



The Chartered Institute of
Public Finance & Accountancy

The National Assembly for Wales – Finance Committee

Inquiry into preparations for replacing EU funding for Wales

A Submission by:

**The Chartered Institute of Public
Finance and Accountancy**

May 2018

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at www.cipfa.org

Any questions arising from this submission should be directed to:

Don Peebles

Head of Policy and Technical
CIPFA
Level 3 Suite D
160 Dundee Street
Edinburgh
EH11 1DQ
Tel: +44 (0)131 221 8653
Email: don.peebles@cipfa.org

Alan Birmingham

Policy Manager - Governments
CIPFA
77 Mansell Street
London
E1 8AN
Tel: +44 (0)28 9077 3600
Email: alan.bermingham@cipfa.org

1. Executive Summary

- 1.1 Within this submission, CIPFA will assess the nature and quantum of EU funding relevant to Wales. We will consider the governance arrangements for this funding and discuss potential models of funding post brexit.
- 1.2 The current method of funding from the UK Government to the Welsh Government is through the provision of block grant adjusted via the Barnett Formula. CIPFA views this funding mechanism to be an inappropriate model for funding any EU competences repatriated post brexit.
- 1.3 Structural and Investment funds received from the EU into Wales amount to €3.1bn over the funding period 2014 to 2020. These EU funds leverage additional finance for projects and infrastructure, raising the total funds available to €4.7bn over this period. Reaching agreement between the Welsh and UK governments on structural and investment funding post brexit needs to take place quickly, in order to offset any uncertainty and mitigate delays in project planning and implementation due to future funding concerns.
- 1.4 CIPFA sees an opportunity to improve the co-ordination and governance arrangements for funding between the Welsh and UK Governments. The opportunity is for revised and strengthened governance arrangements and partnership agreements through the current Joint Ministerial Committee with the UK Devolved Governments.
- 1.5 The new arrangements on funding should be codified in the form of an agreement and should set out the arrangements and measures for funding alongside how disputes would be resolved. Further these agreements should allow for the appropriate scrutiny to take place in the respective parliaments and devolved assemblies.
- 1.6 Agriculture is a devolved matter for the Welsh Government and as such CIPFA supports the view that post brexit the Welsh Government should have flexibility to develop its own specific funding practices based on its objectives for the sector. Nationally there should be agreement on funding for agriculture support and distribution and within its scope should be a review of the current system of direct payments. This inclusion would be looking to improving the transparency, fairness and efficiency of the current system of payments.
- 1.7 Research funding should continue to remain at arms-length from government. CIPFA advocates that the existing national arrangements for research funding and funding councils, including the Welsh funding bodies, should be maintained with no diminution in funding levels post brexit.
- 1.8 It would be important for the Welsh Government to press for resolution on whether there will be access to EU research funding post brexit and; if not available a case should be made to ensure UK research bodies can continue to support research developments to at least the existing pre-brexit levels.

2. Nature of EU Funding in Wales

- 2.1 The primary sources of funding from the EU consist of Structural and Investment Funds and funding for Agriculture. Structural and Investment Funding for Wales over the period 2014 to 2020 can be summarised as follows:¹

Funds (€m's)	EU Funding	National Co-Financing	Total Funding
European Agricultural Fund for Rural Development (EAFRD)	651	315	966
European Regional Development Fund (ERDF)	1,409	827	2,236
European Social Fund (ESF)	1,008	486	1,494
Total Funding	3,068	1,628	4,696

- 2.2 An important aspect of the funds received from the EU is the leverage that this funding brings in terms of raising additional national financing from both public and private sources. In relation to the ERDF and ESF, co-financing is split 70:30 between public and private sector sources respectively.² National co-financing adds 53% to the level of resources available from the EU into Wales over the funding framework period.
- 2.3 In August 2016³ the UK Chancellor announced measures to ensure funding would be underwritten by the UK Government for projects agreed prior to the autumn statement 2016. This also applies to certain funds agreed post the autumn statement while the UK is still a member of the EU. This effective funding guarantee is valuable for projects underway or about to be agreed, however it leaves the position post 2020 unresolved.
- 2.4 Alongside the EU Structural and Investments funds, there are other areas of EU funding to consider. There is the replacement of the Common Agriculture Payments (CAP), where Wales is expected to receive €1.95 billion for Pillar 1 direct payments from the EU. This equates to an average of €279m per annum over the funding period 2014 to 2020.⁴ The UK Government has also confirmed that current levels of funding are guaranteed until 2020. But again, beyond that the future is uncertain and

