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Cyllid Cymru

Wales Fiscal
Analysis

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Written Evidence to the Finance Committee's inquiry into Post-EU Funding Arrangements

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ED GARETH POOLE

Wales Fiscal Analysis

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Preface

Declaration of funding

Wales Fiscal Analysis is hosted by the Wales Governance Centre and the School of Law and Politics at Cardiff University, and funded through a partnership between Cardiff University, the Welsh Government, the Welsh Local Government Association, the Wales Council for Voluntary Action, and Solace Wales. The programme continues the work of Wales Public Services 2025 hosted by Cardiff Business School, up to August 2018.

About us

Wales Fiscal Analysis (WFA) is a research body within Cardiff University's Wales Governance Centre that undertakes authoritative and independent research into the public finances, taxation and public expenditures of Wales.

The WFA programme adds public value by commenting on the implications of fiscal events such as UK and Welsh budgets, monitoring and reporting on government expenditure and tax revenues in Wales, and publishing academic research and policy papers that investigate matters of importance to Welsh public finance, including the impact of Brexit on the Welsh budget and local services, options for tax policy, and the economics and future sustainability of health and social care services in Wales.

Working with partners in Scotland, Northern Ireland, the UK and other European countries, we also contribute to the wider UK and international debate on the fiscal dimension of devolution and decentralisation of government.

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Written Evidence to the Finance Committee’s inquiry into Post-EU Funding Arrangements

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1. This written evidence submission to the Finance Committee’s inquiry into Post-EU Funding Arrangements focuses on replacements to the European Union Structural and Investment Funds. It addresses two main points from the consultation’s terms of reference: first, how proposed funding for Wales compares to previous EU funding; and second, legacy funding for Wales from the EU following the UK’s exit from the EU.

How the funding proposed for Wales and funding received via continued UK participation in EU programmes, compares to the funding received while the UK was a member of the EU

2. During the 2014-2020 programming period, Wales was allocated over €3 billion from the European Structural and Investment Funds (see **Figure 1**). This allocation amounted to an average of **£375 million a year**, most of which came from the European Regional Development Fund (ERDF) and the European Social Fund (ESF). A smaller amount was allocated from the European Agricultural Fund for Rural Development (EAFRD).

Figure 1

Planned allocations for Wales from European Structural and Investment Funds, 2014 - 2020

	EU allocation		
	EUR (millions)	GBP (millions)	Average £M per year
European Regional Development Fund (ERDF)	1,409	1,205	172
European Social Fund (ESF)	1,008	861	123
European Agricultural Fund for Rural Development (EAFRD)	652	557	80
Total ESI	3,069	2,623	375

Source: European Commission (2022) ESIF 2014-2020 Finance Implementation Details. Notes: Based on a conversion rate of £1 : €1.17 (as per Welsh Government 2022)

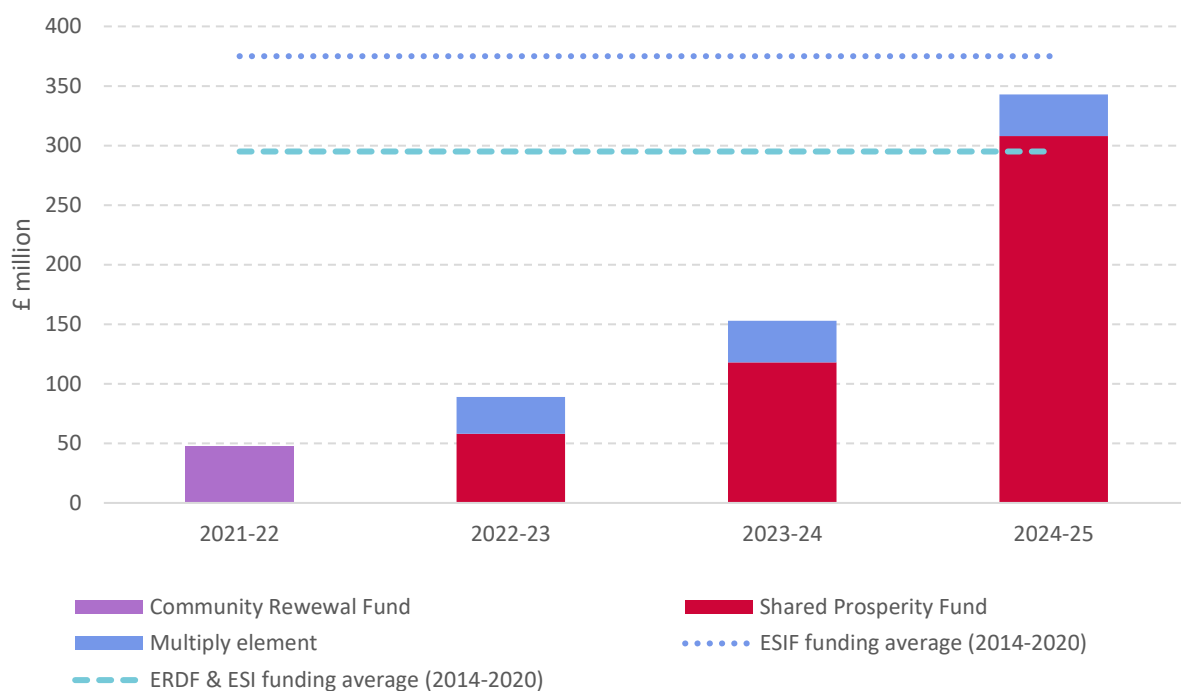
3. The Shared Prosperity Fund (SPF) was first mentioned as a replacement for EU structural funds in the 2017 Conservative manifesto. The ‘Heads of Terms’ for the fund was published as part of the 2020 Spending Review, which made clear that it was **replacing only the ERDF and ESF**.¹ There was also a pledge that the total amount of funding would “ramp up” until it at

