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Measures to support the Welsh economy, and its consequences for funding the devolved institutions

Summary

There will be an Estimates Day debate spending of the office of the Secretary of State for Wales on measures to support the Welsh economy, and its consequences for funding the devolved institutions in the House of Commons Chamber on Tuesday 5 July 2022.

1 Background

1.1 What are the Estimates?

One of Parliament's longest standing functions is the consideration and authorisation of the government's spending plans, requiring the government to obtain parliamentary consent before spending public money.

Main Estimates are the documents that contain the detail of those spending plans for a particular year. There is a separate Estimate for each Government Department. Changes are presented at the end of each year through Supplementary Estimates. Each of the Estimates must be authorised by Parliament before they take effect.

Within each Estimate, spending is divided into several distinct budgetary limits for each department, covering spending of a specific type determined by HM Treasury. Changes to the categorisation of spending between categories require prior consultation with Parliament. Departmental Expenditure Limits (DELs) cover net spending which is subject to limits set in Spending Reviews and which it is assumed government departments can control:

- Resource DEL (also referred to as 'day-to-day spending') covers costs of running and purchasing goods and services; staff costs; current grants; rent; and maintenance costs. It also includes profit or loss on the sale of assets; depreciation; and some impairments; and;
- Capital DEL (also referred to as 'investment spending') covers the purchase, disposal and major improvement of assets; capital grants (i.e. grants to purchase or enhance assets) and loans.

Annually Managed Expenditure covers net spending which is more difficult to control and forecast:

- Resource AME covers benefits and state pensions; some impairments; and provisions for liabilities; and
- Capital AME covers student loans and some financial transactions.

The 2022-23 Main Estimates were originally published on 12 May 2022 and were subsequently updated on 23 June 2022 to reflect new spending measures to support the cost of living crisis. Departments also produce an explanatory memorandum, which is published and scrutinised by the relevant House of Commons Select Committee and the House of Commons Scrutiny Unit. This memorandum should compare spending plans to previous years and explain the reasons for changes proposed. Select committees currently publish memoranda on their webpages and the Scrutiny Unit uses the memoranda to prepare briefings for select committees and other Members.

Following publication of Estimates, the relevant committee will approve publication of the associated memorandum. Memoranda which have been published will appear on the relevant committee and Scrutiny Unit webpages of the Parliament website.

Main Estimates: Government spending plans for 2022/23 summarises 2022/23's main estimates and discusses Parliament's role in considering them.

1.2 Devolved funding

The devolved administrations in Scotland, Wales and Northern Ireland receive grants from the UK Government that fund most of their spending. The largest such grant is the 'block grant'. The size of the block grant is determined by adjusting the budget allocation for the devolved administrations set out at the Spending Review. The Barnett Formula is used to adjust the baseline allocations.

Barnett formula[1]

The Barnett formula calculates the annual change in the block grant. The formula doesn't determine the total size of the block grant, rather just the yearly change. For devolved services, the Barnett formula aims to give each country the same pounds-per-person change in funding.

It calculates the change in the devolved administration's block grant funding based on:

- changes in UK departmental funding;
- the extent to which that UK department's funding is devolved; and
- each country's population.

The devolved administrations are free to allocate block grant funding received towards any activity which is devolved. The only restriction is they may not use capital (investment) funds for resource (day-to-day) purposes.

The Barnett formula is non-statutory – it is not set out in legislation and was only originally intended as a temporary solution. It is Treasury policy which is usually updated and published alongside the spending review.

[1] For more detailed information, see: The Barnett formula, House of Commons Library.

It is possible for the UK govt to provide funding outside of the Barnett formula- a process often referred to as 'formula bypass'. Recent examples include the UK government's City Deals and farm and fisheries replacement funding.

Issues with the Barnett formula

Assessment of need

The Barnett formula does not factor in levels of need, as it solely distributes money on a per-capita basis. The Holtham Commission, which considered funding for devolved government in Wales, recommended the introduction of a floor to prevent underfunding of public service in Wales.[2]

The Commission had identified a potential gap in the funding provided to the Welsh Government for services, relative to what it would receive if its services were funded on the same basis as in England. The Commission recommended a floor be introduced to prevent this gap widening. [3] A floor was introduced for the Welsh block grant in 2018 and adds a 'needs based factor' into the Wales Barnett calculation.

Despite the 'needs based factor' in the Wales Barnett calculation, both Northern Ireland and Scotland saw higher public spending per person than in Wales in 2020-21.[4] The chart below shows that public spending per person in Wales remains higher than in England. This includes all public spending including that from the UK Government.

The higher spending in the devolved nations compared to England is mainly due to higher spending on reserved areas by the UK government, and non-Barnett allocations.

2 The Holtham Commission, Final Report., July 2010, para A1.2
3 Welsh Assembly Research Service, Barnett reform: Future funding for Wales.
4 Most recent figures available, Country and Regional analysis: 2021

Source: Country and Regional analysis: 2021

Non-statutory status

The Barnett formula is non-statutory – it is not set out in legislation. It is Treasury policy and is laid out in the Statement of Funding Policy which is usually updated and published alongside the spending review.[5]

The terms of the Statement of Funding Policy are agreed between the Chief Secretary to the Treasury and the Secretaries of State for Scotland, Wales, and Northern Ireland, following consultation with the devolved administrations. In practice the Treasury dictates how the formula works and how it should be applied, although there is a policy for dealing with disputes. In theory the formula can be used or changed by the UK Government as it wishes.[6]

Non-Barnett Funding

Although the Barnett formula represents normal procedure, changes to the block grant can be made outside it - a process often referred to as 'formula bypass'. City Deals and farm and fisheries replacement funding are recent examples in Wales. The funds all involve the UK Government providing funding through the block grant outside of the Barnett formula.

[5] HM Treasury, Statement of Funding Policy, November 2020
[6] HM Treasury, Statement of Funding Policy, November 2020, pp.8

2 Wales Main Estimate 2022-23

The Estimate for the Wales Office outlines the total funding issued to the Welsh Government, alongside funding for the Wales Office itself. The Estimate is designed to provide funding for the full financial year, 1st April 2022 to 31st March 2023, but will be updated by the Supplementary Estimate 2022-23, to be published in February 2023.