¹ European Union, Structural and Investment Funds, EU Data Portal:

<https://cohesiondata.ec.europa.eu/countries/UK>

² Welsh Government, Welsh European Funding Office - A Summary of the ERDF and ESF Structural Fund Programmes in Wales: January 2015

³ HM Treasury and Department for Exiting the European Union: Further certainty on EU funding for hundreds of British projects announced by the Chancellor – October 2016 www.gov.uk

⁴ National Assembly for Wales, Climate Change, Environment and Rural Affairs Committee - The future of land management in Wales: March 2017

represents a further issue to be addressed for Wales which has significant Agri-food and Farming sectors.

- 2.5 What is known is that Wales will receive approximately 8.8% of CAP pillar 1 payments allocated in the period 2014-2020, compared to its population share of 5.7%.⁵ This means that if this funding were to be administered via the population share based Barnett formula going forward, this would result in a significant reduction in funding post 2020. Use of the Barnett Formula funding mechanism would also not recognise the different nature and support needs of some farmers in Wales compared to elsewhere in the UK.
- 2.6 Evidence given to the House of Lords⁶ noted that 80% of Wales was an EU-designated Less Favoured Area which attracts increased funding. Therefore the risks for Welsh farmers are correspondingly greater than for English farmers. Further evidence also noted that 80% of Welsh farm income also came from EU funds, this in turn feeds through to spending in rural communities in Wales. The conclusion being that not continuing with this level of funding, including structural funds, could lead to a significant adverse impact on rural life in Wales.
- 2.7 Further to the above there is the question over future availability of access to financing from the European Investment Bank (EIB). Between 2014 and 2017 the EIB had signed finance contracts relating to projects in the UK totalling €23.6bn.⁷ This funding included a number of projects in Wales including, the Swansea University campus optimisation project and infrastructure for Welsh Water.
- 2.8 Smaller funds available to Wales include the European Maritime and Fisheries Fund (EMFF). Projects approved under this fund in Wales totalled £1.5m of eligible expenditure.⁸ Of this figure, over £1.0m was the contribution from the EU towards these costs.
- 2.9 Horizon 2020 is the EU's directly managed research and innovation programme with total funding of €80bn available over the funding period 2014 to 2020. Wales has successfully accessed this fund, with €83m of funding contributing to projects across the business and higher education sectors.⁹ Accessing this funding helps to underpin development of Wales as a destination for investment and to support future employment growth.
- 2.10 This information tells us that EU funding should not just been seen as funds received from the EU but also what leverage those funds provide to bring

⁵ Figures obtained from Department for Environment, Food and Rural Affairs press release: UK CAP allocations announced, November 2013. <https://www.gov.uk/government/news/uk-cap-allocations-announced>

⁶ House of Lords European Union Committee, 4th Report of Session 2017–19 – Brexit and Devolution: July 2017

⁷ European Investment Bank – Finance Contracts Signed by Region:
<http://www.eib.org/projects/loan/regions/1?from=2014&to=2017>

⁸ EMFF approved projects in Wales as at December 2017. Published by the Welsh Government in January 2018.

⁹ The Welsh Government, Regional Investment in Wales after Brexit – securing Wales future: 2017

in additional funding and support for projects. Further we can also see that the current mechanism for UK government funding to Wales through the Barnett arrangements is likely to be unsuitable in the post brexit environment.

- 2.11 With the date for the UK's exit from the EU at the end of March 2019 fast approaching, it is imperative that agreements are reached between the Welsh Government and UK Governments soon in order to offset any uncertainty in key sectors. Reaching agreement soon will also help to mitigate any delay in projects being planned coming through to implementation due to uncertainty on future funding streams.

