Jacob Young MP
Parliamentary-Under Secretary of State for Levelling Up

Department for Levelling Up, Housing and Communities
4th Floor, Fry Building
2 Marsham Street
London SW1P 4DF

Department for Levelling Up, Housing & Communities

Paul Davies MS
Chair of the Economy, Trade, and Rural Affairs Committee
Welsh Parliament
Cardiff Bay
Cardiff
CF99 1SN

Response to the report by the Economy, Trade and Rural Affairs Committee into post-EU regional development funding in Wales

Annwyl Paul,

Thank you for your letter of 11 September addressed to my predecessor Dehenna Davison MP. I would like to extend my gratitude to the Committee for compiling the report into post-EU regional development funding in Wales and to acknowledge those who contributed supporting evidence. Responses to each of the Committee's recommendations are provided alongside this letter.

The UK Government is making record levels of investment in Wales through our Levelling Up agenda where we are working effectively with all levels of government to support people, business and communities across the length and breadth of the country. Over £1bn has been invested so far including £585m allocated to local authorities in Wales through the UK Shared Prosperity Fund (UKSPF), £328m of investment into 21 local authority-led capital projects in Wales through the Levelling Up Fund (LUF), and a further £52m from effective cross-governmental working with the Welsh Government to designate two Freeports in Wales. I am particularly excited to be working with local stakeholders to progress forward the new Freeports in Anglesey and South-West Wales, which were announced in March of this year.

I look forward to building on these achievements as further investment opportunities come forward. This includes the UK Government's commitment to establish at least one Investment Zone in Wales. We are continuing to work jointly with the Welsh Government to make this happen and hope to make an announcement shortly.

I note that many of the Committee's recommendations concern future funding beyond the current Spending Review (SR) period. Please be assured that as we start to consider future funding opportunities and the next iteration of our Levelling Up funds, we will of course take account of the Committee’s recommendations and continue to engage with local partners in Wales and with the Welsh Government to draw on their experiences and perspectives.

Once again, I thank you and your committee for this important work. Diolch yn fawr iawn.

Gyda phob dymuniad da,

Jacob Young MP
Minister for Levelling Up

Recommendation 1: Before any future post-EU regional development funding round is announced the UK Government and the Welsh Government should attempt to agree a common position on the timing of its rollout and quantum of funding.

Arrangements for post-EU funding in Wales were set out by the UK Government (UKG) in April 2022 when final details of the UK Shared Prosperity Fund (UKSPF) were announced. This included the publication of the UKSPF Prospectus which provided detailed information on the fund for use by local authorities and other partners across the United Kingdom (UK). The UKSPF forms part of a strategic investment package of over £1bn being made by the UKG to deliver Levelling Up in Wales. This is in addition to the £790m of funding that has been committed by UKG in the form of four City and Growth deals.

Prior to the announcement on the UKSPF, the Department for Levelling Up, Housing & Communities (DLUHC) held positive conversations on the design of the UKSPF with several partners including the Welsh Government (WG) and representatives from local government in Wales. Discussions with WG focused on agreeing the methodology for distributing funds and the indicative list of interventions to be supported.

The terms for any future iteration of the UKSPF will be guided by the development of the UKG's next Spending Review which will determine departmental budgets beyond 2024-25. This process will be informed by not only a monitoring & evaluation of the fund's delivery, but also the experiences and perspectives of local partners in Wales which will guide how any future funding in Wales should be designed, distributed and delivered. The UKG will engage with WG on future decisions relating to UKSPF and other Levelling Up opportunities in line with the timeline for the next Spending Review.

Recommendation 2: The UK Government should ensure that the next round of SPF funding takes account of the population size of deprived areas in Wales.

The terms for any future iteration of the UKSPF will be guided by the development of the UKG's next Spending Review.

The Committee should also note that the current UKSPF allocation methodology was tailored for Wales using Welsh-specific datasets including the Welsh Index of Multiple Deprivation (WIMD). Population and deprivation indices were accounted for when funding was allocated. The methodology for allocating UKSPF funding is underpinned by the recognition that there are pockets of deprivation across all parts of Wales and therefore balances population size and levels of deprivation to ensure all areas receive an appropriate level of funding.

Recommendation 3: The UK Government should consider how the Welsh Government could aid in the delivery and design of the next round of the Shared Prosperity Fund.

As we have laid out above, the terms for any future iteration of the UKSPF will be guided by the development of the UKG's next Spending Review. The UKG will engage with WG on future decisions relating to UKSPF and other Levelling Up opportunities in line with the timeline for the next Spending Review.

