

## Welsh Affairs Committee

### Oral evidence: [One-off session on Levelling-up and Intergovernmental Relations](#), HC 1171

Wednesday 23 March 2022

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Members present: Simon Baynes; Ruth Jones; Ben Lake; Robin Millar; Beth Winter.

In the absence of the Chair, Ben Lake took the Chair.

Questions 1 - 47

#### Witnesses

**I:** Neil O'Brien MP, Parliamentary Under Secretary of State (Minister for Levelling Up, The Union and Constitution), Department for Levelling Up, Housing and Communities; and Sue Gray, Second Permanent Secretary, Cabinet Office.

## Examination of witnesses

Witnesses: Neil O'Brien MP and Sue Gray.

**Q1 Chair:** Good morning, all. Welcome to this morning's session of the Welsh Affairs Select Committee. I am very pleased to welcome Minister Neil O'Brien, the Parliamentary Under Secretary of State and Minister for Levelling Up, The Union and Constitution, and Sue Gray, the Second Permanent Secretary in the Cabinet Office. Welcome to you both.

I will begin by asking some questions on the levelling-up fund and the UK community renewal fund. In particular, what assessment had the Department made of the methodology used for allocating the levelling-up fund?

**Neil O'Brien:** The methodology for the levelling-up fund has a number of different parts to it, as you know. All of this is set out on gov.uk. There is an element of it that is about assessing need through a formula that has different dimensions about the need for regeneration, levels of income and so on. When they come in, bids are independently scored by officials and their assessment comes in a couple of different baskets about a strategic fit with the other objectives that the local place has, about the deliverability and the value for money of the intervention they want to propose, as well as the index of need and whether there is the support of the local MP, reflecting the support of the wider community. All those things come together into a scoring that is independently done by officials.

Ministers then set out in the prospectus at the very start of the process a number of different considerations, like the need for a balance of projects across the country and so on. The process is highly objective. It is very much driven by officials' assessments using a quite well-established framework, which is rather like the Treasury classic four business case approach.

My assessment of it would be that it works well in that sense as a competitive fund. It helps to ensure that we get good projects coming forward. It funds substantial interventions, up to £20 million. It is quite a capital-intensive programme. Our thought is to then complement that with some allocated funding, non-competitive funding, so that we have a balanced diet of both challenge or competitive funding, which has a certain set of merits, and then allocated funding, which is stable and has a different set of merits as well. I don't know if Sue wants to add anything to that.

**Sue Gray:** No, that is fine.

**Q2 Chair:** In terms then of the first round and the initial allocations on successful bids, I am sure you will be aware that there were some concerns, if we look at Wales in particular, where perhaps areas that had previously been in receipt of structural funding from the European Union



were not successful or did not receive funding in the first round of the UK community renewal fund. They did give rise to some concerns of pork barrel politics. How do you respond to those suggestions?

**Neil O'Brien:** I would strongly reject the last bit of that. As with the levelling-up fund, again with the community renewal fund, bids were independently assessed by officials. Again, there was an index, the nature of which you saw published on the website. We have no ability to do that kind of thing even if we wished to.

However, it does concern me that places like Flintshire did not manage to get any successful bids. There are multiple parts of that problem and I think they appealed to the community for proposals. They only got four in. I think it was only then one that was sent on to the UK Government, and independent Ministers and officials did not assess that as a bid that was going to be funded.

I take away from that that it reinforces my view that you do also need allocative funding as well as challenge funding. Even though with the levelling-up fund there are multiple rounds of it, and if places are not successful in the first round of it they might be successful in a future round—and we strain every sinew to make sure that officials, particularly in smaller, lower-capacity authorities, are getting all the help and feedback that they need and deserve—none the less we are conscious that for smaller local authorities with more limited capacity, that allocative stream is even more important. It is just fundamentally harder if you are a small local authority to compete in those competitive funds than it is if you are a very large urban authority with relatively large resources, lots of staff and so on.

On the one hand, it is all done completely objectively, and as a competitive fund it is working as it should. On the other hand, what happened with Flintshire just underlined for me the need to have that very flexible allocative funding as well.

**Q3 Chair:** To what extent did you see in the initial round the legacy perhaps of some authorities that might have had a great deal of experience in preparing bids for previous European structural funding and those that did not have as much experience? Did you also see that that was a factor in terms of the quality or even the number of bids?

**Neil O'Brien:** I am not sure that that was the trend. There was a big difference in the way that places approached it and it is not a secret that some places do employ bid writers, although that is quite a common thing to do. They employ different bid writers and that is part of the nature of using these competitive funds. I am not sure it was where there was more experience, but I would say the pattern, if anything, is more about smaller authorities tending to be the ones that are more likely to say to us—and this is not just in Wales, this is everywhere—“We like allocative funding rather than just competitive funding”.



**Q4 Beth Winter:** Thank you for coming today. I wanted to probe a bit more in terms of the methodology. We had local authority leaders here a while ago and voluntary sector agencies who are very concerned about the lack of involvement and engagement, both in the design and the delivery of these schemes. There was concern over the timeframes of them. In terms of specifics, what are the measurement tools being used in terms of outcomes and impact? You very generally spoke about the methodology, but I am just trying to dig deeper in terms of what the specific outcomes are.

Going back, the other question is: why were local authorities, the voluntary sector and local communities not involved in the design of such an important scheme?

**Neil O'Brien:** There are a number of different schemes that we are talking about here. If we are talking about the community renewal fund, one of its purposes as a single-year fund—where we obviously would like to have multi-year funds and intend to do so—was exactly that together we could learn with places some lessons to inform the design of the UK shared prosperity fund, which we have been in extensive negotiations or discussions with local places about, which are ongoing. The entire point of doing that was to learn about what works.

**Q5 Beth Winter:** What engagement did local authorities and communities have in the design of the whole scheme?

**Neil O'Brien:** I will work through the funds. In terms of the design of UKSPF, I am in the process of meeting groups of local authorities about it at the moment. I will be speaking to the Welsh Local Government Association later on and its Scottish equivalents. I have been talking to a whole range of people in local government about it.

