

Preparations for replacing EU funding for Wales

September 2018



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Finance Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

Tel: **0300 200 6565**

Email: **SeneddFinance@assembly.wales**

Twitter: **[@SeneddFinance](https://twitter.com/SeneddFinance)**

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Preparations for replacing EU funding for Wales

September 2018



About the Committee

The Committee was established on 22 June 2016 to carry out the functions of the responsible committee set out in Standing Orders 18.10, 18.11, 19 and 20 of the National Assembly for Wales.

Under Standing Orders 19 and 20, the committee's responsibilities include considering any report or document laid before the Assembly concerning the use of resources, or expenditure from the Welsh Consolidated Fund. This includes undertaking budget scrutiny of the bodies directly funded from the Welsh Consolidated Fund.

Under Standing Orders 18.10 and 18.11, the committee's responsibilities include oversight of the governance of the Wales Audit Office, as set out in the Public Audit (Wales) Act 2013.

The committee also considers any proposals for, and the progress of the devolution of fiscal powers to Wales as part of its responsibilities.

The committee may also scrutinise legislation introduced to the Assembly.

Current Committee membership:



Neil Hamilton AM
UKIP Wales
Mid and West Wales



Mike Hedges AM
Welsh Labour
Swansea East



Jane Hutt AM
Welsh Labour
Vale of Glamorgan



Steffan Lewis AM
Plaid Cymru
South Wales East



Nick Ramsay AM
Welsh Conservatives
Monmouth



David Rees AM
Welsh Labour
Aberavon

The following Member attended as a substitute member during the course of this inquiry.



Llyr Gruffydd AM
Plaid Cymru
North Wales

Simon Thomas AM was also a member of the Committee during the course of the inquiry.

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Recommendations

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. Page 20

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. Page 20

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..... Page 30

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.Page 35

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. Page 36

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.....Page 44

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.Page 45

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.....Page 54

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..... Page 55

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..... Page 64

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..... Page 64

Conclusions

Conclusion 1. The Committee believes that it would be in the interests of all UK nations if they continue to receive at least the amount of funding they currently receive from EU Structural Funds from the new UK Shared Prosperity Fund. Page 30

Conclusion 2. The Committee believes there is a need to better understand which models for allocating the UK Shared Prosperity Fund might work best for Wales and the rest of the UK over the longer term. The Committee would like to see the Welsh Government undertaking work to evaluate potential models as soon as further information is made available from the UK Government on the UK Shared Prosperity Fund..... Page 30

Conclusion 3. The Committee believes that the UK Shared Prosperity Fund should:

- provide multi-year funding;
- ensure partnership working; and
- continue to mainstream equality in Wales. Page 44

Conclusion 4. Should Wales receive at least its current level of funding when post-CAP allocations are determined, the Committee would urge the Welsh Government to consider how ring-fencing the current level of funding could be achieved beyond the current Welsh Government’s term.....Page 54

Conclusion 5. A UK-wide framework for agricultural support should be developed as a priority to ensure that Wales and the other UK nations are able to see the benefits of refreshed policies that are directed more towards their specific needs than the Common Agricultural Policy has been.Page 54

Conclusion 6. The Committee supports the UK Government’s decision to seek access to Horizon Europe, and urges it to come to an arrangement where Wales and the UK can participate in this programme. However, If the UK is unable to secure access to Horizon Europe, the Committee believes that the UK Government should ensure that the UK science and research budget receives additional funding equivalent to or above that secured by the UK from Horizon 2020..... Page 63

Conclusion 7. The Committee believes that the UK Government should provide greater clarity on how the UK Government Guarantee will impact on delivery of the current European Maritime Fisheries Fund, and on the extent of the guarantee..... Page 63

Committee Foreword

On 23 June 2016, the UK voted in a referendum to leave the European Union. Since then the UK Government has been involved in negotiations to secure the best possible deal from Brexit.

Wales currently receives around £680 million per year in EU funding, considerably more per person than any of the devolved nations and English regions, and securing post-Brexit funding for Wales will be vital. For this reason the Finance Committee undertook this inquiry to assess the preparations for replacing EU funding in Wales after the UK leaves the EU.

Wales has received considerable levels of EU funding, mainly through Structural Funds which were designed to address poverty and reduce regional disparities; and through the Common Agricultural Policy.

The UK Government has announced that Structural Funds will be replaced by a UK Shared Prosperity Fund, but very little detail or information has emerged on the Fund. Our report highlights how the Fund might be shared between the four nations, presenting a strong case for Wales not to be a penny worse off as a result of Brexit, and for the Welsh Government to manage and administer Wales' share.

Funding from the Common Agricultural Policy (CAP) has had a considerable impact on individual farms, particularly given the tight financial margins involved in the agricultural sector. Maintaining current funding levels will be of prime importance going forward to ensure that the Welsh Government is able to support the sector sufficiently.

We see the UK Shared Prosperity Fund and the replacement of CAP as an opportunity to shape a strategic approach for Wales. We can learn many lessons from the past, and now have the chance to move forward on achieving tangible improvements and reducing bureaucracy to ensure Wales' prioritised are delivered.

It is clear that the majority of the important decisions relating to post-Brexit funding for Wales lie in the hands of the UK Government. As a Committee we are disappointed with the lack of engagement received to-date from the UK Government with us on this matter of significant importance. However, we also acknowledge that the Welsh Government will play a pivotal role in negotiations and therefore our recommendations are made to the Welsh Government. We believe the evidence received and the report we have presented, forms a strong

“Welsh case”, and we hope it adds weight to the Welsh Government’s negotiation position.

It will be for both Governments to work together to ensure the best deal is secured for Wales but effectively the power to deliver these recommendations rests with the UK Government. We would therefore urge both Governments to consider our recommendations and provide a response to the Committee.

Brexit remains the biggest issue facing us today, and will impact hugely on Wales. Now that agreement on the constitutional implications of the EU Withdrawal Bill have been reached between the Welsh Government and UK Government, the Finance Committee hopes that attention will turn to ensuring a fair deal for Wales and its people.

1. Background

- 1.** In advance of the UK leaving the European Union (EU) on 29 March 2019, the Finance Committee (the Committee), in its report on scrutinising the Welsh Government's Draft Budget 2018-19, highlighted its intention to undertake a piece of work on the financial preparedness for leaving the EU.
- 2.** On 8 February 2018, the Committee agreed the terms of reference for the inquiry:
 - to assess the financial planning for replacing EU funding streams in Wales, and what is being done to prepare for different potential scenarios around levels of funding and administrative responsibility.
 - to explore what approaches to administering replacements for current EU funding streams might deliver best for Wales, and to what extent these might replicate or differ from current arrangements.
- 3.** Between 9 March 2018 and 11 May 2018, the Committee undertook a public consultation to inform its work, 30 responses were received.
- 4.** The Committee would like to thank all those who have contributed to this inquiry.

2. Introduction

2.1. The UK Government's proposals for replacing EU funding

5. The Conservative manifesto for the 2017 General Election committed to establishing a UK-wide Shared Prosperity Fund, stating that existing EU structural funds were expensive to administer and poorly targeted. The manifesto proposed that the UK Shared Prosperity Fund would help deliver sustainable, inclusive growth across all parts of the UK, in line with the Industrial Strategy. It stated:

“We will use the structural fund money that comes back to the UK following Brexit to create a United Kingdom Shared Prosperity Fund, specifically designed to reduce inequalities between communities across our four nations... We will consult widely on the design of the fund, including with the devolved administrations, local authorities, businesses, and public bodies. The UK Shared Prosperity Fund will be cheap to administer, low in bureaucracy and targeted where it is needed most.”¹

6. In January 2018, the Secretary of State for Environment, Farming and Rural Affairs, Michael Gove MP set out his plans for delivering farming subsidies after Brexit. He stated that the Common Agricultural Policy (CAP) was a fundamentally flawed policy as it rewarded wealthy farmers the most, rewarded farmers for using methods that are resource inefficient, and did not benefit the environment sufficiently.

7. The UK Government consulted on its proposals for future funding in England, which closed in May 2018.

8. The UK Government's position paper on research and innovation after Brexit set out its negotiating position in this area. More recently, in May 2018 the UK Government published its Framework for the UK-EU partnership: Science, research and innovation. This stated that the UK Government was committed to a far-reaching science and innovation pact with the EU, and would like to discuss the option of full association to Horizon Europe around three areas: structure, influence and contribution.

9. In answer to a question in May 2018, the Prime Minister stated that, in respect of future UK participation in ERASMUS+:

¹ Conservative Party (2017), Forward Together: The Conservative Manifesto

“We have said there are certain programmes that we wish to remain part of when we leave the European Union, and Erasmus is one of those we have cited that we may wish to remain part of, but of course we are in a negotiation with the European Union and we will be dealing with these matters in that negotiation.”²

10. In June 2018, Jake Berry, the UK Government’s Parliamentary Under Secretary of State at the Ministry of Housing, Communities and Local Government stated that:

“The Government considers that it may prove to be in the mutual interest of all sides for the UK to maintain some form of ongoing relationship with the EIB [European Investment Bank] Group after leaving the EU. We will explore these options with the EU as part of the negotiations on the future relationship, and will also consider whether any further government support is required.”³

11. The UK Government has also highlighted that it will withdraw from the Common Fisheries Policy after Brexit, with the UK being an independent coastal state.⁴ It’s White Paper states that this will involve the UK deciding who can access its waters after 2020, and a UK-wide framework will be developed for fisheries management in conjunction with the devolved administrations.

² Hansard, [16 May 2018, Column 277](#)

³ Hansard, 19 June 2018, [Written Question 152765](#)

⁴ Department for Environment, Food and Rural Affairs, [Sustainable fisheries for future generations](#)

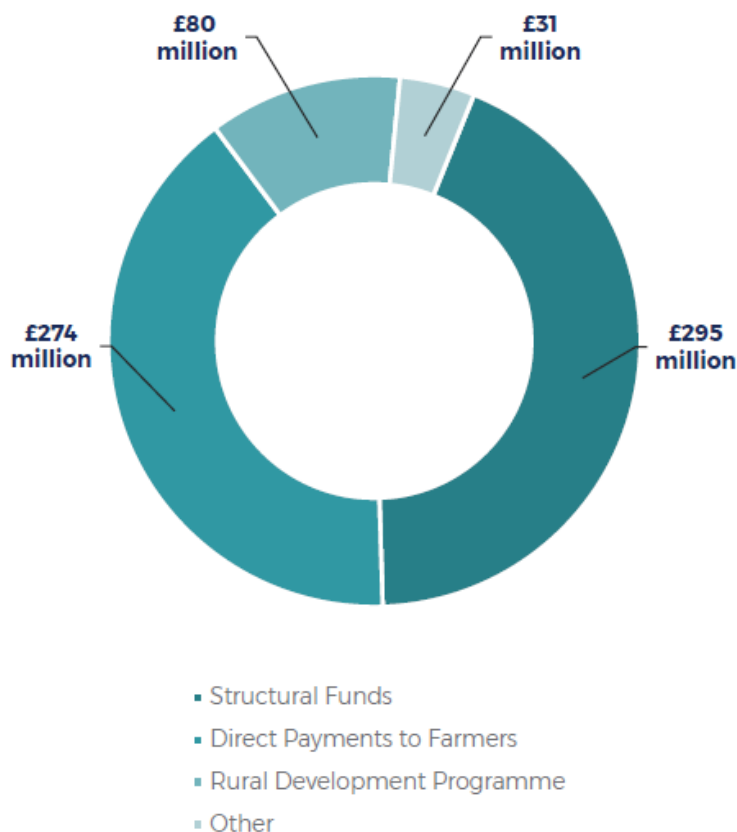
3. Funding for Wales after Brexit and reform of the Barnett formula

Background

12. Wales currently receives approximately £680 million in EU funds per year. The main sources are:

- £295 million in EU Structural Funds from the European Social Fund (ESF) and European Regional Development Fund (ERDF);
- £274 million in direct payments to farmers from the CAP; and
- £80 million in funding from the Rural Development Programme.

Figure 1: Sources of EU funding received by Wales



Source: Welsh Government, [Securing Wales' Future](#)

13. The Welsh Government's White Paper, [Securing Wales' Future](#), called for the EU funding that Wales receives to be replaced by an adjustment to the block grant that adds inflation to funding currently received. The baseline of the block

grant payment for Wales would reflect the loss of funds in Wales arising from leaving the EU and take into account funding which Wales would have otherwise reasonably expected from EU sources.

14. The National Assembly's External Affairs and Additional Legislation Committee's report into the future of regional policy expressed concern about the risks to an adjustment to the block grant over the longer term. It recommended that the Welsh Government ensured that funding was future-proofed and examined the merits of an objective needs-based formula, agreed by all nations of the UK.

15. In December 2017, the Welsh Government published Regional Investment in Wales after Brexit. It set out a number of actions that it would like the UK Government to take, including:

- providing a permanent upward adjustment to the Welsh Government block grant of at least the levels received historically via the EU Structural and Investment funds with no spending constraints;
- continuing UK and Welsh involvement in a range of European co-operation programmes including Horizon 2020, ERASMUS+, Creative Europe and a range of European Territorial Co-Operation Programmes (such as the Ireland-Wales programme);
- the Welsh Government would not agree to simply administer funds where key decisions were made by the UK Government, and was opposed to the creation of a UK Shared Prosperity Fund managed by the UK Government.