Recommendation 4: The Welsh and UK governments should undertake a review of whether the different elements of the Shared Prosperity Fund should be delivered at local, regional or all-Wales level, based on what works best.

DLUHC has published details of the Evaluation Strategy which underpins the delivery of the UKSPF. As the UKSPF is a centrally designed fund with delegated delivery, evaluation activity will take place across three spatial tiers: programme level (focusing on the UKSPF as a whole), place level (focusing on the UKSPF within individual Lead Local Authorities) and intervention level (focusing on specific Intervention Types across a range of places).

Once the evaluation has been undertaken, DLUHC will publish a report setting out lessons learned, along with evidence and recommendations applicable to the wider regional development landscape. The evaluation will take into account the various UKSPF delivery models.

The delegated delivery model for the UKSPF means that local leaders in Wales have been given the autonomy to decide how best to prioritise funding and determine the best mix of UKSPF interventions to support their communities. This includes considering whether such interventions are delivered at a local, sub-regional or regional basis. The flexible design of the UKSPF means that regions also have the autonomy to work collaboratively where there are opportunities for doing so. Local leaders have put in place delivery models most relevant to their regions and the needs of their local communities – this will be considered as part of the UKSPF evaluation.

Feedback on the flexibility and reduced bureaucracy provided by the UKSPF has been positive from local partners across Wales.

Recommendation 5: The UK Government should evaluate the regional approach to delivering the Shared Prosperity Fund in Wales. This should consider how the approach of local authorities making individual decisions within a regional framework meets the needs of organisations seeking funding, and also whether this approach places a greater burden in monitoring and evaluation than single local authorities in England face.

The regional governance model which underpins the delivery of the UKSPF in Wales was considered during early engagement with the WG and local government partners. The approach reflected on the collaborative working and strategic regional planning already taking place through the four City and Growth Deals. Local authorities have been working jointly across their regions to plan and take decisions on how best to allocate the UKSPF funding in line with the priorities set out in their regional investment plans.

Local partners across the whole of the UK are expected to meet the same monitoring, reporting and performance management arrangements, with formal reporting only required on a 6 monthly basis. Participation in evaluation activity is not compulsory for Lead Local Authorities (LLAs) to receive funding however they are expected to assist DLUHC where necessary with the local level aspects of the UKSPF evaluation. Local authorities have been fully supported in meeting the delivery requirements of the UKSPF with the flexibility to use

4% of their allocation for the administration of the fund. In Wales this equates to approximately £23m.

Recommendation 6: The UK Government, working with the Welsh Government, should establish a Wales-wide body to support regional co-ordination in delivering the Shared Prosperity Fund.

The UKSPF operates a delegated delivery model with local partners providing a central role in leading the delivery of the fund and in taking decisions on how funding is prioritised and allocated within their communities. A separate Wales-wide body would add unnecessary complexity to this model and would risk Wales returning to a position where local growth funding is highly centralised within government (or within government-funded bodies) and fails to reach the communities and local partners in need of support.

The governance model which underpins the delivery of the UKSPF is coterminous with the geographies of both the four City and Growth Deals and Corporate Joint Committees (CJCs), principally to allow the fund to capitalise on the benefits of established regional working by local authority partners in Wales. Local partners have emphasised the strength and maturity of regional governance and delivery arrangements in Wales along with the benefits of allocative funding arrangements that augment this way of working.

Recommendation 7: The UK Government should prioritise working with local authorities to ensure that interventions funded and delivered through the Shared Prosperity Fund do not duplicate those already in place. The UK Government should include the Welsh Government in this work.

Local leaders in Wales have been given the autonomy to decide how best to prioritise funding and determine the best mix of the UKSPF interventions in responding flexibly to local needs and priorities. Local authorities have been asked to consider how support via the UKSPF can build on existing local and national provision - including those delivered by the WG - to maximise the impact on people, business and communities. We believe local authorities are best placed to identify where there are opportunities and gaps in provision and to use UKSPF flexibly to deliver support to these areas.

There is an expectation for LLAs to invite WG officials to attend local partnership groups and this is set out in the UKSPF Prospectus. Local authorities have also been encouraged to share information on their delivery plans with WG to minimise the risk of duplication and to support WG in the planning of their programmes.

Recommendation 8: The UK Government should agree a longer funding period for the Shared Prosperity Fund funding rounds after 2025. This agreement should be made with input from the Welsh Government and should build in sufficient time for funders, and those involved in projects, to plan and deliver programmes and projects that deliver maximum benefits.