In terms of the community renewal fund, I know that there were discussions, which predate my time as a Minister, between local authorities and the central Government officials who were working on it in the run-up to that as well. I know that there has been official level engagement, even though it predates my time. There is an absolute desire on our part to have the input of local leaders and local officials into the design of these things. As we speak, that is shaping the design of UKSPF and a number of specific points are being made to us about how they want allocations to work, what they want the investment priorities to be, how they want the process of creating investment plans to work and what the role is of other stakeholders like MPs and third sector and private sector organisations.

We are learning a lot about the design of what we are doing from both learning by doing, through things like the community renewal fund, which is explicitly a kind of pathfinder, and also through directly talking to local authorities on a daily basis. I don't know if Sue wants to add anything on that.



## HOUSE OF COMMONS

**Sue Gray:** Since August we have established area-based teams. We have teams on the ground in Wales and the other devolved areas and they are working very closely with local authorities, the charitable sector and the Welsh Government, learning the lessons from some of the previous funds and helping some local authorities with capacity building as well, to help prepare bids for the next rounds of funds.

**Neil O'Brien:** On the important point that you made about timing, for the levelling-up fund round 1, absolutely, yes, you are correct that a lot of local authorities felt that the timescale to get those first-year bids in was quite tight. I would agree with that. That was partly because the money was starting to flow and we needed to get in bids that could be spent in that first financial year. On the one hand you want to give people time to write good bids; on the other hand, you do need to get on with the process of spending the money.

The positive thing I would say about that is that now, as we move towards round 2, which you might be hearing more about later on today perhaps, places have had the chance to engage with officials about bids they made in round 1 that did not get funding and how they can improve them or change them to get funding. They have had the chance to hear more about how round 2 will work and the sorts of things that they are thinking about putting that into. Now that the levelling-up fund is a bit more mature, they have had more time to think about the proposals they might want to bring forward. There will be an amount of time that we will set out possibly later on today that they can have to get bids in.

Even if places found that first early year spending timetable quite tight, which I would accept, there should be a bit more time now coming into the next round. Although no decisions have been made, that is not to say that that will be the final round either.

Q6 **Chair:** Thank you, Minister. The Levelling Up White Paper suggested there might be a streamlining of the funding landscape. Very briefly, is there any indication that you can give as to when that might be happening?

**Neil O'Brien:** It is a thing that we are actively working on at the moment. I am not sure I can give you a neat time about when we would see something on that front. We are conscious of the need to avoid, both within DLUHC and across Government, having an excessive fragmentation of funding. It is something we, as your question implies, did talk about quite a lot in the Levelling Up White Paper. I am conscious that everywhere in the country councils are facing numerous spending streams that are chopped and changed or have different rules, different timeframes, even within a single subject like funding for transport in local authorities.

We are trying to bring together some of those bigger spending streams over time and also avoid needless duplication or multiplication of small funding pots with competitive funding pots that last for a period of time.



## HOUSE OF COMMONS

In the White Paper we do make this point about all the different local growth funding streams we have had, more than 40 over the last 40 years, even at the level of the large programmes. I cannot say much more than that we are actively working on it across Whitehall and are seized of the importance of it from our conversations with local authorities.

**Q7 Beth Winter:** Moving on now to the shared prosperity fund, which you touched on, what discussions have you had with Welsh Government since last May on the design and the operation of the UK shared prosperity fund?

**Neil O'Brien:** Michael Gove met First Ministers and had a conversation that included discussing UKSPF. It is a very timely question because I mentioned before that we are in the process of talking to Welsh local authorities and other stakeholders there. I am keen to meet and work with the Welsh Government on this specific subject. We have communicated at official level that we are very open to the Welsh Government shaping all the different dimensions of this fund, about the allocation methodology we use and where gets what, about the investment priorities and what the money is spent on through a shared decision that we all agree on locally, Welsh Government and UK Government, through the decision to use those city and growth deal geographies. That also gives the Welsh Government another seat at the table to feed into those investment plans that the different regions of Wales will be coming up with.

At all levels we are very keen and the offer is clear about our desire to involve the Welsh Government. At the moment, I think they are mulling how they want to play this. I respect that. They can choose how they want to do things on this fund, but the offer to work on all the different designs of it is there and I hope that they will take that up.

**Q8 Beth Winter:** So there has not been any involvement up until now since last May? That was the question, sorry. It was about the involvement that you have engaged in with the Welsh Government.

**Neil O'Brien:** As I mentioned, Michael Gove engaged with First Ministers on this; I think it was just before Christmas. I have been seeking a meeting and I am keen to talk about it with my equivalent in Wales, Vaughan Gething, but at the moment I think they are still deciding if they want to engage in that way.

**Q9 Beth Winter:** Because Welsh Ministers have made it clear they want to engage and they want to be fully involved. They have given that evidence to us on a number of occasions.

**Neil O'Brien:** I can meet whenever would suit them.

**Q10 Chair:** In terms of the potential for the devolved Administrations to shape the policy, what do we mean by that? Could it entail some sort of decision-making function for some of the devolved Administrations?



**Neil O'Brien:** It would be into all those main decisions that I just mentioned, so into allocation formulas and what is spent where, into the priorities and what the money would be spent on, and then at the next level down of the actual regions of Wales into helping to form the specific investment plan, so the granular detail of what is done. I am absolutely keen to have them engaged.

Q11 **Beth Winter:** You would consider devolving the administration and management of the shared prosperity fund to Welsh Government?

**Neil O'Brien:** I am happy for the Welsh Government to shape and tell us what they want in terms of all those different dimensions of the scheme. The one thing that we would be keen on, and I think this is probably the thing that is making them wonder about whether to meet, is that we want to allocate the funding fully out to local regions within Wales. We would like to put the money in the hands of local leaders. That is not to say there would not be a huge amount of input from the Welsh Government if we do that because they already sit on all the city and growth deals, if that is the geography we stuck with. That is the only real thing that we are set on from what we published in the pre-launch guidance.

