EU Regional Development Funding, and we share the Committee's concerns. We believe the UK Government's approach is costing Wales jobs and growth and is a deliberate and unacceptable encroachment into a devolved policy area using the Internal Market Act (IMA) financial assistance powers.

Funding for devolved functions should come to the Welsh Government for Welsh Ministers to allocate in line with its priorities, strategic direction, and budgetary processes and be subject to the scrutiny of the Senedd. This will help avoid duplication of services, blurred accountability, poor value for money, sector funding gaps and an incoherent funding landscape where small amounts of money are spread thinly on short-term, localised projects.

We are pleased the ETRA Committee has acknowledged many of the points we have been making to the UK Government and others about its approach to post-EU funds for several years.

Other committees, including the UK Parliament's Levelling Up and Housing Committee, also agree with our view that the UK Government's approach to the "levelling up" agenda has been chaotic, has undermined devolution, and will not deliver the meaningful transformative change Wales and the rest of the UK need to see.

The Shared Prosperity Fund has vastly less funding available than the EU programmes it claims to replace. The shortfall to Wales amounts to £1.1 billion compared to EU structural and rural funds.

Many of the problems we see in the UK Government's management of the Shared Prosperity Fund are a direct result of the imposition of this fund on Wales without meaningful partnership with the Welsh Government and with little regard for the distinct needs of Welsh stakeholders. This is also true in their management of the competitive Levelling Up Fund.

These funds have also been beset by UK Government delays. For example, despite the Shared Prosperity Fund's launch in April 2022, funding for the financial year 2022/23 was only released to local authorities in January 2023. Furthermore, SPF project activity will need to cease by December 2024 so that all spending is completed by 31 March 2025; therefore, despite being a three-year scheme, the SPF will only support around 18 months of project delivery.

The UK Government is also yet to announce arrangements for the third and final round of the Levelling Up Fund, despite the need to spend money in a very short timeframe. Five local authorities in Wales (Flintshire, Merthyr Tydfil, Monmouthshire, Newport and the Vale of Glamorgan) are yet to receive any funding from the first two rounds.

The UK Government's chaotic implementation and delays have put local authorities under extreme pressure, forcing them to support short-term, sub-optimal projects that will have limited economic impact. They are also dealing with the fallout from other sectors seeking replacement EU funding from a vastly reduced and less accessible pot.

Another consequence of the UK Government's actions is that a confused and fragmented funding landscape for organisations and individuals is being created, with some opportunities only available in certain areas.

We understand the problems with these funds are creating an extremely challenging situation for many organisations in Wales. Many sectors of the Welsh economy are now reporting redundancies and the closure of vital programmes in areas such as research and innovation, skills and support for vulnerable people.

These scenarios would have been avoided if the UK Government had respected the work undertaken in Wales over recent years and allowed us to manage full replacement funding through our *Framework for Regional Investment*, which was developed with local government, higher education, further education, businesses, other public and third sectors and the OECD, and subject to a full public consultation.

We also welcome the Committee's concerns about Multiply, the UK adult numeracy scheme.

Adult numeracy is devolved to Wales. Multiply operates in direct competition with Adult Community Learning provision, which is already available in Wales. It also risks duplication with our well-established Essential Skills Wales programme.

This means learners in Wales are being faced with a confused and complicated range of options, while local authorities are reporting the lack of flexibility in delivering Multiply and difficulty in spending their funding allocations.

Furthermore, while the UK Government is top-slicing the Shared Prosperity Fund to supports its own UK-wide Multiply scheme it is denying the Welsh Government the ability to fund previous EU funded critical pan-Wales business, innovation and skills programmes.

We accept all the Committee's recommendations directed towards the Welsh Government. Regarding the Committee's recommendations which are directed towards the UK Government, we are grateful to the Committee for its ongoing support and for raising them.

The Welsh Government will be very keen to see the UK Government's response to the recommendations, especially considering the pressures on local authorities, other sectors of the economy, and public finances.

In line with our devolution settlement, any post-EU regional development funds must also be returned to the Welsh Government so we can achieve, working with our partners, better outcomes and value for money and create a stronger, fairer and greener Wales.

Recommendation 1. Before any future post-EU regional development funding round is announced the UK Government and the Welsh Government should attempt to agree a common position on the timing of its rollout and quantum of funding.

Response: This recommendation is directed towards the UK Government and the Welsh Government. The Welsh Government accepts its part in the recommendation.

Regional Economic Development is a devolved policy area.

As it stands, the UK Government approach for the Shared Prosperity Fund has taken devolved powers away from the Welsh Government and leaves Wales more than £1.1 billion short compared to EU structural and rural funds. This demonstrates a clear failure of the UK Government to deliver its Manifesto pledge to replace EU funds in full and is creating huge challenges for the Welsh economy. We will continue to press for Wales to receive full replacement funding.