Evidence from respondents

16. Organisations highlighted the impact that uncertainty around future funding arrangements is having on businesses, public sector bodies and the third sector, particularly with the UK Shared Prosperity Fund.

17. The Welsh Local Government Association (WLGA), whilst supporting the Welsh Government's lobbying of the UK Government to ensure full replacement funding for Wales, were concerned that "there is currently little to no certainty on the shape and possible governance of any future funding".⁵

⁵ Written Evidence, EUF 10

18. Chwarae Teg told the Committee that there has been little indication of what will replace EU funds, and that clarity is needed on how future funding will be administered, how much Wales will receive, and what it will fund.⁶

19. Universities Wales raised the risks associated with uncertainty in funding. They noted that universities are impacted negatively by the uncertainty around future arrangements. It will, in their view, be important for arrangements to replace EU funds to be confirmed and communicated in time to prevent universities from making decisions that may impact negatively on infrastructure and future activities.⁷

20. Evidence showed limited consensus on the best approach to funding in the longer term. The Bevan Foundation called for the Welsh Government to undertake urgent work to establish a mechanism for allocating replacement funds that would work best for Wales, to quickly gather Wales-wide support.⁸

21. The Bevan Foundation were unsure whether adjusting the baseline for the Barnett formula would work over the longer term, stating that:

“I can see that that’s an attractive position, but I think it all depends how the Barnett formula moves forward. I can see it’s attractive because it locks it in for ever more, but I think it all depends on whether the Barnett squeeze applies in future years.”⁹

22. The Chartered Institute of Public Finance and Accountancy (CIPFA) felt that as part of a transitional arrangement, adjusting the baseline for the Barnett formula would be perfectly fair and reasonable and was probably the most simplistic approach given “the timescales we’re talking about”.¹⁰

23. The Institute for Fiscal Studies (IFS) added that using the Barnett formula to calculate year-on-year changes could see Wales’ funding squeezed so that its relative funding from current EU funds compared to England declines considerably from 361% in 2020 to 194% in 2050. It explained:

“These squeezes arise because the Barnett formula takes no account of the higher initial levels of funding in Wales – which means a given cash

⁶ Written Evidence, EUF 24

⁷ Written Evidence, EUF 08

⁸ Finance Committee, Record of Proceedings, 21 June 2018, paragraphs 43-45

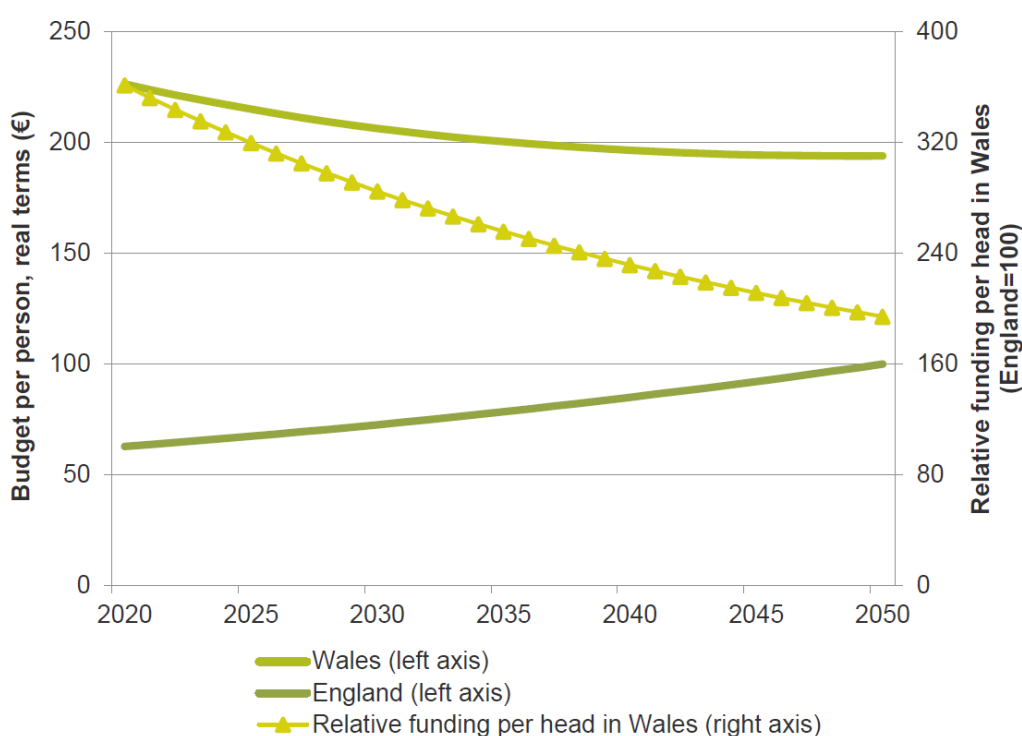
⁹ Finance Committee, Record of Proceedings, 21 June 2018, paragraph 39

¹⁰ Finance Committee, Record of Proceedings, 21 June 2018, paragraph 130

change translates into a much smaller percentage change – and is based on nominal changes rather than real-terms changes in funding.”¹¹

24. Figure 2 below shows how the “Barnett squeeze” would impact on replacement funding levels if the Barnett formula were used assuming that Wales initially received the same amount of funding as it does now, but received future allocations under the Barnett formula.

Figure 2: Impact of the “Barnett squeeze” on Welsh funding if Wales initially received the same amount of funding as it does now, but received future allocations under the Barnett formula



Source: Written Evidence EUF 21 [Institute for Fiscal Studies](#)

25. There was a clear view from some respondents that using the Barnett formula to determine an initial population-based share of replacement funding streams would not provide adequate funding for Wales. Professor Fothergill highlighted that Wales receives 24% of UK Structural Funds,¹² while the farming unions noted that Wales receives around double its population share in funding from the CAP.¹³

¹¹ Written Evidence, EUF 21

¹² Written Evidence EUF 29

¹³ Written Evidence, EUF 22

26. The IFS highlighted that the Barnett formula does not take account of differences in funding needs or population growth between nations and that if used to calculate funding, Wales could significantly be disadvantaged.¹⁴ The IFS suggested an alternative approach could be to use the Indexed Per Capita (IPC) formula used as part of Scotland’s Fiscal Framework. It said if this was adopted it would deliver the same percentage change in funding per person in Wales as in England.¹⁵

27. However, the IFS also suggested that the UK and Welsh Governments may wish to allocate funding in ways that consider more than just initial funding levels and relative population growth. Key choices they highlight will need to be made include initial levels of funding allocations, the extent to which funding should be hypothecated, which geographies should be used to allocate funding and how to index changes to funding over time.

28. In relation to replacement funding in respect of agriculture, CIPFA stated that using the Barnett formula to allocate a population-based share would result in a significant reduction in funding available, and would not reflect the needs of the Welsh farming sector.¹⁶

Evidence from the Welsh Government

29. The Cabinet Secretary for Finance (the Cabinet Secretary) stated that leaving the EU should not mean any reduction in the funding available to Wales, as it would “put in jeopardy our ability to support the activities we currently fund through EU programmes”.¹⁷

30. The Cabinet Secretary said that he had not had any “discussions on a ministerial level at all” in relation to how future funding would be allocated to Wales. He said that Scotland was also in a similar position.¹⁸

31. The Cabinet Secretary has called for the Barnett formula to be replaced with a rules-based system, which would ensure that the allocation of resources within the UK is based on relative need.¹⁹ The Welsh Government’s paper, [Reforming UK funding and fiscal arrangements after Brexit](#), expands on this position. It calls for

¹⁴ Written Evidence, EUF 21

¹⁵ Written Evidence EUF 21

¹⁶ Written Evidence EUF 19

¹⁷ Written Evidence, Cabinet Secretary for Finance

¹⁸ Finance Committee, Record of Proceedings, 27 June 2018 paragraph 173

¹⁹ Written Evidence, Cabinet Secretary for Finance

fiscal arrangements that enable all parts of the UK to provide an equivalent level of services taking account of relative needs of the population and assuming equivalent tax effort. This approach would be part of a new UK Fiscal Agreement that includes a principles-based approach to funding and fiscal networks and has independent oversight.

32. However, the Cabinet Secretary also reiterated his position that funding for Wales should be via a readjustment to the baseline of the block grant, he said that this was also the preferred option of the Scottish Government. He said:

“I put it to the Chief Secretary to the Treasury, the couple of times I’ve discussed it with her, is to say, you know, ‘The Treasury’s a very busy place, hands-full with all sorts of desperately difficult problems over Brexit, here’s one I can solve for you. So, here’s something you don’t need to worry about after that. Just put the money in the baseline.’”²⁰

33. The Cabinet Secretary highlighted that any other funding option such as a bidding or challenge system or a Barnett-based initial allocation would be unacceptable to Wales as there would be a “real risk that Wales would do badly out of them, and our needs, therefore, would no longer be properly recognised”.²¹

34. The Cabinet Secretary reiterated that currently Wales benefits from funding based on an objective assessment of needs and that those needs will not cease to exist when the UK leaves the EU.²²

Committee view

35. The Committee is deeply concerned with the UK Government’s lack of engagement with the Welsh Government on replacement funding for Wales after Brexit, given that the UK is due to leave the EU on 29 March 2019. The Committee is also disappointed that key decisions around how funding will be allocated to devolved administrations have yet to be agreed.

36. The uncertainty that this lack of engagement and decision-making has caused is strongly felt by organisations in receipt of EU funds, and the Committee echoes their concerns. The UK Government should urgently clarify the position in respect of replacements for EU funding streams.

²⁰ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 178

²¹ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 179

²² Finance Committee, Record of Proceedings, 27 June 2018, paragraph 178

37. It is quite clear from the evidence received that unless funding continues on a needs-based approach, Wales will be severely impacted. It is vital that Wales does not lose out on funding post-Brexit and Wales should continue to receive the funding equivalent to the amount it would have received through EU sources had the UK not voted to leave the EU.

38. The Committee notes that much of the evidence suggests that the Barnett formula would be unsuitable to allocate replacement funding post-Brexit and believes that an alternative model should be developed.

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.

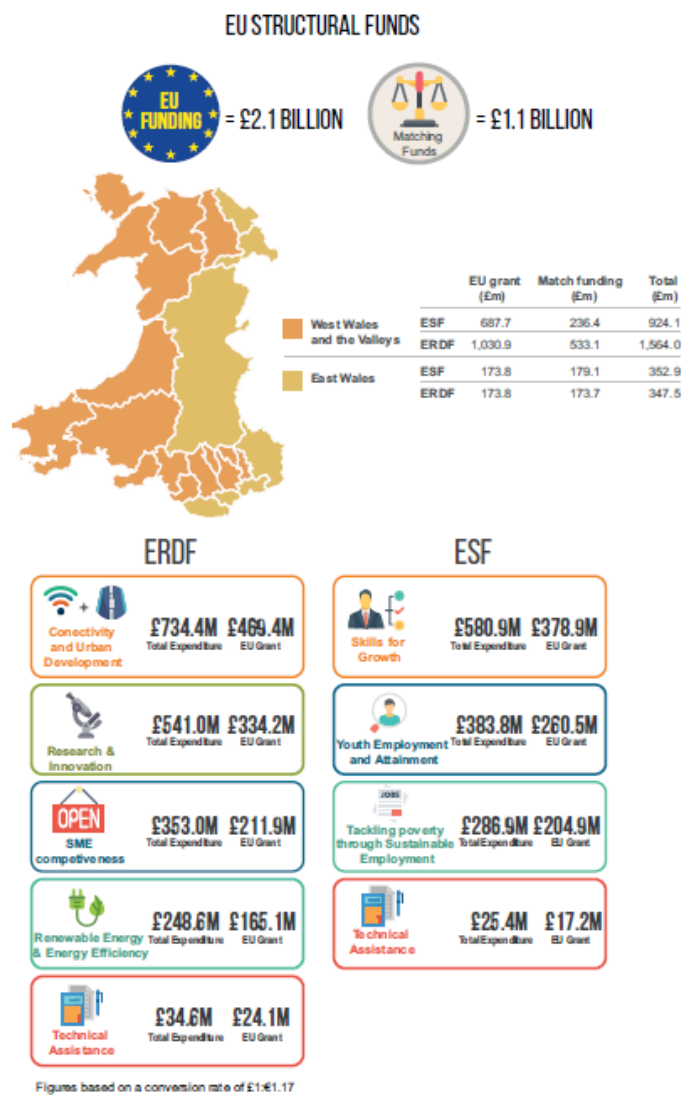
Recommendation 2. The Committee recommends that the Welsh Government should work with the UK Government and other devolved administrations to develop a sustainable long-term replacement for the Barnett formula that allocates funding across the UK based on needs.

4. UK Shared Prosperity Fund – Securing Wales’ share

Background

39. Under the 2014-20 round of EU Structural Funds, Wales will receive £2.1 billion in funding, with the public, private and voluntary sectors matching this with an additional £1.1 billion.²³ This has funded investment in infrastructure, research and innovation and skills. Figure 3 below shows key areas that will receive EU funds during the 2014-20 round of Structural Funds.