As I say, pretty much every other dimension of this, we are engaging with Scottish Government on all those points at the moment and I hope we can have the same engagement with Welsh Government. I do think what our constituents want is very clear, which is for all the Governments of the UK to work together to deliver a good outcome for citizens. It will work much better if we can do it more with the Welsh Government. We are totally fine if the regions of Wales want to commission Welsh Government arm's length bodies to deliver these things and to spend the money that way. The offer is there to be fully engaged with it and I hope, although we are coming to the point of decision, we can have that engagement.

Q12 **Beth Winter:** But it has not happened up until now?

**Neil O'Brien:** Not through want of us seeking a meeting.

Q13 **Beth Winter:** In terms of systems and processes, in terms of any co-designing of the whole—

**Neil O'Brien:** At the official level, officials have been speaking regularly, and that happens at all levels. It happens at the programme level. The team that work on UK shared prosperity fund within our Department talk to officials who work for the Welsh Government. Sue meets regularly, and I will hand over to Sue in a second to talk about her engagements. At that top political level engagement, I think they are still considering their position. I know that our door is 100% open.

**Sue Gray:** I am having regular discussions, as are officials, with officials and hopefully they will encourage the meeting between Ministers.



**Q14 Beth Winter:** That is not the message that we are getting from Welsh Government at all in terms of involvement and engagement, or from local communities and local leaders in Wales. Particularly at this critical point in time, it is a bit late in the day, quite frankly, for you to be saying you are going to be meeting. You have had ample time to ideally be co-designing as well as delivering these schemes. I am reflecting the views of stakeholders and elected representatives in Wales.

**Neil O'Brien:** Our officials have been talking to local leaders as well as the top-level political engagement of WLGA and council leaders in Wales. The bit that I would like to see the most progress on is the top-level political engagement between us and the Welsh Government. As I say, I am certainly keen on that from our side.

**Q15 Beth Winter:** When do you expect local allocations of the UK shared prosperity fund and the methodology for those allocations to be made publicly available?

**Neil O'Brien:** There is not a date yet, I am afraid. I hope that it will be very shortly because we are keen to get on. The thing that we are trying to do is to make sure that we have the time for everyone to engage in the process and not to miss out on the chance to shape the thing for lack of time. We have given ourselves more time in order to keep open that possibility for the Welsh Government to engage, so I hope that we will come to a decision fairly soon.

**Q16 Beth Winter:** I have one final question, which I think will illustrate the frustrations of stakeholders, elected representatives and people throughout Wales. The WCVA—Wales Council for Voluntary Action—which is the umbrella body in Wales, has an active inclusion fund that supports 175 organisations and was getting £48 million of European funds. I am very concerned to hear that currently that inclusion fund is likely to end before we get the information and the concrete details about the UK shared prosperity fund, which is going to result in people losing jobs and vital schemes and projects coming to an end. There is a clear call for urgent consultation and involvement of the voluntary sector as well as other stakeholders in Wales in the design and delivery of this and the levelling-up agenda moving forward. Are you aware of this active fund?

**Neil O'Brien:** Yes, and I am keen that we respond in the design of the fund to what you are hearing from the voluntary sector in Wales in terms of investment priorities and what you can do with the money. I will not take away from the fact that there is a transition here. Through N plus three, you will continue to see EU funding continue for the next several years, but that is winding down in general as the UK shared prosperity fund ramps up.

It is a different way of doing things. Instead of a system in which a large amount of the funds or a majority of the funds were centrally retained, you will have probably four, I would have thought, regional programmes. There was always slightly two programmes as well because of the east



## HOUSE OF COMMONS

Wales-west Wales distinction in EU funding. It is a transition and local voluntary sector partners who want to receive funding through UKSPF—and I am sure that local leaders will want to fund those kinds of activities. I would be extremely surprised if they didn't, and Wales will be receiving a very high amount of spending per head compared with the rest of the country because of our manifesto commitment.

**Q17 Beth Winter:** This is very important. The fund has helped over 22,000 people—

**Neil O'Brien:** Some of these things are doing fantastic work, yes.

**Beth Winter:** —most of whom are extremely vulnerable groups of people, who are exactly the people you are looking to target. Can you give assurances to the WCVA that the decision with regards to the UKSPF and the levelling-up agenda can be made prior to this fund ceasing? Because it will result in job losses and also those vital schemes that are supporting people in our communities in Wales ending, which is going to have a detrimental impact on so many people.

**Neil O'Brien:** There are a couple of different levels to the answer to that question. The top level is one of the reasons why we made the manifesto commitment to protect the high level of funding in Wales is exactly so that we have continuity, you do not have lots of churn, and the good work of the kind that you are describing can continue.

In terms of the specific scheme that you mention and the transitional arrangements for how they are funding now, how the funding tapers down from the EU, how things will work with the UKSPF, I will need to come back to you because I do not want to say the wrong thing or make a promise that I cannot then keep. I am very happy to look at the exact details of that and I am conscious of the great work that all these groups are doing. We want to ensure that they can do more of it.

**Q18 Chair:** I will bring in Mr Millar in a moment. On the point about how the different decisions and the funding streams are influenced, I am interested in what role the Wales Office plays in all of this. Does it have a formal role? Is it more of a consultative role? How does it fit in?

**Neil O'Brien:** We work in tandem and you tend to see that Simon and I will be together in meetings on all of these things. Of course, it plays the central co-ordinating role across UK Government for all things Wales-related. We work together on all these things and the design of them using its very deep expertise in what is happening economically, socially and so on in Wales.

**Q19 Chair:** How would that engagement compare to perhaps the role that you envisage or hope to have for the Welsh Government? Would it be a similar sort of role? I appreciate that meetings are being sought.

**Neil O'Brien:** A good model of this and something that I think is a very positive thing that has happened over recent years is the city and growth



## HOUSE OF COMMONS

deals, where both the territorial offices and the devolved Administrations have a seat at the table and can feed into them, along with local partners. You have almost a tripartite kind of approach because they are all bringing something to the table that will get us a better result overall. Two heads are better than one.