The current funding period for the UKSPF mirrors the UKG's Spending Review period through to the 2024-25 financial year. Local authorities in Wales, with the support of UKG officials are making significant progress in delivering the fund. We will continue to work with local partners in Wales, including the WG, the Welsh Local Government Association (WLGA) and local authorities, to gather feedback on their experiences and perspectives to inform the design on future funds.

Recommendation 9: The UK Government should ensure that its evaluation of the Shared Prosperity Fund has sufficient focus on the experience of Wales-based organisations, and that it undertakes and publishes a lessons-learnt exercise as part of its evaluation strategy.

DLUHC has published an Evaluation Strategy for the UKSPF. The evaluation focuses on building the evidence base on interventions which work, and understanding the processes and context in which they work. Across all evaluation activities we will take account of how the UKSPF is being delivered differently across the UK and the evaluation design includes three sizeable place-based case studies from Wales – as set out in the evaluation strategy.

Recommendation 10: Given the concerns raised by some organisations that local authorities in some parts of Wales are prioritising their own projects for SPF funding, the UK Government should look into this further and take any action necessary to ensure that all organisations are given a chance to benefit from this funding.

It is for local authorities and their partners to decide on the best mix of initiatives for their local areas informed by engagement with their local partnership groups and the priorities set out in their UKSPF regional investment plans. Several local authorities have operated a series of open calls to allow a range of organisations the opportunity to put forward their ideas and access UKSPF funding. It is important to stress that the UKSPF is a successor and not a direct replacement for previous EU Structural Funds and that the delivery model and objectives are different. The delegated delivery model means local partners are placing a greater emphasis on the strategic fit of project ideas to local needs and to the priorities as set out in their regional investment plans. This means that there is no guarantee that organisations who were recipients of EU Structural Funds will receive funding through the UKSPF, particularly if they do not adapt to the new funding landscape and fail to ensure project submissions are aligned with local needs.

Recommendation 11: The UK Government should review its approach to guidance on the Shared Prosperity Fund to ensure maximum clarity for local authorities, taking into account that Welsh local authorities will have less experience of working directly with it than English authorities.

Since the launch of the UKSPF, UKG has provided written guidance and additional information on how the fund should be administered by partners across the UK, all of which can be accessed on gov.uk. All guidance reflects the delegated delivery model which underpins the UKSPF, meaning it intentionally moves away from placing overly bureaucratic and prescriptive expectations on local partners. The emphasis instead is on empowering local authorities to take balanced decisions on how the fund should be delivered at a local level and tailoring investments to local needs.

It is recognised that local authorities in Wales have less experience of working directly with parts of UKG however the arrangements for delivering the UKSPF are new to all parts of the UK, whether relationships existed before or not. A dedicated Wales Area Team has been in place within DLUHC for over two years with the aim of supporting local authorities to navigate the new funding landscape and maximise the funding opportunities on offer. The team meets regularly with all LAs and the WLGA to support them in adapting to the delegated approach of UKG funds.

Recommendation 12: The UK and Welsh Governments should consider revisiting requirements around additionality for any future economic development funding streams.

DLUHC will continue to monitor the delivery of its funding in Wales in line with the governance and reporting arrangements set out for local partners. Our evaluation strategies will seek to understand the impact of various funding streams and to consider how UKG support is enabling local authorities to build on their core services in responding to the needs of their communities.

Recommendation 13: The UK Government and Welsh Government should communicate how they are engaging and working together to maximise Wales's share of research and innovation spending outside London and south east England.

Through the Levelling Up White Paper (LUWP) the UKG set out the mission to increase domestic public investment in R&D outside the Greater South East by at least 40% by 2030, and over this Spending Review by at least one-third. DLUHC, Department for Science, Innovation & Technology (DSIT) and the Office of the Secretary of State for Wales (OSSW) are in regular contact on this point and are continuing to work together to understand how the UKG can best support R&D in Wales. The UKG continues to engage regularly with universities and partners in Wales to make them aware of any funding opportunities to safeguard and promote the R&D sector in Wales.

Biannual meetings between UK science ministers provide a forum to discuss science, research, and innovation policy across UK and devolved governments, support close working relations, and pursue mutually beneficial outcomes. DSIT and OSSW officials meet regularly with counterparts in WG to discuss R&D and innovation, including monthly meetings of a UK Funders Forum chaired by DSIT and with representatives from devolved governments and national funding bodies. UK Research and Innovation (UKRI), the Research Councils, and Innovate UK are increasing their Wales-specific engagement to better understand how to support R&D capacity and capability in Wales. For example, the Engineering and Physical Sciences Research Council and Innovate UK have both signed Memoranda of Understanding with WG to enable more effective joint working.