The Wales Office Main Estimate seeks authorisation for:

- the cash grant to the Government of Wales. The cash grant (shown in the Estimates as 'Non-Budget' expenditure) provides funding for the Welsh Consolidated Fund – a main source of funding for Welsh Government expenditure; and
- funds for the operation of the Wales Office.

2.1 Welsh Government grant

The Main Estimate seeks a cash grant for the Welsh Government of **£16,459.8 million for 2022-23, a decrease of £2,339.4 million (-14%)** compared to last year's final budget of £18,799.1 million.

The cash grant is based on a calculation worked out by taking the spending power (the Departmental Expenditure Limits allowed for the Welsh Government by the UK Treasury) plus Annually Managed Expenditure (this is expenditure that is deemed more difficult to control than DEL, such as welfare spending), less non-cash items such as depreciation, and adjusted for timing differences.

The controllable, planned changes to the Welsh Government grant are all contained within the Departmental Expenditure Limit (DEL) budget, the other changes are largely technical adjustments.

The main factors decreasing the overall cash grant include:

- a decrease to Wales's DEL budget;
- larger projected Wales income tax receipt in 22-23 than in 21-22;
- larger contributions from National Insurance Fund; and
- larger UK AME funded student loans costs.

The driving and most important factor behind the decreased cash grant is a decrease in Wales's Departmental Expenditure Limit (DEL) budget. Changes to this have been set out below.

Changes in DEL Budget

The Welsh Government total DEL budget sought at the 2022-23 Main Estimate is £20,038.1 million **(£17,055.8 million Resource DEL** and **£2,982.3 million Capital DEL)**, a **decrease of £1,214.3 million (-5.7%)** from the 2021-22 Supplementary Estimate position of £21,252.4 million.

Changes to the Departmental Expenditure Limit (DEL) budget, which affect the cash grant, consist of a decrease in **Resource DEL of £1,031 million (-5.7%)** and a decrease in **Capital DEL of £182 million (-5.8%).**

The DEL changes are driven to a large extent by Barnett Consequentials – funding arising from UK spending decisions, corresponding to that provided for UK government departments, and additional funding from the Treasury Reserve.

Resource DEL Changes in 2022-23

Resource DEL funding is the day-to-day funding for Wales. It covers all day-to-day government spending and makes up the majority of the Welsh grant. In nominal terms, in 2022-23, it is £17,055.8 million, **-5.7% or -£1,031 million lower** than the final 2021-22 figure.

The Barnett formula is used to determine the change in the Resource DEL limit for Wales. Therefore lower allocations across departments in the Main Estimate 2022-23 reduce Wales's Resource DEL budget. The prior year 2021-22 Supplementary Estimate figures were inflated by significant one-off Barnett Consequentials, particularly due to Covid-19 expenditure, and therefore the lower Consequentials in the 2022-23 Main Estimate lower the overall Resource DEL budget.

Wales is set to receive an additional £229.2 million of non-Barnett Resource DEL funding. These funds are allocated to Wales by HM Treasury for various projects. This funding includes:

- £180.2 million council tax rebate funding carried forward from the prior year;
- £39.7 million for Immigration Health Surcharge funding;
- £3.5 million for Debt Advice services in Wales.

In real terms, the 2022-23 Welsh Government resource allocation is -3% lower than in 2010. This is in line with the average across all departments, which also show -3% real terms decreases compared to 2010.

Capital DEL Changes in 2022-23

Capital DEL funding is investment funding for Wales. It covers all investments made by the Welsh government, such as purchasing or upgrading assets. In nominal terms, in 2022-23, it is £2,982.3 million, **-5.8% or -£182 million lower** than the final 2021-22 figure.

The Barnett formula is used to determine the change in the Capital DEL limit for Wales, and the Barnett consequentials have increased Wales's Capital DEL allocation from the baseline Spending Review level. However, the Supplementary Estimate 2021-22 figures were revised as funding was moved from Resource into Capital, and some Capital funding carried forward from 2020-21 into 2021-22.[7] This means that the 2021-22 Capital DEL figures were inflated, hence the comparative decrease in 2022-23, despite Barnett Consequentials increasing the Capital DEL allocation.

Wales is set to receive an additional £331 million of non-Barnett Capital DEL funding. These are funds allocated to Wales by HM Treasury for various projects outside of the Barnett formula. Notably, in 2022-23 these were made up of:

- £284.3 million in funding for lease reclassifications due to IFRS 16;
- £47.5 million in City Deals funding, including: £22 million for Cardiff, £13.1 million for Swansea Bay and £12.4 million for North Wales.

In real terms, the 2022-23 Welsh Government Capital allocation is 34% higher than in 2010. The average across all departments is a 37% real terms increase compared to 2010.

2.2 Wales Office spending

The Main Estimate also allocates funding for the operation of the Wales Office.

The Wales Office itself proposes a **Resource DEL (day-to-day) budget of £5.7 million**, **a decrease of £0.7 million (-12%)** from its final RDEL for 2021-22 of £6.4 million. There is no proposed change to the **Capital DEL (investment)**

[7] As set out in the Written Ministerial Statement of the 28 March 2022, 2021-22 funding has been revised since Supplementary Estimates 2021-22 to reflect the Welsh Government's decisions to switch £595m from Resource DEL to Capital DEL. 2021-22 figures also increased to reflect the carry forward of funding from 2020-21 in to 2021-22.

budget which remains in line with the Supplementary Estimate 2021-22 at £0.03 million.

The Wales Office is the only devolved office to reduce its running budget for 2022-23. The Northern Ireland Office RDEL total has increased from the finalised 2021-22 position by £0.3 million or 1%, and the Scotland Office has increased by £1.2 million or 10%.

The net decrease in Wales Office RDEL is in line with allocations announced at the Spending Review 2021. It is attributable to the one-off costs incurred through relocating the Department's office in Cardiff in 2021-22, and not repeated in 2022-23.

