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Temporary Chair, Finance Committee  
National Assembly for Wales  
Cardiff Bay  
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Ref: 109SOS 18

11 October 2018



### **Inquiry into preparations for replacing EU funding for Wales report**

Thank you for your letter of 26 September on your inquiry into preparations for replacing EU funding in Wales. While it would not be appropriate for the Government to respond formally to the Committee's report, I would like to comment on a number of the points raised.

The Committee's report includes consideration of the UK Shared Prosperity Fund which we intend to consult publicly on before the end of 2018. The Secretary of State for Housing, Communities and Local Government published further details of the fund in a Written Ministerial Statement on 24 July. My Office and MHCLG recently met with the Welsh Government and WEFO to discuss the objectives of the fund as set out in that statement, as well as to gather information on experiences of administering structural funds. Further discussions are planned, as well as wider engagement with stakeholders in Wales.

I recognise the interest that stakeholders, including the Committee, have in the levels of funding for Wales. Future decisions on funding will form part of the 2019 Spending Review, but in the meantime the Committee will be aware that the draft Withdrawal Agreement states that the UK would continue to participate in 2014-2020 programmes until they close. Further, due to the government's guarantee for EU-funded programmes, UK organisations, including those in Wales, will receive funding in the unlikely event that the Withdrawal Agreement is not ratified.

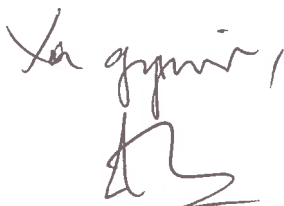
The government initially announced this guarantee in August 2016 and the latest arrangements have been set out in a Technical Notice published on 23 August. The government has guaranteed all CAP Pillar 1 payments to 2020, the full 2014-2020 structural and investment fund allocation, and all awards made to UK organisations from competitive bid programmes by the end of 2020. Beyond this, the government has also committed the same cash total for farm support until the end of this Parliament, expected in 2022. It is important to make clear that this commitment refers to the overall funding envelope for farm support. It will be for the Welsh Government to decide how to use this funding to support the sector in Wales.

Regarding future access to EU programmes, the Government's White paper sets out a plan for a future economic partnership with the EU, including a number of cooperative accords to support joint working in areas of mutual interest. Where the UK and the EU have an accord, the UK would make appropriate financial contributions that would be agreed between the parties. Ultimately, the decisions on participation will be part of the future partnership negotiations. As part of these negotiations the government also wishes to explore possible continuing arrangements between the UK and the European Investment Bank (EIB) and European Investment Fund (EIF).

The Committee's report also raises the Barnett formula. As the Committee will be aware, during the passage of the Wales Act 2017 we agreed a new fiscal framework with the Welsh Government which resulted in an uplift in funding to the Welsh Government. The conclusions were agreed with the Welsh Government and are both fair for Wales and fair for the rest of the UK. Current comparisons mean that for every £100 per head spent in England on areas that are devolved in Wales, c£120 per head is being transferred to the Welsh Government. The Barnett formula has a number of useful features, including the fact that it avoids ongoing negotiations. The approach we are taking enables us to keep these helpful features while introducing a needs-based element.

Finally, the Government is committed to working closely with the devolved administrations on an approach to returning powers from the EU that works for the whole of the UK and respects the devolution settlements. In spite of comments by many, the Welsh Government and Assembly supported the approach to the transfer of powers, and where they should sit, in the form of a LCM. Our preliminary analysis published in March sets out where frameworks may and may not be needed in respect of the 64 policy areas where EU law intersects with the Welsh devolution settlement. This analysis indicates that frameworks will be needed in whole or in part in only a small number of areas; those which are vital to the efficient functioning of the UK internal market. This analysis was the start of an ongoing dialogue, not a final position. The conclusions it sets out are provisional and are forming the basis for further discussions as outlined in the intergovernmental agreement.

I thank the Committee for their report, and hope that this clarification proves helpful.



**Rt Hon Alun Cairns MP**  
Secretary of State for Wales  
Ysgrifennydd Gwladol Cymru