3. Current Governance Arrangements in Wales for EU Funding

- 3.1 The Welsh Government provides a wide range of support and performance assessment for the two European Structural and Investment Funds (ESIFs) in Wales:¹⁰
- the European Regional Development Fund (ERDF), which aims to strengthen economic and social cohesion by correcting imbalances between regions and;
 - the European Social Fund (ESF), which aims to help people improve their lives by learning new skills and finding better jobs.
- 3.2 In practice, this means the Welsh Government has a role in distribution of funds to lead partners who handle applications for funds and in turn distribute the funding between individual projects and organisations. Performance of programmes is monitored by the Programme Monitoring Committee of the Welsh Government (PMC).¹¹
- 3.3 The PMC monitors programmes against specific milestones and targets, however the performance is measured in regards to its contribution to the strategic aims of the EU's growth strategy as set out in the Europe's 2020 strategy.¹²
- 3.4 The 2020 strategy sets out the EU's agenda for growth and jobs for the current decade. It is primarily concerned with addressing structural weaknesses in the European economy. The overall governance arrangements does raise questions for the post brexit environment.
- Firstly, would the objectives for any replacement funding streams change post brexit and;
 - secondly, what post brexit funding streams should be managed in Wales alongside current or future devolved competences.

¹⁰ Welsh European Funding Office, <https://gov.wales/funding/eu-funds/wefo-online/?lang=en>

¹¹ Wales Programme Monitoring Committee - <https://gov.wales/funding/eu-funds/2014-2020/programme-monitoring-committee/?lang=en>

¹² [Europe 2020 strategy](#)

- 3.5 In many respects the post brexit governance environment calls for better coordination and cooperation between the UK and Welsh Governments. This is due to balancing the need for preservation and, where possible, increasing devolved competences to Wales with the need for coordination of UK wide frameworks for trade purposes.
- 3.6 The UK currently manages these funds with the EU through its partnership agreement in place with the EU. This agreements sets out the quantum of funds available as well as objectives and expected results for the funding streams. There is the opportunity to use revised and strengthened arrangements through the current Joint Ministerial Committee (JMC) to put in place agreements with the UK's devolved governments on new funding arrangements similar to the current UK and EU Partnership agreements.
- 3.7 CIPFA believes that in implementing any revised arrangements through the JMC there needs to be appropriate methods for scrutiny. The Welsh and the UK Government need to consider how appropriate supporting scrutiny can be put in place. This will ensure the respective parliaments and assemblies can review what would be non-legislative arrangements implemented through the JMC.

4. Development of new models of funding

- 4.1 For the purpose of our analysis, CIPFA has taken the approach of splitting the range of EU funding into three core areas. These are Structural and Investment Funding, Agriculture and Research. This section of our submission will look at options and models for managing these funding streams post brexit.

Structural and Investment Funding

- 4.2 CIPFA believes that brexit does provide an opportunity to renew the arrangements for structural and Investment funding that previously came from the EU to the UK. We support the view that the UK Government should put in place funds for investment in the UK based on recognised measures of need that support identified and agreed objectives for the funding.
- 4.3 As these funds would be UK wide, it is central to their operation that the Devolved Governments of Wales, Scotland and Northern Ireland are party to the agreement of the aims and objectives for the funds. We advocate that this can be achieved through a strengthened and renewed role for JMC.
- 4.4 Once aims and objectives for funding and appropriate measures of need are agreed for distribution of funds, the Structural and Investment funding should be administered regionally by the Welsh Government in support of its own well-being outcomes and national programme for government.
- 4.5 CIPFA would see a role for elements of this funding to be co-ordinated with the work of the Development Bank of Wales. This is in support of providing

patient capital to assist in boosting local investment in support of economic growth measures.

- 4.6 The JMC should codify arrangements between the UK Government and the Devolved Governments of the UK in the form of an agreement. This agreement would set out the arrangements and measures for this funding alongside how any dispute resolution arrangements would work. The agreement would also be used to assist in appropriate scrutiny of arrangements and how funding is achieving its aims by the respective devolved parliaments and assemblies.
- 4.7 The nature of structural and investment funding demands that agreements made should provide for multi-year funding settlements. The will underpin and provide confidence over funding for longer-term structural investment in Wales.