3 The Welsh Economy and cost of living pressures

3.1 Overview of the Welsh Economy

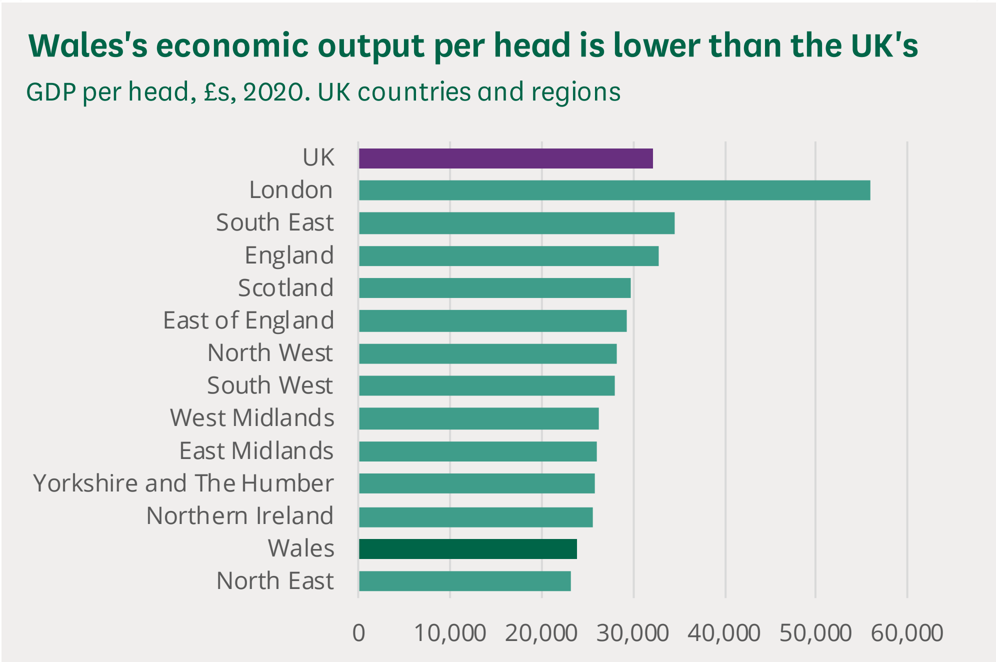
An overview of economic output, the labour market and earnings and incomes in Wales is provided below. A wider selection of economic data are available from the Library's Regional and National Economic Indicators, the Welsh Government's Welsh economy in numbers: interactive dashboard.

Economic output[8]

Economic output in Wales totalled £76 billion in 2020, which is equivalent to around 3.5% of all economic output in the UK. This is lower than the share of the UK population living in Wales, which is 4.7%.[9]

Economic output per head was around £23,900 in Wales in 2020. Amongst UK countries and regions, only the North East had lower economic output per head. Across the UK, economic output per head was around £32,100 in 2020.

During 2010-2020, the Welsh economy grew by an annual average of around 0.8%, after adjusting for inflation. The UK economy grew at a similar rate.



Source: ONS, Regional economic activity by GDP

8 ONS, Regional economic activity by GDP
9 ONS. Mid-year population estimates [accessed from nomisweb]

Productivity[10]

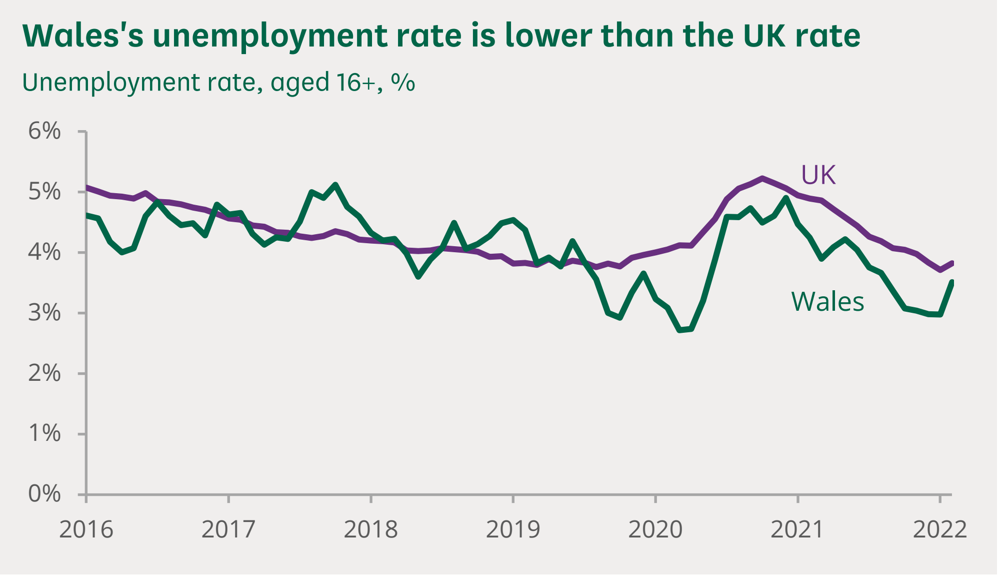
One of the most important factors in determining living standards over the long term is productivity – how much output is produced for a given input (such as an hour of work).

London had the highest productivity level of any UK country or region in 2020, with output per hour more than 50% higher than the median region. Wales had the second lowest level of output per hour worked in the UK -4.4 % below the median. Only Northern Ireland had a lower level of productivity.

Labour market[11]

In February-April 2022, the employment rate in Wales was 74.0%, which is lower than the UK rate of 75.6%. The employment rate in Wales is similar to the pre-pandemic rate.

In February-April 2022, the unemployment rates in Wales was 3.5%, which is lower than the UK rate of 3.8%. The unemployment rate in Wales is currently a little higher than pre-pandemic.



Source: ONS, A01: Summary of labour market statistics and HI10: Regional labour market: Headline indicators for Wales 14 June 2022

Nomis's Labour Market Profile for Wales provides further data.