Figure 3: Allocations of Structural Funds to spending areas, 2014-20

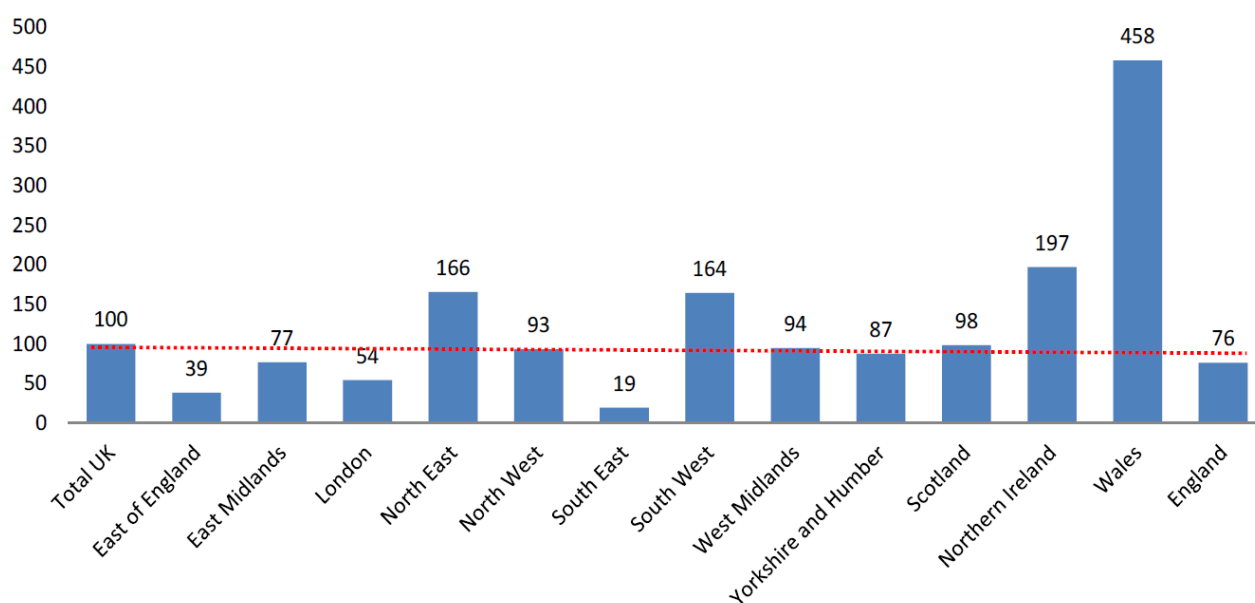


Source: Auditor General for Wales, [Managing the Impact of Brexit on EU Structural Funds](#)

²³ Auditor General for Wales, [Managing the Impact of Brexit on EU Structural Funds](#)

40. Wales receives considerably more in Structural Funds per person than any other part of the UK, as West Wales and the Valleys are classed as “less developed region” with Gross Domestic Product (GDP) per head of below 75% of the EU average. Figure 4 shows that, over the 2014-20 funding period, Wales will receive over four and a half times as much in Structural Funds per person than the UK average.²⁴

Figure 4: Structural Funds per capita in devolved nations and English regions, 2014-20



Source: Sheffield Political Economy Research Institute, [UK regions and European Structural and Investment Funds](#)

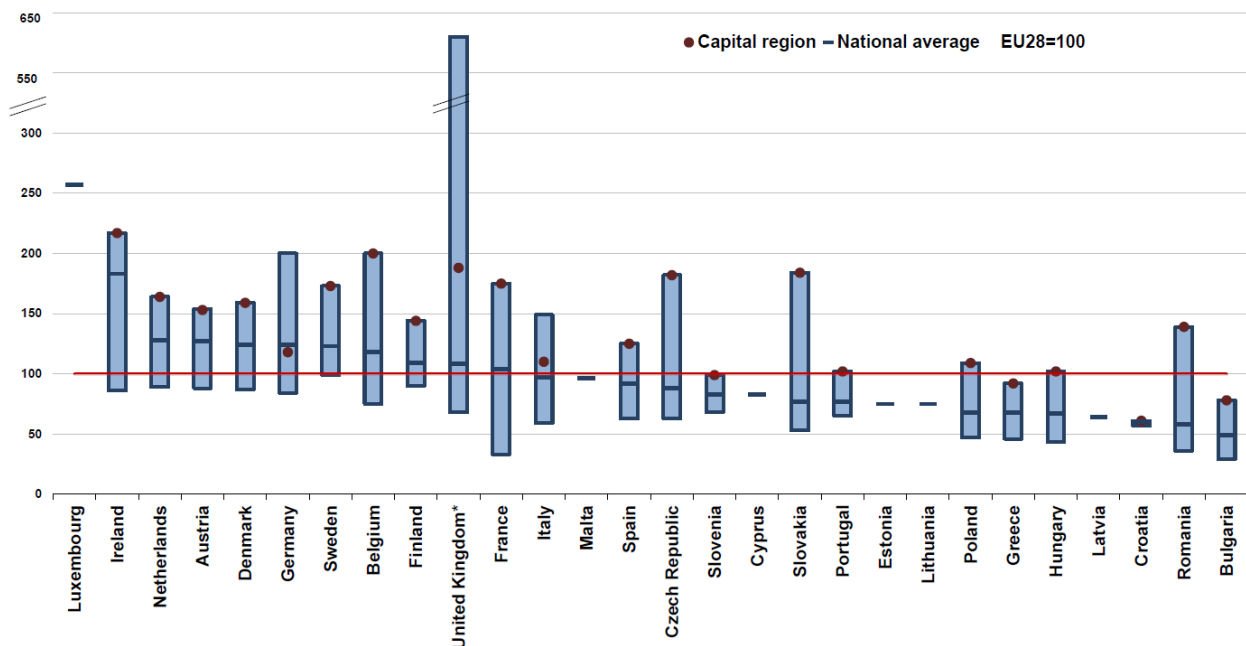
41. The UK currently has the largest regional economic disparity in GDP per person of any of the 28 EU Member States.²⁵ In 2016, Inner London West had GDP per head of 611% of the EU average, while West Wales and the Valleys’ GDP per head was 68% of the EU average, the lowest of all of the UK NUTS2²⁶ regions. Comparisons between each of the current 28 EU Member States are set out in figure 5.

²⁴ Sheffield Political Economy Research Institute, [UK regions and European Structural and Investment Funds](#)

²⁵ Eurostat, [GDP per capita in 276 EU regions - Regional GDP per capita ranged from 29% to 611% of the EU average in 2016](#)

²⁶ The Nomenclature of Territorial Units for Statistics (NUTS) is a hierarchical classification of administrative areas, used across the European Union (EU) for statistical purposes. NUTS2 regions are areas with a population of between 800,000 and 3 million.

Figure 5: GDP disparities between NUTS2 regions in EU Member States



*Capital region of London consists of 5 regions at NUTS2 level.
The bar shows for each Member State the range from the region with the lowest value to that with the highest value.

Source: Eurostat, GDP per capita in 276 EU regions - Regional GDP per capita ranged from 29% to 611% of the EU average in 2016

Evidence from respondents

42. There was strong support for the Welsh Government’s position that, in relation to the UK Shared Prosperity Fund, Wales should be “not a penny worse off than it would otherwise have been within the EU”.²⁷

43. This position was supported by the Arts Council of Wales, the Bevan Foundation, Chwarae Teg, the Federation of Small Businesses Wales (FSB Wales), Professor Fothergill, Dr Guilford, Industrial Communities Alliance Wales, Royal Town Planning Institute Cymru (RTPI Cymru), Universities Wales and the WLGA.

44. Professor Fothergill summed up the impact of an inadequate replacement, or failure to replace Structural Funds, stating that it would deliver “a devastating blow to economic developments in Wales”.²⁸

45. Those who gave evidence to the Committee advanced two main arguments as to why Wales should continue to receive current levels of investment through the UK Shared Prosperity Fund, including:

²⁷ Welsh Government, Securing Wales’ Future

²⁸ Finance Committee, Record of Proceedings, 21 June 2018, paragraph 184

- the importance of Structural Funds in delivering vital additional investment for Wales that could not have been delivered with funding solely from the Welsh Government; and
- the importance of funding to Wales as a way to progress the rebalancing of the UK economy.

46. Professor Fothergill and FSB Wales highlighted that Structural Funds are vital in underpinning Welsh Government activity in a number of key areas where there is a need for this investment to continue at the current level. Professor Fothergill stated that:

“What is clear is that the EU co-finances a vast range of projects, in Wales and elsewhere in the UK, ranging from training and skills development to business support, R&D, infrastructure and environmental improvement. The projects vary greatly in size and in geographical coverage. It is reasonable to assume that in the absence of EU funding hardly any of the projects would have proceeded on the same scale if at all.”²⁹

47. FSB Wales stated that their research shows that just under a quarter of Welsh SMEs have benefitted from European funding, enabling them to deliver skills improvements, undertake Research and Development, and to develop their businesses. FSB Wales believe it is essential to maintain the volume of funding to enable this to continue after the UK leaves the EU.³⁰

48. Professor Bell highlighted that over the past 20 years the poorest parts of Wales have consistently had lower GVA per head figures than areas in England and Scotland (measured at NUTS3 level). In the poorest parts of Wales, GVA per head is only half of the UK average, whereas in England and Scotland, GVA per head is around 60% of the UK average.³¹ This is shown in figure 6. Professor Bell commented that:

“... the gap between the poorest parts of Wales and the UK average seems to have been increasing since 2008 (the same is true of the poorest parts of Scotland and England). Thus, there is no evidence of reductions in the gap between the poorest and richest parts of the UK

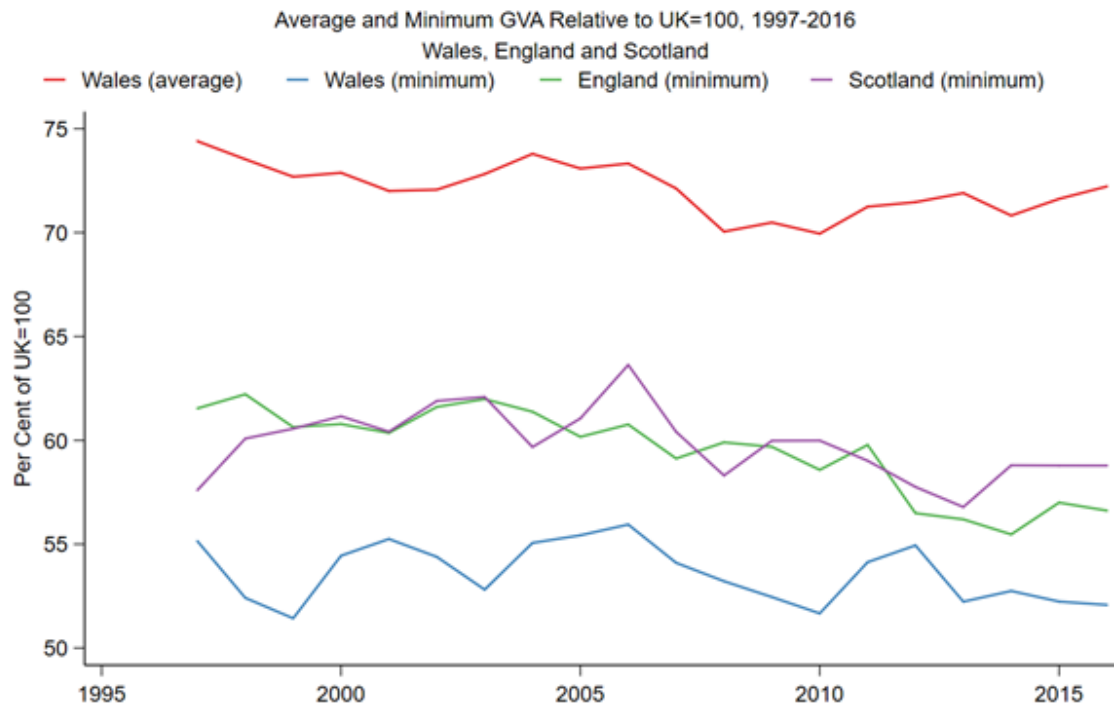
²⁹ Written Evidence, EUF 29

³⁰ Written Evidence, EUF 17

³¹ Written Evidence, EUF 31

between 1997 and 2016 – indeed the evidence points more to an increase in inequality.”³²

Figure 6: GVA of areas in UK nations with lowest Gross Value Added per head



Source: Written Evidence EUF 31, [Professor David Bell, University of Stirling](#)

49. Blaenau Gwent County Borough Council, the local authority with the lowest GVA per head across the UK,³³ highlighted the importance of “levelling up” and ensuring no area is left behind. As an area that has challenging levels of poverty, disadvantage, and some skills gaps, it calls for replacement funding to be delivered on a similar basis to current arrangements, with greater resources focussed on the most disadvantaged areas.³⁴

50. Industrial Communities Alliance Wales noted that there have not been any radical shifts in prosperity to justify a change in the shares of funding going to Wales and the three other UK nations. Therefore, it fully supported the Welsh Government’s position that Wales should not be “a penny worse off”.³⁵

³² Written Evidence, EUF 31

³³ Office for National Statistics, [Regional gross value added \(balanced\) by local authority in the UK](#)

³⁴ Written Evidence, EUF 15

³⁵ Written Evidence, EUF 18

51. Given the high levels of need across Wales, there was consensus from the evidence that funding should be allocated in a way that prioritises those areas with the greatest need.

