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DEBATE PACK

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Effect of the UK leaving the EU on infrastructure in Wales

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Summary

This debate pack has been prepared ahead of the debate on the effect of the UK leaving the EU on infrastructure in Wales to be held in Westminster Hall on Tuesday 17 January at 4.30pm. The subject for debate has been chosen by Stephen Doughty MP.

The main sources of EU funding for infrastructure are the Connecting Europe Facility (CEF), the European Regional Development Fund (ERDF) and Horizon 2020. Wales is able to benefit from these sources of funding for as long as the UK remains a formal Member of the EU (which includes the period of negotiations after the triggering of Article 50).

European financing for infrastructure is available via the European Investment Bank (EIB). The UK's future relationship with the EIB is likely to be a feature of exit negotiations.

The UK's exit from the EU has a number of implications for infrastructure in Wales. Three of the main potential consequences for future infrastructure projects are:

- A reduction in the amount of funding available for infrastructure projects, if EU funding is not fully replaced by UK government funding
- Fewer options for the Welsh government and Welsh local authorities to obtain funding and/or financing from
- UK-controlled funding being allocated according to UK goals and priorities, which may be different from EU goals and priorities

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1. Background

The main sources of EU funding for infrastructure are:

- Connecting Europe Facility (CEF): the fund supports the development of interconnected trans-European networks in the fields of transport, energy and digital services.
- European Regional Development Fund (ERDF): investment in infrastructure is one of the key activities supported by the ERDF.
- Horizon 2020: the EU's research and innovation programme. Some of the funds are for developments in infrastructure, such as improvements to transport.

In addition to funding, European financing is also available for infrastructure projects via the European Investment Bank (EIB): the EIB lends money, on favourable terms, to projects that support EU objectives. The EIB's capital does not come from EU budgets, but directly from its shareholders, who are the 28 Member States of the European Union.

The UK's exit from the EU has a number of implications for infrastructure in Wales. Three of the main potential consequences for future infrastructure projects are:

- A reduction in the amount of funding available for infrastructure projects, if EU funding is not fully replaced by UK government funding
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- UK-controlled funding being allocated according to UK goals and priorities, which may be different from EU goals and priorities

EU funding in Wales

Welsh infrastructure benefits from EU funding programmes that support economic developments in line with EU priorities. The majority of EU funding is administered in partnership with national and regional authorities in Member States, though a share of EU funding is directly administered by the European Commission (see box 1).

Box 1: Types EU funding

Broadly speaking, EU funding takes two different forms:

- **Funds allocated to member states to manage** – this covers over 76% of the EU budget which is dispersed in partnership with national and regional authorities. In the UK, this is largely done through the European Structural & Investment funds.

- **Funds allocated directly by the European Commission** – These funds are not allocated to member states. In general, organisations apply directly to the European Commission for funding from these streams, often on a competitive basis following calls for applications.

Funding allocated to the Welsh Government

Wales has been allocated around €5 billion of funding from the EU for the period 2014 – 2020:

- €3.1 billion – provided from the European Structural and Investment (ESI) Funds – is to grow economic activity and employment, and increase the living standards of EU citizens. Of these funds, only ERDF is directly (though not only) concerned with infrastructure.
- €1.9 billion is for providing direct support for farmers under the Common Agricultural Policy (CAP). This support is often referred to as Pillar 1 of CAP.

Per head, Wales receives more funding from the EU than the UK as a whole

EU funding allocations for Wales and UK comparison, 2014 - 2020

	Wales	annual average, € per person[1]	
	€ billion	Wales	UK
European Structural and Investment Funds			
European Regional Development Fund	1.4	65	13
European Social Fund	1.0	46	11
European Agricultural Fund for Rural Development	0.7	30	11
European Maritime and Fisheries Fund	0.0	1	1
European Agricultural Guarantee Fund (Pillar 1 of CAP)	1.9	89	49

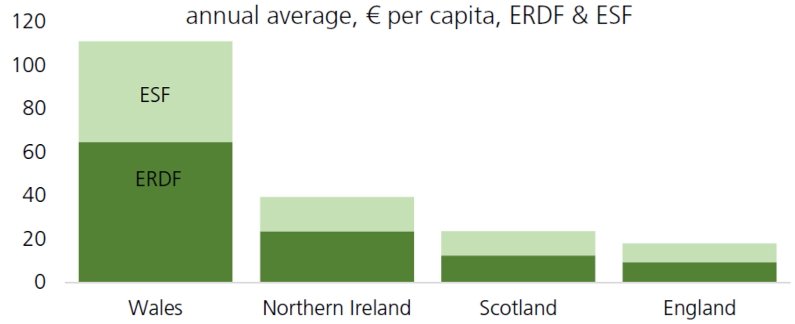
[1] based on 2015 population

sources:
European Commission, Structural and Investment Funds Open Data; House of Commons Library, CAP reform 2014-20: EU Agreement and Implementation in the UK and in Ireland (updated); www.nomisweb.co.uk

The per capita benefits of the €3 billion ESIF component are shown below, broken down into the European Regional Development Fund (ERDF) which supports local economic growth and the European Social Fund (ESF) which aims to improve employment and education opportunities by funding training and skills projects.

Wales receives more than six times the ESIF funding per capita than England.

European structural funds, 2014-2020, UK nations
annual average, € per capita, ERDF & ESF



ESI funding from the EU must be supplemented with funding from other sources in order to be accessed. This means that the total investment supported by Structural Funds will be greater than the funding from the EU alone.

The ERDF 2014-20 programme has €106m committed to Wales under the theme of 'Network Infrastructures in Transport and Energy'.[1] Some of the approved infrastructure projects are set out below.