Earnings and incomes

In April 2021, median earnings for full-time employees in Wales were £571 per week, which is lower than the UK median of £611 per week. Amongst UK countries and regions, only the North East and Yorkshire and the Humber had

10 ONS. Regional labour productivity, UK: 2020

11 ONS, Labour Market Statistics, Table A07

lower median earnings.[12] The Library briefing Average earnings by age and region shows how average earnings have changed over time by region of the UK.

Gross Disposable Household Income (GDHI) is the amount of money that households have available for spending after tax and social contributions (such as National Insurance contributions) have been deducted. It's a measure of after-tax income across all households, in aggregate. According to the Welsh Government, GDHI is a good measure of material well-being.[13] In 2019, GDHI per head in Wales was around £17,260, which is lower than the UK average of £30,260. GDHI was lower in only the North East in 2019.

The Library briefing Income inequality in the UK includes data for UK countries and regions.

Poverty

A common measure of poverty is people in **relative low income**, which captures those living in households with income below 60% of the median in that year.

Wales had a greater proportion of people living in relative low income, compared with the UK, whether measured before housing costs (BHC) or after housing costs (AHC). The data cover the three year period 2017/18 to 2019/20.

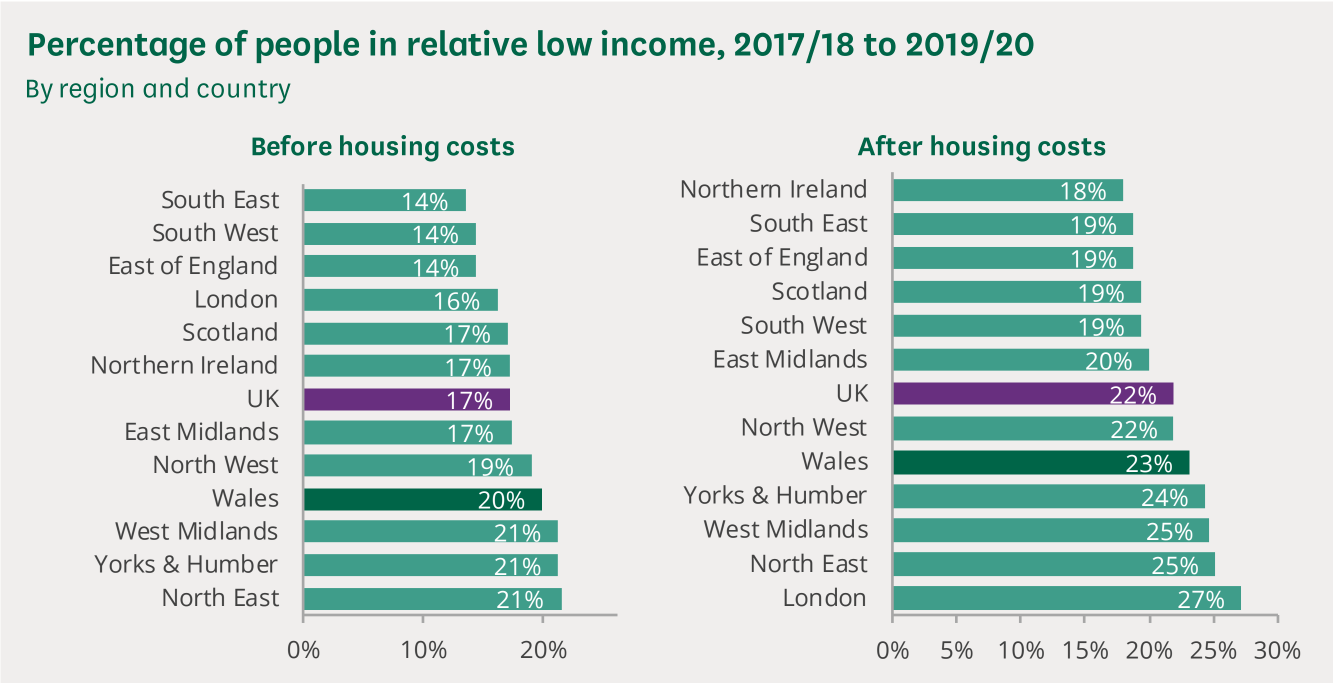
A person is defined as being in **persistent low income** if they have been in relative low income for at least three out of the past four years. Rates of persistent low income in Wales are very similar to the UK, whether measured BHC or AHC.[14]

The Library briefing Poverty in the UK: statistics includes poverty trends and in work poverty for UK countries and regions.

12 ONS, Annual Survey of Hours and Earnings, via NOMIS

13 Welsh Government. Welsh economy in numbers: interactive dashboard

14 DWP, Income Dynamics, 2010 to 2020, 31 March 2022, Table 2.2 and 2.8



Source: DWP, Households Below Average Income, 2019/20

Further information

The Office for National Statistics (ONS) has a subnational indicators explorer which allows users to view and compare data on a range of economic and social indicators for local authorities.

The Library Insight Economic update: Growth slows as inflation rises discusses the latest UK economic data. The latest data are available on the Library's UK economy dashboard.

The Resolution Foundation has published two reports recently as part of its 'The Economy 2030 Inquiry':

- Bridging the gap uses data on regional productivity and area level characteristics to better understand the spatial gaps in productivity across the UK
- Income outcomes analyses how average incomes at the local authority level have changed since 1997.

In December 2020, the Welsh Affairs Committee published Brexit and trade: implications for Wales.

3.2 The rising cost of living

Why has the cost of living been rising?

The cost of living has been increasing across the UK since early 2021. In May 2022, the annual rate of inflation was the highest it has been since 1982, affecting the affordability of goods and services for households.

Increases in the costs of consumer goods, underpinned by strong demand from consumers and supply chain bottlenecks, have been one factor behind rising inflation.

Another important driver of inflation is energy prices, with household energy tariffs increasing and petrol costs going up. From May 2021 to May 2022, domestic gas prices increased by 95% and domestic electricity prices by 54%, due in part to a return of global gas demand as pandemic restrictions are lifted and lower than normal production of natural gas.