Agriculture

- 4.8 While agriculture is a devolved matter the issue of agreeing a replacement mechanism post brexit for CAP payments is complex. From CIPFA's perspective CAP payments are received and distributed by the public sector, however the scheme benefits farmers and is not directly related to core provision of services or public financial management issues. With that in mind, CIPFA has restricted its comments to observations on concepts and ideas that should be considered for any post brexit funding model.
- 4.9 Our research indicates there is concern over whether or not the current system of Agricultural support payments through CAP is fit for purpose.¹³ The process of brexit therefore provides the UK with an opportunity to reassess and radically rethink the system of agricultural support to where it is most needed and to support objectives in the areas of sustainability of farming, environmental concerns, innovation and efficiency as well as healthy consumption.¹⁴
- 4.10 The concepts and principles underpinning any new model of funding should include consideration of the following:
 - There should be no erosion of the Welsh Governments devolved powers for Agriculture. In fact, depending in the nature of the future relationship with the EU and wider trade requirements, Wales should have flexibility to develop Welsh specific funding practices based on its own objectives for the sector.
 - Nationally there should be agreement of a new policy for agriculture support. The scope of this policy revision should include the current system of area based direct farm payments,

¹³ The Future of the CAP: An urgent need for a truly sustainable agriculture, land and food policy, European Environmental Bureau (EEB) – September 2017

¹⁴ The Future of Farming: UK agricultural policy after brexit - A Policy Network Paper, January 2018

- with a view to addressing concerns over its inefficiency and fairness.¹⁵
- Policy measures need to be developed that promote rural sustainability alongside environmental protection, farming innovation and efficiency, as well as protecting the biodiversity of our eco system. There should be clear links from these policy objectives to payments.

Research

- 4.11 Research funding in the UK can come from a wide range of sources.¹⁶ These range from the public sector, also a large amount of funding for research comes from non-public organisations. These include charities, the European Commission and industrial and commercial organisations in the UK and overseas. This is mostly in the form of grants and contracts for specific research projects.
- 4.12 Public sector funding is co-ordinated in the UK through seven Research Councils, Innovate UK and Research England. Wales also has a number of funding bodies providing research funding supporting higher education in Wales and health and social care. The UK bodies are now under the umbrella of UK Research and Innovation which operates a combined budget of more than £6bn.¹⁷
- 4.13 In essence the UK infrastructure for funding research is in place across both public and private sectors. Evidence available would strongly suggest that research work is not like trade or finance.¹⁸ High-quality research partnerships may be enabled by international agreement, but they are implemented via the willing and mutually beneficial agreement of principal investigators and their research groups.
- 4.14 With that in mind, CIPFA support the view that post brexit, research and innovation funding should continue to be kept at arm's length from government and that decisions about what to spend research funds on should be made by researchers rather than led by politicians.¹⁹
- 4.15 CIPFA would see a positive role for government in ensuring and facilitating international research collaboration, both outside the EU and with EU countries and institutions. This could include:
 - Better information on the capabilities and research strengths of both UK-based researchers and research organisations and potential collaborators;

¹⁵ Greenpeace (2016). Common Agricultural Policy: Rich List receive millions in EU subsidies.

<https://unearthed.greenpeace.org/2017/06/30/rich-list-billionaires-scoop-millions-farm-subsidy-payments/>

¹⁶ Examples can be sourced from the University of Cambridge Research Operations Office -

<https://www.research-operations.admin.cam.ac.uk/major-funders>

¹⁷ UK Research and Innovation - <https://www.ukri.org/about-us/>

¹⁸ Universities UK: International research collaboration after the UK leaves the European Union, April 2017

¹⁹ Maintaining what is known as the [Haldane Principle](#) currently in place in the UK.

- the need to better understand and mitigate cultural barriers to international research collaborations; and
 - the importance of both policy and funding stability in nurturing effective research partnerships need to be recognised.
- 4.16 Maintaining or increasing the level of research funding is important in the context of economic growth post brexit. This includes supporting developments in health, education and other spheres underpinning the long-term wellbeing of society.
- 4.17 While the final deal on the future relationship with the EU post brexit is not concluded, it would be important for the Welsh Government to raise the question of access to EU research funding and collaboration post brexit in the deal. If access to funding is not available, there should be a case made to increase the funding to UK based research funding bodies to ensure no diminution of funding post brexit.