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**Llywodraeth Cymru
Welsh Government**

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Dear Stephen,

I am writing to you in your role as Chair of the Welsh Affairs Committee to support your expression of concern regarding the Government's response to the Committee's Wales and the Shared Prosperity Fund report.

We agree with you that the Government's short and superficial response leaves significant and important questions unanswered. This is unacceptable when so many projects are imminently facing a cliff edge and have no certainty on the way forward.

There has been significant backtracking on the many public commitments made by Ministers, including with regard to devolved competences being respected, a proper public consultation, and an intent to work positively with key stakeholders in Wales prior to decisions being taken. This is made most evident by the fact that the relevant section in the Spending Review made no reference to any role for the Devolved Governments.

To clarify, neither Welsh Ministers nor officials had sight of any proposals for the Shared Prosperity Fund prior to the announcement in the Spending Review which in itself gave little further clarity to stakeholders across Wales. This is part of a pattern whereby the Ministry of Housing, Communities and Local Government has failed to engage meaningfully with Welsh Government officials and to engage at all with Welsh Ministers. The claim that the UK Government 'intends to work with both the devolved administrations and local communities' thus rings hollow, given that more than three and a half years have passed since the proposal for a Shared Prosperity Fund was launched.

The blatant disregard for the Welsh Government is the more disturbing within the context of the Internal Market Act which allows UK Ministers to bypass and undermine devolution by exercising spending powers over areas of devolved competence. The Act was forced through despite explicit rejection by the Senedd and strong objections from peers across the House of Lords, including those on the Government benches such as Lord Bourne and Lord Dunlop.

The apparent determination of the UK Government to ignore the legitimate and established role of the Welsh Government and Senedd in respect of economic development

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

in a further centralisation of regional development policy stands in sharp contrast to our Framework for Regional Investment, published in November 2020 which proposes a considerable decentralisation of powers and decision-making.

This gap between rhetoric and reality extends to funding. The argument that funding flowing into Wales next year will be noticeably higher than it has been in previous years demonstrates at best, a wilful ignorance of the way in which the EU budget works, with a firm separation between financial commitments and payments. Had we remained in the EU, Wales would have received a full year's allocation of financial commitments from January 2021 for new programmes, irrespective of the level of payments due from the current European Structural and Investment (ESI) funds which are just ending. As we have successfully achieved 100% commitment of the total ESI allocation for the 2014 – 2020 Programmes, none of this funding is free to commit to new projects: instead, within the EU we would have been able to allocate an additional sum equivalent to several hundreds of millions of Euro to projects which could run from now until 2027. It is simply not acceptable that we cannot either provide clarity for proven and successful programmes of support that businesses, universities and local authorities wish to maintain, or kick off new innovative projects that could transform the Welsh economy.

The programmes which are ending are worth £375 million annually to Wales. What is on offer from the UK Government is £220 million **across the whole UK** to run a pilot SPF scheme in 2021-22. Even were Wales to receive a share of this equivalent to Wales' recent share of ESI funds committed to the UK as a whole, this would be a massive cut in funding for Wales, in contradiction of the promises made to the people of Wales. It makes our transition from the ESI funds to the SPF incredibly challenging. It denies us the opportunity to make any new commitments that would have been possible had we remained in the EU, or had the UK Government kept its word.

This is particularly problematic in light of the pandemic, as a number of successful interventions to support infrastructure, innovation, skills and businesses are due to end in the next one to two years with no clarity on transition arrangements. This jeopardises their medium and long-term planning certainty when they need it most due to the impact of COVID.

We also strongly disagree with the characterisation of the operation and outcomes of the ESI Funds. It is a gross misrepresentation to claim that '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'. The Welsh Government, and the broad-based partnership it co-ordinated, could choose from a long menu of interventions in accordance with our own analysis of needs, and while there is indeed scope to reduce bureaucracy and streamline processes, the systems in place provided a transparent means of allocating resources. We have been clear simplification must not come at the expense of rigorous, evidence-based approach to regional economic development or good governance. This is particularly important in light of the Public Accounts Committee report into the Towns Fund which noted a lack of transparency, political bias in the selection process, a lack of consistent or transparent stakeholder engagement, and a lack of capacity at the local level to effectively implement proposals.

We reject the UK Government's argument that the economic performance of the West Wales and the Valleys area is symptomatic of a failure of the decades of EU funding.

The statement is misleading as the gap in GVA between West Wales and the Valleys and the UK average is inflated by significant structural inequality within England, particularly benefiting London and the South East to the detriment of the rest of the country. According to projections from the CPMR, if we had remained within the EU, the number of regions

classified as 'Less Developed Regions' would have been expanded to include South Yorkshire, Tees Valley, and Durham and Lincolnshire.

To reiterate the Welsh Government's response to your Committee last year, the primary driver of regional inequality is the failure of the UK to fairly and effectively allocate funding on reserved matters. Although Wales has 11% of UK rail track miles, we receive only 2% of expenditure on rail enhancements from the UK Government. Treasury statistics show that rail expenditure per head in Wales is around 40% that in England. In 2017, Research and Development expenditure in the UK was £34.8bn, while in Wales it was £742m, equivalent to 2.1% of the UK total spend.

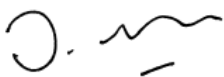
The Welsh Government has used European Structural Funds effectively to mitigate the negative impact of the persistent underfunding of Wales, but the quantum in question is insufficient to provide parity of spend in Wales on reserved matters.

The Spending Review also saw a number of UK Government measures that are likely to exacerbate inequality within the UK. While failing to replace European funding at the level needed, a far larger Levelling Up Fund worth £4bn was announced as an England-only project, while the decision to include High Speed 2 as an England and Wales project, despite the entirety of it being in England, will further expand the disparity between Wales and England, not reduce it.

In advance of further clarification from the UK Government on the major gaps in both funding and delivery mechanisms for the SPF, we would be happy to provide any further evidence to the Committee required. This would be based on the published Framework for Regional Investment which has been co-produced with our stakeholders, consulted on publicly, and which is in line with the recommendations made by the OECD in its report on governance in Wales published in September 2020.

I am copying this letter to the other members of the Committee.

Yours sincerely,

A handwritten signature in black ink, consisting of a stylized 'J' followed by a series of loops and a horizontal line.

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