**Q20 Robin Millar:** I am glad that you mentioned the territorial office, the Wales Office, in this because of course none of us here speaks for the whole of Wales. I must say that the characterisation of the experience across Wales presented by my colleague from Rhondda Cynon Taf is not one that is shared up in north Wales. The levelling-up funds and the community resilience funds have been received enthusiastically by local governments precisely because they have had a big say or feel they have a direct engagement with how they spend the money and the projects on which they spend it. It is a fact that of the European funds that have come into the UK over previous years, in Wales just 9% of those funds were decided at a local level. It is precisely that centralised control of funding, the plans that you have set out in the White Paper and what we have seen through things like the community resilience fund, and that is exactly why they are so welcome. I want to congratulate you on that and compliment you on that approach. It is greatly appreciated.

Likewise, I have no doubt that the conversations that have been had with the WCVA are as recorded and as recounted to you. I met Community and Voluntary Support Conwy last week and one of the concerns they expressed was again the challenges of working with the public sector. Very often the public sector will have a desire to require the voluntary sector to behave in a public sector way, effectively co-opt the voluntary sector into its embrace before it gives them any money, which is rather self-defeating.

I have a very simple question from all of that. In looking at the UK shared prosperity fund, will there be the opportunity for groups outside of and apart from local government to bid for funds?

**Neil O'Brien:** Yes, through those city and growth deals we want to encourage the involvement of the widest set of stakeholders possible. Although I waxed lyrical and I said I felt the city and growth deals had been a positive thing, I think that we can make them even better. That would involve things like expanding the role of MPs in them and getting more private and voluntary sector involvement, again to have the maximum amount of expertise in the room.

I take your point and it is part of a wider point, which is through the UK shared prosperity fund we want to minimise bureaucracy. Local leaders across the UK always underline for me some of the costs of having complex systems to allocate funding. If you are doing challenge funding, fundamentally you have to have a very objective process and it has to be rigorous and you end up with these Treasury four case kind of processes. They are good, they are rigorous, but they are also quite a big undertaking for councils.



## HOUSE OF COMMONS

With the UK shared prosperity fund, we want to complement all that with some highly flexible funding, maximally localised, minimally bureaucratic, where there is an investment plan formed locally, signed off with the minimum of bureaucratic involvement from the centre, and that we give places the flexibility to be more nimble and say what you are saying. Charities that are involved in these projects, who will be able to get funding through UKSPF by talking to their city and growth deal regions, do not want to become bureaucratised, if that is a word, and we do not want this process to be bureaucratic either.

**Q21 Robin Millar:** If you can hold to that principle alone, it will be a breath of fresh air for the whole funding landscape in many respects in Wales, or my part of Wales, I should say, following my earlier comments.

If we take a step back from that for a moment and take the bigger picture, there have been concerns expressed that in the transition from the existing European funding regime to the UK funding regime there will be a transition, and in that transition there will be a dip or a dropping off and a temporary shortfall. Is that the case? Can you just explain how that transition will occur, please? It may be a question for your colleague.

**Sue Gray:** I spent three years in Northern Ireland and there is a concern there that some of the funding may finish before the shared prosperity fund. We are trying our very best to make sure that we have that cover and that is how we are working that through.

**Neil O'Brien:** I mentioned the N plus three point about European funding from the last cycle and how that will transition down over the next couple of years as the UK shared prosperity fund ramps up. There is inevitably a transition as you go from one system to another and we want to avoid there being further dramatic transitions. We want to create a system that is stable and lasts for a long time and replicates some of the positive sides of European funding, which is the long cycles, the predictability, the stability, but also addresses some of the downsides of that funding, which is the quite high level of bureaucracy and quite a high level of having to crowbar your local priorities into a set of things that were decided elsewhere. We are trying to come up with something that we think is the best of both worlds in that respect and we are conscious of the challenges of the EU funding going down as the SPF comes up.

**Q22 Robin Millar:** Without wishing to put words in your mouth, but in an effort to simplify it for my own mind, are you saying then that the quantum, the total amount of funding, will be preserved or increased potentially, but that individual projects or individual schemes that have received funding from one may not receive funding from the next and therefore they may see a drop-off? Is that in effect what you are saying?

**Neil O'Brien:** The point about individual projects is absolutely correct. As more of this funding will be decided at a local level than was the case before, an inevitable consequence of that is that local places may choose—it is their choice, not mine—to do things differently. They might



want to fund different things. They might have done that anyway because there would have been a new EU seven-year cycle and they might have reviewed some projects, stopped some, started others and so on.

At the level of the individual project, there will doubtless be changes and in some cases they will be very conscious changes that people say, "We don't want to spend money on that anymore; we didn't feel it worked. We want to spend it on this," or just that the situation has changed: "We were doing that, now the thing we are trying to do is this".

**Q23 Robin Millar:** Thank you for that. That is helpful. Can I move then from the subject of inputs to outcomes? The narrative in Wales—and I think I can say this for the whole of Wales because it is the Welsh Government narrative—has been very much an argument of, "We want more money; we are not getting enough money". It is an argument about inputs. Personally, I do not hold that that is an effective approach to dealing with some of the intransigent problems that we have there. The very fact that we still have these problems after 20 years suggests that we need to look at a different way.

The Levelling Up White Paper talks about the importance of outcomes and I think it identifies 12 different areas, including health and education. Can you perhaps elaborate briefly on how you will measure the success of this funding, the shared prosperity funding, if indeed it is an outcomes-based approach that you are adopting? You might make a comment in there, please, to the fact that many of the areas, such as health and education, are devolved.

**Neil O'Brien:** I basically agree with you. Obviously we should focus on the outcomes and the outputs rather than just the inputs. My one caveat to it would be we do want to ensure that places, particularly Wales, have the resources they need to do all the things that need to be done to level up Wales, hence the record block grant over the SR period, a real-terms increase, which will mean that public spending in Wales is £120 for every £100 equivalent in England. It is a high overall level of public spending and that includes things like the £790 million for the city and growth deals, the £166 million so far for the various levelling-up funds, the extension of things like the British Business Bank, which I am not sure you would count as normal public spending because it is loans to SMEs.

There are other things that are somewhat harder to predict at the moment, like the commitment in the Levelling Up White Paper to increase the amount of R&D spending outside the south-east of England by a third over the next three years. Wales should be a beneficiary from that drive to get our R&D budgets to both do more for the economy and to be spent in poorer places, including Wales. Likewise, other national programmes like Project Gigabit, which are radically improving the infrastructure of the internet in Wales. It has gone from 11% gigabit coverage at the end of 2019 to 47% now, going up to 70% or 80%-odd by 2025.

