House of Commons

Welsh Affairs Committee

Wales and the Shared Prosperity Fund: Priorities for the replacement of EU structural funding: Government response to the Committee's Fourth Report of Session 2019–21

Fourth Special Report of Session 2019–21

Ordered by the House of Commons to be printed 8 December 2020

HC 1083
Published on 14 December 2020
by authority of the House of Commons

Welsh Affairs Committee

The Welsh Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Office of the Secretary of State for Wales (including relations with the Senedd Cymru - Welsh Parliament).

Current membership

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The following member was a Member of the Committee during this inquiry:

Anna McMorrin MP (*Labour, Cardiff North*)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publications

Committee reports are published on the Committee's website at www.committees.parliament.uk/committee/162/welsh-affairs-committee/ and in print by Order of the House.

Evidence relating to this report is published on the inquiry publications page of the Committee's website.

Committee staff

The current staff of the Committee are Dr Adam Evans (Clerk), Louise Glen (Committee Operations Manager), Simon Horswell (Committee Specialist), Ffion Morgan (Assistant Clerk), Kelly Tunnicliffe (Committee Operations Officer), Tim West (Media Officer) and Dr Rhiannon Williams (Committee Staff).

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Third Special Report

The Welsh Affairs Committee published its Fourth Report of Session 2019–21, Wales and the Shared Prosperity Fund (HC 90) on 2 October 2020. The Government's response was received on 3 December 2020 and is appended to this report.

Appendix: Government Response

Introduction

The Government is grateful for the Welsh Affairs Select Committee report that was published on 2 October 2020 following their inquiry, *Wales and the Shared Prosperity Fund*. I would like to thank the Committee and all those who contributed evidence to it for their efforts. The Government has carefully considered the Committee's six recommendations and has responded to each in turn below.

As the Committee notes, the UK Shared Prosperity Fund (UKSPF) is the domestic successor to EU structural funds. Leaving the European Union has provided us with a unique and historic opportunity to redefine our domestic priorities, strengthen our Union, and level up the whole of the UK. The Government will ramp up funding, so that total domestic UK-wide funding will at least match current EU receipts, on average reaching around £1.5 billion a year. A portion of the UKSPF will target places most in need across the UK, such as ex-industrial areas, deprived towns and rural and coastal communities. It will support people and communities, opening up new opportunities and spurring regeneration and innovation.

The Covid-19 pandemic continues to present exceptional circumstances, and it is right that our focus and priorities shift accordingly. The Government has conducted a one-year Spending Review to prioritise the response to Covid-19 and focus on supporting jobs.

Despite these challenging times, it is important we do not lose sight of our long-term objectives. Due to the way the funds operate, levels of EU structural fund investment (which the UK has paid for through its EU Budget contributions) will be higher in England, Scotland, Wales and Northern Ireland in 2021–22 than in 2020–21. As confirmed at the Spending Review, to help local areas prepare over 2021–22 for the introduction of the multi-year UKSPF, we will provide £220 million of additional funding to support our communities to pilot programmes and new approaches. Further details will be published in the New Year.

Agreeing priorities and detailed arrangements for the fund

Recommendation one: ***The UK Government must urgently work with the devolved governments of Wales, Scotland and Northern Ireland to agree priorities for the Shared Prosperity Fund and to co-create the details regarding how the Fund will work. It must provide evidence of progress being made in October ahead of finalising arrangements during November. At that point, the plans the UK Government has co-created with the devolved administrations must give full details of what the Fund will look like, how it will be funded and how it will be administered. The UK Government must guarantee***

that there will be no cliff edge ending to funding arrangements after the transition phase ends in January 2021, particularly as ESI funds have been used to assist the Welsh Government in responding to the economic challenges of coronavirus. It is important that this work can continue beyond January and throughout the pandemic.

Government's response: The UKSPF will succeed EU structural funds and provide vital investment in local economies. It will help to level up and create opportunity for people and places across the UK. Under EU structural funds, the priorities for the funding were dictated to us, and the set of systems and controls over how funds are spent have suited EU needs, not ours. Despite decades of EU funding and qualifying for the maximum level of EU structural fund investment, West Wales and the Valleys continues to lag behind the rest of the UK in terms of economic growth and employment. Leaving the European Union presents us with a unique and historic opportunity to redefine our domestic priorities, strengthen our Union, and level up the whole of the UK.

In our longer-term vision for the UKSPF, a portion of the Fund will back businesses, invest in our people to support the skills the next generation demand, and provide funding so that places and communities across the UK can thrive. A second portion of the Fund will be targeted to people most in need through bespoke employment and skills programmes that are tailored to local need. This will support improved employment outcomes for those in and out of work in specific cohorts of people who face labour market barriers.

Investment must be fit for the future and should be aligned with the Government's clean growth and Net Zero objectives. The UKSPF will also take into account the specific needs of our rural communities and rural economies.

The UK Government intends to work with both the Devolved Administrations and local communities to ensure that the UKSPF supports citizens across the UK. This includes engaging with local authorities and Devolved Administrations, as well as wider public and private sector organisations.

Levels of EU structural fund investment (which the UK has paid for through its EU Budget contributions) will be higher in England, Scotland, Wales and Northern Ireland in 2021–22 than in 2020–21. To help local areas prepare over 2021–22 for the introduction of the UKSPF, the Government will provide additional funding to support our communities to pilot programmes and new approaches. Further details will be published in the New Year.

