

## Finance Committee – 27<sup>th</sup> June 2018

### PREPARATIONS FOR REPLACING EU FUNDING FOR WALES

#### Introduction

1. This paper provides an overview of the Welsh Government's position and early preparations on replacement EU funding in Wales after Brexit. The Committee's inquiry is timely, as we continue to develop and publish ideas and proposals on how replacement funding could be invested in Wales with the private, public and third sectors of Wales. Now is the right time to be considering our options with Welsh stakeholders despite the considerable uncertainty around the fiscal and legislative context in which any future funding arrangements will operate.
2. In *Securing Wales' Future* (January 2017) we set out the £680m a year of EU funding that comes to Wales. This comprises:
  - Over £370m a year for European Structural and Investment (ESI) funds, comprising:
    - £295m a year for Structural Funds (ERDF and ESF)
    - £80m a year for a Rural Development Programme (EAFRD)<sup>1</sup>
    - £2m a year from the fisheries fund (EMFF)
  - £274m a year in direct subsidies under the CAP (Pillar 1 payments)<sup>2</sup>
  - £7.3m a year from European Territorial Cooperation programmes, including the Ireland-Wales programme
  - £23m a year from centrally managed and competitive EU programmes:
    - £18m a year from Horizon 2020 for research and innovation
    - £4m a year from Erasmus
    - £1m a year from other funds, like Creative Europe and LIFE
3. We have since published a series of related Brexit policy papers, including *Regional Investment in Wales after Brexit* (December 2017), which focussed on successor arrangements for the ESI funds<sup>3</sup>. An upcoming Brexit policy paper *Brexit and our Land* will focus on the other major source of EU funds managed in Wales under the CAP.
4. I am working with colleagues across Cabinet to ensure successor arrangements dovetail with each other and with wider Welsh Government policy, with plans to publish a further paper on funding and finance arrangements post Brexit, building on the positions set out in *Securing Wales' Future*, later this year.

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<sup>1</sup> The Rural Development Programme (also known as Pillar 2) is also part of the suite of CAP funds. It includes a mix of agri-environment (48%), socio-economic (49%) investments and other activity (3%).

<sup>2</sup> Note: Parts of the existing RDP will feature in successor arrangements for CAP funding in Wales

## **Replacing EU funding streams in Wales**

### ***Domestically managed EU funds***

5. We have consistently set out our priorities for replacement of EU funding in Wales, emphasising the need to replace funding in full to honour promises made during the referendum campaign. The First Minister set out this position immediately after the referendum result and we have reiterated since at both Ministerial and Official level in our discussions with the UK Government.
6. We are clear that leaving the EU should not mean any reduction in the funding available to Wales. Any reduction would put in jeopardy our ability to support the activities we currently fund through EU programmes, including the Structural Funds, the Rural Development Programme, and the direct payments to farmers under Pillar 1 of the CAP. We also call for the Barnett formula to be replaced with a new, rules-based system which ensures the allocation of resources within the UK in future is based on relative need. I am working closely with the Cabinet Secretary for Environment, Planning and Rural Affairs, whose evidence to this Committee has provided further detail on replacement EU for rural and agriculture funding.
7. Economic development and agriculture are areas which are devolved to Wales, which we are assured will be respected and strengthened as a result of Brexit. The UK Government has also repeatedly indicated any decisions currently made in Wales will remain in Wales and we have had 20 years of managing this funding following a UK-wide financial settlement. Further, the UK Government currently has very limited powers to directly fund and deliver regional economic development in Wales, without further legislation.
8. We therefore expect to have full control over the administration and strategic direction for successor funds so we can design made-in-Wales arrangements. We do not simply want to replicate EU funds in Wales, nor do we want to replace an EU bureaucracy with a UK-wide one. That is why we have been engaging with our partners across Wales to identify opportunities to do things differently as well as learning from what works in practice.
9. Over successive funding periods we have had to manage uncertain funding settlements as a result of extended EU budget negotiations and changing funding formulas. As with the EU process the analytical and preparatory work is important and broadly similar no matter what the financial settlement. Our development work with stakeholders (e.g. via 'co-production' for regional investment) will ensure a range of funding scenarios are considered as that work progresses.
10. This approach has been advocated in a number of different inquiries carried out by the National Assembly for Wales (NAfW). The European Affairs and Additional Legislation Committee report on their Inquiry into the future of regional policy in June 2017 called for replacement needs-based funding to Wales at the same

level as we would have expected if part of the EU and called for the Welsh Government to develop a regional funding policy now.

### ***European Territorial Cooperation programmes***

11. Wales also takes part in a number of European Territorial Cooperation (ETC) programmes, including the Ireland-Wales programmes which the Welsh Government currently administers. We have been clear that we recognise a significant added-value in these programmes, which have multiple benefits in terms of international cooperation, sharing best practice, and projecting an open and collaborative Wales to the world. The UK Government has left the door open to negotiating continuing access to these programmes, but we will need to continue to make the case for the value these provide.
12. We have had strong support for continuing to participate in the suite of ETC programmes from Welsh stakeholders in response to our engagement exercise on the *Regional Investment in Wales after Brexit* policy paper. We continue to share these findings, and the similar clear messages from various NAW Committee inquiries, with the UK Government to help build the case for continued involvement.
13. The European Commission published draft regulations for future ETC programmes on 29 May, which we are reviewing in detail to ensure proposals remain suitable for Wales and appropriate access remains possible once we are out of the EU. I also met with Irish Minister for Finance and Public Expenditure and Reform Paschal Donohoe in February. Together, we are committed to protecting the relationship between our two nations and agreed to keep in close contact to ensure that we take every opportunity to secure Irish Welsh co-operation as we look to the future.