**Q24 Robin Millar:** I am enjoying this recital of all the wonderful things you



## HOUSE OF COMMONS

are doing, but let me push you on outcomes.

**Neil O'Brien:** You raised the point about not just inputs. I could answer and say outputs are the key thing, but that would make it seem like we did not think inputs are important, which they are. Anyway, enough recital, I take your point.

As part of it, the Department, DLUHC, will take on a national monitoring and evaluation role. In the prospectus we will be clear about encouraging places to do things that are evaluable and produce useful evidence without wishing to tie places up in loads of knots about producing onerous bureaucracy at large costs to themselves. There is not enough evidence in government ever, there are not enough gold standard control trials ever, there is always a reason to get on with things and not do a trial, but we are keen to encourage places to do that. We will also be taking on a central role in evaluating what is working and not working well.

Some of these things that that fund in particular does are quite hard to evaluate because you do not have an easy control. If you are doing a town centre regeneration project, it is hard to know what the counterfactual is, but none the less we are keen, in so far as you can, to help provide good monitoring and evaluation.

**Q25 Robin Millar:** I have a final question just to bring this line to an end. Key to what you are describing there is data and information. I am wondering what steps you are taking to ensure the collection and the comparison of data in order to administrate effectively, in order to determine outputs and outcomes. There is a precedent unfortunately at the moment already for a confusion between datasets in Wales, England and Scotland, and that is quite a tough nut to crack. I am wondering what thought you might have given to that, please.

**Neil O'Brien:** It is a great question and I agree with the spirit of it very strongly. There are multiple ways that we are trying to tackle it. In our own Department we are trying to raise our data game. I met our new data officer, who arrived about two weeks ago, I think. The White Paper sets out some of the things we are trying to do to improve that.

On the specific point that you raise about cross-UK comparable data, there is a big drive going on on that front within the Union Policy Implementation Committee, which is part of the body set up following the Union review to try to improve UK-wide data. We did sign a new concordat between the devolved Governments and ONS to try to do that, and at all levels through secondments and joint working, and the identification of key priorities for the creation of and use of common data. It is not just about creating common datasets; it is about using them, including new datasets that are coming online that are not necessarily from traditional government statistics, like the sorts of things that we have seen in the pandemic about using phone data to give you mobility data.



## HOUSE OF COMMONS

As a random example, if you want to look at travel between Wales and England for work every day, you can see that in some of those authorities on the border you have maybe a quarter of people in Flintshire, Wrexham, Monmouthshire and so on going to England for work, but that data is from census 2011. That is quite old data now. All the data we saw during the pandemic from Google and so on about how many people are getting on the bus every morning, you have it real time, minute by minute, not from 2011. Anyway, it is a huge priority for us. We are doing lots of things at different levels.

**Sue Gray:** The work that has been done by ONS is particularly important around that concordat and all four Governments working together. As mentioned in the Levelling Up White Paper, we are talking to the devolved Governments about what works. We learn from each other about what is working well and we use that to inform how we move forward.

**Robin Millar:** Thank you very much, Chairman. I think this is very exciting and perhaps something we could return to another day because it is about co-operation between Governments.

**Chair:** We have a very brief supplementary from Beth Winter.

Q26 **Beth Winter:** I have a very quick question. The Minister for the Economy, Vaughan Gething, has clearly said that the Welsh budget will be close to £1 billion worse off due to the UK Government not honouring their commitment to replace the EU funds. That is a very different position from what you have just explained in your previous response. What is your response to the Welsh Government's calculations?

**Neil O'Brien:** That is not right. I don't know how that is being argued or how that is being arrived at. In terms of shared prosperity, we have the manifesto commitment and we will match what was spent before. In terms of the total spend in Wales, it is going up. I mentioned already that there was a 2.6% increase in real-terms spending. To give you the specific figures, total spending goes up from £17.7 billion in 2022-23, to £18 billion in 2023-24, to £18.2 billion in 2024-25. It is going up in real terms and, as I say, it is £120 for every £100 in England. It is a high level of public spending and it is going up in real terms.

Q27 **Beth Winter:** I can explain why it is not because it is based on the UK Government's intention to tax receipts from the ongoing EU programmes, particularly farm funding, £240 million, and £750 million from structural funds. I would encourage you to speak to Welsh Government because there is a huge disparity in terms of the funding. Again, I reiterate the point that communities across Wales are extremely concerned about the loss of funding that is going to be happening.

**Neil O'Brien:** Just to underline, there is not going to be a loss of funding in the shared prosperity fund and total public spending in Wales is both high and rising in real terms.



## HOUSE OF COMMONS

**Q28 Ruth Jones:** I am going to go on to the Levelling Up White Paper now, which I read with interest. Going back to 7,000 BC as well as coming forward, it was a very interesting read. What do the UK Government believe levelling up will mean for Wales in itself, given that Wales—if my colleague from Swansea West was here, he would be telling you this—is a sicker, older and less able to work nation? What do you think levelling up means for Wales?

**Neil O'Brien:** It is a very good question. As your question implies, it is a multi-pronged attack on the different problems that hold places back. Compared with something like the previous industrial strategy or the previous economic strategies, it is a bit broader because it is looking at those wider issues like poor health that are a problem in their own right but also a drag on the economy, because you cannot have a strong economy if many people are off on sickness benefits. Therefore, on all these different fronts we are trying to advance. Some of those levers of course are devolved and our role is in providing that record block grant and levels of spending in real terms, so that we can address backlogs in health and I hope tackle the kinds of root causes of poor health. I hope we can work together on innovative ways to do that.

We have the White Paper on Health Disparities coming out shortly, things like the tobacco control plan refresh, so I think on those things we can learn from each other, work together and they will be primarily devolved levers.

In other elements, on the economy there is much more of a mix of things. The Welsh Government are doing things that we are doing. What does it mean? Part of it is about directly trying to spur the growth of the private sector. I have already mentioned what we are doing in terms of trying to shift the balance of R&D spending, which is a form of spending that is particularly good for economic growth, new high tech jobs, high wage jobs, new industries and to try to get more of that into places like Wales and to spend it better, too.

