

## Welsh Government Response to recommendations from the Finance Committee's Report: Preparations for replacing EU funding for Wales

The Welsh Government welcomes the Finance Committee's report on *Preparations for replacing EU funding for Wales*. It is an important and timely contribution to the debate on this crucial issue. The Committee's report strongly supports the position the Welsh Government has taken, and will continue to take, on EU funding.

We accept all of the Committee's recommendations. The Committee's report includes a number of recommendations in relation to a UK Shared Prosperity Fund. So far the UK Government has provide very little information about its intentions in relation to a Shared Prosperity Fund. We accept the need, as result of the UK's exit from the European Union, to establish common frameworks in a range of areas, including state aid (which would cover regional aid guidelines and associated maps) and we are ready to work together with the UK Government and other devolved administrations to develop and agree such frameworks. However, we fundamentally reject any notion of a centralisation of regional economic development policy by the UK Government and we reject the concept of a Shared Prosperity Fund administered by Whitehall.

Since the Cabinet Secretary for Finance gave evidence to the Finance Committee in June, the Welsh Government has published a paper – *Reforming UK funding and fiscal arrangements after Brexit*<sup>1</sup> – which sets out our position on these issues in more detail, building on our White Paper *Securing Wales' Future* and subsequent policy documents.

**Recommendation 1.** The Committee supports the Welsh Government in prioritising negotiations with the UK Government to secure the best possible funding deal, to ensure that Wales is “not a penny worse off” post-Brexit. The Committee recommends the Welsh Government continues to pursue negotiations with the UK Government, and that the UK Government commits to full discussion on this issue.

**Response:** Accept.

We agree with the Committee's view that Wales should not be a penny worse off as a result of Brexit and that promises made to the people of Wales during the referendum campaign must be kept. At a recent Finance Ministers' Quadrilateral, the Cabinet Secretary for Finance reiterated the Welsh Government's position that leaving the EU should not mean any reduction in the funding available to Wales or impact on the powers devolved to the National Assembly for Wales in relation to economic development, agriculture or any other area.

It is very disappointing that we are still no clearer about the UK Government's intentions beyond the period covered by the EU programme funding guarantees. We will continue to seek agreement with the UK Government on the future funding arrangements as the UK leaves the EU.

**Financial Implications** – None directly arising from the response.

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<sup>1</sup> <https://gov.wales/docs/caecd/publications/180717-reforming-funding-after-brexit-en.pdf>

**Recommendation 2.** The Committee recommends that the Welsh Government should work with the UK Government and other devolved administrations to develop a sustainable long-term replacement for the Barnett formula that allocates funding across the UK based on needs.

**Response:** Accept.

The paper *Reforming UK funding and fiscal arrangements after Brexit* sets out our proposals for replacing the Barnett formula with a new, rules-based system. Our approach would ensure the allocation of resources within the UK is based on relative need.

**Financial Implications** – None directly arising from the response.

**Recommendation 3.** The Committee recommends the Welsh Government negotiates with the UK Government to initially secure at least the same amount of funding to Wales through the UK Shared Prosperity Fund as it currently receives through Structural Funds, plus inflation. This should be added into the Welsh Government's Block Grant, and remain in place.

**Response:** Accept.

We oppose the concept of a UK Shared Prosperity Fund administered from Whitehall. Our position on the level of funding to be made available for Wales post-Brexit is clear: the UK Government must honour the assurances the people of Wales received during the referendum campaign that leaving the EU will not result in Wales being worse off than if we had remained part of the EU.

We agree that the baseline of the Welsh Government's block grant must be increased in line with the level of funding we currently receive from the EU each year, without any claw back or top slicing by the UK Government.

**Financial Implications** – None directly arising from the response.

**Recommendation 4.** The Committee notes the evidence received from Dr Hywel Ceri Jones, former EU Funding Ambassador and the Cabinet Secretary that there is a need for a central unit within the Welsh Government post-Brexit to ensure it has the necessary capacity and expertise. The Committee recommends the Welsh Government negotiates with the UK Government to ensure the Welsh Government is responsible for the administration and management of the UK Shared Prosperity Fund in Wales.

**Response:** Accept.

The Welsh Government rejects the notion of a UK Shared Prosperity Fund that would take away decisions currently made in Wales in relation to the £370m a year we receive from the European Structural and Investment Funds. Repeated promises made by the Prime Minister and her Cabinet to respect devolution and for powers to increase as a result of Brexit requires our existing responsibilities in these areas to

be retained and strengthened. The Welsh Government must continue to set the strategic direction and priorities for, as well as being responsible for the administration and management of, replacement funds.

**Financial Implications** – None directly arising from the response.

**Recommendation 5.** The Committee recommends the Welsh Government installs a central unit equipped with the necessary expertise and capacity to deliver a coherent programme of funding post-Brexit.