Programme title	Description	Objective	ERDF funding
Superfast Broadband Business Exploitation	Increase the economic return of superfast broadband infrastructure by escalating its use by SMEs.	To increase the take-up and exploitation of NGA networks and ICT infrastructure by SMEs	€6.3m
Deep Green 1.5MW Holyhead Deep	The establishment of the Minesto UK HQ in Anglesey, Wales, and the development of a 1.5MW Deep Green low velocity tidal energy array in Holyhead Deep, off the coast of Holyhead, Anglesey, Wales.	To increase the number of renewable energy devices being tested in Welsh waters and off the Welsh coast, including multi-device array deployments, thereby establishing Wales as a centre for marine energy production	€13.04m
Tourism Attractor Destinations	To deliver a small number of regionally prioritised strategic tourism infrastructure projects that will help raise the quality and perception of destinations in Wales and encourage business investment and employment growth within the tourism sector in the region.	To increase employment through investments in prioritised local or regional infrastructure supporting a regional or urban strategy.	£27.7m
Wales Station Improvement Programme Phase 2	To improve railway stations and the connection with other transport modes across 5 key stations in the West Wales and the Valleys area	To increase urban and labour mobility to and from key urban and employment centres.	£16.4m

Source: Welsh Government, Approved Projects 2014-2020

Direct funding

Public and private organisations in Wales can also bid directly to the European Commission for funding from other programmes such as the Connecting Europe Facility (CEF) and Horizon 2020, which can provide funding for infrastructure projects.

It is difficult to quantify the funding for Wales from each of the European Commission's direct funding programmes. The CEF fund is worth €30.4 billion in total over the 2014-20 period (€24.05 billion for Transport, €5.35 billion for Energy, and €1.04 billion for Telecom). A regional breakdown of CEF funding was not found, but a list of CEF transport projects in the UK is published here, and includes a South Wales railway electrification study. Moreover, the Welsh Government and Welsh ports were in discussions with the Irish Government and Irish ports on access to Motorways of the Sea funding under the CEF which can be used to invest in port infrastructure and hinterland connections.[2]

[1] EU Data Portal

[2] The Welsh Assembly Research Service's briefing Wales and the EU: What does the vote to leave the EU mean for Wales?

The Horizon 2020 programme, running during 2014-20, has awarded €40 million of grants to organisation in Wales, as at 23 February 2016. The predecessor to Horizon 2020 – the 2007-2013 'Seventh Framework Programme' – allocated €145 million to organisations in Wales.[3] However, only a portion of Horizon 2020 funding relates to infrastructure.

Post-Brexit guarantees

The UK will continue to receive funding from the EU as long as it is a member state – this will still be the case after Article 50 has been triggered and negotiations are ongoing. Contract and grant agreements are legally binding documents between project partners and the managing authority, meaning that despite the decision to leave the EU, these agreements would continue to require the European Commission to finance all UK partners should they apply for, and be successful with securing EU funding.

On 13 August 2016, the Chancellor gave a number of assurances relating to the replacement of any lost EU funding. These include:

- all structural and investment fund projects, including agri-environment schemes, signed before the Autumn Statement will be fully funded, even when these projects continue beyond the UK's departure from the EU.
- where UK organisations bid directly to the European Commission on a competitive basis for EU funding projects while we are still a member of the EU, for example universities participating in Horizon 2020, the Treasury will underwrite the payments of such awards, even when specific projects continue beyond the UK's departure from the EU

In his Conference speech, the Chancellor announced that beyond the Autumn Statement, the Treasury will offer a guarantee to bidders whose projects 'meet UK priorities and value for money criteria'. It is unclear as to what these priorities and criteria will entail and to what extent these will cover projects currently funded by the EU. A PQ tabled by Tim Farron MP on 10 October 2016 received the following response:

> The Chancellor announced that the Treasury will provide a guarantee for all new structural and investment fund projects, signed after Autumn Statement, and before we leave the EU, where they provide value for money and support domestic strategic priorities.
>
> Each government department will take responsibility for the allocation of money to projects in line with these conditions and the wider rules on public spending. The Treasury will work with departments to embed this approach.

Various other PQs have been asked on the subject of the ESI funds, to which the Government has reiterated these commitments.[4]

[3] WQ 30220 EU Grants and Loans: Wales

[4] This link can only be accessed by those with access to the parliamentary network. An example for those without access is here.

Post-Brexit EU funding

The UK's access to EU funding programmes will be subject to negotiations during the EU withdrawal process. It is possible that the UK may still receive funding from certain EU programmes even after it has left the EU. Some of the funds directly managed by the Commission, such as Horizon 2020, already include countries that are not EU member states. In addition Norway and Switzerland take part in European Territorial Cooperation programmes (also known as INTERREG programmes) that are designed to promote cooperation between member states on shared challenges and opportunities. However, these funds are relatively small and both Norway and Switzerland are net contributors to them.

INTERREG is funded from the ERDF, but this is the only element of the ESI funds that non-EU countries currently participate in.

Discussions over the future participation of the UK (and Wales) in the Single Market could be of particular relevance here, as the transport, telecoms and energy networks are seen as key infrastructure sectors to be developed to support the functioning of the Single Market.[5]

EU and UK infrastructure priorities

The EU Treaties provide for the creation of Trans-European Networks (TENs) across the EU in the areas of transport, telecommunications and energy infrastructures. The Connecting Europe Facility (CEF) provides EU funding for TENs development.

The TEN-T Regulation sets out standards to which "core" and "comprehensive" TEN-T networks must be developed by 2030 and 2050 respectively. The Welsh and UK Governments may no longer be bound by these obligations in the areas for which they are responsible. These obligations include a requirement for the UK Government to electrify both the north and south Wales main railway lines by 2030.

EU financing – the European Investment Bank

The European Investment Bank (EIB) lends money, on favourable terms, to projects that support EU objectives.

The European Investment Bank (EIB) is a significant source of finance for UK infrastructure projects. The EIB's lending to the UK in 2015 amounted to €7.7 billion of which two thirds (€5.5 billion) was provided to infrastructure.[6] Recent Welsh infrastructure projects financed by the EIB are set out below.

Recipient	Description	Amount
Wales and West Utilities	Upgrading and expanding the gas distribution networks	€174.2m
Welsh Water	Improvements to water supply and wastewater collection and treatment.	€324.0m

[5] The Welsh Assembly Research Service's briefing Wales and the EU: What does the vote to leave the EU mean for Wales?

[6] National Infrastructure Delivery Plan 2016-2021, p. 20

Cardiff Energy-from-Waste	Construction, operation and maintenance of an energy-from-waste combined heat and power (CHP) plant in Cardiff.	€135.0m

Source: Welsh Assembly Question [WAQ71715]

Could the EIB still lend to the UK after 'Brexit'?