On 1 April 2022 the new price cap came into force. The regulator Ofgem announced the cap would increase from its current equivalent annual level of £1,277 per year to £1,971; a 54% increase.

As well as the military, political and humanitarian impact of Russia's invasion of Ukraine, there are implications for the world economy. For the UK, a key economic effect of the conflict is higher energy prices. After rising following the invasion, gas prices on international markets have fallen steadily, while oil prices have remained high.

As a result, road fuel prices in the UK have increased and energy bills may also rise further (for businesses, as well as households). The chief Executive of Ofgem said on 24 May that he expected the price cap to increase to around £2,800 in October 2022, an increase of around 40%.

Russia and Ukraine are also large producers and exporters of agricultural products, such as wheat, and some metals. These products have become more expensive on international markets, leading to increases in food and materials prices in the UK.

The Library briefing rising cost of living in the UK, gives an overview of rising prices, particularly food, energy and fuel prices, including the effect of the conflict in Ukraine. It outlines Government support as well as how inflation, interest rates and other policies which will affect household budgets.

Government support

Measures to support households with the cost of living were announced by the Chancellor in February,[15] March,[16] and May 2022.[17] The support, estimated at £37 billion,[18] includes:

- £400 off energy bills for all households
- £650 payments for households receiving means-tested benefits with additional payments of £300 for pensioners and £150 for people receiving disability payments
- a £150 council tax rebate for households in council tax band A-D
- a temporary 5p cut to fuel duty
- an increase in the threshold at which NICs begins to be charged on earnings

In April 2022, the Government also brought in tax rises, for both income tax and National Insurance contributions (NICs). Once these changes are included, the net level of government support is worth around £14 billion in 2022/23.[19]

Senedd Research's Support with cost of living pressures highlights support available from the Welsh and UK governments, help provided by energy suppliers, and signposts to sources of advice.

15 HM Treasury press release, Millions to receive £350 boost to help with rising energy costs, 3 February 2022
16 HM Treasury. Spring Statement 2022, 23 March 2022
17 HM Treasury press release, Millions of most vulnerable households will receive £1,200 of help with cost of living, 26 May 2022
18 HM Treasury. Cost of living support factsheet: 26 May 2022
19 IFS. IFS response to government cost of living support package, 26 May 2022

4 Levelling Up

In his first speech as Prime Minister in July 2019, Boris Johnson spoke of a need to "level up across Britain" and "answer the plea of the forgotten people and the left-behind towns", unleashing the "the productive power" of every corner of the country."[20]

Levelling up was also addressed in the Conservative Party's 2019 election manifesto.[21] This pledged to "to use our post-Brexit freedoms to build prosperity and strengthen and level up every part of the country", through specific measures, such as:

- Investing in towns, cities, and rural and coastal areas
- Giving those areas more control of how investment is made
- Levelling up skills using apprenticeships and a £3bn National Skills Fund
- Creating up to 10 freeports to help deprived communities.

Similarly, the 2021 Queen's Speech stated the Government will "level up opportunities across all parts of the United Kingdom, supporting jobs, businesses and economic growth and addressing the impact of the pandemic on public services."[22]

Levelling up is intended to address the longstanding problem of the UK's regional economic disparities. The 2020 Institute for Fiscal Studies (IFS) Green Budget included a chapter on levelling up, which identified the following characteristics of areas most in need of levelling up:

> A 'left-behind' area, in need of 'levelling up', is characterised by broad economic underperformance, which manifests itself in low pay and employment, leading to lower living standards in that area. Behind these factors lie other considerations such as poor productivity, which in turn may be associated with a low skill base. The health of the population may also be relatively poor: in some cases, this could be a legacy of deindustrialisation or long-term unemployment, as well as deep-rooted socio-economic issues.[23]

The Government published its Levelling Up the United Kingdom white paper on 2 February 2022.

The white paper argues that a "fundamental rewiring" of the system of decision-making, locally and nationally, is required to address geographical disparities. To do that, the Government is introducing a new approach based on five "pillars". This includes medium-term "missions."

[20] Prime Minister's Office, Boris Johnson's first speech as Prime Minister, 24 July 2019
[21] Conservative and Unionist Party Manifesto 2019 (PDF) [accessed 16 February 2022]
[22] Prime Minister's Office, Queen's Speech 2021, 11 May 2021
[23] IFS, Levelling up: where and how?, IFS Green Budget 2020, chapter 7, October 2020, p325

The intention is for this "long-lived programme of change" to "embed levelling up across all areas of the UK government, local and national", in partnership with the private sector and civil society.

The Government's 12 missions

The white paper set 12 targets, or "missions" linked to policy objectives. The targets all have a 2030 end date, "setting the medium-term ambition" of the Government.

The 12 missions are under four objectives, outlined below. There are also key targets and policies, designed to help meet these objectives. Some of these were announced in the white paper, while many are existing policies. The Government says that policies set out in the white paper "will begin to have visible effects" in the "next few years".

Objective one: Boost productivity, pay, jobs and living standards by growing the private sector, especially in those places where they are lagging

- **Living standards** – foster a growing private sector to raise productivity, pay and living standards across the UK.
- **R&D** – boosting research and development spending, focusing on areas outside of south-eastern England.
- **Transport infrastructure** – improving transport connectivity outside London.
- **Digital connectivity** – improving connectivity, including by rolling out high-speed gigabit-capable broadband.

Objective two: Spread opportunities and improve public services, especially in those places where they are weakest

- **Education** – Improve literacy and numeracy among primary school children. Create new 'Education Investment Areas'.
- **Skills** – focus on improving skills, including of those in the workforce. Local Skills Improvement Plans to be introduced among other policies.
- **Health** – reduce health disparities across UK, with a new white paper to be published in 2022. A food strategy white paper will also be published.
- **Wellbeing** – measured using survey data from the Office for National Statistics, the "overarching objective" for levelling up is for improved wellbeing and the gap across local areas to close.