Recommendation 14: The UK Government and Welsh Government should commit to the 6-way meeting with the Universities, their governing bodies, UCU Cymru and HEFCW, to discuss bridging funding for the scientists and related staff who will lose their jobs this year as a result of withdrawal of structural funds, as proposed by Wales TUC and UCU Cymru.

The UKG has engaged with relevant partners on the matter of the transition from EU funding regimes to post EU-funding and has provided evidence to the Welsh Affairs Select Committee. The Secretary of State for Wales has undertaken considerable engagement with the Higher Education sector and recently visited all eight universities in the past year and with several innovative businesses in Wales. He also hosted an event in collaboration with the Wales Innovation Network at Lancaster House in London on 17 October showcasing Wales' R&D strengths to senior Whitehall and UKRI representatives.

The Secretary of State for Wales also meets with the Chair of Universities Wales to discuss the sector and how the UKG can best offer support. Likewise, his officials are in regular contact with the Vice Chancellors of Welsh universities.

DLUHC, DSIT and OSSW will continue to work across a range of partners to ensure Wales is best placed to benefit from future funding opportunities as they come forward and to safeguard and promote the R&D sector in Wales. We will consider requests for meetings from relevant partners on a case-by-case basis as part of our regular and extensive engagement with key stakeholders in Wales.

Recommendation 15: The UK Government should work collaboratively with the Welsh Government to develop a longer-term plan to safeguard research and innovation in the Welsh Higher Education sector.

The UKG is creating an extensive funding landscape to support the R&D sector in Wales, including through the UKSPF, UKRI and other interventions and investments including:

- £22.2m for Media.Cymru and £25m of investment into South Wales' world-leading compound semiconductor cluster as part of the UK Government's Strength in Places Fund.
- £118.2 million awarded to 153 Welsh R&D projects through the Industrial Strategy Challenge Fund
- £9.1 million in funding awarded to 2 Welsh R&D projects through the EPSRC's place-based Impact Accelerator Accounts competition.
- £11.5 million provided to the WG to distribute to Welsh universities in the last financial year.
- £3.4 million provided to the WG to support local and regional economies through the UK Government's Regional Innovation Fund
- Access to the new bespoke agreement to join the EU's Horizon scheme, meaning UK scientists will have access to the world's largest research collaboration programme.
- At last year's Autumn Statement, the Chancellor announced a commitment to at least one Investment Zone in Wales. Negotiations with the WG are currently ongoing and we look forward to sharing details of these with you shortly.

The UKG stands ready to support universities to transition to new funding regimes and to access funding opportunities through bodies such as UKRI. Although there is still work to be done to ensure Welsh businesses and universities are more competitive in their ability to access funding opportunities, Wales saw an increase in UKRI spend between the 2019-20 and 2020-21 financial years, indicating that capacity is already improving within the R&D community in Wales. At present over 350 UKRI projects with a combined value of over £365 million are led by award holders in Wales.

The UKG is ready to engage with the WG to develop a better understanding of how WG investment in the Higher Education sector could compliment and support the UKG's vision to safeguard and promote the sector in Wales. Universities in Wales have consistently expressed concerns that the WG does not invest an equal amount in Welsh universities when compared with universities in England, and the UKG would welcome clarification from the WG on this point.

Recommendation 16: The UK Government should consider Welsh local authorities' concerns around some of the requirements for Multiply funding, and take any actions which would ensure best value for money committed on this project. This could include allowing additional time for local authorities to spend their allocation.

DLUHC officials regularly discuss Multiply with local authorities and are working closely with them and the WLGA to support the important area of adult numeracy skills. Local authorities have been provided with the flexibility to reallocate Multiply funding to support wider interventions under the People and Skills priority following a decision made by the UKG earlier this year. This decision was welcomed and supported by local authorities in Wales.

DLUHC will continue to support local authorities to maximise the impact of their Multiply allocations in delivering improvements to adult numeracy in Wales. It remains that all interventions under the UKSPF and Multiply should end by March 2025, and DLUHC will continue to work with local partners in Wales to maximise the delivery and impact of Multiply funding.

Recommendation 17: Given that the multiply programme operates in a devolved space, the UK Government should involve Welsh Government in the development of any successor programme.

The terms for any future iteration or successor to Multiply will be guided by the development of the UKG's next Spending Review. The UKG will engage with WG on future decisions relating to the UKSPF (including Multiply) and other Levelling Up opportunities in line with the timeline for the next Spending Review.