In 2011-2015, 89% of the EIB's €339 billion in total investment was invested in EU member states. The remaining 11% was spent outside the EU, including in Norway (as a member of the European Free Trade Area), EU membership candidate countries (such as Montenegro, Serbia and Turkey) and other areas such as Latin America and ACP (Africa, Caribbean and Pacific) states. EIB lending outside the EU is governed by a series of mandates from the European Union in support of EU development and cooperation policies in partner countries. As a result, any continued lending to the United Kingdom would have to be unanimously agreed by the EIB's board of governors (the finance ministers). The UK's future relationship with the EIB is likely to be a feature of exit negotiations.

What are the alternatives?

It is unclear what approach the Government will take to fill any gaps left by any post-Brexit withdrawal of EIB funding. Reports suggest that with respect to infrastructure, it may be considering a number of possibilities, including the Treasury issuing "infrastructure bonds" (a way to match private investors and pension funds with new transport and energy schemes) or the launch of a UK investment bank.

2. Press Articles

The following is a selection of recent press and media articles relevant to the debate.

Please note the Library is not responsible for the views expressed in, nor the accuracy of external content.

Multi-billion pound investment for infrastructure in Wales unveiled

ITV

14 December 2016

How Wales reacted to the Chancellor's announcement of an extra £400m for our infrastructure

David Williamson

Click on Wales, 23 November 2016

UK drawing up plans for infrastructure bonds for large projects: Chancellor Philip Hammond interested in proposals despite resistance

Jim Pickard, Gill Plimmer and Naomi Rovnick

Financial Times, 14 November 2016

Building a more prosperous Wales: Ed Evans offers his thoughts on how the new National Infrastructure Commission for Wales can best support economic growth

Ed Evans

Institute for Welsh Affairs, 19 October 2016

Body that would advise on what infrastructure projects Wales needs could be up and running within a year

Sion Barry

Click on Wales, 17 October 2016

Why Brexit casts a shadow over the South Wales Metro

David Williamson

Click on Wales, 17 October 2016

Infrastructure lies at heart of the UK's ambition to expand beyond Europe

Colin Wilson

Daily Telegraph, 16 October 2016

UK infrastructure will have trouble raising funds as Brexit approaches, says EIB head: Recent levels of lending to UK infrastructure projects by the European Investment Bank (EIB) cannot be maintained as the country moves towards leaving the EU, the bank's president has said

Out-Law.com, 12 October 2016

EIB chief warns UK will struggle without cheap EU loans: Werner Hoyer says recent level of lending 'cannot be maintained'

Chris Giles

Financial Times, 10 October 2016

Brexit vote has set back UK infrastructure investment: S&P says overseas infrastructure funding could decline while the government's hands are tied

International Business Times

Gaurav Sharma, 23 September 2016

Firms call for infrastructure spend before the beginning of Brexit talks

Billy Bambrough

City AM, 21 September 2016

UK must speed up infrastructure plans to cope with Brexit hit - BCC

Laura Gardner Cuesta and William James

Reuters, 12 September 2016

Infrastructure spending nosedived after Brexit vote, figures show: Industry looking for government to fund large-scale projects after value of construction contracts for July dropped 20% in wake of EU referendum

Ruth Quinn

The Guardian, 22 August 2016

Brexit means Wales should borrow more, Plaid Cymru says

BBC, 12 August 2016

Brexit Britain will miss cheap EU funds for infrastructure: An extraordinary case of a nation depriving itself of investment finance, writes Brian Unwin

Brian Unwin

Financial Times, 11 August 2016

Wales infrastructure worth £300m in doubt after Brexit

Yoosof Farah

Building.co.uk, 28 June 2016

Brexit will halt large infrastructure projects says National Audit Office chief

Andy Walker

Infrastructure Intelligence, 25 June 2016

3. Press Releases

Secretary of State for Wales, Alun Cairns, addresses IoD Wales Members

Office for the Secretary of State for Wales and Rt Hon Alun Cairns MP, 13 October 2016

I want to take this opportunity to highlight our approach to Brexit and how we can ensure that Wales is in the very best place to take advantage of the opportunities ahead.

Last week we announced key elements of our approach to exiting the European Union.

First, the timing. Article 50 will be invoked no later than the end of March 2017. This gives us two years in which to negotiate formally the terms and conditions of our exit and trading agreements.

Let's be clear. We are not turning our backs on our European friends. A poorer, weaker Europe is not in our interest.

We want the EU to succeed and it's in their interest that the UK succeeds.

We are the fastest growing economy in the G7 and one of the strongest major advanced economies in the world.

The EU can only benefit from having such a close neighbour, ally and major economy on its doorstep that is prospering.

We also announced the process for leaving. We stated our intention to bring forward a Great Repeal Bill.

This is the Parliamentary Bill that will transfer all EU law in to UK law.

It's not tearing up the rule book. It's transferring the same standards, regulations and obligations to the UK.

All that will change is that we will have control over the law, giving us an opportunity to make changes in the interests of the UK at a later date to suit UK needs.

We recognise the need for a smooth transition which minimises disruption to our trading relationships and that requires a strong economy and a strong, business friendly environment for foreign investment.

The Great Repeal Bill is significant in offering certainty and security.

Businesses should take confidence from this action. It demonstrates a sensitive, programmatic approach.

This also sends a clear signal to EU leaders that we want to maintain as close a trading arrangement to what we have now.

The Chancellor also confirmed last week that the UK Government will guarantee funding for all structural and investment fund projects, signed before the UK leaves the EU.

We must take this moment as an opportunity to consider whether the approach to what is currently EU Structural Funds is the best way to support these communities.

I've already expressed my concerns over how this money has been spent in the past, simply carrying on with the same spending plans in the same old way after two decades is not be an option.

After all, European structural funds are supposed to be a temporary fix, a stimulus for the most deprived parts of Europe.

It is hard to believe that we are 16 years on from the first round of Objective1 with £4Bn spent. We need to ask the question, have we really got the outcomes we wanted out of this? Are the communities in West Wales and the Valleys better off – as we planned and hoped?

A new structure could give us the opportunity to follow UK priorities, investing in a way that is tailored to the Welsh economy.

The instruction from the referendum is clear: repatriate our sovereignty, control our borders and seize the opportunities that the wider world has to offer, but do all of this while protecting our economy, our jobs and our living standards.