I mentioned the British Business Bank in trying to address the financing and funding gap particularly for SMEs in Wales, both accessing debt and equity capital. I think that the British Business Bank's funds that we had before for the north of England and for the midlands of England were a very positive thing. Extending that to not just Wales but Northern Ireland and Scotland as well I think will be very useful if you are a small business in Wales trying to grow and to create good jobs.

As part of it, we also have the flexible funding streams for local places to pursue their own economic priorities, whether it is the levelling-up fund or the community renewal fund for one year or the shared prosperity, or things like the community ownership fund, so that if the opportunity in one place is, for example, using hydrogen production as a way of reducing costs on the grid or something like that, they can pursue those local priorities that are specific to a local place, which you can never know all of, and you have to rely on the knowledge of local places.



Therefore, there is a chunk about the economy and the fundamentals of growth. There is a part that is about the public services and opportunity, where our role is working together and helping to fund those devolved streams. Then there is a part that is about empowering local leaders through the funding streams that I have mentioned so far to pursue the things that are important to them. It is trying to come at the problem in the wider sense, because you absolutely recognise the reason why the public spending recital I gave does show high levels of public spending is because we do recognise the need to have a stronger Welsh economy that can stand on its own two feet, can be stronger and to address the very real deprivation in many parts of Wales, north and south and mid-Wales too.

**Q29 Ruth Jones:** Ms Gray, the Minister has mentioned working in partnership with local councils and the Welsh Government, but given that the new Levelling Up Advisory Council, which is chaired by Michael Gove, does not have the Welsh Government or the WLGA represented on it, how do you see this working?

**Sue Gray:** First of all, I would say that personally I have a lot of engagement with the Welsh Government at both ministerial and official level, as well as with the Wales Office. We are working very collaboratively and very well together and feeding back those views into all of our decision making and our development and collaborating where we are able to. On a number of areas, we are just working very closely together and I think that is how we are feeding back those views.

**Q30 Ruth Jones:** When you say “working closely together”, how is that? Is it virtual meetings, weekly—

**Sue Gray:** Talking about my own personal experience, I talk to my counterparts in the Welsh Government at least weekly—I had a meeting with Andrew Goodall yesterday—and I do that all the time. Ministers are also meeting their counterparts very regularly.

We have just got the new intergovernmental relations process that is up and running. If I look at last year, I think there was something like 450 ministerial meetings taking place between UK Government Ministers and devolved Government Ministers. I am talking to my colleagues about issues; I am getting their views. I am feeding that back and of course different parts of the UK will have different approaches as well. All of that is coming together. The engagement is very good.

**Neil O'Brien:** To mention one other thing, just following the IGR, I think we have later on today the first meeting of the Interministerial Standing Committee, where my Secretary of State, Michael Gove, will be there. I think one of the subjects they are talking about is Ukraine, where there is obviously hugely close working together going on already. Some of the structures that were set up in the review of intergovernmental relations are now starting to be up and running at those high levels as well.



## HOUSE OF COMMONS

Q31 **Ruth Jones:** In terms of the pledge within the Levelling Up White Paper, has there been a ministerial meeting with the Welsh Government and the devolved Administrations?

**Sue Gray:** There are regular meetings.

Q32 **Ruth Jones:** These are ongoing meetings?

**Sue Gray:** Yes. The Secretary of State meets his counterparts in the devolved Governments normally every couple of weeks.

**Neil O'Brien:** I think the meeting that they have today is talking about some of the actions from the Levelling Up White Paper as well as the Ukraine stuff.

**Sue Gray:** Yes, levelling up is on the agenda along with Ukraine and along with legislation.

**Neil O'Brien:** The permanent secretary to the levelling-up taskforce was in Wales meeting local leaders as well. I think he did try to meet the Welsh Government as well on that trip. At all levels, we are keen to continue the conversation post the White Paper.

Q33 **Ruth Jones:** Thank you. Looking at your ideas and concept of devolving down to local authorities and SMEs, as you have mentioned, we are talking about smaller projects here, smaller pots of money, which may not generate the sort of jobs and prosperity that we would hope for. Do you feel that it is effectively bypassing the Welsh Government? In going straight to SMEs and local authorities, we are talking about an area—a country—that is probably the same as Greater Birmingham in some terms, so would you go down below Greater Birmingham?

**Neil O'Brien:** I need to try to understand the question better. When you talk about money going direct to SMEs, are we talking about the shared prosperity fund?

**Ruth Jones:** No, the levelling-up fund.

**Neil O'Brien:** The bids for the levelling-up fund are individual local authority led. They can be for things that are of direct benefit to SMEs. Broadly speaking, they tend to fall into three budgets of transport projects, cultural projects and regeneration projects. Some of those are of more direct benefit to SMEs and some of them might be a bypass, a new theatre, things that are improving the attractiveness of the local place, but that levelling-up fund is very much a local authority-led scheme.

Q34 **Ruth Jones:** We will leave that one there. In terms of the missions that were outlined in the Levelling Up White Paper, do you think that these are achievable by 2030, given the fact that, for instance, the BEIS Select Committee said, "The funding available to achieve levelling up is disparate and lacking any overall coherent strategic purpose or focus"? The Institute for Government has also said that spending on devolved



responsibilities produces a risk of unhelpful duplication, and then the Dunlop review, which Michael Gove praised, also found that funding by the UK Government in devolved areas must not replace core funding.

**Neil O'Brien:** Yes. I also praised Andrew's review as well. A lot of what we are doing is responding to the conclusions of that review. When people talk about levelling-up funding though, I just sound a note of caution in so far as one of the key points that we make in the Levelling Up White Paper is that if you want to try to achieve those missions, to try to change the country for the better, one of the besetting sins of past efforts over 40 to 50 years has been to think that we have Government spending and then we have this thing that is focused on regional economic growth. There is a recent book by Cambridge academics about that. That kind of explicit regional growth of levelling-up funding has always been a small part of total public spending.