52. The Country, Land and Business Association Wales (CLA Wales) suggested that:

“We are realistically not far from a world where current Structural Funds in Wales collide with the UK Government’s ideas set out in the UK Prosperity Fund with funding mechanisms for city deals, regional growth deals and sector deals becoming the norm.”³⁶

53. Professor Bell also noted that recent UK Government initiatives such as City and Growth Deals and the Strength in Places Fund have been designed so that organisations bid into them for funding.³⁷

54. A number of respondents, including the WLGA, expressed concern that if the UK Government creates a “challenge-based” UK Shared Prosperity Fund that organisations bid into, Wales could be disadvantaged.³⁸ The WLGA highlighted work undertaken by local authorities and regional bodies to engage with the UK Government’s Industrial Strategy Challenge Funding and the Strength in Places fund, and raised concerns about the ability of Welsh regions to compete for funding against English Local Enterprise Partnerships (LEPs).³⁹

55. The WLGA expressed concern that North and Mid Wales would be behind the curve in terms of preparation for a challenge-based funding approach. Councillor Rob Stewart, Deputy Leader of the WLGA, made the point that these areas do not currently have functioning regional economic bodies, as the North Wales Growth Deal is awaiting a final decision and the Mid Wales Growth Deal is in its early stages.⁴⁰

56. CLA Wales expressed concerns, about the potential impact of a challenge-based fund on rural parts of Wales. It said it was “extremely concerned” about the ability of rural Wales to compete for financial support under this approach. It consider that a needs-based system was required to address the needs of rural

³⁶ Written Evidence, EUF 14

³⁷ Written Evidence, Professor David Bell, University of Stirling

³⁸ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 302

³⁹ Written Evidence, EUF 10

⁴⁰ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 282

Wales, otherwise there could be even greater depletion of economic development activities in rural communities.⁴¹

57. The IFS suggests that, while there is the potential for greater value for money to be achieved from challenge-based funds, there is also the danger that disadvantaged areas will receive less funding.⁴²

Evidence from the Welsh Government

58. In Regional Investment in Wales after Brexit, the Welsh Government set out its position on how future funding should initially be allocated to Wales once Structural Funds are replaced by the UK Shared Prosperity Fund:

“We call on the UK Government to make good promises made in the EU referendum campaign to ensure Wales is not a penny worse off as we leave the EU. This needs a permanent upward adjustment to the Welsh Government baseline of at least the levels received historically via the EU Structural and Investment funds with no spending constraints.”

59. This funding would be allocated into the Welsh Government’s Block Grant, and inflation would be added to take account of rising prices.

60. The Cabinet Secretary stated that this would be a useful approach for HM Treasury as well as Wales, as it would be a relatively simple way of solving what could otherwise be a complex problem. He noted that the UK Government has many pressing priorities to deal with in relation to Brexit, and that the simplest way of solving funding issues for the UK Shared Prosperity Fund would be to continue to allocate at least current EU funding levels to each of the UK nations.⁴³

61. While the Welsh Government considers that three rounds of EU Structural Funds have benefitted the people of Wales, it believes that significant challenges remain in respect of productivity and the labour market, with some areas continuing to experience long-term structural issues. Its Regional Investment in Wales after Brexit position paper states:

“Up until the banking crash of 2008 and the great recession which followed, people in West Wales and the Valleys became better off every year, and year on year. The long years of austerity have created significant economic challenges but three successive rounds of EU

⁴¹ Written Evidence, EUF 14

⁴² Written evidence, EUF 21

⁴³ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 178

Structural Funds will leave people in Wales better off, and better prepared, than they would otherwise have been.”⁴⁴

62. The Cabinet Secretary was opposed to Wales being required to bid into a challenge-based fund managed by the UK Government, believing that this approach may lead to funding being diverted away from areas of need. He said that, while there are other areas of the UK that may need greater funding to address their economic issues, this should be delivered by the UK Government, and funding should not be taken away from Wales to assist other areas.⁴⁵

63. The Cabinet Secretary also expressed concern that this approach may present problems for the devolved nations as they do not have the Local Economic Partnerships that are in place in England. As the UK Government is used to dealing with these organisations, the Cabinet Secretary felt they may be at an advantage as they have a greater understanding of how they operate.⁴⁶

64. A further funding scenario that the Cabinet Secretary did not support was one in which the UK Government provides Wales with a separate ring-fenced allocation of the UK Shared Prosperity Fund, as there is potential for this allocation to be awarded at the same time as a cut to other areas of the Welsh Government’s budget.⁴⁷

65. The Cabinet Secretary went on to note that, should Wales continue to receive the current level of funding post-Structural Funds, he would ring-fence the money received specifically for regional economic development purposes for a multi-year period. This would, in his view, give reassurance to organisations delivering projects that there would be continuity of funding.⁴⁸

66. In terms of longer-term funding arrangements, the Cabinet Secretary stated that further discussions and debates need to be had to decide which funding mechanism should be used to allocate funding between different parts of the UK.⁴⁹

⁴⁴ Welsh Government, [Regional Investment in Wales after Brexit](#)

⁴⁵ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 190

⁴⁶ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 211

⁴⁷ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 191

⁴⁸ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 183

⁴⁹ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 178

Committee view

67. The Committee recognises the desire to allocate current levels of funding to the devolved nations once the UK Shared Prosperity Fund comes into operation extends beyond Wales. The Scottish Parliament’s Economy, Jobs and Fair Work Committee has also concluded that there is a strong case for future funding to be allocated using the current methodology, as Scotland’s economic circumstances have not significantly altered.⁵⁰

68. The Committee fully supports the Welsh Government’s position and recognises the compelling case that “Wales should not be a penny worse” off as a result of the vote to leave the EU. Structural Funds have been targeted to help the Welsh economy and labour market recover from decades of industrial decline, based on objective and rules-based criteria, and the Committee believe this targeted approach should continue.

69. The Committee notes that a wide range of economic datasets show that, despite three rounds of Structural Funds, there is a clear rationale for continued investment in Wales as part of wider economic rebalancing across the UK. In the poorest parts of Wales GVA per head is only half of the UK average, lower than the poorest parts of England and Scotland. This need will not go away.

70. Therefore, the Committee agrees with the evidence received that, as a minimum, funding allocations to the four UK nations should continue to be allocated as they are now. The Committee unanimously endorses the position of the Welsh Government that Wales should initially be allocated at least the same amount from the UK Shared Prosperity Fund as it currently receives from EU funding, to provide organisations with certainty about funding for longer-term projects and programmes. This allocation should be maintained for a number of years.

71. The Committee believes the UK Shared Prosperity Fund should continue with a needs-based approach determined by the economic and social needs of areas. The Committee does not support alternative approaches such as a challenge-based fund that organisations are required to bid into, as we would not want to see economically disadvantaged areas potentially lose out. The UK has the greatest regional economic disparity of all of the EU Member States, and rebalancing its economy needs to be an urgent priority.

⁵⁰ Scottish Parliament, Economy, Jobs and Fair Work Committee, [Letter to Cabinet Secretary for Economy, Jobs and Fair Work](#), 22 June 2018

Conclusion 1. The Committee believes that it would be in the interests of all UK nations if they continue to receive at least the amount of funding they currently receive from EU Structural Funds from the new UK Shared Prosperity Fund.

Conclusion 2. The Committee believes there is a need to better understand which models for allocating the UK Shared Prosperity Fund might work best for Wales and the rest of the UK over the longer term. The Committee would like to see the Welsh Government undertaking work to evaluate potential models as soon as further information is made available from the UK Government on the UK Shared Prosperity Fund.

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.

5. Devolving Wales' share of the UK Shared Prosperity Fund

The case for devolution of the UK Shared Prosperity Fund to Wales

Background

72. Economic development has been devolved to Wales since 1999 and the Welsh Government has been responsible for management of EU Structural Funds through the Wales European Funding Office (WEFO) since April 2000.⁵¹

73. The UK Government has announced that it will establish a UK Shared Prosperity Fund after Brexit. Much of the detail of this fund is currently unclear, with a consultation expected towards the end of 2018. In particular the UK Government's position on the funding issues discussed in the previous chapter and the level of devolution of the UK Shared Prosperity Fund discussed in this chapter are not yet publicly known.

Evidence from respondents

74. There was strong support from respondents for the Welsh Government managing and administering the Welsh share of the UK Shared Prosperity Fund. Organisations and individuals who supported this include the Bevan Foundation, Chwarae Teg, CIPFA, FSB Wales, Professor Fothergill, Dr Guilford, the Industrial Communities Alliance and the WPGA. In contrast, no individual or organisation that responded to the Committee's consultation or gave evidence called for the UK Government to administer the fund in Wales.

75. The main arguments for devolving the administration of the UK Shared Prosperity Fund were that:

- the Welsh Government is best placed to understand the economic and social needs of Wales,
- WEFO has built up expertise over the past 20 years of programme delivery which will be transferrable post-Brexit, and

⁵¹ Wales Online, [WEFO established with staff transferred from two bodies](#)

- the devolution settlement should be respected as economic development is a devolved matter.

76. Dr Guilford said that whilst Structural Funds had offered many benefits there were constraints “in terms of where and how they can be used”. He said that the Welsh Government’s priority should be to ensure that it has the freedom it needs to determine the administrative mechanisms for funding in Wales. He said that if funds were managed primarily at a Wales-wide level, those constraints could be removed and the Welsh Government would be able to take a strategic view of the Welsh economy’s requirements as a whole.⁵²

77. Chwarae Teg emphasised the need for the Welsh Government to have the ability to design a system that fully prioritises the needs of Wales and “particularly Welsh women”. In its view, this could only be achieved through devolution of the administration of funding to Wales.⁵³

78. CIPFA said that the UK Government’s role in shaping the UK Shared Prosperity Fund in devolved administrations should be restricted to the high-level principles, and that the Welsh Government should be able to develop its own programmes that meet its objectives and programme for government.⁵⁴

79. Evidence showed that there was a recognition of the expertise within WEFO, and respondents suggested a range of ways this could be utilised. Chwarae Teg noted that a central access point for funds should be retained, however they said the body (currently WEFO) would need reform, for example reducing bureaucracy.⁵⁵

80. FSB Wales agreed that expertise available within WEFO should not be lost or overlooked when future funding mechanisms are designed and said there is a need for a visible “Wales” footprint on management and administration.⁵⁶

81. Dr Hywel Ceri Jones, former EU Funding Ambassador said it was vital that the Welsh Government “installs a strong central unit” to “equip itself with dedicated expertise and capacity” after Brexit.⁵⁷ He added:

⁵² Finance Committee, Record of Proceedings, 13 June 2018, paragraph 177

⁵³ Written Evidence, EUF 24

⁵⁴ Finance Committee, Record of Proceedings, 21 June 2018, paragraph 109

⁵⁵ Written Evidence, EUF 24

⁵⁶ Written Evidence, EUF 17

⁵⁷ Written Evidence, Dr Hywel Ceri Jones

“This should serve as a centrepiece of its machinery, to ensure it has the intersectoral capacity, combined with experience and expertise on EU relations and the range of EU policies and programmes, to drive a much more effective plan of action if Wales is to compensate for the withdrawal of the policies underlying the wide range of EU funding streams which have benefitted Wales over the past years, and also to set out a coherent programme of work and plan of delivery to take Wales forward.”⁵⁸

82. There were calls from respondents for greater regional and local decision-making in relation to the UK Shared Prosperity Fund. The **joint report** produced by the WLGA and Bevan Foundation stated that the Welsh Government needed to consider devolving responsibility over certain decisions down to regional or local level.⁵⁹

83. The WLGA said the Welsh Government should set the direction of regional policy in Wales as “decision making needs to be at the most appropriate level”. However, the “regions are best placed to know what the projects and best priorities are for the people they serve”.⁶⁰

84. The WLGA continued to say that the more amount of funding regions were able to manage and administer, would lead to more coherent planning rather than having “lots of individual projects all trying to do their own thing”.⁶¹

85. FSB Wales called for regional administration of funding on a similar basis to the Welsh Government’s economic regions. It argued:

“This allows for flexibility based on the individual needs of different parts of Wales, whilst maintaining co-terminosity with other administrative and financial structures. These regions are also sufficiently large to ensure that larger projects have economy of scale to deliver wider benefits.”⁶²

⁵⁸ Written Evidence, Dr Hywel Ceri Jones

⁵⁹ After Brexit: Regional economic policy in Wales, Bevan Foundation in partnership with the WLGA

⁶⁰ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 310

⁶¹ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 311

⁶² Written Evidence, EUF 17

Evidence from the Welsh Government

86. The Cabinet Secretary said the UK Government had indicated that any decision currently made in Wales, would remain in Wales and therefore he expects the Welsh Government to have “full control over the administration and strategic direction for successor funds” to allow the Welsh Government to design a Welsh approach.⁶³ He said:

“20 years into devolution, the UK Government simply does not have the presence on the ground in Wales to run programmes of that sort. Inevitably, and quite properly, things that they were responsible for in 1998 we are responsible for in 2018, and it is the Welsh Government that has offices, people, partnerships and resources on the ground that make these things happen...they can't do it. We can do it, because we have done it for 20 years.”⁶⁴

87. The Chief Executive of WEFO highlighted that over the 20 years WEFO has developed experience and expertise that needs to be retained, whether that is inside or outside the Welsh Government. She suggested that closer links to the Welsh Government's economy department would be useful if the expertise is retained within government.⁶⁵

88. The Cabinet Secretary indicated that if the Welsh Government secures devolution of the UK Shared Prosperity Fund it will give greater delegation of appropriate planning and decision-making to regions and local areas, with the Welsh Government setting the clear strategic direction for regional economic development.⁶⁶

89. The Chief Operating Officer of WEFO added that discussions were taking place with the Organisation for Economic Co-operation and Development (OECD) for its advice in relation to multi-level governance arrangements, which would enable “the kind of engagement across regions” that the Cabinet Secretary was referring to without “turning it into some kind of monstrous bureaucracy”.⁶⁷

90. The Cabinet Secretary agreed with the evidence provided to the Committee that the expertise from WEFO needed to be retained. He cited Dr Hywel Ceri

⁶³ Written Evidence, Cabinet Secretary for Finance

⁶⁴ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 209

⁶⁵ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 266

⁶⁶ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 242

⁶⁷ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 244

Jones's evidence and agreed that "there will be a need for some central capacity at the Welsh Government to do this work the other side of Brexit".⁶⁸

Committee view

91. The Committee notes that over the past 20 years, the Welsh Government and WEFO have been managing, administering and spending EU funds directly. During this period, WEFO has built up considerable skills and expertise, established partnerships and has the necessary structures in place to deliver successful programmes.