The Welsh Government's position is also clear that funding for devolved functions should come to the Welsh Government for Ministers to allocate in line with its priorities, strategic direction, timescales and budgetary processes, and be subject to the scrutiny of the Senedd.

Financial implications: there are no direct financial implications related to this recommendation. If the UK Government persists with the existing UK Shared Prosperity Fund model, it is likely that organisations/schemes which previously benefitted under EU structural funds will continue to face difficulties and are likely to approach the Welsh Government for funding support.

Recommendation 2. The UK Government should ensure that the next round of SPF funding takes account of the population size of deprived areas in Wales.

Response: N/A for the Welsh Government

Financial implications: N/A

Recommendation 3. The UK Government should consider how the Welsh Government could aid in the delivery and design of the next round of the Shared Prosperity Fund.

Response: Although this recommendation is for the UK Government, the Welsh Government is referenced.

The future UK political and funding landscape is unclear; however, the Welsh Government's position is this is a devolved matter and so any post-EU regional development funding should come to the Welsh Government for Welsh Ministers to allocate in line with its priorities, strategic direction, budgetary processes and be subject to the scrutiny of the Senedd.

Financial implications: N/A

Recommendation 4. The Welsh and UK governments should undertake a review of whether the different elements of the Shared Prosperity Fund should be delivered at local, regional or all-Wales level, based on what works best.

Response: This recommendation is directed towards the UK Government and the Welsh Government. The Welsh Government accepts its part in the recommendation.

The Welsh Government has been denied any role in the design or delivery of the Shared Prosperity Fund, and we urge the UK Government to reconsider its approach and return this funding to the Welsh Government so value for money and better economic outcomes are achieved.

Clearly, the UK Government's current design, allocations and timescales for delivery is setting back regional and national approaches to economic development in Wales.

For example, individual local authorities have opened SPF funding rounds at different times and with different arrangements, assessment criteria and decision-making timescales. This approach leaves very little opportunity for effective Wales wide, regional or cross-border projects due to their scale, complexity, the short time scales and pressure to meet local demands.

The UK Government has also denied the Welsh Government any access to the Fund to support pan-Wales programmes like Business Wales, Apprenticeships and our SMART suite of innovation support for business and business/academic collaborations.

In contrast, our *Regional Investment for Wales Framework*, developed with our Welsh partners, is flexible so we can be creative and ambitious with our goals noting that this would be set in the context of our overall Welsh Government Budget process. Our Framework forms a fundamental part of a place-based approach of our *Economic Action Plan*, with decisions to be taken at the appropriate level of governance and as close to the level of the citizen as possible. It would allow for a more strategic consideration of where investment can best adapt and respond to opportunities, needs and challenges at local, regional, national, UK and international levels, supporting a mix of approaches that can all drive towards a shared vision.

Financial Implications: None. Any additional costs of reviewing the current SPF model will be drawn from existing programme budgets.

Recommendation 5. The UK Government should evaluate the regional approach to delivering the Shared Prosperity Fund in Wales. This should consider how the approach of local authorities making individual decisions within a regional framework meets the needs of organisations seeking funding, and also whether this approach places a greater burden in monitoring and evaluation than single local authorities in England face.

Response: N/A for the Welsh Government

Financial implications: N/A

Recommendation 6. The UK Government, working with the Welsh Government, should establish a Wales-wide body to support regional co-ordination in delivering the Shared Prosperity Fund.

Response: Although this recommendation is for the UK Government, the Welsh Government is referenced.

Wales already has appropriate governance structures and partnerships in place to help deliver investments regionally, including the statutory Corporate Joint Committees and the regional skills partnerships which are operational in each region; both of which receive Welsh Government support to help deliver their objectives.

Financial implications: N/A

Recommendation 7. The UK Government should prioritise working with local authorities to ensure that interventions funded and delivered through the Shared Prosperity Fund do not duplicate those already in place. The UK Government should include the Welsh Government in this work.

Response: Although this recommendation is for the UK Government, the Welsh Government is referenced.

Despite being denied any role in this Fund, the Welsh Government remains committed to our partners in Wales. Welsh Ministers and officials are frequently meeting local government and other sectors of the economy to help ensure duplication of provision is avoided as far as possible, particularly in skills and business support, caused by the UK Government fragmenting the funding landscape for organisations and individuals in Wales.

We are 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. Minutes and papers for this Forum are published here.

Financial implications: N/A

Recommendation 8. The UK Government should agree a longer funding period for the Shared Prosperity Fund funding rounds after 2025. This agreement should be made with input from the Welsh Government and should build in sufficient time for funders, and those involved in projects, to plan and deliver programmes and projects that deliver maximum benefits.

Response: Although this recommendation is for the UK Government, the Welsh Government is referenced.