As Secretary of State for Wales I will continue to promote Wales to the world. I am determined to help deliver the Prime Minister's objective to be a confident global Britain that doesn't turn its back on globalisation but ensures the benefits are shared by all. I will ensure that Wales is at the heart of that vision.

Strong Foundations

We approach challenges and opportunities of exiting the European Union from a position of economic strength.

Since 2010, Wales has seen the fastest growth outside London.

Latest figures for Wales show that the unemployment rate is at an all-time low and there are a record number of people in work. At long last Wales is closing the Economic Inactivity Rate Gap with the rest of the UK. Welfare reform is making a real difference to incentivise work.

Some of the highest falls in unemployment has been in the most deprived communities.

Thankfully, these jobs have been created by the private sector – there are 126,000 more private sector jobs in Wales than there were in 2010.

Wales is a confident economy benefiting from stable finances, claiming the benefits of difficult decisions taken during the last Parliament.

It's an economy that is fundamentally stable, highly competitive, and open for business.

Brexit will undoubtedly bring challenges, but we are in good shape to face the transition ahead.

Trade and Investment

Wales is built upon a history of global trade – in the early 1900's Cardiff and Barry were the two largest coal exporting docks in the world.

As recently as the 1990's Wales attracted 20% of the UK's FDI.

Today the value of exports to Wales is significant – £12 billion over the past year. Of that, more than half are exported to non-EU countries.

We have world-leading products and companies located here.

We develop and manufacture the most technologically advanced aircraft wings produced anywhere in the world. Over half of the world's commercial aircrafts are now flying using those wings made by Airbus in Broughton.

Although our might goes far beyond Airbus. Every two seconds, a GE powered airplane is taking off somewhere in the world. At any given moment, more than 2,200 of these aircrafts are in flight, each carrying up to 600 passengers.

The message we must all take to the world is this: our country remains open for business. As the Prime Minister said at conference, "while we are leaving the European Union, we will not leave the continent of Europe. We will not abandon our friends and allies abroad. We will not retreat from the world.

Wales remains a great place to do business and an attractive destination for overseas investment, providing a valuable boost to the economy and creating thousands of jobs.

Bringing more investment into Wales is something that I'm passionate about.

Last year there were 97 inward investment projects which created over 5,000 new jobs – an increase of 7% in the number of new jobs created on the previous year. 90 of the 97 involved UKTI.

The new Department for International Trade is bigger, bolder and more proactive. It's not just UKTI, it involves so many other support services. It is a department for the whole of the UK. Every business here is equally entitled to the support DIT offers as any business in Bristol, Bath or Newcastle. The Trade Missions, Embassy and Consulate support and the Networking opportunities. I will have more to say on this over the coming weeks.

This is not instead of Welsh Government activity in this area but in addition to. It is important that we co-ordinate in the interests of Wales.

Wales now has a strong platform to build on over the coming months.

Leaving the EU offers us an opportunity to negotiate our own trade agreements and to be a positive and powerful force for free trade.

Across the world, we are going to bang the drum for Britain and pull out all the stops in boosting our trade: promoting the UK as a place to do business and trade with; driving inward investment; and negotiate trade agreements.

Investing in Innovation

It's not just a history of global trade, we are responsible for some of the most significant innovations.

From the growth of higher value manufacturing and engineering in the aerospace, automotive and defence sectors, to an emerging life sciences sector where researchers are at forefront of bio-technology.

At the cutting edge of many new technologies, the UK is becoming a world leader again.

Nowhere is this truer than in South Wales, where we remain at the forefront of developments in semi-conductor technology. Our Catapult Centre will exploit absolutely the local expertise for the benefit of the Welsh and UK economy. It will develop Europe's most sophisticated cluster and make a real difference to the value and productivity.

Infrastructure Investment

Infrastructure is also key to your ability to succeed.

Our programme of investment in rail infrastructure is one of the most ambitious since the development of the rail network in the 19th Century.

Huge sums are being invested to electrify the Great Western Mainline.

Just this morning I had the privilege of seeing the electrification works from the front of this morning's 07:45 from Paddington to Bristol and a pleasure to inspect the cables being erected in the Severn Tunnel.

I recognise the closure of the tunnel has been a challenge for many of us here, but it's clear the benefits will vastly outweigh this short period.

Electrifying the Great Western Main Line is fundamental to our connectivity and will help improve productivity.

Our £500 million contribution to the Cardiff City deal will support electrification of the Valley Lines railways.

Crossrail – Europe's largest Civil Engineering project will enhance the shorter journey times offered by electrification of the mainline – bringing Cardiff closer to Canary Wharf – in around 2 hours.

We're investing to link Heathrow airport to the Great Western Mainline – cutting half an hour off the journey between Heathrow and South Wales.

The Severn Crossings are equally relevant to our access and competitiveness, we will halve the tolls once the Crossings are in public ownership.

We are also scrapping the second category so that small goods vehicles will pay the same amount as cars.

I will review the case for free-flowing tolls on the Crossings.

We are spending significant sums to improve Broadband across the UK; With Wales currently at 89% covered.

We are also working to reduce mobile not-spots with a deal to guarantee voice and text coverage from each operator. The UK will have 98% 4G coverage by end 2017, with Wales and the other nations of UK having at least 95%. This is a very different approach to the 3G Auction for which there were no demands for coverage – largely why we have the not spots I mentioned.

This is an area where the Welsh Government and I are working closely together to press operators to play their part in filling the gaps.

Careful, targeted public investment in high value infrastructure will be an important part of the Government's strategy to build an economy that works for everyone.

The Chancellor confirmed last week that protecting and supporting the economy would take precedence over eradicating the deficit.

As the economy responds to the impacts of leaving the EU, fiscal policy may have a role to play.

We are ready to take whatever steps are necessary to protect our economy.

City Deals

But a strong economy is not built on infrastructure alone. Our economy requires long term, sustainable, balanced growth.

We are still too reliant upon a few key sectors that tend to be focussed on London and the South East. Productivity in Wales is lower than the US, Germany, France and Italy. If this improved by just 1% every year for a decade, this would generate £250Bn, £9,000 for every household.

London and the South East are the only regions in the UK higher than the UK average. However, even they are below the US, France, Germany and Italy average.

The good news is Wales has been narrowing the gap, but there is more to do. Closing that gap will be key to Wales' future outside the EU.