Reassessing economic development priorities in light of Covid-19

Recommendation two: ***We recommend that the UK and Welsh Governments use the development of the Shared Prosperity Fund as an opportunity to jointly reassess their economic development priorities, particularly in light of the economic damage caused by COVID-19. In designing the Shared Prosperity Fund, more thought should be given to how the Fund can bolster skills, productivity and wages, all of which will be essential if Wales is to narrow the GDP gap with the rest of the UK.***

Government's response: The Covid-19 pandemic continues to present exceptional circumstances, and it is right that our focus and priorities shift accordingly. The

Government has conducted a one-year Spending Review to prioritise the response to Covid-19 and focus on supporting jobs. Despite these challenging times, it is important we do not lose sight of our long-term objectives.

Prior to the launch of the UKSPF, the UK Government will provide £220m of additional funding in 2021–22 for local areas to pilot programmes and new approaches. Alongside the unprecedented support the Government continues to provide in response to the pandemic, this additional funding will help local areas start to transition away from EU structural funds from 2021.

In our longer-term vision for the UKSPF, the fund will invest in people, communities and local business to level up and create opportunity in places most in need and for people who face labour market barriers. This investment will support improved employment outcomes and drive productivity across the UK, supporting the recovery and renewal of local economies. The funding will also help to address the ongoing skills shortage in Wales and narrow the GDP gap between Wales and the rest of the UK.

Levels of funding for Wales

Recommendation three: ***In the current changing economic circumstances, we are unable to recommend a headline figure for Wales' allocation of the Shared Prosperity Fund. However, we call on the Government to honour its commitment to maintain at least the current levels of real-term funding and to carefully consider the arguments for increased spending. Given that the full effects of COVID-19 could be unknown for some time, it should monitor the current economic situation in Wales and adjust its allocation accordingly. Ministers should provide reassurance that multi-year funding will continue and work with the Welsh Government to give serious thought to the potential methods of calculating Wales' funding requirements. They should update us with their thinking on the size of the Fund and means of allocation as soon as possible.***

Government response: Due to the way the funds operate, levels of EU structural fund investment (which the UK has paid for through its EU Budget contributions) will be higher in all four nations in 2021–22 than in 2020–21. In Wales, we anticipate that EU structural fund receipts for 2021–22 will also exceed average yearly receipts for the 2014–20 programme. The Government will ramp up UKSPF investment, so that total domestic UK-wide funding will at least match current EU receipts, on average reaching around £1.5 billion a year. A portion of the Fund will target places most in need across the UK, such as ex-industrial areas, deprived towns and rural and coastal communities. The UK Government intends to work with the Welsh Government to ensure that the UKSPF effectively supports citizens in Wales. We will set out further details on the Fund in a UK-wide investment framework published in the spring.

The UKSPF will operate over multiple years to provide certainty to local places and support the development of longer-term strategic planning. Its funding profile will be set out at the next Spending Review.

Reducing bureaucracy

Recommendation four: ***If the Shared Prosperity Fund is to offer a more open and responsive system of funding, the UK Government and Welsh Governments should***

learn the lessons from how EU funds have been administered under the ESI schemes, including the criticisms we have heard about the current system's levels of accessibility and bureaucracy. In their plans for the Fund, the UK Government should explain how they intend to overcome these problems and detail the work they have undertaken to review the existing system of ESI funding.

Government response: The Government recognises the bureaucratic burden that EU structural funds have placed on local partners, including local authorities, businesses and community organisations. During the engagement we have held across the UK, including meetings with all local authorities in Wales, stakeholders have been clear that the current landscape is complex and overly bureaucratic. They communicated the chance to develop a new, simplified and integrated approach to local growth funding whilst ensuring that the good practices from previous programmes are captured. There was also a desire for investment to go directly to the local communities that need them.

The bureaucratic burden of EU programmes also means that places often have a long wait before they receive any funding. Places typically do not see any investment in their communities until at least a year after the programmes have started. The provision of additional funding in 2021/22, by contrast, will be quick and responsive.

The Government will set out further details on the operation of the UKSPF in a UK-wide investment framework published in the spring.

Memorandum of understanding

Recommendation five: ***The UK Government should work with the devolved administrations and local government to develop a memorandum of understanding that will underpin the operation of the Shared Prosperity Fund, this memorandum should be built around a partnership approach and provide a guarantee of genuine joint working and engagement for all stakeholders, including the third sector.***

Government response: The UK Government intends to work with the Welsh Government and local communities to ensure that the UKSPF supports citizens in Wales. This includes engaging with local authorities and Devolved Administrations, as well as wider public and private sector organisations. We will also work closely with the Welsh Government on how best to use the additional funding to prepare for the introduction of the UKSPF. The Government will set out further details on the additional funding for 2021–2022 in a prospectus in the New Year and on the UKSPF in a UK-wide investment framework, which will be published in the spring.

The role of local government in delivering the fund

Recommendation six: ***As part of the Memorandum of Understanding that should underpin the Shared Prosperity Fund, the UK and Welsh Governments ought to give serious consideration to the role that local government [should play] in the delivery of the Fund. Both the UK and devolved administrations should seek to learn the lessons of how joint working has been facilitated by and through the City and Growth Deals, and how those lessons could be applied to the Shared Prosperity Fund. In designing the fund, Ministers should consider the opportunities for how these Deals might complement the new funding arrangements.***

Government response: Building on the successes of the City and Growth Deal model, local places across the UK will be able to shape UKSPF investment to reflect their needs. Places receiving funding will be asked to agree specific outcomes to target within the UK-wide framework. They will then develop investment proposals to be approved by UK Government among a representative stakeholder group.

Officials in the Ministry of Housing Communities and Local Government and the Office of the Secretary of State for Wales have discussed the lessons learned from the experience of City and Growth Deals with officials in the Welsh Government and other Devolved Administrations. These discussions have highlighted how UK Government can work successfully with the Devolved Administrations and local authorities to invest in local communities across the UK.

The UKSPF will complement City and Growth Deal funding, by providing additional investment for a wider range of activities. This will help to drive regional growth in communities across the UK.