New EU funding programmes, which the Shared Prosperity Fund claims to have replaced, would have begun in January 2021 and would have overlapped the EU funding 2014-2020 programme by around two years to provide business continuity for organisations.

In contrast, the UK Government published its SPF prospectus in April 2022 and only released its annual funding allocation to local authorities in January 2023. Project activity will need to cease by the end of December 2024 so that funding is spent by March 2025. These UK Government delays and short spending timescales, together with a vastly reduced funding pot, are forcing local authorities to support short-term, sub-optimal projects that will have limited economic impact.

We will continue to press the UK Government to enable a multi-annual funding cycle which provides greater planning certainty for organisations to deliver long-term projects that can deliver better outcomes and maximise impact.

Financial implications: N/A

Recommendation 9. The UK Government should ensure that its evaluation of the Shared Prosperity Fund has sufficient focus on the experience of Wales-based organisations, and that it undertakes and publishes a lessons-learnt exercise as part of its evaluation strategy.

Response: N/A for the Welsh Government

Financial implications: N/A

Recommendation 10. Given the concerns raised by some organisations that local authorities in some parts of Wales are prioritising their own projects for SPF funding, the UK Government should look into this further and take any action necessary to ensure that all organisations are given a chance to benefit from this funding.

Response: N/A for the Welsh Government

Financial implications: N/A

Recommendation 11. The UK Government should review its approach to guidance on the Shared Prosperity Fund to ensure maximum clarity for local authorities, taking into account that Welsh local authorities will have less experience of working directly with it than English authorities.

Response: N/A for the Welsh Government

Financial implications: N/A

Recommendation 12. The UK and Welsh Governments should consider revisiting requirements around additionality for any future economic development funding streams.

Response: This recommendation is directed towards the UK Government and the Welsh Government. The Welsh Government accepts its part in the recommendation.

We continue to build on lessons learned and best practice from the EU funding programmes, including issues around additionality and evaluation of impact. We agree it is vital to identify and see measurable outcomes and have informative evaluation, so investments are maximised for the benefit of our economy and communities.

Financial implications: N/A

Recommendation 13. The UK Government and Welsh Government should communicate how they are engaging and working together to maximise Wales's share of research and innovation spending outside London and south east England.

Response: This recommendation is directed towards the UK Government and the Welsh Government. The Welsh Government accepts its part in the recommendation.

In February this year, the Welsh Government published a new innovation strategy, *Wales Innovates,* which sets out the strategic direction for Research, Development and Innovation stakeholders to focus their resources and efforts. It does this by adopting a cross-government, mission-based approach, centred around education, the economy, health and well-being, and climate and nature.

It also recognised that the Welsh Government is only – and can only be – one part of the innovation landscape in Wales. Many of the levers supporting innovation activity lie with other public bodies, our tertiary education system and in institutions with a pan-UK remit.

Therefore, one of the first actions was for the Welsh Government to seek closer relations with key innovation stakeholders, and especially with Innovate UK, with its commitment to place-based development and the Levelling-up agenda (with its stated mission of increasing R&I spending outside of South-East England).

In April, the Welsh Government and Innovate UK signed a Memorandum of Understanding. This signalled a mutual effort to develop high-quality innovation proposals across a range of stakeholders, sectors and regions, with the overall aim of increasing Wales's share of competitively awarded UK funding.

As a result, a joint Innovate UK-Welsh Government Collaborative Innovation Plan was published in October – the first of its kind with a devolved government – designed to achieve this overall aim. This was accompanied by a Welsh Government Delivery Plan, also published in October, which itemises how the Welsh Government will implement *Wales Innovates*, and measure progress.

Financial implications: None. This work is being met from existing staff resourcing.

Recommendation 14. The UK Government and Welsh Government should commit to the 6-way meeting with the Universities, their governing bodies, UCU Cymru and HEFCW, to discuss bridging funding for the scientists and related staff who will lose their jobs this year as a result of withdrawal of structural funds, as proposed by Wales TUC and UCU Cymru.

Response: This recommendation is directed towards the UK Government and the Welsh Government. The Welsh Government accepts its part in the recommendation.

We understand that the disruption, inflexibility and EU funding not being replaced in full due to the UK Government's approach is creating a very challenging situation for many organisations in Wales, including universities, which have previously benefited from EU funds. Many sectors of the Welsh economy are now reporting redundancies and the closure of vital programmes, including in areas such as research and innovation.

The Welsh Government is unable to plug the financial gaps from the loss of more than £1.1 billion of replacement EU structural and rural funding. Also, having been denied access to this fund, the Welsh Government is already using funds from the last Welsh budget to support pan-Wales schemes like Apprenticeships and Business Wales which are critical for productivity and growth.