The function of Regional devolution deals is to help deliver that, along with productivity improvements. Tackling those regional differences will be one of the key drivers for the government's industrial strategy.

The £1.2 billion Cardiff City Deal is the UK's largest City Deal. It is about unlocking economic potential. There is more work to do on this but we believe that business leaders and local decision makers are best placed to understand what is most needed to drive growth in their area.

We are also working closely with local partners to help them develop a City Deal for the Swansea Bay Region that will help them drive the local economy and deliver productivity growth.

We're also working on a North Wales Growth Deal and I'm keen to see this operate on a Cross Border bases.

This will help to strengthen the region's economy and make the most of its connection to the Northern Powerhouse.

I'm determined to see North Wales plugged into the economic opportunities of Manchester, Liverpool and Cheshire.

Conclusion

You can be assured we are prepared to take the necessary steps to safeguard the economy and take advantage of the opportunities that will arise as we forge a new relationship with the European Union and make Britain a country that truly works for everyone.

We are the same outward-looking, globally-minded, big-thinking country we have always been and our country remains open for business.

Brexit: implications for UK infrastructure

This note considers some of the implications for the UK infrastructure sector following Brexit.

Burgess Salmon, 18 July 2016

Law

While the UK remains a member of the EU the law relating to infrastructure has not changed. If and when the UK actually leaves the EU (something which is at least 2 years away) parliament will have to decide which, if any, aspects of the law relating to infrastructure development and operation it wishes to change. Areas of focus will need to include public procurement regulations and the funding of public sector projects.

Economic Impact

Of much greater, and immediate, concern are the economic implications for infrastructure projects. There has already been significant speculation about which sectors will be affected most strongly. The privatised sectors may be most vulnerable in the short term but a downturn in the economy will also reduce the level of public funding available.

The fall in value of the pound is another issue – on the one hand, inward investment is better value but on the other, importing of goods and services is more expensive. Given the heavy reliance of the UK infrastructure market on major contractors from outside the UK, this may well create inflationary pressures and further uncertainty in the supply chain.

Mega projects that are well advanced such as Thames Tideway Tunnel and Crossrail are unlikely to be affected. Those further down the pipeline such as HS2 and Heathrow's third runway are more vulnerable to the less certain economic outlook and a hiatus while the new government gets to grips with the implications of Brexit and key departmental resources are reallocated to deal with EU exit negotiations. Initial indications are that in the medium to long term the need for infrastructure investment will be greater than ever (not least as an economic stimulus and to show the UK remains an attractive investment option) therefore the longer term impact could be neutral or even positive.

A related issue will be the availability of funding. The European Investment Bank (EIB) has recently been a major investor in UK infrastructure. On exit from the EU the UK will have to relinquish its status as shareholder in the EIB and take its chances as a non-member state recipient of funding. Only time will tell as to how this relationship will progress but there have already been some immediate casualties as a result of the uncertainty around EIB and European grant funding.

Conclusions

The biggest impact of Brexit on infrastructure is likely to be delay to investment decisions, with some projects ultimately being postponed indefinitely or scaled down significantly. The legal landscape in which projects do proceed will largely depend on the terms of the deal the new government is able to cut with the EU and individual member states going forward. There may also be early implications for the UK's relationship with non-member states. There are some positive early signs in this area - the challenge will be making the most of these in the face of all the other challenges facing government.

The Future of Grant Funding in Wales post Brexit

Broomfield Alexander, 28 June 2016

The result of the EU Referendum and the decision taken by the UK to leave the EU has sparked some debate over the future of grant funding in Wales. Over the last 30 years grant funding has been an important economic driver in Wales to support investment and job creation both by inward investors and indigenous businesses. Grant support has also been available in Wales to support major infrastructure projects, research and development and training and recruitment.

Welsh Government Grants

Grants which support job creation and capital investment by businesses in Wales are available from the Welsh Government via grant schemes such as Repayable Business Finance and previously the Wales Economic Growth Fund. These grants are funded from the Welsh Government's £15 billion annual budget which is allocated by UK Treasury. The amount of grant funding available is agreed as part of the annual budgetary process undertaken by Welsh Government. There is no reason to suggest that grant funding from this source will disappear when the UK exits the EU. Brexit campaigners at a political level made it clear that ' Wales would not lose out' so in theory more money will be made available to Wales from UK Treasury to replace the EU funding which will be lost. It remains to be seen however whether this will be the case and how Welsh Government will decide to utilise any additional funding received from UK Treasury. As a consequence of Brexit however Wales will no longer be governed by EU State Aid rules which place restrictions on the amount of State Aid that can be made available to businesses. This in theory will allow Welsh Government more freedom to provide support to businesses in Wales. It may be however that as part of any trade agreement with the EU, the UK will be required to continue apply EU state aid criteria going forward.

EU Funding in Wales

Wales has benefited from over £4 billion of EU structural funds since 2000 which has provided support for some of the poorest areas of Wales in particular West Wales and the Valleys. The latest round of European Structural Funding runs from 2014 to 2020 and amounts to 16 Number CDP 2016/0248, 9 December 2016 £1.8 billion in total. In addition there is a further £200m per annum of support for the agricultural sector in Wales. A study undertaken by Cardiff University's Wales Governance Centre indicated that in 2014 Wales received £245m more in EU funding than it paid in, however the UK's net contribution to the EU was £9.8 billion. Projects which have received EU funding in Wales include the Swansea Bay University Campus, the Heads of the Valley Road Improvement Scheme and Town Centre Improvements in Merthyr and Pontypridd. EU funding has also supported programmes such as Jobs Growth Wales, Apprenticeships, SMART Cymru and the Finance Wales Jeremie Fund. The current programme of EU funding runs from 2014 to 2020 and it assumed that all EU funding will cease when the negotiations period ends and the UK formally leaves the EU. Part of the negotiations however may involve trying to secure the funding which has already allocated under the current round of EU funding.