¹ HM Treasury (2020) [Spending Review 2020, box 3.1](#)

least matches “current EU receipts”. In May 2021, the precursor to the SPF, the UK Community Renewal Fund was announced for 2021-22. Later, the Autumn 2021 Budget and Spending Review provided further details, such as the UK-wide funding profile for 2022-23 to 2024-25. The pre-launch guidance for the fund in February 2022 was followed by a full prospectus on 13 April 2022.²

4. It was announced that Wales would be receiving £585 million from the SPF over 2022-23 to 2024-25. Funding per year will increase over coming years to around £343 million by 2024-25 (**Figure 2**). Funding for Wales through the SPF will therefore broadly match the funding received through the ERDF and ESF during the 2014-2020 programming period (£295 million), after adjusting for inflation, by 2024-25. The potential shortfall in funding during intervening years will be addressed in the next section.

Figure 2
Funding allocations for Wales from Community Renewal Fund and Shared Prosperity Fund (2021-22 to 2024-25)



Source: Department for Levelling Up, Housing and Communities (2022) *UK Shared Prosperity Fund: prospectus*. Notes: Average ESIF and ERDF & ESI funding averages presented in nominal terms (not adjusted for inflation)

5. Of the total allocation to Wales, £101 million (£34 million per year) will need to go towards Multiply interventions, the UK government’s programme to improve numeracy in the adult population.³ Since the Multiply element has been allocated along the same lines as the overall

² Department for Levelling Up, Housing and Communities (2022) [UK Shared Prosperity Fund: prospectus](#), 13 April 2022

³ Department for Levelling Up, Housing and Communities (2022) [Multiply in Scotland, Wales and Northern Ireland: Guidance](#).

SPF, the allocation for Wales is 5 times greater per person compared to the UK average. This large allocation will risk duplicating other existing approaches and schemes in what is a devolved area. As such, there is a strong case for the UK government to allow flexibility for some of this funding to go towards other interventions.

6. Wales was by far the largest recipient of EU funding relative to its population of the UK nations. This position has been maintained by the SPF allocation methodology – funding per person will be nearly 5 times greater than the average across the UK. The commitment to match EU funding by nation has effectively retained the ‘cliff-edge’ in EU funding which resulted from the much greater EU allocations that went to regions classed as ‘less developed regions’ (in Wales’ case, the West Wales and the Valleys region).
7. While Wales’ total allocation has been determined by previous allocations from the EU, SPF allocations by local authority in Wales have been allocated according to three steps: firstly, 40% according to population; 30% according to the CRF index;⁴ and 30% according to Welsh Indices of Multiple Deprivation. While it is not possible to compare allocations at local authority level with previous EU funding (due to most EU-project allocations spanning more than one area), there is an apparent shift away from the West Wales and the Valleys region towards East Wales (**Figure 3**). Funding per person will remain higher overall in West Wales and the Valleys, but below levels previously received from the EU.

Figure 3
Funding allocations for Wales from Community Renewal Fund and Shared Prosperity Fund (2021-22 to 2024-25)

	Shared Prosperity Fund			ERDF & ESF (adjusted for inflation)		
	£m per year	% share	£ per person	£m per year	% share	£ per person
West Wales and the Valleys	250	73%	126	285	83%	144
East Wales	93	27%	79	58	17%	49

Source: Department for Levelling Up, Housing and Communities (2022) UK Shared Prosperity Fund Allocations; Welsh Government (2022) EU Structural Funds Programme 2014 to 2020: commitment and spend

The amount of legacy funding that Wales is due to receive following the UK’s exit from the EU and associated with EU structural fund programmes