92. The Committee believes it is crucial that the Welsh Government is able to continue to deliver regional economic development policy and this can only be achieved with control over the funding for this policy area. Given that the UK Government has said that all decisions made in Wales will remain in Wales, the Committee expects them to honour this commitment. Therefore, the Committee believes there is a strong case for the Welsh Government to continue managing any replacement funding that will be allocated to Wales. This will ensure the Welsh Government is able to progress its approach to regional development in Wales's best interests.

93. Furthermore, the Committee believes the expertise developed in WEFO should be retained in some form, as this will benefit future funding streams and ensure a smooth transition from the current funding mechanisms to the new UK Shared Prosperity Fund.

94. The Committee notes the evidence received that if the Welsh Government secures devolution of the UK Shared Prosperity Fund it will give greater delegation of appropriate planning and decision-making to regions and local areas. The Committee agrees that the Welsh Government should set the overarching strategic framework but responsibility of certain decisions should be given to an appropriate regional or local level organisation who are best placed to decide the priorities for that area.

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

⁶⁸ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 246

ensure the Welsh Government is responsible for the administration and management of the UK Shared Prosperity Fund in Wales.

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.

6. How the UK Shared Prosperity Fund could operate in Wales

Background

95. The Welsh Government’s Regional Investment in Wales after Brexit, which set out its proposals for developing a new approach to regional economic development and investment after Brexit. It set out the areas of the present Structural Funds system the Welsh Government intends to keep, and those where it sees opportunities to deliver change post-Brexit.

96. Following a consultation period to test the ideas in the paper, the Welsh Government published an engagement report in July 2018, setting out the views of those who had engaged with the government.

6.1. A strategic approach to operating the UK Shared Prosperity Fund in Wales

Evidence from respondents

97. A number of respondents felt that moving away from Structural Funds could present the Welsh Government with an opportunity to shape a strategic approach to the UK Shared Prosperity Fund that is free from the constraints associated with EU policy.

98. Dr Guilford noted that the constraints inherent in EU funding have impacted on where and how funding can be applied. He said these have made it difficult to link the objectives of Structural Funds programmes to the Welsh Government’s economic and social development priorities. He said that in future there needs to be a “strategic framework at the top” to ensure that project proposals fit with the strategic plan.⁶⁹

99. The WLGA agreed that there is an opportunity for greater flexibility rather than “having to bend their priorities to suit thematic opportunities” that have been decided by the EU.⁷⁰

100. The Bevan Foundation suggested that the focus of replacement funds should be on achieving tangible improvements in prosperity over the longer term.

⁶⁹ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 194

⁷⁰ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 313

This would point to a strategic approach that covers boosting productivity; improving pay and job quality; and increasing the skills of those with the fewest qualifications.⁷¹

Elements of Structural Funds to keep in future administration

101. The Committee heard from respondents that there were three areas that should be transferred from Structural Funds to the UK Shared Prosperity Fund, including:

- multi-year funding;
- partnership working; and
- the overarching focus on the cross-cutting themes of tackling inequalities, mainstreaming gender equality, and sustainable development.

102. EU funding is based on a multi-annual financial framework (MFF) with funding periods of seven years. Many respondents felt that multi-year funding works well and should remain in any successor programmes.

103. The WLGA said that longer term funding demonstrates “better value for money” as opposed to annual funding.⁷² It continued:

“When you’ve got a stream of projects that are being taken forward, and there’s funding over a number of years, you’ve got that flexibility to move money between the projects depending on how they’re delivering. So, if one experiences a bit of a hold-up, you can shift the funding across to another that’s moving forward, and move the funding back at a later date.”⁷³

104. On partnership working, the Wales Council for Voluntary Action (WCVA) called for representation from the public, private and third sectors in developing successor-funding streams. It said:

“This will support the co-production of activities that build resilience and prosperity within Wales’ most deprived communities.”⁷⁴

⁷¹ Written Evidence, EUF 27

⁷² Finance Committee, Record of Proceedings, 13 June 2018, paragraph 328

⁷³ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 328

⁷⁴ Written Evidence, EUF 07

105. The Industrial Communities Alliance Wales said the UK Shared Prosperity Fund provided an opportunity to introduce more inclusive management structures. It said in the past there has been a strong element of “top-down” planning and management, which has often marginalised key local players, including local authorities, which are “more closely attuned to local needs and opportunities”.⁷⁵

106. Chwarae Teg noted that current EU funding has a clear focus on tackling poverty and inequality and a significant amount of EU supported projects also specifically focus on supporting women, and addressing causes of gender inequality. In its view the UK Shared Prosperity Fund should continue to focus on these issues.⁷⁶

107. Julie Morgan AM, Chair of the Wales Programme Monitoring Committee, added that any replacement funds should build on the previous work undertaken to encouraging women to enter STEM subjects in science, technology, engineering and mathematics. She said the “different projects to do that have been excellent”.⁷⁷

Ways to change and improve Structural Funds in the new UK Shared Prosperity Fund

108. Some organisations have called for increased flexibility in funding arrangements, and merging funds to create an integrated programme of investment across local and regional economies.

109. The WLGA called for revenue and capital funding to be merged through the creation of a single fund that allows for strategic integration and a much more streamlined and simplified processes for accessing and delivering funding. It said:

“Partners have traditionally had to bid into separate capital and revenue funding streams, in competition, each programme with its own programme management arrangements, investment criteria and differing administrative requirements. This has inevitably led to investments coming forward in silos, lacking the integration and

⁷⁵ Written Evidence, EUF 18

⁷⁶ Written Evidence, EUF 24

⁷⁷ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 216

strategic fit necessary to have a meaningful impact on the region's economy."⁷⁸

110. The Industrial Communities Alliance Wales agreed stating:

"The division between ERDF and ESF funding streams reflects structures in Brussels but it does not make much sense on the ground to separate off economic development from skills."⁷⁹

111. There was overwhelming support by respondents to simplifying funding arrangements in the UK Shared Prosperity Fund, and reducing the level of bureaucracy in arrangements. Dr Guilford highlighted that much of the audit requirements resulting from Structural Funds stemmed from a number of examples of fraud shortly after they were established. He said:

"we had ended up with a multi-layered audit structure...which was really out of proportion to the level of risk that actually existed...So, we have the ability now in Wales to set a system that is appropriate to the level of risk that we're actually talking about now."⁸⁰

112. Some respondents also highlighted the need to move to an evaluation system that focuses on results rather than inputs. Professor Bell raised the need for robust monitoring and evaluation in a way that reduced administration, but which enables evaluating outcomes after a project has taken place to assess its impact "within some broad economic context or socioeconomic context for Wales as a whole".⁸¹

113. Professor Fothergill suggested that there may be limits to what can be evaluated, due to the difficulty of reliably measuring whether individual projects have had an impact on factors such as GDP. He said:

"Therefore, establishing the outcome in terms of economic outcome really requires you to define what would have happened in the absence of it, and that is a hugely thorny question."⁸²

⁷⁸ Written Evidence, EUF 10

⁷⁹ Written Evidence, EUF 18

⁸⁰ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 244

⁸¹ Finance Committee, Record of Proceedings, 21 June 2018, paragraph 249

⁸² Finance Committee, Record of Proceedings, 21 June 2018, paragraph 250

114. However, Professor Fothergill did agree that there “probably is a case for a lighter touch than happens at present” in relation to auditing monitoring and processes.⁸³

Evidence from the Welsh Government

115. The Cabinet Secretary highlighted that there are existing approaches with Structural Funds that are particularly valued including partnership working and engagement which he considered to be a key strength compared to domestic policy, and could be strengthened by a focus on co-production in successor arrangements. He also highlighted that multi-annual long-term programmes provided investor certainty and encouraging more productive investments.⁸⁴

116. The Chief Executive of WEFO said it had consulted as part of its preparations for the future of regional funding, and respondents had indicated that multi-annual funding was “very positive” as it provides “clarity around funding in a time period that allows them to develop some really robust projects”.⁸⁵ She added:

“They like regional partnership working, and the fact that cross-cutting themes, such as equality and sustainability, can be built in. They are built in very, very early on in the project, rather than added on at the end.”⁸⁶

117. The Chief Executive of WEFO said currently there is a dedicated team in WEFO that works specifically on ensuring that cross-cutting themes are embedded at the very early stages of every project.⁸⁷ She said:

“Actually, the modelling that we work with would lend itself well to how Welsh Government then brings in the Well-being of Future Generations (Wales) Act 2015 and how we ensure that that’s embedded in all our programmes across the piece.”⁸⁸

118. However, the Cabinet Secretary also noted that the Welsh Government was “not seeking to replicate EU programmes in Wales” and has identified opportunities “to do things differently”. The Welsh Government’s proposals include integrating arrangements with wider Welsh Government investment and policy,

⁸³ Finance Committee, Record of Proceedings, 21 June 2018, paragraph 250

⁸⁴ Written Evidence, Cabinet Secretary for Finance

⁸⁵ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 195

⁸⁶ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 195

⁸⁷ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 217

⁸⁸ Finance Committee, Record of Proceedings, 13 June 2018, paragraph 217

especially the Well-being of Future Generations Act and the regionalisation of economic development set out in the Economic Action Plan.⁸⁹

119. He set out a number of ways he sees the Welsh Government operating the UK Shared Prosperity Fund differently to Structural Funds, including:

- Integrating multiple funds and removing artificial geographic restrictions so investments in people, businesses and rural areas are not artificially separated or geographically limited;
- Simplifying arrangements and standardising approaches across the Welsh Government such as a common grant management approach built on the Grants Centre of Excellence; and
- Developing a strengthened monitoring and evaluation approach that focusses on results instead of inputs; incorporates well-being, social and environmental objectives alongside economic ones; and encourages innovation.⁹⁰

120. The Cabinet Secretary said that in “the post-Brexit world, we will have greater flexibilities to look at the way that we use funds at our disposal” including the removal of geographical constraints, to allow funding to be spent outside strict geographical boundaries if this would benefit those areas most in need.⁹¹

121. He also highlighted the restrictions of EU funding in areas such as housing, and said he hoped in the future the Welsh Government would have more flexibility over funding, adding:

“There are things we will be able to do with the money, potentially, that we have not been able to do up until now. And, of course, we will want to be able to use the funding in a way that does away with some of the artificial separation between different funding streams that you have to sustain in the European context.”⁹²

122. In relation to reducing bureaucracy around administrative arrangements, the Cabinet Secretary said that trusted partner organisations who have a track-record of complying with funding requirements may be able to undertake less strenuous administrative processes than organisations who are applying for funding the first

⁸⁹ Written Evidence, Cabinet Secretary for Finance

⁹⁰ Written Evidence, Cabinet Secretary for Finance

⁹¹ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 202

⁹² Finance Committee, Record of Proceedings, 27 June 2018, paragraph 202

time. He used Swansea University as an example of a partner who has been involved in every round of EU funding, saying:

“...we would not expect Swansea University to go through every bit of testing that an organisation has to be part of a funding stream in the future, They are a trusted partner in that sense, we know where they are, we know their record, and they do not have to go through every hoop that you have to go through every single time in order to qualify for funding. If it was an organisation that you knew nothing about, that were coming to you for the very first time looking for funding, well, of course, the bar would be higher in terms of what you’d expect them to demonstrate to you before funds were committed.”⁹³

123. The Cabinet Secretary stated in Plenary on 18 September that he hopes to make a statement on regional policy over the next few weeks.⁹⁴

Committee View

124. The views of Wales on how Structural Funds operate, and what needs to change after Brexit are of considerable relevance across the UK given our experience of managing Structural Funds is greater than many other parts. In this context the Committee welcomes the publication of the Welsh Government’s proposals for how the UK Shared Prosperity Fund could improve on current arrangements, and the engagement of many organisations and individuals with them.