### ***European Commission managed funds***

14. There are a range of centrally managed EU funds that Wales has been increasingly successful at accessing. We set out initial priorities for those funds in which we would like the UK to negotiate continued access to in *Securing Wales' Future*. The UK Government appears to agree that continued access to the successor for Horizon 2020 (known as Horizon Europe, and with a significant proposed increase in funding) should be a priority and we will work with them to try and influence the development of successor arrangements and the terms of the UK Government's access. For example we submitted and published a position paper to respond to an EU consultation on the future of Horizon 2020 in March this year.
15. We have also indicated continued access to other funds like Erasmus+ and Creative Europe remain priorities for Wales and discussions continue with relevant UK Departments to build the case for continued UK participation in each.
16. On 2 May 2018 the European Commission published an initial draft proposal for the 2021-2027 Multi-annual Financial Framework (MFF). Sectoral proposals for each of the funds underneath this are also now being published. We are currently

working across Government to analyse these and identify any changes that may affect our negotiating position or reveal new opportunities.

17. Following feedback from stakeholders we are prioritising those centrally managed EU programmes that provide clear added value at an EU level, such as involving international collaboration, developing relationships, and promoting Wales globally. Access to these programmes is dependent on the future relationship negotiated by the UK Government and willingness to contribute funding to the EU budget for participation. Administrative arrangements will remain similar to existing arrangements, albeit Welsh organisations will participate on a different basis (e.g. as a ‘third country’).
18. While continued involvement in EU programmes remains our preference for those funds in which the most value is added at an EU level, we are open to discussing where a UK-wide replacement scheme might be suitable (e.g. if EU access cannot be negotiated).

### ***European Investment Bank (EIB)***

19. In our White Paper, *Securing Wales’ Future*, we have also stated that the UK should remain a subscribing partner of the EIB. The EIB brings direct benefits to our economy as well as improving economic capacity elsewhere, thus helping the global trading environment which we support. There are additional benefits to Wales and the UK through access to the significant commercial expertise within the EIB. The South Wales Metro project, for example, has benefitted from the EIB’s commercial expertise informing the procurement process, while previous investments in Wales have, similarly, benefited from expertise and best practice offered by the EIB.
20. The EU-UK phase 1 report states that there is a prospect of a “continuing arrangement” between the UK and the EIB. I wrote to the Chancellor in December to press the point once more that we see merit in a mutually beneficial relationship with the Bank. I have been assured that options for that relationship will be addressed during the next phase of the Brexit negotiations.

### **Regional Investment: future administration**

21. In terms of replacing the ESI funds in Wales we have set out initial proposals in our policy paper *Regional Investment in Wales after Brexit*. We followed this up with a number of engagement activities including an event in North Wales attended by the Cabinet Secretary for Environment, Planning and Rural Affairs and one I attended in South Wales.
22. The principles set out in that paper reflected: discussions with a range of partners on what works and doesn’t work in current arrangements; findings from the External Affairs and Additional Legislation Inquiry into the future of regional policy; and discussions we held with the OECD about international best practice in regional policy.

23. We are not seeking to replicate EU programmes in Wales and the major opportunities we have identified to do things differently include:

- Ability to integrate successor arrangements with wider Welsh Government investment and policy, in particular building it around the Wellbeing of Future Generations Act and alongside the regionalisation of economic development set out in the Economic Action Plan;
- Integrating multiple funds and removing artificial geographic restrictions so investments in people, businesses and rural areas don't need to be artificially separated or geographically limited;
- Greater delegation of appropriate planning and decision-making to regions and local areas, supported by capacity building, and joint ownership of strategy by Welsh Government and regional partnerships;
- Simplify arrangements and standardise approaches across the Welsh Government, such as common grant management approach built on the Grants Centre of Excellence;
- Develop a strengthened monitoring and evaluation approach that focusses on results instead of inputs, incorporates wellbeing, social and environmental objectives alongside economic ones, and encourages innovation.

24. There are a number of areas where existing approaches are particularly valued, albeit there are always opportunities to improve. These include:

- Partnership working and engagement was felt to be a key strength compared to domestic policy and can be strengthened by a focus on 'co-production' for successor arrangements;
- Multi-annual long-term programmes were also welcomed to provide investor certainty and encourage more productive investments;
- Open and transparent access to funding with a clear rule-book and processes was seen as a benefit to avoid perceived 'capture' of funding.

25. We have had 41 responses to our detailed engagement questions, a further 83 responses to an online survey, and officials have held two stakeholder events and taken part in 14 meetings and events held by key stakeholders including the WCVA, WLGA and CBI Wales.

26. We have commissioned an independent analysis of those responses to ensure there is no unconscious bias in our interpretation. We will publish this report before the summer recess and consider the findings with our partners over the summer.

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**Cabinet Secretary for Finance**  
**June 2018**