**Response:** Accept.

The Welsh Government has significant expertise and capacity, built-up over the last 20 years of delivering cross-Government EU programmes in close partnership with stakeholders across Wales. The majority of this expertise already sits centrally within the Office of the First Minister and Cabinet Office, in particular within the Welsh European Funding Office. We have identified a core resource to develop future funding arrangements in line with our commitments to begin co-production now. Resource requirements will be kept under continuous review to ensure appropriate expertise and capacity as this work develops.

We are, however, taking forward this development work across the whole of Government and will draw on expertise from across Wales. While the central unit will provide the momentum to take this work forward, a critical component of our approach will be to ensure joint working in wide range of areas. In particular we are coordinating activity closely with work underway in the Department for Economy Skills and Natural Resources to deliver the Economic Action Plan.

**Financial Implications** – None directly arising from the response.

**Recommendation 6.** The Committee recommends the Welsh Government focuses on simplifying administrative arrangements and utilises approaches such as those proposed for trusted partner organisations, should it secure devolution of the UK Shared Prosperity Fund.

**Response:** Accept.

The Welsh Government will be exploring a wide range of delivery models, drawing on international best practice and focussing on delivering genuine simplification. We are committed to a co-production development process, which will help avoid introducing unintended complexity. While we cannot prejudge the outcomes of that process, there are clearly significant benefits to a trusted partner approach which would allow for a more proportionate approach to risk than allowed under EU-funded programmes. Not establishing future funding arrangements within devolved financial structures would introduce additional administrative burdens.

**Financial Implications** – None directly arising from the response.

**Recommendation 7.** The Committee recommends the Welsh Government continues to focus on promoting equality, tackling poverty and human rights when administering Wales's future share of the UK Shared Prosperity Fund.

**Response:** Accept.

Partners across Wales have emphasised the value they place on the approach within our EU programmes to promoting equality and human rights, tackling poverty, and promoting environmental sustainability. We want to retain and build upon these and other key features in successor arrangements. This approach, embodied in the Well-being of Future Generations Act, also illustrates the need for the Welsh Government to receive a funding allocation without conditions, given different policy and legislative approaches across different nations of the UK.

**Financial Implications** – None directly arising from the response.

**Recommendation 8.** The Committee recommends the Welsh Government negotiates with the UK Government to ensure Wales initially continues to receive its current level of funding after the UK leaves the Common Agricultural Policy. This should be guaranteed for a number of years to provide security for the land management sector.

**Response:** Accept.

The Welsh Government continues to press the UK Government for greater certainty on funding levels once the UK leaves the Common Agricultural Policy. Welsh Ministers are clear that leaving the EU should not mean any reduction in the funding available for Welsh land. We have argued for a new, rules-based system which ensures the allocation of resources within the UK is in future based on relative need. Once funding has returned to Wales, the Welsh Government will ensure funds are directed at land management support and not spent elsewhere.

**Financial Implications** – None directly arising from the response.

**Recommendation 9.** The Committee recommends the Welsh Government works with the UK Government and the other devolved administrations to ensure the UK-wide framework for agricultural support respects the devolution settlement and gives the maximum possible flexibility to the Welsh Government to enable it to make decisions that support the specific needs of the Welsh land management sector.

**Response:** Accept.

The Welsh Government is actively working with the UK Government and other Devolved Administrations to agree an appropriate cross-UK framework for agricultural support. The Welsh Government has agreed with the UK Government that the majority of this framework will be managed through non-legislative, inter-governmental coordination. As a result, Wales will not be constrained in its design of new schemes and will be able to implement what is best for Wales.

**Financial Implications** – None directly arising from the response.

**Recommendation 10.** The Committee recommends the Welsh Government urges the UK Government to maintain a continued relationship with the European Investment Bank after Brexit to ensure that Wales and the UK are able to benefit from continued investment in key infrastructure projects.

**Response:** Accept.

We share the Committee's concerns about the UK's future relationship with the European Investment Bank (EIB) after Brexit. We reiterated these concerns in our recent evidence to the House of Lords inquiry into the future of the UK's relationship with the EIB. In October, the Cabinet Secretary for Finance wrote to the Chancellor expressing concerns about the lack of progress in tabling credible options for the future relationship, a point he reiterated in the recent Finance Ministers' Quadrilateral.

The Welsh Government has been absolutely clear that as a minimum the UK needs to put in place mandate for continued EIB lending in the UK for the period following our withdrawal from the EU.

We will continue to press the UK Government to take urgent action so that we are not left in a position, on the 29 March next year, where Welsh businesses, Universities and public bodies are no longer able to benefit from investment by the EIB.

**Financial implications** – None directly arising from the response.

**Recommendation 11.** The Committee recommends that the Welsh Government and the UK Government work together to explore ways to ensure that the benefits of EU funding streams to advance equality, such as the Rights, Equality and Citizenship programme, can be retained in Wales and that this funding continues to be provided after Brexit.

**Response:** Accept

The Welsh Government is continuing discussions with the UK Government on continued access to a range of EU programmes from 2021 onwards. Participation in the Rights, Equality and Citizenship programme remains an option that is being kept open, subject to further discussion.

**Financial Implications** – None directly arising from the response.