As well as making sure those kinds of explicit bespoke schemes are effective, one has to look at the totality of public spending and to try to reshape that in ways that help the levelling-up agenda, so don't think about the cherry on top of the cake; think about the whole cake. Hence things like for the first time ever setting regional targets for how we spend our R&D budget is something we have never done before and, in the absence of those targets, what we saw was that public spending on R&D became increasingly concentrated in three cities—Oxford, Cambridge and London—over time, since records began in 1997.

One of the philosophies that we have in the levelling-up programme is not just to think about there is a thing called levelling-up fund or levelling-up funds; there is also what we are doing about the totality of public spending and public investment through things like the British Business Bank and so on that I have mentioned.

Also things like spending on net zero: how do we ensure that those tens of billions of spending help to drive levelling up as well? Things like the carbon capture and storage cluster around the Mersey Dee area will be an example of that, but the total spend as well in terms of renewables and procurement, where we have seven times more wind power than we did in 2009. We have explosive growth in solar. All of those can also be of great benefit, particularly to more rural areas, in terms of creating new jobs in rural and coastal areas.

We are trying to think to thread it through every aspect of public spending and the Government's work rather than it just being a ghetto of this is levelling-up funding and nobody else has to think about levelling up.

**Ruth Jones:** I think that is what the sadness is in Wales, that the EU funding, certainly structural funding in the past, was a very identifiable pot of significant amounts of money that could be used to regenerate and regrow. I think that is the problem that we have now. We have the danger of little pots dissipating into the ether, but I take your point and I



will hand you back to the Chair.

**Q35 Simon Baynes:** Thank you very much for giving up your time for us this morning. If I can just link into the last comment by my colleague, Ruth Jones, speaking as a north Wales MP, one of the things that invigorates me about the levelling-up fund is that it pays proper attention to north Wales, because one of the problems with the EU funding was that it was concentrated on west Wales and south Wales, whereas what we are replacing it with is a truly national scheme that goes straight to all the areas of deprivation that do not exclusively lie in west and south Wales.

The other point I would like to make is that the devolution in Wales also includes devolving to the local authorities and to that extent, certainly with regard to the local authorities in north Wales, they are very enthusiastic about the levelling-up fund because it brings power to them rather than it being placed always in Cardiff, which is the alternative if it is exclusively under control of the Welsh Government.

I want to move on to the review of intergovernmental relations, which you have touched on already. The first question is to discuss the extent to which the territorial offices fit into the new structures. I don't know whether you could comment on that.

**Neil O'Brien:** I will touch on it first and then I will hand over to Sue. I mentioned already that we work in tandem with the territorial offices. We have excellent relationships, not least because we respect the level of knowledge that they have on all of these different issues. Almost all of these processes have been done together with our relevant territorial offices and indeed, wherever possible, the Welsh Government feeding in and giving the benefit of their analysis and insight as well.

I think Sue has mentioned some of the processes that we now have in terms of her weekly meetings. We then have the three-tiered structure that the IGR sets up at the portfolio level meetings, then the Interministerial Standing Committee, which would typically be my boss, Michael Gove, and equivalents in the devolved Governments, and then I think an annual Heads of Governments meeting between the PM and First Ministers. Those structures are now starting to get up and running.

To your point about TOs, alongside the Welsh Government they have a seat on the city and growth deals, so they are both inputting into the local level as well. Sue gave a flavour of the sheer number of meetings: 440 in 2021. That is more than a meeting a day between the UK Government and the devolved Administrations. That is ministerial meetings; that is not official meetings as well. Therefore the level of constant contact is quite high. I don't know how better to describe it, other than the Wales Office and other territorial offices are through the warp and weft of all of this at all stages. Is there more that you want to say?

**Sue Gray:** First of all, the director in the Wales Office reports to me. Therefore I have a weekly meeting with him as well at the beginning of



## HOUSE OF COMMONS

the week and I have regular discussions with him and also with the Secretary of State. For today's IMSC the Secretaries of State for Wales, Scotland and Northern Ireland attend that meeting as well, so I think it is pretty seamless how all of these discussions are undertaken.

**Q36 Simon Baynes:** Thank you. Minister, you touched on the meeting with the Prime Minister and the Heads of Devolved Governments Council. I think you mentioned there is a meeting coming up very soon. Is that with the PM or is that just with the Secretary of State?

**Sue Gray:** Today's meeting of the Interministerial Standing Committee, which Michael Gove is chairing, is with the First Ministers of the devolved Governments and also the Secretaries of State for the territorial offices will be attending. For the Prime Minister and Heads of Governments Council, the commitment is to meet at least annually. We haven't had a meeting as a formal council, but in fact I think the Prime Minister has met the First Ministers. He met them in December and met them a few months earlier. He had a phone call, so I think there is regular engagement there, but there is a formal structure as well.

**Q37 Simon Baynes:** Do you see any role for reciprocity? We talk a lot on this Committee about meetings between the UK Government and the devolved Administrations, particularly obviously in our case the Welsh Government. I sometimes wonder to what extent the Welsh Government offers reciprocity, because my understanding is that they are often quite reluctant to do that, in the sense of asking the UK Government to attend meetings that the Welsh Government are organising. I don't know whether that is something that has particularly come across your table.

**Sue Gray:** The IGR structures are very much about the four Governments working together to deliver those meetings, so for today's meeting of the IMSC the agenda has been agreed across all four Governments. It is not a one-way set of traffic. It is four-way.

**Q38 Simon Baynes:** Complicated. Do you believe, both of you, that these new structures will be good for improving intergovernmental relations? Presumably the answer will be yes, but maybe you can expand a bit on that.

**Sue Gray:** The new structure, obviously it is relatively early days, but Departments are setting up. There are a number of interministerial groups. Most of them have been set up and they are meeting in our own Department. We are setting one up to meet very shortly and I think the whole of the IGR is about how we work together about that collaboration. Yes, there is a provision that if there are disagreements to resolve those, but it really is about how we are working together.

Coming back to the Dunlop review, how we have modelled IGR goes to the heart of what is in Dunlop.