The Welsh Government, however, will continue to consider proposals for bridging funding on a case-by-case basis, particularly where its funding can act as a multiplier, levering in additional public or private sector investment.

Financial implications: Any proposals for bridging funding will need to be carefully considered in the context of the existing challenging financial position and in line with policy and budgetary processes. Costs would need to be met from within existing budgets which may result in opportunity costs.

Recommendation 15. The UK Government should work collaboratively with the Welsh Government to develop a longer-term plan to safeguard research and innovation in the Welsh Higher Education sector.

Response: Although this recommendation is for the UK Government, the Welsh Government is referenced.

Safeguarding research and innovation in the Welsh Higher Education sector is a priority for Welsh Government, we would be keen to work with the UK Government to develop a longer-term plan to meet the needs of the sector. We continue to support the sector to access competitive funding opportunities through UK, and European sources such as Horizon Europe.

Financial implications: N/A

Recommendation 16. The UK Government should consider Welsh local authorities' concerns around some of the requirements for Multiply funding and take any actions which would ensure best value for money committed on this project. This could include allowing additional time for local authorities to spend their allocation.

Response: N/A for the Welsh Government

Financial implications: N/A

Recommendations 17 and 18:

- **Given that the Multiply programme operates in a devolved space, the UK Government should involve Welsh Government in the development of any successor programme; and**
- **Given the concerns raised by local authorities, the UK Government should consider whether any successor fund to Multiply should also focus on literacy and digital skills to maximise impact to those who would benefit most from the scheme. The Welsh Government should be consulted as part of these considerations.**

Response: Although this recommendation is for the UK Government, the Welsh Government is referenced.

Skills and adult numeracy are devolved and the people in Wales have not provided a mandate for UK Government policies on this issue.

Despite this, the Welsh Government has been denied any role in Multiply. Multiply operates in direct competition with Adult Community Learning provision, which is already available in Wales. It also risks duplication with our well-established Essential Skills Wales programme.

This means learners in Wales are being faced with a confused and complicated range of options, with local authorities reporting difficulties in spending their allocations due to design and delivery issues, including the lack of flexibility of Multiply to deliver literacy and digital skills.

Decisions on devolved matters, including adult numeracy, should be returned to the Welsh Government to help ensure alignment with devolved policies and help mitigate against waste, poor value for money and poor outcomes for individuals.

Financial implications: N/A

Recommendation 19. The UK Government should work with Welsh Government and local authorities and colleges to identify and address any incidences of duplication resulting from the Multiply programme.

Response: Although this recommendation is for the UK Government, the Welsh Government is referenced.

Welsh Ministers have raised concerns about the design and delivery of Multiply in its current form with the Secretary of State for Levelling Up, Housing and Communities and the Secretary of State for Education.

The Welsh Government provides funding to the Regional Skills Partnerships (RSPs) to drive investment in skills by developing responses based upon local and regional need.

The Welsh Government has asked the RSPs to assess the implementation arrangements for the Multiply programme in each of their regional areas to help avoid duplication with existing schemes.

Financial implications: N/A

Recommendation 20. If the Levelling Up Fund continues after 2025, it should not be delivered through competitive bidding, and funding should be allocated to those areas in greatest need.

Response: N/A for the Welsh Government.

Financial implications: N/A

Recommendation 21. If the Levelling Up Fund continues after March 2025, or is streamlined into a wider fund, the Welsh Government should have a greater role in its development and agreeing how it is administered.

Response: Although this recommendation is for the UK Government, the Welsh Government is referenced.

The competitive Levelling Up Fund is another area where the UK Government is using UK Internal Market Act powers to take spending decisions directly in devolved areas while bypassing the Welsh Government and Senedd.

The Levelling Up Fund replaces the England Town's Fund, for which the Welsh Government received a consequential through Barnett.

Under current arrangements for the Levelling Up Fund, every decision on funding for local Welsh projects has been taken in Whitehall.

The Welsh Government has strongly argued that funding to level up regions across the UK should be based on need, and not through a competitive process.

Furthermore, under our devolution settlement, any post-2025 Levelling Up Fund should be given to Welsh Ministers to allocate in line with its priorities, strategic direction and budgetary processes and be subject to the scrutiny of the Senedd.

Financial implications: N/A

Recommendation 22. The UK Government should provide clarity on when Round 3 of the Levelling Up Fund will open as soon as possible.

Response: N/A for the Welsh Government

Financial implications: N/A

Recommendation 23. The UK Government should continue to operate a separate, but reformed, Shared Prosperity Fund after the current fund ends in March 2025.

Response: N/A for the Welsh Government

Financial implications: N/A

Recommendation 24. The UK Government should clarify its intentions for the Levelling Up Fund and Shared Prosperity Fund post-2025 as soon as possible.

Response: N/A for the Welsh Government

Financial implications: N/A