125. The Committee considers the ability to critically evaluate how Structural Funds have worked in Wales and to deliver improvements in a post-Brexit environment as an important indicator that management and administration of the UK Shared Prosperity Fund should be devolved to Wales.

126. The Committee is encouraged that there has been considerable engagement from Welsh civil society with the Welsh Government’s proposals, and that in many areas there has been consensus between the views of respondents to the Committee’s call for evidence and the Welsh Government’s proposals. Engagement also brings new ideas and challenges to proposals, and the Committee also encourages the Welsh Government to consider these fully in refining its regional development policy.

⁹³ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 250 and 251

⁹⁴ Finance Committee, Record of Proceedings, 18 September 2018, paragraph 231

127. The Committee notes that Wales has benefited from EU Structural Funds and there are a number of areas where existing approaches work well and are valued. However, less bureaucracy was a key ask of many who provided evidence, and addressing this should be a priority for the UK Shared Prosperity Fund. The Committee notes the importance of audit checks on funding administrative arrangements but believes this is an opportunity to ensure the levels are suitable and fit for purpose. The Committee acknowledges the Cabinet Secretary's position that trusted partner organisations with a track-record of complying with funding requirements may be able to undertake less strenuous administrative processes.

128. However, a new funding mechanism will allow for reflection of current practices and an opportunity to learn lessons and improve systems. The Committee believes the Welsh Government should take this opportunity to develop an approach to ensure Wales's priorities are delivered.

129. The Committee recognises the benefits of multi-year funding, which provides certainty and allows robust projects to be developed which offer value for money, whilst providing funding assurance over the political cycle. The Committee also notes the importance of partnership working.

130. The Committee recognises that EU Structural Funds have had a clear focus on promoting equality, addressing poverty and human rights. A significant amount of EU supported projects have specifically focused on supporting women and we note the work previously undertaken by the Wales Programme Monitoring Committee to encourage women to enter STEM subjects. The Committee believes any successor funds should continue to focus on these issues.

Conclusion 3. The Committee believes that the UK Shared Prosperity Fund should:

- provide multi-year funding;
- ensure partnership working; and
- continue to mainstream equality in Wales.

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.

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.

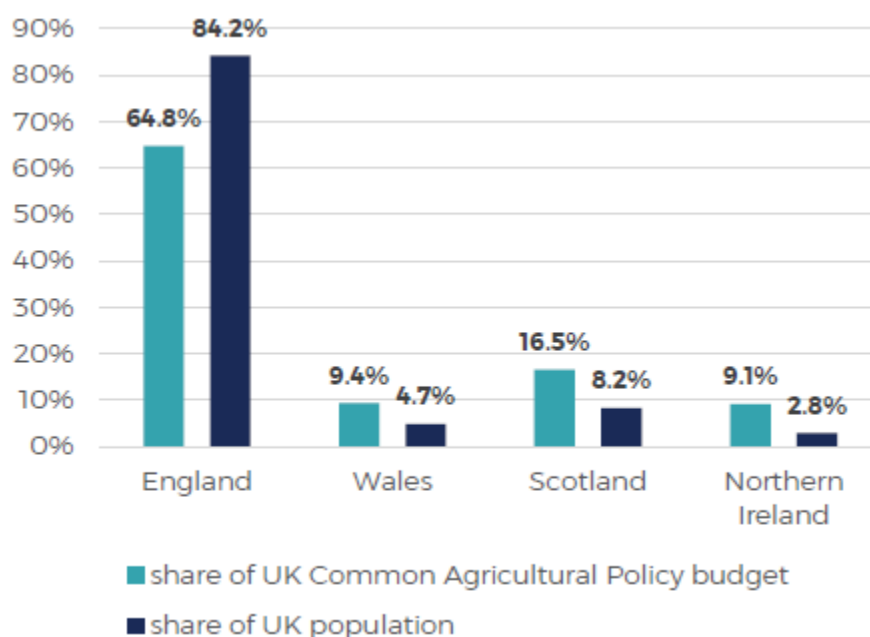
7. Replacing the Common Agricultural Policy – A fair deal for Wales

Background

7. 1. Fair funding for the Welsh agricultural sector

131. The Common Agricultural Policy (CAP) provides Wales with £274 million per year in direct payments to farmers and £80 million in Rural Development Plan funding.⁹⁵ As with the other devolved nations, Wales receives funding from CAP that is greater than its population share, receiving almost 10% of the UK allocation in the current round of EU funding. Figure 7 shows the percentage of UK CAP funding awarded to each UK nation in comparison to its population share.

Figure 7: Share of UK Common Agricultural Policy budget awarded to each UK nation in 2014-20 compared to population shares



Source: Office for National Statistics, [Population Estimates for UK, England and Wales, Scotland and Northern Ireland](#) and Department for Environment, Food and Rural Affairs, [UK CAP allocations announced](#).

132. The impact of CAP funding on individual farms has been considerable, particularly given the tight financial margins involved in the sector. In 2016-17, 56% of Welsh farms either made a loss, or would have done so without subsidies. This

⁹⁵ Welsh Government, [Securing Wales' Future](#)

figure rises to 62% for farms in cattle and sheep farms in the less favoured areas in which almost 80% of Welsh farms are located.⁹⁶

133. The UK Government has committed that CAP funding will be guaranteed until 2022.⁹⁷ 2019 will be the last year to be administered using EU rules, unless there is a “no deal” Brexit when 2018 will be the last scheme year. 2020 and 2021 will be administered using UK funds.

134. As wider context, the European Commission has proposed that direct payments to farmers under CAP to be “moderately reduced” under the 2021-27 multi-annual financial framework (MFF).⁹⁸ A letter to the House of Lords EU Energy and Environment Sub-Committee stated that the UK Government’s commitment to maintain “the same cash total in funds for farm support” until 2022 is based on the funding currently available under the 2014-2020 MFF.⁹⁹

135. On 12 September 2018, the UK Government’s Agriculture Bill¹⁰⁰ was laid in the UK Parliament. The purpose of the Bill is to authorise new expenditure for certain agricultural and other purposes. It also makes provision about direct payments during an agricultural transition period following the United Kingdom’s departure from the European Union.¹⁰¹

136. Clause 27 and Schedule 3 of the Bill confer powers on Welsh Ministers. The Explanatory Notes say:

“Further provisions relating to Wales can be found in Schedule 3. This is at the request of the Welsh Government in order to continue making payments to farmers and land managers once the UK leaves the EU, to make changes to current schemes and to enable implementation of replacement land management schemes. These powers are intended to be time limited until a Welsh Agriculture Bill can be brought forward.”¹⁰²

⁹⁶ Welsh Government, [Farm Incomes in Wales 2016-17](#)

⁹⁷ Secretary of State for Environment, Food and Rural Affairs, [Farming for the next generation](#)

⁹⁸ European Commission, [EU Budget for the future](#)

⁹⁹ Minister of State for Agriculture Fisheries and Food, [Letter to House of Lords EU Energy and Environment Sub-Committee](#), 11 September 2017

¹⁰⁰ UK Government, [Agriculture Bill 2017-19](#)

¹⁰¹ UK Government, [Agriculture Bill 2017-19](#)

¹⁰² UK Government, [Agriculture Bill: Explanatory Notes](#)

137. Following the passage of the UK Government’s Agriculture Bill into law, the Welsh Government intends to introduce its own primary legislation on agriculture before this Assembly term ends in 2021.¹⁰³

Evidence from respondents

138. Both Welsh farming unions, the Famers Union of Wales (FUW) and the National Farmers’ Union Cymru (NFU Cymru), raised the need for Wales to continue to receive allocations for post-CAP funding in the same way that has historically happened rather than funding based on Wales’ population share. The FUW told the Committee that:

“The FUW has lobbied for assurances that in the short term Wales’ share of the fixed budget assured by Secretary of State Michael Gove should remain unchanged, and that in the long term Wales should receive a needs-based allocation which is no less than would have been the case had the UK voted to remain in the European Union.”¹⁰⁴

139. NFU Cymru stated that Wales’ farmers need urgent clarification that future funding for Welsh agriculture will continue to be allocated on the basis of Wales’ historic relative share, and will not be rebased according to a population share calculation.¹⁰⁵ Both farming unions highlighted that if the Barnett formula was used to allocate post-CAP funding, Wales would lose much of its annual funding.¹⁰⁶

140. NFU Cymru also called for future funding to be ring-fenced for agriculture and rural development to prevent distortions of the UK’s internal market.¹⁰⁷ The FUW make a similar call, stating that a financial framework must be put in place between the four UK nations to ensure relative uniformity of expenditure across the whole of the UK, and to also recognise devolution and a degree of flexibility.¹⁰⁸

141. Professor Bell highlighted that he anticipates that the UK Government’s proposed policy for England will lead to a reduction in overall spending in agriculture in England. Should the Barnett formula be used to make annual

¹⁰³ Cabinet Secretary for Energy, Planning and Rural Affairs, [Written Statement - Launch of Brexit and our land, 10 July 2018](#)

¹⁰⁴ Written Evidence, EUF 22

¹⁰⁵ Written Evidence, EUF 09

¹⁰⁶ Written Evidence, EUF 09

¹⁰⁷ Written Evidence, EUF 09

¹⁰⁸ Written Evidence, EUF 22

changes in funding, this would mean that Wales would receive less funding in future.¹⁰⁹

7. 2. Future management of agriculture funding in Wales

142. Agriculture has been devolved to Wales since the Assembly was established in 1999, with the Welsh Government managing CAP payments to farmers and determining policy within EU legislative requirements and funding limits.

143. Once the UK leaves the EU, agricultural support is one of the 24 areas where it is expected that there will be UK-wide legislative frameworks, as these have been identified by the UK Government as areas where this is required.¹¹⁰ They are able to make regulations to do this for up to two years after March 2019, so there is the potential that the Assembly's powers could be restricted up to March 2026.

144. The UK Government's consultation on post-CAP agricultural support in England,¹¹¹ which closed in May 2018, stated that in relation to devolution it will:

“i. continue to work closely with the devolved administrations to agree where a common approach is required across the UK. Where commonality is essential we expect to need UK wide legislative frameworks.

ii. continue to work closely on areas where commonality is desirable and where it may be possible to consider cooperative arrangements such as Memorandums of Understanding or more informal arrangements. Informal arrangements could include information sharing on new design and outcomes of environmental and productivity schemes.”

Evidence from respondents

145. Respondents called for the devolution settlement to be respected, and for Wales to have the freedom to develop its own land management support policies that reflect differences between the Welsh and English farming sectors within a UK-wide framework.

¹⁰⁹ Written Evidence, Professor Bell, University of Stirling

¹¹⁰ Cabinet Office, [Frameworks analysis: breakdown of areas of EU law that intersect with devolved competence in Scotland, Wales and Northern Ireland](#)

¹¹¹ Department for Environment, Food and Rural Affairs, [Health and Harmony: the future for food, farming and the environment in a Green Brexit](#)

146. CIPFA stated that the new model of funding should consider the following issues:

- There should be no erosion of the Welsh Government's devolved powers for Agriculture. In fact, depending on 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.¹¹²

147. The FUW has called for a UK-wide financial framework that ensures relative uniformity in terms of expenditure in specific areas, while also recognising devolution and offering flexibility. Not achieving this would give rise to the possibility of severe market distortion between producers and industries in the UK single market. Its evidence to the Assembly's Climate Change, Environment and Rural Affairs Committee highlights that a similar framework exists with current EU funds to prevent divergence between Member States.¹¹³

148. Professor Marsden made the point that small family farms will be negatively impacted by the UK Government's proposals for land management support in England, and that these should be protected in Wales. He highlighted the need to develop a vision for Welsh farming that takes account of this, and also raised the point that this would help protect the distinctive cultural and linguistic heritage present in Welsh family farming.¹¹⁴

149. Professor Bell raised the need for the remoteness of some farming communities in Wales and Scotland to be considered. He stated that there is much more of a need for "rural support" for farms struggling to survive in these communities than in England, and therefore flexibility is needed in determining policy.¹¹⁵

150. Respondents also highlighted the opportunities for Wales to design land management support policies that better reflect our needs following the UK leaving the CAP in 2020.