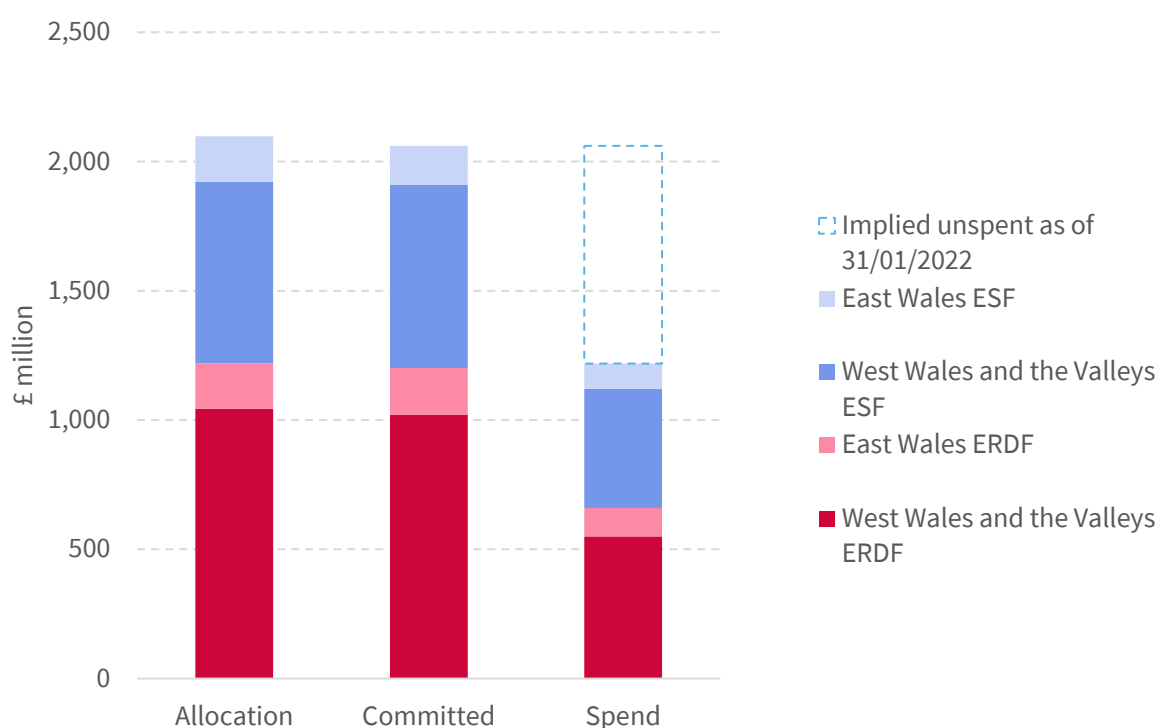
8. The EU generally allows three years after the formal end of funding programmes for remaining money to be paid out. While the transition period under the UK and EU’s Withdrawal Agreement ended on 31 December 2020, some EU structural funding will continue until the end of 2023, if funding had already been committed. Any unspent funding by the end of 2023 may be returned to the EU.

⁴ This index reflected a weighted average of statistics reflecting productivity levels, household income, skills, unemployment, and population density. See: <https://www.gov.uk/government/publications/uk-community-renewal-fund-prospectus/uk-community-renewal-fund-prioritisation-of-places-methodology-note>

9. A key area of disagreement between the Welsh and UK governments is the extent to which the lower allocations from the SPF for years 2021-22 to 2023-24 will leave Wales worse off relative to previous EU funding levels. The slow “ramp up” of funding is intended to mirror the “tail-off” of EU funding as existing EU funding programmes come to an end.⁵ However, this reasoning does not appear in the SPF prospectus or methodology note and a breakdown of expected legacy funding for Wales from the EU has not been published.⁶
10. **Figure 4** provides a breakdown of allocation, commitment, and spending of 2014-2020 EU Structural Funds by programme for Wales, as of the end of January 2022. Of the £2.1 billion allocation, 98% of the funding had been committed to approved projects. Over £1.2 billion of funding had been paid out to beneficiaries by this point. This implies that there will be a further £841 million of EU funding to be paid out before the end of 2023, if all committed funding is delivered. However, all this funding has already been committed and decided for projects and will not represent new funding for projects (applications for new funding have already closed). Furthermore, ESI funds are typically paid out to beneficiaries to compensate them for spending they have occurred, meaning there is a lag between funding being decided and being paid out.

Figure 4

Allocation, commitment, and spend of EU Structural Funds Programme 2014 to 2020, by programme



⁵ Welsh Affairs Committee (2021) [Oral evidence: Responsibilities of the Secretary of State for Wales, HC 96](#), 14 January 2021

⁶ However, in evidence to the Welsh Affairs Committee, Simon Hart MP claimed the ‘tail-off’ in EU funding would amount to £391.7 million in 2021-22, £402.1 million in 2022-23, £258.5 million in 2023-24 and £67.9 million in 2024-25.

11. Part of the disagreement may stem from the different time horizons and how the funding will be paid out. The Welsh Government argue that, from 2021, funding recipients in Wales would have been able to apply for new funding worth up to an average of £375 million a year from the ESIF - though there would have been a substantial lag before this new funding was fully committed and paid out to projects. EU structural funding worked in seven-year cycles, with spending paid out often lagging commitments made to projects and costs incurred by beneficiaries. In contrast, the UK government will pay the SPF allocation to lead authorities at the start of the financial year, with underspends being returned at the end of the financial year.
12. In the interests of transparency and accountability, both governments should more clearly present and publish the rationale behind their claims over funding levels to Wales.

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