Objective three: Restore a sense of community, local pride and belonging, especially in those places where they have been lost

- **Pride in place**– includes policies to support regeneration, communities, green spaces and cultural activities. The aim is to create stronger and more cohesive communities.
- **Housing** – the aim is to increase home ownership and improve housing quality. Policies include reforms of the planning system, the target of

building 300,000 new homes per year in England, a new Levelling Up Home Building Fund and a new white paper on the private rented sector.
- **Crime** – to create safer neighbourhoods.

Objective four: Empower local leaders and communities, especially in those places lacking local agency

- **Local leadership** – a "devolution revolution" across England is proposed. This includes the introduction of 'County Deals' and expanding the number of Mayoral Combined Authorities. A new devolution framework will be set out. Local growth funds, such as the Levelling Up Fund and Shared Prosperity Fund, will provide funding to improve local areas.

4.1 Levelling Up Fund

The Levelling Up Fund was announced in the November 2020 Spending Review. This stated the fund would be worth £4.8 billion, with £4 billion of this to be spent in England and £0.8 billion to be spent in Scotland, Wales and Northern Ireland.

The Fund prospectus published alongside the March 2021 Budget stated that the Fund would focus on capital investment in local infrastructure and would be delivered through local authorities in England, Scotland and Wales, with funding directed toward those areas "most in need of levelling up."

These areas were determined by an index published alongside the prospectus that ranks local authorities by on a scale of 1 to 3, with those ranked 1 considered most in need and those ranked three least in need. These rankings were split evenly between all local authorities in England, Scotland and Wales – a third are ranked 1, a third ranked 2 and a third ranked 3.

For the first round, 17 local authorities in Wales were in priority category 1, 3 were in priority category 2 and 2 were in priority category 3. The full index is available here.

The ranking system is based on three criteria:

- need for economic recovery and growth;
- need for improved transport connectivity;
- need for regeneration.

In England, Category 1 places were eligible to receive targeted capacity funding, to support them in preparing high-quality bids, though all places in Scotland and Wales were eligible for this capacity funding, independent of their place in the index.

The first round of the Fund focused on three themes - transport projects, town centre and high street regeneration and cultural investment.

The application process closed in June 2021; results were published by the Department for Levelling Up, Housing and Communities on 27 October 2021.

Round 1 results

In total, £1.7 billion of awards were announced, 35% of the £4.8 billion announced in the 2020 Spending Review. A list of all awards is available here.

10 separate awards were made to 6 local authorities in Wales, with a total value of £121.4 million. This was equal to just over 7% of the total value of awards made in the first round.

The prospectus stated, for the first round of funding, at least 9% of total UK allocations would be set aside for Scotland, 5% for Wales, and 3% for Northern Ireland – Scotland and Wales both received funding in excess of these allocations.

All Welsh local authorities that received funding were priority 1 areas.

Levelling Up Fund, round 1 awards, Wales

Local authority	£ millions
Carmarthenshire	20.0
Pembrokeshire	17.7
Carmarthenshire	16.8
Powys	15.5
Wrexham	13.3
Rhondda Cynon Taf	11.4
Ceredigion	10.9
Powys	6.9
Rhondda Cynon Taf	5.4
Rhondda Cynon Taf	3.6
Total	**121.4**

Source: Department for Levelling Up, Housing & Communities

Round 2

The opening of the second round of the Levelling Up Fund was announced in the 2022 Spring Statement. An updated prospectus was published on 22 March 2022.

This states that the second round will focus on the same three themes as the first round - transport projects, town centre and high street regeneration and cultural investment and would offer funding of up to £20 million, with the exception of transport projects, for which bids of up to £50 million will be accepted and large culture bids, for which bids of up £50 million will be accepted.

An updated version of the priority index has also been published – places were able to move up to a higher priority category, or remain in their existing one, could not move down to a lower priority category. The number of priority category one places has been expanded – there are now 139 category 1 areas, 117 category 2 areas and 107 category 3 areas – this expansion "to capture local areas whose levels of need have increased since the Fund was launched, for example due to impacts of the COVID-19 pandemic, without disadvantaging those areas that remain in longer-term need."[24]

19 Welsh local authorities are now included in priority category 1, 2 are in priority category 2 and 1 is in priority category 3.

As with the first round, at least 5% of total allocations will be set aside for Wales.

Originally, the deadline for second round applications was set for 6th July 2022, though owing to problems with the online application system, it was announced on 30th June than this has been extended by two weeks.[25]

4.2 The UK Shared Prosperity Fund

The UK Shared Prosperity Fund (UKSPF) is intended to reduce inequalities between communities, as part of the Government's wider "levelling up" agenda and designed to replace funding received from the EU Structural Funds. The UKSPF was launched in April 2022 and is worth £2.6 billion over the period April 2022 – March 2025.

The UK Government has listed three investment priorities for the UKSPF – these are:

- **Communities and place**: this is mostly aimed at improving community infrastructure and investing in neighbourhoods, for example by improving town centres and reducing crime;
- **Local businesses**: improving both the numbers of jobs and the productivity of existing businesses, for example by providing investment

[24] Department for Levelling Up, Housing and Communities, Department for Transport, HM Treasury, Levelling Up Fund Round 2: prospectus, 23 March 2022

[25] Peter Foster and Jennifer Williams, Deadline for applications to UK's flagship levelling-up fund postponed: Month after submission portal was meant to open, local authorities still unable to submit bids for cash, Financial Times, 29 June 2022

in small businesses, creating opportunities for networking and collaboration, or helping to upgrade to energy-efficient technologies;

- **People and skills**, the largest part of which is the Multiply programme to promote adult numeracy. Other aspects could include employment support programmes, adult learning, or other skills provision

£585.2 million (23%) of the UKSPF has been allocated to Wales. This funding is composed of two separate strands:

- £484.1 million will be awarded to local places for delivery of the 'core' functions of the UKSPF
- £101.1 million is for the delivery of the UK-wide Multiply programme, designed to improve adult numeracy.