Potential Impact on Wales

The potential impact of Brexit on the Welsh economy is unclear but there is a risk to jobs and investment in the short term given the uncertainty created by the UK's decision to leave the EU. The Welsh Government has already identified this risk and has stated it will do all it can to secure jobs for Wales. Many inward investors highlight access to the European single market as an important driver in any decision to invest in the UK and Wales may find it increasingly difficult to attract inward investment until there is some clarity as to the trading relationship going forward with the EU. There is also a risk that some inward investors already in Wales may choose to relocate their operations elsewhere. The threat to jobs and investment could mean a renewed focus by Welsh Government in the short term on making grant funding available to encourage companies to invest and grow in Wales whilst negotiations with the EU are ongoing. In the longer term, post Brexit, the Welsh Government will need to ensure that additional funding is allocated to Wales from UK Treasury to make up any shortfall arising from the loss of EU funding. The Welsh Government will then need to develop a strategy to ensure this additional funding is used in the best way possible to support economic growth and investment in Wales.

4. Parliamentary material

4.1 Written Questions

HM Treasury: National Productivity Investment Fund: Written question - 55190

Asked by Mr Jim Cunningham

Asked on 28 November 2016

To ask Mr Chancellor of the Exchequer, pursuant to the Answer of 28 November 2016 to Question 54558, whether it is his Department's policy that the National Productivity Investment Fund will fund a minimum number of projects based outside London; and if he will make a statement.

Answered by Mr David Gauke

Answered on 01 December 2016

The government has established a National Productivity Investment Fund (NPIF) to provide £23bn of additional spending between 2017/18 and 2021/22. Every penny spent by the UK government is explicitly earmarked for areas that are critical to boosting productivity: economic infrastructure (transport and digital communications), Research and Development (R&D), and housing.

Further details about specifically how and where this money will be invested will be set out by the relevant departments and agencies in due course.

Where spending on measures within the NPIF does not extend to Scotland, Wales or Northern Ireland, the devolved administrations will receive funding through the Barnett formula in the usual way.

Wales Office: Infrastructure: Written question - 907490

Asked by Christian Matheson

Asked on 22 November 2016

To ask the Secretary of State for Wales, what discussions he has had with (a) his Ministerial colleagues and (b) the Chancellor of the Exchequer on future infrastructure development in Wales.

Answered by Guto Bebb

Answered on 30 November 2016

This Government is prioritising high-value investment, particularly in infrastructure and innovation, to drive economic growth and raise productivity.

At Autumn Statement, the Chancellor increased the Welsh Government’s capital budget by £436m. This is in addition to the £500m in borrowing powers we committed to three years ago. These measures enable the Welsh Government to invest directly in modernising Wales' infrastructure for the benefit of people throughout Wales.

HM Treasury: EU Grants and Loans: Written question - 47657

Asked by Tim Farron

Asked on 10 October 2016

To ask Mr Chancellor of the Exchequer, with reference to his announcement on EU regional funding dated 3 October 2016, what conditions will need to be passed by funding projects to ensure they are (i) good value for money and (ii) in line with domestic strategic priorities; and if he will guarantee that all regions will receive the full amount of funding they were allocated by the EU.

Answered by Mr David Gauke

Answered on 13 October 2016

The Chancellor announced that the Treasury will provide a guarantee for all new structural and investment fund projects, signed after Autumn Statement, and before we leave the EU, where they provide value for money and support domestic strategic priorities.

Each government department will take responsibility for the allocation of money to projects in line with these conditions and the wider rules on public spending. The Treasury will work with departments to embed this approach.

Department for Transport: Transport: Infrastructure: Written question - 46680

Asked by Grant Shapps

Asked on: 15 September 2016

To ask the Secretary of State for Transport, whether his Department plans to fund transport infrastructure projects that are completely or partly funded by EU programmes after the UK leaves the EU.

Answered by Andrew Jones

Answered on 11 October 2016

The Department for Transport has responsibility for UK involvement in the transport element of the Connecting Europe Facility (CEF) and the Trans European Transport Network programme (TEN-T). These schemes have provided co-funding for a number of public and private sector transport infrastructure projects.

On 13th August my Right Honourable Friend, the Chancellor of the Exchequer made an announcement[1], outlining the Government position on EU funding schemes, which included a commitment to provide continuity of funding for UK participants in EU programmes.

In line with that announcement, my Department will work closely with HM Treasury and concerned stakeholders to review EU funding schemes in the round, to ensure that any ongoing funding commitments best serve the UK's national interest, while ensuring appropriate investor certainty.

[1] The following is a link to the announcement: https://www.gov.uk/government/news/chancellor-philip-hammond-guarantees-eu-funding-beyond-date-uk-leaves-the-eu

4.2 Oral Questions

Leaving the EU

HC Deb 30 Nov 2016 c 1502-05

Wayne David: 8. What recent discussions he has had with his Cabinet colleagues on the potential effect on the Welsh economy of the UK leaving the EU. [907486]

The Secretary of State for Wales (Alun Cairns): The Welsh economy approaches EU exit from a very strong position. Since the vote to leave the EU we have seen economic inactivity continue to fall in Wales while employment has risen to a record high. Businesses continue to show confidence in the economy, with new investment across the UK fundamental to prosperity in Wales.

Margaret Ferrier: Wealth inequality in the British state hits Wales hard, with Welsh gross value added just scraping 71.4% of the UK average. EU structural funds have been key to combating this home-grown unfairness. Will the Minister guarantee today continued future UK funding to replace in full the lost EU regional money?

Alun Cairns: The hon. Lady raises an important issue, and I would say that Wales has been the fastest growing part of the UK outside London since 2010. She makes an important point in relation to the future of structural funds. She will also appreciate that they are meant to be a short-term boost to the economy, but after 16 years and £4 billion has been spent, west Wales and the valleys have 64% of UK GVA. I am sure we need to use this opportunity to be positive and do something better with similar structural support.

Wayne David: Does the Secretary of State's answer to that last question imply the Government intend to change the agreed priorities for the spending of the structural funds?

Alun Cairns: The hon. Gentleman will appreciate both that his constituency has experienced some significant falls in unemployment since 2010 and that after all that money has been spent those areas voted in the strongest numbers to leave the EU. The point I am making is that the current programme has not worked and has not fitted those communities. Exiting the EU presents an ideal opportunity to revisit this and look to see what we can do better for the hon. Gentleman's constituency and other communities in Wales in need.

David T. C. Davies (Monmouth) (Con): Does my right hon. Friend agree that the people of Wales voted clearly for Brexit and they do not need to be represented by the SNP or the Welsh Assembly Government who are ignoring their views, but will be pleased to have a Conservative Government and an excellent Secretary of State for Wales who will carry out their wishes?