Recommendation 18: Given the concerns raised by local authorities, the UK Government should consider whether any successor fund to Multiply should also focus on literacy and digital skills to maximise impact to those who would benefit most

from the scheme. The Welsh Government should be consulted as part of these considerations.

The UKSPF is primarily focused on promoting economic development, reducing inequalities, and supporting local growth across the UK. We know that numeracy is universally important for an individual's life chances. People who have good levels of numeracy skills are more likely to be in employment and have higher wages, subsequently benefiting from improved levels of wellbeing. Businesses that develop their employees' numeracy skills can boost productivity, increase profits, and improve employee retention.

The UKG is keen to see adult numeracy improved across Wales and the UK as a whole and Multiply was designed to support this aim. Digital and literacy skills can be supported under the People and Skills investment priority of UKSPF.

As per the response to Recommendation 17, the terms for any future iteration or successor to Multiply will be guided by the development of the UKG's next Spending Review.

Recommendation 19: The UK government should work with Welsh Government and local authorities and colleges to identify and address any incidences of duplication resulting from the Multiply programme.

Multiply is intended to complement existing WG provision in a way that empowers local partners to take action to address the underlying numeracy skills needed within their communities. As with other aspects of the UKSPF delivery, local partners are expected to have regard to the overarching strategies and policies, including those implemented by the WG, to ensure maximum impact of their Multiply allocation and to reduce the potential for duplication. Local authorities are expected to use the flexibility provided to them to adapt the delivery of Multiply in response to their local needs.

Recommendation 20: If the Levelling Up Fund continues after 2025, it should not be delivered through competitive bidding, and funding should be allocated to those areas in greatest need.

The UKG has committed over £1bn of local growth funding in Wales since the start of the current Spending Review as part of the UKG's ambition to Level Up the whole of the UK. This has been delivered through a mixture of competitive and allocative funding opportunities with each approach having certain merits. The competitive approach to the LUF has so far benefited Wales, with over 8.6% of funding being awarded to local authorities in Wales over the first two rounds (significantly higher than would have been received through a Barnett consequential and the highest per capita investment of any nation of region across the UK).

In his speech to the Local Government Association (LGA) conference in July 2023, the Secretary of State for Levelling Up, Housing and Communities outlined the UKG's new funding simplification plan, setting out proposed changes to how UKG provides local growth funding to local authorities across the UK. From next year, all UKG departments will need to consider whether they can use an allocative model to distribute funds rather than launching a new competition. This approach was demonstrated through the UKG's recent announcement of £1.1bn worth of funding to 55 towns across the UK – 4 of which are in Wales - using an allocative model to support an endowment-style fund to deliver long term change within these towns.

Recommendation 21: If the Levelling Up Fund continues after March 2025, or is streamlined into a wider fund, the Welsh Government should have a greater role in its development and agreeing how it is administered.

Future Levelling Up funding opportunities will be guided by the simplification plan set out by the Secretary of State for Levelling Up, Housing and Communities earlier this year. DLUHC will continue to engage with WG and local partners in line with the timelines for the next Spending Review as this will inform funding opportunities beyond March 2025.

Recommendation 22: The UK Government should provide clarity on when Round 3 of the Levelling Up Fund will open as soon as possible.

The third round of the LUF will provide further investment in vital infrastructure projects across the UK, with up to £1bn remaining to create more jobs and boost economic growth in communities. UKG Ministers have reflected on the feedback received from local authorities following the first two rounds of the LUF to help inform the design of any future rounds, and in July the Secretary of State for Levelling Up, Housing and Communities confirmed that round 3 of the LUF will take a new approach and further details of this will be shared with local authorities shortly. On Monday 16th October, the Secretary of State for Levelling Up, Housing and Communities announced that LUF round 3 will be brought forward in advance of the Autumn Statement.

Recommendation 23: The UK Government should continue to operate a separate, but reformed, Shared Prosperity Fund after the current fund ends in March 2025.

As per the response to previous recommendations, the terms for any future iteration or successor to the UKSPF will be guided by the development of the UKG's next Spending Review. The UKG will engage with WG and local partners on future decisions relating to the UKSPF (including Multiply) and other Levelling Up opportunities in line with the timeline for the next Spending Review.

Recommendation 24: The UK Government should clarify its intentions for the Levelling Up Fund and Shared Prosperity Fund post-2025 as soon as possible.

As per the response to previous recommendations, the terms for any future Levelling Up funding opportunities beyond March 2025 will be guided by the timelines for the next Spending Review. DLUHC officials are in regular contact with local authorities in Wales and the WLGA on this matter and will continue to draw on the experiences and perspectives of local partners in Wales in guiding how any future funding should be designed, distributed and delivered.