Prior to the launch of the UKSPF, the Community Renewal Fund (CRF) operated for one funding round in 2021. The purpose of the CRF was to "support our communities to pilot programmes and new approaches ahead" in preparation for the introduction of the UK Shared Prosperity Fund, bridging the gap between the end of EU structural funding and the creation of the UKSPF.[26]

165 Community Renewal Fund awards were made to projects in Wales, with funding of £47 million, 23% of all funding awarded.

UKSPF allocations

The UK Government has signalled that the UKSPF in Wales will be administered at a regional level, based on four City and Growth Deal areas – funding allocations for these four areas are shown in the table below.

UK Shared Prosperity Fund, allocations to Wales

£ millions, City and Growth Deal areas

	Core UKSPF	Multiply	Total
Cardiff Capital Region/SE Wales	230.4	48.1	278.5
Mid Wales	35.1	7.3	42.4
North Wales	104.6	21.8	126.5
SW Wales/Swansea Bay	114.0	23.8	137.8
Total	**484.1**	**101.1**	**585.2**

Source: Department for Levelling Up, Housing & Communities

[26] See Department for Levelling Up, Housing and Communities, UK Community Renewal Fund: prioritisation of places methodology note, May 2021

Funding allocations are conditional on local authorities producing an investment plan setting out how they intend to use and deliver the funding. In Wales, a lead local authority within each of the four City and Growth Deal areas will submit an investment plan for the area, with UK Government guidance stating the Welsh Government and the Welsh Local Government Association should be involved in developing "comprehensive accountable arrangements to administer the Fund."[27]

Investment plans must be submitted between 30 June and 1 August 2022 for government approval, with the first payments made to local authorities being made from October onwards.

Funding allocations by local authority are shown in the table below.

UK Shared Prosperity Fund, allocations to Wales

£ millions

	Core UKSPF	Multiply	Total
Blaenau Gwent	23.3	4.9	28.2
Bridgend	19.1	4.0	23.1
Caerphilly	28.3	5.9	34.2
Cardiff	34.6	7.2	41.8
Carmarthenshire	32.0	6.7	38.7
Ceredigion	12.4	2.6	15.0
Conwy	20.3	4.2	24.5
Denbighshire	21.2	4.4	25.6
Flintshire	10.8	2.3	13.1
Gwynedd	20.2	4.2	24.4
Isle of Anglesey	13.3	2.8	16.1
Merthyr Tydfil	22.7	4.7	27.4
Monmouthshire	5.9	1.2	7.2
Neath Port Talbot	28.4	5.9	34.4
Newport	27.2	5.7	32.9
Pembrokeshire	19.1	4.0	23.1
Powys	22.7	4.7	27.4
Rhondda Cynon Taf	37.3	7.8	45.1
Swansea	34.4	7.2	41.6
Torfaen	20.4	4.3	24.7
Vale of Glamorgan	11.6	2.4	14.0
Wrexham	18.8	3.9	22.7
Total	**484.1**	**101.1**	**585.2**

Source: Department for Levelling Up, Housing & Communities

[27] Department for Levelling Up, Housing and Communities, Delivery geographies, 15 June 2022

Welsh Government reaction

In a written statement published on 13 April, Vaughan Gething, the Welsh Minister for the Economy states that the funding plans set out by the UK Government "do not reflect the distinct needs of Welsh communities", arguing that "too little will reach those communities most in need" and that the proposed role of the Welsh Government "falls short of a genuine co-decision making function essential to maximising investment and respecting devolution in Wales."[28]

As a result, Gething states:

> … it has not been possible to endorse the approach the UK Government is taking on this Fund and we cannot support their decision to redirect economic development funds away from those areas where poverty is most concentrated in particular.[29]

In a further written statement published on 7 June, Gething confirmed the Welsh Government would not use Welsh Government resources to implement the UKSPF in Wales:

> I have therefore confirmed in writing to the UK Government that the Welsh Government is unable to endorse the approach the UK Government is taking on the SPF. This means, as we have consistently stated to the UK Government, that the Welsh Government will not deploy our own resources to implement UK Government programmes in Wales which we consider to be flawed and undermining of the devolution settlement.[30]

The House of Commons Public Accounts Committee have also addresses the role of the UK and Welsh Governments in administering the UKSPF and devolved powers in the June 2022 report Local Economic Growth, which states:

> Economic development is a devolved power but the Department is administering the Levelling Up and UK Shared Prosperity funds (UKSPF) on a UK-wide basis. We are concerned that decisions were taken without sufficient consideration of devolved governments' priorities. These include on how much to allocate, what the criteria were, when to open and close bidding, and how to score bids.[31]

The report recommends the Department for Levelling Up, Housing and Communities show how it will "ensure that the processes for awarding funding for future rounds of Levelling Up Fund and the UKSPF will address the

[28] Vaughan Gething MS, Written Statement: The UK Shared Prosperity Fund, 13 April 2022
[29] Vaughan Gething MS, Written Statement: The UK Shared Prosperity Fund, 13 April 2022
[30] Vaughan Gething MS, Written Statement: Confirmation of Welsh Government's position on the UK Government's Shared Prosperity Fund prospectus, 7 June 2022
[31] House of Commons Committee of Public Accounts, Local economic growth, Fifth Report of Session 2022–23, HC 252, 8 June 2022, pg. 6-7

prioritisation of devolved nations" and how it "plans to ensure ongoing engagement with the devolved administrations."[32]

[32] House of Commons Committee of Public Accounts, Local economic growth, Fifth Report of Session 2022–23, HC 252, 8 June 2022, pg. 6-7

5 Press articles

The many metaphors for Britain's regional economies: Is this powerhouse a gateway?