Alun Cairns: I am grateful to my hon. Friend for his kind comments, but of course we have a close and constructive working relationship with the Welsh Government and all devolved Administrations because it is in our interests to get the strongest deal for the whole of the UK. After all, as my hon. Friend will recognise, the most important market for Welsh business is the UK market and getting the best deal for the whole of the UK is in all our interests.

Stephen Crabb (Preseli Pembrokeshire) (Con): The automotive and aerospace sectors are of enormous strategic importance for the Welsh economy. Given that Brexit probably will not mean retaining full membership of the single market, will my right hon. Friend nevertheless commit to do everything he can to retain full single market-style benefits for those critically important sectors in the Welsh economy?

Alun Cairns: My right hon. Friend raises an important point. He recognises the strength of the automotive and aerospace sectors, and I would point to some significant major investments the UK has landed. We are all familiar with Nissan investment in Sunderland, but it is equally important to the Welsh economy—Calsonic Kansei in Llanelli is a supplier to Nissan in Sunderland. We want to maintain the most open market arrangements, and the confidence shown by Nissan demonstrates it understands the priority we are placing on that.

Hywel Williams (Arfon) (PC): This week Hybu Cig Cymru, the Farmers' Union of Wales and NFU Cymru have all made the overwhelming case in favour of tariff-free access to the EU for our world-class Welsh red meat. What is the Minister doing to ensure the voice of agriculture is heard in government?

Alun Cairns: The hon. Gentleman raises an important point and the Under-Secretary, my hon. Friend the Member for Aberconwy (Guto Bebb), was at the winter fair in Builth Wells yesterday in Llanelwedd where he met the FUW and the NFU. We are in close dialogue with the farming unions in Wales and across the whole of the UK. Clearly Welsh agriculture is an important part of the Welsh economy and of our export market, and we want to maintain the most open trading relationship possible in its interest.

Hywel Williams: Welsh agriculture is spectacularly successful in EU markets; 93% of our excellent Welsh beef and lamb exports go to EU countries. What steps is the Secretary of State taking to ensure French, Italian, Spanish and German people continue to eat Welsh meat in the future?

Alun Cairns: The hon. Gentleman makes an important point. I too want to ensure that those across the European Union and elsewhere have the opportunity to benefit from the excellent produce that comes from Wales, including Welsh beef and Welsh lamb. We want to be global leaders in free trade. We also want the most open trading relationship with Europe that we can possibly get, and that is our determination and focus in our negotiations.

Mr Peter Bone (Wellingborough) (Con): I ran a manufacturing business in south Wales for 13 years, and it is a great place to do business. We manufactured and sold all over the world. Does the Secretary of State agree that the fall in the pound as a result of the Brexit vote makes it much easier for Welsh exporters to increase their sales?

Alun Cairns: I am grateful to my hon. Friend for his question, because it gives me the opportunity to highlight the fact that Wales now has 37,000 more manufacturing jobs than in 2010. That demonstrates the strength and vibrancy of the Welsh economy. Clearly we want to do all we can to support our manufacturers. The value of the pound will have positive results for some businesses and perhaps present challenges for others, but those exporters who want to grow are clearly in a stronger position.

Jo Stevens (Cardiff Central) (Lab): The Secretary of State referred earlier to the importance of the automotive industry in Wales. Ford announced in September that it would guarantee around a third of the jobs in its 1,800-strong workforce at Bridgend. Those jobs are vital to the local community and to the supply chain in Wales, but we are still concerned about the lack of commitment post-2020. The lack of any plan from the Government for Brexit is exacerbating the uncertainty and causing doubts about the plant's future, so will the Secretary of State today commit his Government to giving Ford the same deal that they gave to Nissan in order to secure the future of the Bridgend plant and Ford's presence in the UK post-Brexit?

Alun Cairns: The hon. Lady has raised an important point. My understanding of the situation is that Ford is continuing with more than £100 million-worth of new investment in the plant. That demonstrates the confidence that Ford has, not only in the Bridgend plant but in the UK economy. This builds on the strength of the automotive sector, which is extremely important to the Welsh economy and to the UK economy as a whole.

Alex Cunningham (Stockton North) (Lab): 3. What assessment he has made of the potential effect of the UK leaving the EU on foreign investment in Wales. [907481]

The Secretary of State for Wales (Alun Cairns): The Welsh economy remains fundamentally strong, highly competitive and open for business. We are part of a strong United Kingdom, and leaving the EU offers Wales an unprecedented opportunity to forge a new role for ourselves in the world, to negotiate our own trade agreements and to reap the benefits of foreign investment.

Alex Cunningham: What discussions has the Secretary of State had with the First Minister about the potential loss of links and connections that have been built up through organisations such as the European

Committee of the Regions, and how will he seek to maintain those connections after Brexit?

Alun Cairns: The Welsh Government and I have a warm working relationship. Only last week, two Secretaries of State and two other Ministers met at the British-Irish Council that took place in my own constituency of the Vale of Glamorgan. Of course we have strong bilateral relationships, and it is right that we use the Joint Ministerial Council to form the basis of the negotiations as we exit the European Union. I want to maintain the warmest and most constructive relationship possible with the Welsh Government, with all the devolved Administrations and with the Crown dependencies.

Michael Fabricant (Lichfield) (Con): But does my right hon. Friend accept that this is not just about manufacturing, and that it is not only the exporters of Welsh Black beef who are important? One of the biggest exports for Wales is tourism. People tell me that, with the lower value of the pound, there are more foreign visitors in Snowdonia than ever before and that overseas companies are making more inward investment in Welsh hotels and marketing.

Alun Cairns: My hon. Friend makes an extremely important point. Wales has a fantastic record of attracting inward investment projects. He has focused on tourism, which gives me the opportunity to highlight the fact that north Wales has been named by Lonely Planet as the fourth top place in the world to visit in 2017. It is the only part of the United Kingdom to have been chosen, and that is something that we should celebrate and market to ensure that more people come not only to the UK but to north Wales.

Ian C. Lucas (Wrexham) (Lab): Inward investment is a key driver of decisions to invest in particular areas, and the manufacturing powerhouse of north-east Wales needs inward investment not only from the private sector but from the Government. Will the Secretary of State put his money where his mouth is and commit the UK Government to matching Welsh Government investment in new infrastructure, including road and rail, in north-east Wales?