151. Professor Dwyer suggested that there needs to be a change in approach from the current approach with CAP, which she summarises as:

¹¹² Written Evidence, EUF 19

¹¹³ Climate Change, Environment and Rural Affairs Committee, [UK common frameworks on agriculture and environment: UK12 Farmers' Union of Wales](#)

¹¹⁴ Finance Committee, Record of Proceedings, 21 June 2018, paragraphs 268-272

¹¹⁵ Finance Committee, Record of Proceedings, 21 June 2018, paragraph 262

“Opaque handouts with draconian controls driven too much by an emphasis upon fixed rules and penalties with insufficient regard to notions of proportionality and fairness, to respectful exchange based upon a long-term agreed relationship, rewarding fairly and intelligently and sanctioning cost-effectively.”¹¹⁶

152. Professor Dwyer also highlighted opportunities to simplify administrative and regulatory burdens including transparent funding processes; working with stakeholders to identify cost-effective ways to achieve desired outcomes; and long-term staff retention to provide continued contact with individuals, groups and businesses applying for support.¹¹⁷

153. Professor Marsden called for Wales to target and deliver support based on a strong ecological-economic approach. It would provide support to partnerships, which would include individual farmers as long as they were working in partnerships with other stakeholders within their local area to sustainably produce high quality foods in harmony with other environmental goods and services.¹¹⁸

154. The FUW was keen to keep those aspects of CAP that it considers to work, and not make administrative changes that would disrupt systems or impose additional costs. However, it felt that a future programme should better assess geographic needs at a more local level to provide fair funding that considers the differing needs and economies of urban and rural areas.¹¹⁹

Evidence from the Welsh Government

155. The Cabinet Secretary for Energy, Planning and Rural Affairs (EPRA) has committed that the Welsh Government will operate direct payments to farmers until the 2019 scheme year. From 2020, powers will return from Europe, and the Welsh Government will implement a transition period towards its new policy, which will be completed by 2025.¹²⁰

156. The Cabinet Secretary for Finance raised the importance of CAP funding to the agricultural sector, highlighting that its impact on individuals in receipt of the funding is considerable, particularly in relation to other funding streams.¹²¹

¹¹⁶ Written Evidence, EUF 20

¹¹⁷ Written Evidence, EUF 20

¹¹⁸ Written Evidence, Professor Terry Marsden

¹¹⁹ Written Evidence, EUF 22

¹²⁰ National Assembly for Wales, Plenary Record of Proceedings, 8 May 2018, paragraph 340

¹²¹ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 193

157. The Cabinet Secretary for EPRA said that detailed discussions are required to agree the levels of funding and UK frameworks to be put in place for a successor programme to the CAP. Her approach to securing fair funding for Wales will be that post-CAP funding is based on the current share rather than a population share through the Barnett formula.¹²²

158. The Cabinet Secretary for EPRA said the Welsh Government has committed to ring-fencing agriculture funding in the short term. She added:

“Post 2021, when we’ve got a new Welsh Government, obviously I can’t make that commitment for that. Maybe you’d like to make that recommendation as a committee.”¹²³

159. The Cabinet Secretary for EPRA also commented that she did not consider that the potential for a reduction in English agricultural funding identified by Professor Bell would necessarily lead to a reduction in funding available to Welsh agriculture. She stated that agriculture has been devolved for nearly 20 years, so the Welsh Government needs to have a fair budget, and that spending on agriculture is a matter for the Welsh Government.¹²⁴

160. In a statement in May 2018, the Cabinet Secretary for EPRA said that:

“The case for devolution is stronger than ever. The composition of our farming sector is very different to the rest of the UK, particularly England. Our landscape is more varied, our rural communities are a much greater share of the population, and our agriculture is more integrated into the fabric of our culture, especially the Welsh language. We have a once-in-a-generation chance to redesign our policies in a manner consistent with Wales’s unique integrated approach, delivering for our economy, society and natural environment.”¹²⁵

161. The Cabinet Secretary for EPRA stated that upland farming was a specific area where it was important for Wales to secure devolution, due to the differences in the policy and support needs of farmers compared to many areas of England.¹²⁶

¹²² Written Evidence, Cabinet Secretary for Finance

¹²³ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 66

¹²⁴ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 74

¹²⁵ Cabinet Secretary for Energy, Planning and Rural Affairs, [Written Statement: Future of agriculture and land management, 21 March 2018](#)

¹²⁶ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 262

She also noted the importance of the Welsh language to the Welsh agricultural sector would create a double impact if small family farms cease to exist.

162. To set out her vision of future devolved agricultural support, the Cabinet Secretary for EPRA published [Brexid and our land](#), a consultation into its proposed future agricultural policy in July 2018. This proposes two over-arching schemes to replace the CAP.

163. Following this consultation, the Welsh Government intends to publish a further consultation in Spring 2019, and introduce primary legislation to make provision for reforms before the end of this Assembly term.¹²⁷

Committee View

164. The Committee recognises the importance that CAP funding has had on the land management sector, with direct payments to individual farms having a considerable impact in the 80% of Wales that is classed as a “Less Favourable Area”. With over half of farms in Wales either making a loss or requiring subsidy to avoid this, it is vital that Wales receives a fair share of post-Brexit agricultural funding.

165. Given that Wales currently receives CAP funding that is double its share of the UK population, the Committee believes it is crucial that initial post-Brexit funding allocations are allocated to the UK nations on the current basis. This would avoid the perils of a situation where the Barnett formula is used to allocate funds, resulting in the three devolved nations losing out considerably.

166. The Committee is sympathetic to the view that the agricultural sector requires greater certainty over longer-term funding once the UK Government guarantee expires in 2022 and welcomes the Welsh Government’s commitment to ring-fencing funding in the short term. The Committee recognises the difficulty with ring-fencing funding for agriculture beyond the term of the current Welsh Government but believes the agriculture sector needs certainty and would urge the Welsh Government to consider how this could be achieved.

167. However, it is also the case that the Welsh Government is uncertain over how much funding it will receive in a post-CAP settlement. Therefore, the Committee wishes to make a responsible recommendation that understands the uncertainty

¹²⁷ Cabinet Secretary for Energy, Planning and Rural Affairs, [Written Statement - Launch of Brexid and our land, 10 July 2018](#)

that both the agricultural sector and the Welsh Government face through being unaware of how longer-term funding settlements will operate.

168. The Committee strongly believes that post-Brexit agricultural support arrangements should respect the devolution settlement, and that Wales should be able to use its powers to support the specific needs of the Welsh land management sector. The evidence the Committee received points to the need for a UK-wide framework for agricultural support to avoid the potential for market distortions from vastly different policies in the different UK nations.

169. The composition of the agricultural sector in Wales is significantly different to that in England, given that upland farming is much more prevalent in Wales, and that rural communities make up a greater share of the Welsh population. Therefore, it is clear to the Committee that “made in Wales” policies are required to meet these specific needs and to protect the small family farms that have been a part of rural Welsh life for centuries. Not doing so would have a dual impact on rural communities and also the Welsh language.

170. The Committee believes there are clear opportunities to improve on the current CAP policies. In this context, it is encouraging that the Welsh Government is consulting on its proposals to achieve this, and has set a timescale for finalising these and delivering them through legislation. The Committee does not usually comment on the relative merits of different policy options. However, the Committee believes that the range of proposals from within Wales that it and the Climate Change, Environment and Rural Affairs Committee have received strengthen the case further for the Welsh Government to have maximum flexibility to develop policy for land management support.

Conclusion 4. Should Wales receive at least its current level of funding when post-CAP allocations are determined, the Committee would urge the Welsh Government to consider how ring-fencing the current level of funding could be achieved beyond the current Welsh Government’s term.

Conclusion 5. A UK-wide framework for agricultural support should be developed as a priority to ensure that Wales and the other UK nations are able to see the benefits of refreshed policies that are directed more towards their specific needs than the Common Agricultural Policy has been.

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.

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.

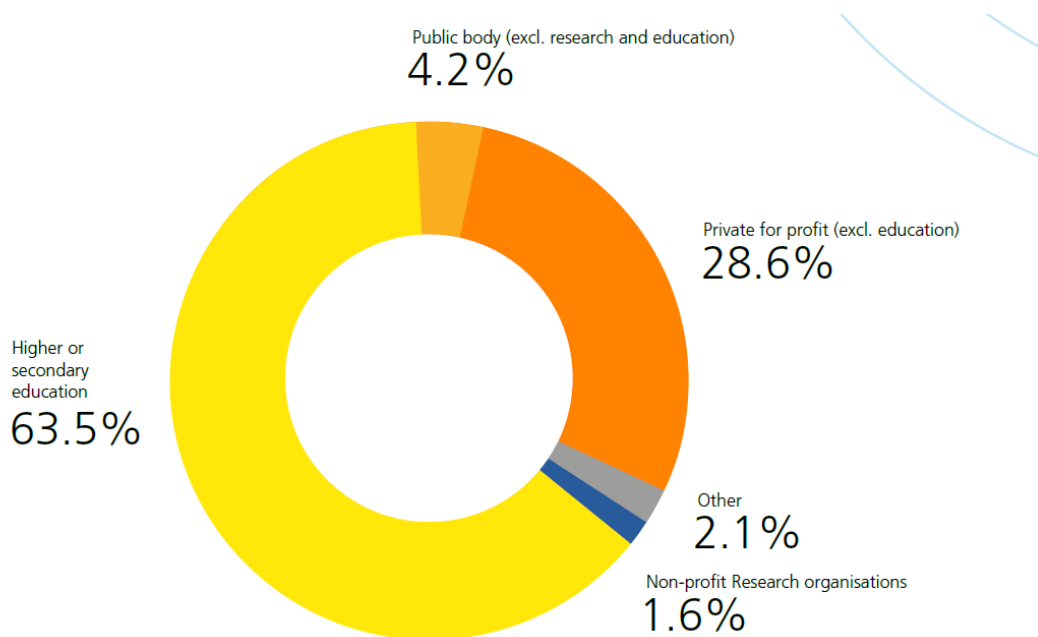
8. Other funding streams

8. 1. Research and innovation funding

171. Horizon 2020 is the EU’s research and innovation funding programme for 2014-20. It places emphasis on excellent science, industrial leadership and tackling societal challenges.¹²⁸ Overall, since the start of the programme, the UK is the second most successful of all EU Member States, securing almost 15% of funding and over 12.5% of participations.¹²⁹ Welsh organisations have secured just over €83m of Horizon 2020 funding since the start of the programme. This has involved 191 participations and 2,000 international collaborations.¹³⁰

172. This funding is of particular importance to the Welsh higher and secondary education sector, which received 66% of funding awarded to Welsh organisations in 2016/17, and undertook 64% of participations in Horizon 2020 during 2016/17.¹³¹ Figure 8 shows participations in Horizon 2020 by sector in 2016/17.

Figure 8: Participations in Horizon 2020 by sector in 2016/17



Source: Welsh Government, [Horizon 2020 in Wales Annual Report 2017](#)

¹²⁸ European Commission, [What is Horizon 2020?](#)

¹²⁹ Welsh Government, [Horizon 2020 in Wales Annual Report 2017](#)

¹³⁰ Welsh Government, [Horizon 2020](#)

¹³¹ Welsh Government, [Horizon 2020 in Wales Annual Report 2017](#)

173. As part of the next multi-annual financial framework (2021-27), the European Commission is working on its proposal for Horizon Europe,¹³² the framework programme that will succeed Horizon 2020. With a proposed budget allocation of €97.9 billion, this would be the EU's largest ever research and innovation funding programme.¹³³

174. The UK Government is committed to achieving a far-reaching science and innovation pact with the EU, and would like to discuss the option of full association to Horizon Europe around three areas: structure, influence and contribution.¹³⁴

Evidence from respondents

175. The university sector is particularly concerned about the uncertain future of research and innovation funding. Universities Wales stated that:

“We see it very important, however, to secure continued participation in Erasmus+ and European research and innovation programmes, including Horizon 2020.”¹³⁵

176. Cardiff University would like clarity over the UK's continued access to and influence over Horizon 2020 and future EU research and innovation programmes. They stated that the benefits to Wales of participating in Horizon 2020 are not just funding, but membership of networks and collaboration opportunities. Continuing these is, in their view, vital to the UK maintaining its standing as a leader in research and innovation.¹³⁶

177. Cardiff University also told the Committee that, in a scenario where the UK Government is unable to secure future access to EU research and innovation programmes, it should provide funding equivalent to the amount secured from Horizon 2020 as an uplift to the UK science and research budget. It should also propose alternative mechanisms for setting up an international research council with other leading countries.

178. CIPFA highlighted the importance of research and innovation funding post-Brexit, and suggest that the Welsh Government should make the case to the UK Government that the level of research funding should at least remain constant.

¹³² European Commission, [EU Budget for the Future](#)

¹³³ European Commission, [The Commission's Proposals for Horizon Europe](#)

¹³⁴ HM Government, [Framework for the UK-EU partnership: Science, research and innovation](#)

¹³⁵ Written Evidence, EUF 08

¹³⁶ Written Evidence, EUF 12

This should be the case whatever the scenario is in relation to the UK participating in future EU research and innovation programmes.¹³⁷

179. The IFS stated that the mechanism and level of geographical area that Wales should collaborate with depends to an extent on whether the purpose of research and innovation funding is for research as a public good, or to promote regional development through providing greater funding to institutions in more economically deprived areas.¹³⁸

180. The IFS believes that, if the purpose for research funding is as a public good, then there is a clear benefit in competitive funding arrangements covering the largest possible geographical area, whether that is at UK level or through the UK participating in EU research and innovation programmes. If, however, the focus is on regional development then a UK or Wales-wide scheme may be able to take into account issues such as the promotion of research and development in disadvantaged regions, in addition to scientific quality and overall costs and benefits.¹³⁹

8. 2. European Investment Bank

Background

181. Each of the 28 Member States of the EU is a shareholder in the European Investment Bank (EIB), with shares calculated by the economic weight of each EU Member State. The UK holds 16% of the overall total value of shares held in the EIB.¹⁴⁰

182. The UK has agreed to provide €39 billion of the EIB's capital, as per Article 4 of the EIB's statute. However, the statute also provides that only around 9% of this money had to be paid in immediately, with some or all of the remainder to be called in if the Bank's Board of Directors deems it necessary. This means that as of December 2016, the UK had contributed just under €3.5 billion.