The Economist, 9 June 2022

Welsh Government refuses to support UK funding allocations in Wales in tit-for-tat row: It's part of a long-running saga over who gets to allocate EU funds

Will Hayward

Wales Online, 9 June 2022

First Minister Mark Drakeford: UK Government's cost of living package 'barely scratches the surface'

Carole Green

ITV, 26 May 2022

UK fund fails to match EU development money, say Scotland and Wales: Government accused of leaving devolved nations with 'less say, over less money' after announcing £2.6bn post-Brexit scheme

Peter Foster and Jennifer Williams

Financial Times, 13 April 2022

Households face being hundreds of pounds worse off: The average Welsh household will be at least £600 worse off this year, finance experts have warned

BBC, 11 March 2022

Levelling-up white paper: Wales has less say over less money

Vaughan Gething

The Times, 1 February 2022

[Covid shows devolved UK nations need funding flexibility, researchers say: 'Extreme shock' of pandemic warrants expanding spending control in Scotland, Wales and Northern Ireland]

Mure Dickie

Financial Times, 21 December 2021

[Wales economy: Big variations in GVA growth across Wales]

Sarah Dickins

BBC, 13 December 2021

[Budget money for devolved nations 'fails to offset economic pressures': Centralised approach to levelling up 'ignores views of Scotland, Wales and Northern Ireland', say critics]

Severin Carrell

The Guardian, 27 October 2021

[Wales is on path to austerity after EU funds cut, says minister: London has so far failed to replace aid lost because of Brexit, says Welsh government]

Andy Bounds

Financial Times, 30 July 2021

6 Parliamentary material

6.1 Oral questions

Shared Prosperity Fund

HC Deb 27 June 2022, c 6-9

Costs of Living: Households and Businesses

HC Deb 25 May 2022, c 276-78

Inflation

HC Deb 23 March 2022, c 315-17

6.2 Written questions

Question for Treasury: Public Expenditure: Wales: UIN 9973

Asked by Ben Lake

Asked on 26 May 2022

To ask the Chancellor of the Exchequer, with reference to his statement providing an Economy Update on 26 May 2022, what the Barnett consequential for Wales is; if he plans for funds to be made available to the Welsh government; and if he will make a statement.

Answered by Mr Simon Clarke

Answered on 6 June 2022

As the Chancellor set out in his statement to the House, in recognition of the challenges people are facing as a result of the rising cost of living, the UK Government is providing an additional £15 billion of support.

The majority of this support is being provided directly to households across the UK and is on top of the support announced in February and at Spring

Statement. In addition, the Welsh Government is receiving around £25m from the Household Support Fund through the Barnett formula.

The full details of the support announced, including Barnett consequentials for the devolved administrations, were set out in the Chancellor's statement of the 26 May and the accompanying press release(opens in a new tab).

Question for Treasury: Public Finance: Wales: UIN 151092

Asked by Lisa Nandy

Asked on 31 March 2022

To ask the Chancellor of the Exchequer, whether he has made an impact assessment of the potential effect of measures included in the Spring Statement 2022 on Wales.

Answered by Mr Simon Clarke

Answered on 25 April 2022

The Chancellor's Spring Statement on 23 March 2022 announced a number of measures to support households and businesses in every region and nation of the UK and to relieve the immediate pressure on our cost of living. It sets out that taxes are being cut, debt is falling and public spending is increasing.

For example, raising the National Insurance thresholds is a tax cut for 1.2 million workers in Wales, saving the typical employee over £330 a year, and the 1ppt cut to the basic rate of income tax from 2024 will benefit 1.5 million taxpayers in Wales.

Further support for UK households and businesses included the £1,000 increase to the Employment Allowance, which will benefit around half a million businesses across the UK, as well as the cuts to fuel duty on petrol and diesel, by 5p per litre, for the next 12 months.

In addition to this UK-wide action, the Chancellor also announced that the UK government is providing the Welsh Government with an additional £27 million through the Barnett formula in 2022/23 as a result of measures announced in the Spring Statement.

Question for Wales Office: Cost of Living: Wales: UIN HL7570

Asked by Lord Murphy of Torfaen

Asked on 31 March 2022

To ask Her Majesty's Government when the Secretary of State for Wales last met the First Minister of Wales to discuss cost of living issues.

Answered by Baroness Bloomfield of Hinton Waldrist

Answered on 14 April 2022

The Secretary of State for Wales last met with the First Minister of Wales on 23rd March in a meeting led by the Minister for Intergovernmental Relations, during which the cost of living was raised.

The UK Government recognises the challenges people are facing and we have provided a range of support to tackle the rising cost of living. For example, we have provided a £200 energy bill discount for households across the whole of the UK, including Wales. We have also provided an additional £180 million in Barnett to the Welsh Government to recognise the Council Tax Energy rebate in England. This is part of a support package worth around £20 billion over this financial year and next.

In addition to this we have increased the National Living Wage to £9.50, which means an extra £1,000 per year in gross wages for a full-time worker. We expect this increase to the National Living Wage, along with rises to the National Minimum Wage, to give a pay rise to around 120,000 workers in Wales.

Furthermore, the Government have reduced the Universal Credit taper rate from 63% to 55% and are increasing Universal Credit work allowances by £500 per annum. These together will see some households keep on average around £1,000 per year and is essentially providing a tax cut for the lowest paid in society UK wide worth around £2.2 bn in 2022-23.

6.3 Select Committee reports

Local economic growth

House of Commons Committee of Public Accounts, 8 June 2022, HC 252

Brexit and trade: implications for Wales

House of Commons Welsh Affairs Committee, 11 December 2020, HC 176

7 Further reading

7.1 Library briefings

Regional and National Economic Indicators

Economic update: Growth slows as inflation rises

Levelling Up: what are the Government's proposals?

The UK Shared Prosperity Fund

Average earnings by age and region

Income inequality in the UK

Poverty in the UK: statistics

7.2 Other

Regional labour productivity, UK: 2020

Office for National Statistics, 6 June 2022

Subnational indicators explorer

Office for National Statistics, 1 June 2022

Labour market profile – Wales

Office for National Statistics/NOMIS

Welsh economy in numbers: interactive dashboard

Welsh Government, 6 May 2022

IWA warns the UK Shared Prosperity Fund is a 'a deliberate retrenchment of devolution to Wales'

Institute of Welsh Affairs, 5 May 2022

The Shared Prosperity and Levelling Up funds: what's the latest?

Ymwchil y Senedd | Senedd Research, 12 May 2022

IFS response to UK Shared Prosperity Fund

Institute for Fiscal Studies, 13 April 2022

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