Alun Cairns: The hon. Gentleman shows a close interest in the Mersey Dee area and has shown particular interest in the north Wales growth deal, which my right hon. Friend the Chancellor mentioned in the autumn statement. We are keen to progress it and are waiting for details of the bid. I am sure that the hon. Gentleman will recognise the major success of that part of the world being chosen for the global F-35 repair centre, which will inject billions of pounds over decades into north-east Wales and MOD Sealand. We should recognise and celebrate that.

Jo Stevens (Cardiff Central) (Lab): More than £2 billion of capital investment has been made over the past decade across Wales in social housing, transport, energy, water and education through the European Investment Bank. What plans has the Secretary of State put in place to mitigate the potentially disastrous consequences of leaving the EU on pre-existing EIB loans to organisations and public bodies in Wales?

Crucially, what plans does he have to replace the funding that the EIB has been able to provide?

Alun Cairns: Our negotiations with the EIB will run in parallel with our negotiations with the European Commission. The hon. Lady has a responsibility to try to instil confidence in investment in Wales, not to undermine it. Only last week, the Chancellor announced a further capital injection of £436 million. I would hope that the hon. Lady would want to welcome that, not undermine investment, employment and jobs—it really does not become her.

Regional Infrastructure Development

HC Deb 25 Oct 2016 c 139-141

Jo Churchill (Bury St Edmunds) (Con): What steps he is taking to support regional infrastructure development. [907546]

The Chief Secretary to the Treasury (Mr David Gauke): At the autumn statement we prioritised additional high value investments, specifically in infrastructure and innovation, that will directly contribute to raising Britain's productivity. The Chancellor announced a new national productivity investment fund of £23 billion to be spent on housing, transport, digital communications and research and development over the next five years. Local enterprise partnerships will receive £1.8 billion of growth deal funding. This will go towards the projects needed to bring about economic growth in local areas, including new homes, transport improvements and supporting businesses and people to access the skills they need.

Jo Churchill: I welcome all those measures to boost productivity and particularly to turn attention to infrastructure and the specifics for the east of England given yesterday. However, given the strategic importance of the A14 trunk road linking Felixstowe port with Cambridge and the rest of the country, as well as its significance to 80% of businesses in Suffolk, does the Minister agree that further improvements to a road that he knows well are vital to productivity?

Mr Gauke: My hon. Friend is right—it is a road that I know well. We certainly agree that the A14 is a critically important part of the network. We are investing £1.5 billion for a major upgrade to cut congestion on the A14, including a new 21-mile road between Huntingdon and Cambridge, and only yesterday my right hon. Friend the Transport Secretary was able to go there to witness the start of the work.

Steve McCabe (Birmingham, Selly Oak) (Lab): Is not the simple truth that more than half the money announced for England will go to projects in London and the south-east, and that despite a £50 million shortfall in NHS funding by 2017 and a £130 million shortfall in social care funding by 2020, the Chancellor, like his predecessor, has short-changed Birmingham and the west midlands? [907563]

Mr Gauke: No, that is not true. There is a balanced package and all parts of England will benefit from the transport measures. The Barnett consequentials should mean that Scotland, Wales and Northern Ireland can also benefit in this area. A specific announcement about the midlands hub was made in the autumn statement and there is more to be said about the midlands engine. This is a Government who are determined to ensure that the whole country benefits from economic growth.

Antoinette Sandbach (Eddisbury) (Con): 17. Can the Minister assure me that digital infrastructure is as important as road infrastructure, and that part of the £1 billion broadband fund will be allocated to address the productivity gap in rural areas—in particular, to help shops such as The Hollies Farm Shop in my constituency, which has three business lines and 2 megabits of speed? [907556]

Mr Gauke: My hon. Friend highlights the fact that digital must be key to improving productivity. That is why a £1 billion package was announced in the autumn statement. There was also specific help for rural areas through rural rates relief. Our ambition is clear: to provide the best digital infrastructure we can for urban and rural areas.

Rachel Reeves (Leeds West) (Lab): In table 4.21 of the OBR's report it forecast that the Government will underspend on infrastructure by £15 billion in the next five years—two thirds of the additional money announced by the Chancellor last week. Why should the public have any confidence in the ability of the Government to deliver on their promises when their own watchdog clearly does not?

Mr Gauke: The OBR has always taken a cautious view on delivery of infrastructure, but let us remember that we have already delivered 3,000 projects. We have set out an ambitious plan for delivery of infrastructure improvements in the course of this Parliament, and that is exactly what we will deliver.

4.3 Debates

Exiting the EU: Businesses in Wales

HC Deb 14 Dec 2016 c 251-75WH

Cardiff Central Station

HC Deb 8 Nov 2016 c 516-524WH

Leaving the EU: Wales

HC Deb 25 Oct 2016 c 24-48WH

5. Further reading

Brexit: UK Funding from the EU

House of Commons Library, December 2016

Brexit: future funding from the European Investment Bank?

House of Commons Library, November 2016

Taking Wales Forward 2016-2021

Welsh Government, September 2016

A National Infrastructure Commission for Wales

Plaid Cymru, September 2016

How Plaid Cymru's National Infrastructure Commission for Wales would work

Plaid Cymru, September 2016

EU Referendum: Brexit and the Impact on UK Infrastructure

Squire Patton Boggs, July 2016

Brexit & UK infrastructure: what next?

KPMG, July 2016

Brexit: The Case for Infrastructure

Institution of Civil Engineers, July 2016

Brexit and UK PFI/PPP infrastructure projects

Clifford Chance, July 2016

Impact of Brexit on infrastructure, mining and commodities

Norton Rose Fulbright, July 2016

Infrastructure Policy

House of Commons Library, May 2016

National Infrastructure Pipeline 2016

HM Treasury and Infrastructure and Projects Authority, April 2016

Wales Infrastructure Investment Plan for Growth and Jobs: Project Pipeline Update

Welsh Government, February 2016

Manifesto for infrastructure in Wales 2016: Prosperity, jobs and growth

Institute for Civil Engineers Cymru, February 2016

The Wales Infrastructure Investment Plan Annual Report 2015

Welsh Government, June 2015

Building a more prosperous Wales, infrastructure for a more modern economy

Wales Office, April 2014

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