**Q39 Simon Baynes:** The last question—and I think it is the last question of the session, the last from me and the session—is about the lessons that



have been learned from the covid-19 pandemic for future intergovernmental relations. There is a difference of approach, in terms of the inquiry into the covid pandemic, between the Scottish Government and the Welsh Government. The Scottish Government are holding their own inquiry but the Welsh Government, having stressed their independence in a sense from the UK Government and how they handle covid, have decided that they are going to be part of the UK Government's inquiry. What do you think are the lessons that have been learned from the pandemic for future intergovernmental relations?

**Sue Gray:** First of all, the response to the pandemic in terms of—for much of this I was in Northern Ireland so I was seeing it in a devolved Government from there—a lot of the financial measures that were put in place, but then in the devolved areas around health and the vaccine roll-out, but also the lockdown measures, which sometimes were different, differing on the rates of speed of Covid and all of that, I think there are some really good things that have come out of how we worked together, but also respecting some individual ways of working as well.

The inquiry will have to look at lessons to be learned but we certainly reflect on how we have worked together across all four Governments. We reflect on that regularly and I think it has embedded how we work together at an official level but also at ministerial level.

Q40 **Ruth Jones:** Ms Gray, you said there is seamless working together, which is a great concept. Last year we had the Secretary of State for Wales here alongside a Minister from the Levelling Up Department. We were asking about the criteria for SPF, community renewal and levelling up. It was very clear from those discussions that they were not on the same page. The criteria weren't clear to the Welsh Office maybe. You have talked a lot about the preparation for these new projects coming in. It would be very helpful to know how much pre-planning was done with local authorities, stakeholders, the Welsh Government and the Welsh Office.

**Sue Gray:** For the previous funds?

**Ruth Jones:** For all of these now coming through.

**Sue Gray:** I think we are working very well at official level together. We are having good discussions as we work all of this through, but I think the Minister has covered quite a bit of the engagement around local planning.

**Ruth Jones:** Pre-planning, before the projects were launched.

**Sue Gray:** Sorry, that is before—

Q41 **Ruth Jones:** Before you launched the community renewal fund, how much pre-planning was undertaken with stakeholders, like the Wales Office?



## HOUSE OF COMMONS

**Sue Gray:** To be fair, that was before my arrival in the Department, so I cannot comment.

**Neil O'Brien:** Some of the contacts that were made also predate my time in the Department as well. What I can tell you is how we are approaching it at the moment. I will be in Wales in the coming days talking to stakeholders and in Scotland as well. I am keen to meet a whole variety of different people who have different equities in these funds. I am extremely keen to talk to the Welsh Government as well if that is at all possible.

**Ruth Jones:** If you could perhaps write about the pre-planning, that would be very helpful. Thank you.

Q42 **Beth Winter:** I very much appreciate your time this morning. My overall concern though is that there is clearly a lack of a strategic approach. You were talking about small-scale schemes, which are fragmented, a lack of pre-planning, a lack of design, and nothing you have said this morning has reassured me—and I know some of the people that I am in contact with in Wales—about the overall strategic approach. Specifically, in terms of auditing these schemes, who will be auditing them and what will they be auditing?

**Neil O'Brien:** On your first point about not strategic and there being lots of small, fragmented schemes, to reiterate some of the points I was making before, we have through the White Paper a 400-page strategy about what we are trying to achieve overall. In terms of funding streams, I have tried to bring out this point that we are not just thinking about small levelling-up spending streams, but the totality of public spending on important things like R&D, which are UK-wide.

Within those specific spending streams that are about local growth and levelling up, we are specifically trying to make them individually as unbureaucratic as possible and to consolidate funds over time. The point you are making is one that we made in the Levelling Up White Paper. I hope I can provide reassurance on some of those points, where I think we are in complete agreement.

On auditing, we will publish a monitoring evaluation strategy. I gave a flavour of it earlier on in this session about trying to avoid lots of costs of these things falling on individual local areas, making sure that we play our part in central monitoring evaluation for schemes like UK shared prosperity, but at the same time wanting to encourage through our prospectus and through the design of schemes places to do things that generate youthful experimental evidence to try to address some of those evidence gaps in Government about what works.

Q43 **Beth Winter:** Who will be undertaking the audit? Which audit office in terms of looking at how the money is being spent?



## HOUSE OF COMMONS

**Neil O'Brien:** That will all work in normal AO function kinds of ways, I would have thought, in the same way the city and growth deals work roughly at the moment.

Q44 **Beth Winter:** How will the money come to be spent? Who will be doing that independently?

**Neil O'Brien:** At the moment, the way it works in the city and growth deals is that there is a designated lead authority and its AO will be the AO for the whole project, if you see what I mean.

Q45 **Beth Winter:** Are you aware of the report published by the National Audit Office last month, which was looking at lessons learned by the Department and in particular the small scale that has been allocated? What is your response to the criticisms?

**Neil O'Brien:** Our response in a sense is the White Paper, where we make the point about trying to avoid having too many chopping, changing and small-scale spending schemes that don't have durability and have different criteria. Hence the review that we talked about earlier in the session and hence our desire to have a degree of permanence and continuity with new schemes like UK SPF and to make them unbureaucratic and put a minimal burden on the local places that they are supposed to benefit.

Q46 **Beth Winter:** Therefore you accept the criticisms and you are looking to remedy?

**Neil O'Brien:** I think we have a shared analysis of the problem. I am not sure I agree with necessarily everything that was in that report, but certainly the basic point is one that we ourselves make about trying to have a more coherent approach to spending programmes overall.

Q47 **Chair:** Very briefly to close, can I tempt the Minister to say whether he expects any further details on the shared prosperity fund in this afternoon's statement?

**Neil O'Brien:** I think you will have to await the Chancellor's statement. I think you can probably infer from the remarks I made earlier in the session that we are taking the time to continue to try to talk to as many stakeholders as possible on the SPF. With that in mind, you will probably be able to hazard a guess that there will not be announcements of allocations on the SPF this afternoon, but other than that, I always think it is very dangerous for junior Ministers to start to get into the business of second-guessing the Chancellor. It is not a place that I feel at all comfortable, so you will have to wait and see I think is the official answer.

**Chair:** Thank you very much, Mr O'Brien and Sue Gray, for your time this morning.