183. When the UK leaves the EU, under the current rules it would cease to be eligible to be a member of the EIB. The EU has proposed that its capital

¹³⁷ Finance Committee, Record of Proceedings, 21 June 2018, paragraph 140

¹³⁸ Written Evidence, EUF 21

¹³⁹ Written Evidence, EUF 21

¹⁴⁰ European Investment Bank, [Shareholders](#)

contribution would therefore be returned, once all the EIB's outstanding loans at the time of the UK's withdrawal have concluded.¹⁴¹

184. In June 2018, Jake Berry, the UK Government's Parliamentary Under Secretary of State at the Ministry of Housing, Communities and Local Government stated that:

“The Government considers that it may prove to be in the mutual interest of all sides for the UK to maintain some form of ongoing relationship with the EIB Group after leaving the EU. We will explore these options with the EU as part of the negotiations on the future relationship, and will also consider whether any further government support is required.”¹⁴²

185. In July 2018 the Head of the EIB, Werner Hoyer, stated that he considers there is still a possibility of the UK remaining a member of the EIB after it leaves the EU. He went on to comment that he would be “extremely sad” if the idea of continued UK participation in the EIB was dead, as both sides have something to offer each other.¹⁴³

Evidence from respondents

186. A number of organisations who submitted written evidence to the Committee highlighted the importance of continued access to EIB funds post-Brexit. CIPFA highlighted that between 2014 and 2017, the EIB had signed finance contracts worth €23.6 billion in the UK, including infrastructure for Dŵr Cymru Welsh Water (€582 million for two projects in 2014 and 2017)¹⁴⁴ and Swansea University's optimisation project (€71 million¹⁴⁵).¹⁴⁶

187. Chwarae Teg noted the importance of the EIB as a potential alternative source of funding if Wales loses out on post-Brexit funding. It stated that clarification of the future position of the UK in relation to the EIB is needed.¹⁴⁷

¹⁴¹ House of Commons Library, [The European Investment Bank](#)

¹⁴² Hansard, 19 June 2018, [Written Question 152765](#)

¹⁴³ Financial Times, [European Investment Bank wants UK to remain a member](#)

¹⁴⁴ European Investment Bank, [Financed Projects](#)

¹⁴⁵ European Investment Bank, [Financed Projects](#)

¹⁴⁶ Written Evidence, EUF 19

¹⁴⁷ Written Evidence, EUF 24

188. The Institution of Civil Engineers Wales¹⁴⁸ and Chwarae Teg¹⁴⁹ both suggested that there is a need for clarity on whether Wales will be eligible for EIB funding following Brexit. If not, developing a regional investment bank may be an alternative.

8. 3. Equality funding streams

189. The Equality and Human Rights Commission Wales told the Committee that it is important that the loss of EU funding does not have a detrimental impact on efforts to promote equality and human rights in Wales.¹⁵⁰ They noted that there has not yet been a decision on whether the UK will replace funds such as the Rights, Equality and Citizenship Fund and the Asylum, Migration and Integration Fund.

190. They stated that they want the Welsh Government to ensure that Brexit does not undermine Wales's equality and human rights infrastructure. This includes academic research, for example on violence against women and how to police it, and voluntary sector services, for example those supporting older and disabled people in employment.¹⁵¹

191. The Equality and Diversity Forum echoed these concerns.¹⁵² They noted that the Rights, Equality and Citizenship Fund directly supports projects focusing on human rights, violence against women, hate crime and discrimination. Over a third of projects funded by this directly support people in the UK. The forum calls for the replacement of this fund after Brexit.

Evidence from Welsh Government

192. The Welsh Government's White Paper Securing Wales' Future states that Wales' interests would be best served by continuing to participate in Horizon 2020. The Cabinet Secretary for Finance echoed this view stating:

“I think it is very important from a Welsh perspective that we do continue to be able to participate in the successor programme to Horizon 2020.”¹⁵³

¹⁴⁸ Written Evidence, EUF 03

¹⁴⁹ Written Evidence, EUF 24

¹⁵⁰ Written Evidence, EUF 28

¹⁵¹ Written Evidence, EUF 28

¹⁵² Written Evidence, EUF 26

¹⁵³ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 270

193. The Cabinet Secretary said the UK Government should be seeking to influence the development of the Horizon Europe programme so that it develops in a way that benefits the UK most, through focussing on research quality. However, in a scenario where the UK does not participate in Horizon Europe, the Cabinet Secretary for Finance highlighted that:

“If we can’t have Horizon 2020, should we just have a UK fund with the same amount of money that universities can bid to. And the answer from universities is that these will not be equivalents at all. ... if you’re being asked to give up a relationship, let us say, with the Sorbonne, and to substitute it for a relationship with a university that’s essentially a teaching university somewhere else in the United Kingdom, that is not going to give you the same research impact for the investment that you are making. So, having the equivalent amount of money is not the same as having the same level of quality of research, and if you don’t have the same quality of research, then your ability to attract people who are very mobile, and who can be employed anywhere they like, will be diminished as well.”¹⁵⁴

194. In relation to the EIB, the Cabinet Secretary said:

“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.”¹⁵⁵

195. The Cabinet Secretary also noted the significant commercial expertise within the EIB, and cited the South Wales Metro project as an example that has benefitted from this expertise in informing the procurement process.¹⁵⁶

196. Wales receives around £1.9 million per year from the European Maritime Fisheries Fund (EMFF). The Cabinet Secretary for EPRA stated in Plenary that the

¹⁵⁴ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 272

¹⁵⁵ Written evidence, Cabinet Secretary for Finance

¹⁵⁶ Written Evidence, Cabinet Secretary for Finance

Welsh Government will be looking to secure devolution of fisheries equivalent to Scotland, by gaining legislative competence for fisheries within the Welsh zone. However, she also noted that there will be a need to work with the rest of the UK to develop a UK-wide framework as fisheries management is one of the 24 policy areas where the UK Government considers that this will be required.¹⁵⁷

197. The Cabinet Secretary for EPRA stated that after Brexit the Welsh Government will need to look at more funding to the fisheries sector than it currently receives, and that it will need more focus and resources. She said this is an area she will be discussing with the Cabinet Secretary for Finance to consider budgets going forward.¹⁵⁸

198. The Cabinet Secretary for EPRA said that she anticipates that the UK Government's guarantee will cover the EU funding element of all current EMFF projects approved before the end of the transition period, although discussions are ongoing.¹⁵⁹

Committee view

199. The Committee is convinced by the evidence received from stakeholders and the Welsh Government that it would be beneficial for Wales to continue participating in future EU research and innovation programmes, including Horizon Europe which will start in 2021. In this context, the Committee welcomes that the UK Government is seeking to discuss the option of full association to Horizon Europe, with its preference for discussions to focus on UK structure, influence and contribution.

200. In coming to this view, the Committee was particularly mindful of the success of the UK in securing research and innovating funding through Horizon 2020, and that the opportunity to form collaborations and networks with institutions from other EU Member States adds considerable value to the financial benefits that funding brings.

201. However, if the UK Government does not secure access to Horizon Europe, the Committee is concerned that there could be a financial impact on Welsh universities as well as barriers to effective collaboration with prestigious research institutions in EU Member States. It will therefore be highly important that the UK

¹⁵⁷ National Assembly for Wales, Plenary, 3 July 2018, paragraphs 361-362

¹⁵⁸ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 156

¹⁵⁹ Finance Committee, Record of Proceedings, 27 June 2018, paragraph 154

Government acts to guarantee that the UK research budget receives equivalent or greater funding levels to funding secured through Horizon 2020.

202. The Committee is aware that the UK Government is exploring options with the EU to maintain a future relationship with the EIB after Brexit. Due to there being no similar body in the UK that can provide the same sort of finance at equivalent cost, this is of prime importance to Wales given the important infrastructure projects the EIB has supported.

203. The Committee recognises the difficulties around the UK's future membership of the EIB due to the existing rules that mean it will cease to be a member post-Brexit. However, it urges the UK Government to work creatively during the withdrawal negotiations to secure a continued relationship with the EIB.

204. The Committee was disappointed to hear from the Cabinet Secretary for EPRA on the lack of clarity available from the UK Government relating to future funding awarded under the European Maritime Fisheries Fund, particularly in relation to science and enforcement funding. The Committee believes that those involved in the fisheries sector need greater certainty, particularly those individuals or organisations in receipt of science and enforcement funding.

205. The Committee received evidence on the impact of other EU funding streams on equality and human rights, such as the Rights, Equality and Citizenship Programme. The Committee supports the view that the loss of funding from these streams should not impact upon equality and human rights in Wales. The Committee would not wish to see this impact upon areas that have received funding from this source, and recognises the impact that collaboration between different EU Member States has had on promoting equality.

Conclusion 6. The Committee supports the UK Government's decision to seek access to Horizon Europe, and urges it to come to an arrangement where Wales and the UK can participate in this programme. However, if the UK is unable to secure access to Horizon Europe, the Committee believes that the UK Government should ensure that the UK science and research budget receives additional funding equivalent to or above that secured by the UK from Horizon 2020.

Conclusion 7. The Committee believes that the UK Government should provide greater clarity on how the UK Government Guarantee will impact on delivery of the current European Maritime Fisheries Fund, and on the extent of the guarantee.

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.

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.

Annex A – List of oral evidence sessions

The following witnesses provided oral evidence to the Committee on the dates noted below. [Transcripts of all oral evidence sessions](#) can be viewed on the Committee's website.

Date	Name and Organisation
13 June 2018	<p>Julie Morgan AM, Chair of the Wales Programme Monitoring Committee</p> <p>Dr Grahame Guilford, EU Funding Ambassador</p> <p>Sioned Evans, Chief Executive, Welsh European Funding Office</p> <p>Councillor Rob Stewart, Leader, Swansea Council and Welsh Local Government Association Deputy Leader and spokesperson on Economic Development, Europe and Energy</p> <p>Tim Peppin, Director of Regeneration and Sustainable Development, Welsh Local Government Association</p>
21 June 2018	<p>Victoria Winckler, Director of the Bevan Foundation</p> <p>Alan Bermingham, Chartered Institute of Public Finance and Accountancy</p> <p>Professor Steve Fothergill, Sheffield Hallam University</p> <p>Professor David Bell, University of Stirling</p> <p>Professor Terry Marsden, Cardiff University</p>
27 June 2018	<p>Lesley Griffiths AM, Cabinet Secretary for Energy, Planning and Rural Affairs</p> <p>Tim Render, Director, Environment and Rural Affairs</p> <p>Tony Clark, Head of Finance, Natural Resources and Food</p> <p>Mark Drakeford AM, Cabinet Secretary for Finance</p> <p>Peter Ryland, Chief Operating Officer, Welsh European Funding Office</p>

Annex B – List of written evidence

The following people and organisations provided written evidence to the Committee. All consultation responses and additional written information can be viewed on the Committee’s website.

Organisation	Reference
Education Workforce Council	EUF 01
National Education Union Cymru	EUF 02
Institute of Civil Engineers	EUF 03
Social Care Wales	EUF 04
Colleges Wales	EUF 05
Arts Council of Wales	EUF 06
Welsh Council for Voluntary Action	EUF 07
Universities Wales	EUF 08
National Farmers Union Cymru	EUF 09
Welsh Local Government Association	EUF 10
NHS Wales Directors of Finance	EUF 11
Cardiff University	EUF 12
National Parks Wales	EUF 13
Country Land and Business Association	EUF 14
Blaenau Gwent County Borough Council	EUF 15
Hywel Dda University Health Board	EUF 16
National Federation of Self Employed and Small Businesses Wales	EUF 17
Industrial Communities Alliance Wales	EUF 18
Chartered Institute of Public Finance and Accountancy	EUF 19
Professor Janet Dwyer, University of Gloucester	EUF 20
Institute for Fiscal Studies	EUF 21
Farmers’ Union of Wales	EUF 22
Royal Town Planning Institute Wales	EUF 23
Chwarae Teg	EUF 24
Welsh Language Commissioner	EUF 25
Equality and Diversity Forum	EUF 26
Bevan Foundation	EUF 27
Equality and Human Rights Commission	EUF 28

Professor Steve Fothergill, Sheffield Hallam University	EUF 29
Dr Grahame Guilford, Member of Programme Monitoring Committee, 2014-2020 Structural Funds Programme	EUF 30

Additional Information

Written evidence: Dr Hywel Ceri Jones, Former EU Funding Ambassador

Written evidence: Wales Programme Monitoring Committee

Written evidence: Dr Grahame Guildford

Written evidence: Cabinet Secretary for Energy, Planning and Rural Affairs

Written evidence: Cabinet Secretary for Finance

Written evidence: Professor David Bell, University of Stirling

Written evidence: Professor Terry Marsden, Cardiff University