PARLIAMENTARY DEBATES

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OFFICIAL REPORT

Thirteenth Delegated Legislation Committee

DRAFT EUROPEAN STRUCTURAL AND INVESTMENT FUNDS COMMON PROVISIONS AND COMMON PROVISION RULES ETC. (AMENDMENT) (EU EXIT) (REVOCATION) REGULATIONS 2020

Wednesday 16 September 2020

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Sunday 20 September 2020

The Committee consisted of the following Members:

Chair: †Dr Rupa Huq

† Afriyie, Adam *(Windsor)* (Con)
Cooper, Rosie *(West Lancashire)* (Lab)
Davison, Dehenna *(Bishop Auckland)* (Con)
† Furniss, Gill *(Sheffield, Brightside and Hillsborough)* (Lab)
† Gideon, Jo *(Stoke-on-Trent Central)* (Con)
Grady, Patrick *(Glasgow North)* (SNP)
† Jupp, Simon *(East Devon)* (Con)
Keeley, Barbara *(Worsley and Eccles South)* (Lab)
† Mangnall, Anthony *(Totnes)* (Con)
† Moore, Damien *(Southport)* (Con)
Morden, Jessica *(Newport East)* (Lab)
† Onwurah, Chi *(Newcastle upon Tyne Central)* (Lab)
† Simmonds, David *(Ruislip, Northwood and Pinner)* (Con)
† Tarry, Sam *(Ilford South)* (Lab)
† Tomlinson, Michael *(Lord Commissioner of Her Majesty's Treasury)*
† Watling, Giles *(Clacton)* (Con)
† Zahawi, Nadhim *(Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy)*

Bradley Albrow, *Committee Clerk*

† attended the Committee

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[Dr Rupa Huq *in the Chair*]

Draft European Structural and Investment Funds Common Provisions and Common Provision Rules etc. (Amendment) (EU Exit) (Revocation) Regulations 2020

2.30 pm

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Nadhim Zahawi): I beg to move,

That the Committee has considered the draft European Structural and Investment Funds Common Provisions and Common Provision Rules etc. (Amendment) (EU Exit) (Revocation) Regulations 2020.

It is a pleasure to serve under your chairwomanship, Dr Huq. The draft regulations were laid before the House on 13 July 2020. The European Union regulations for structural funds and the cohesion fund are designed to reduce social and economic disparities in the EU. The funds are the main funding tools designed to deliver the EU cohesion policy and come under the wider family of European structural and investment funds, or ESIF. The EU regulations set out the rules governing those funds and give powers to the member states to ensure the operability of eligibility projects. More than half of EU funding is channelled through the European structural and investment funds, which are jointly managed by the European Commission and EU member states.

The Department for Business, Energy and Industrial Strategy sets the policy for and co-ordinates the management of four of the funds across the United Kingdom: the European regional development fund, or ERDF, which includes the European territorial co-operation fund, or ETC; the European social fund, or ESF; the European agricultural fund for rural development; and the European maritime and fisheries fund. Under the structural funds, the UK was allocated about £9.5 billion of funding for the 2014 to 2020 period. The funds support growth, low carbon, transport, research innovation, small business, employment opportunities and social inclusion.

Structural fund programmes are managed and delivered by Government organisations designated as “managing authorities”. In essence, they are the delivery bodies for the funds in England and in the devolved Administrations and are responsible for drawing up operational programmes. The programmes set out the levels of funding for certain activities, and how the programmes will be run within the parameters set by the EU regulations.

BEIS is the co-ordinating body for the ESIF in the United Kingdom. In England, the managing authorities for the European regional development fund and the European social fund are, respectively, the Ministry of Housing, Communities and Local Government, and the Department for Work and Pensions. The devolved Administrations and Her Majesty’s Government of Gibraltar administer ERDF and ESF in their respective areas. The Department for Environment, Food and Rural Affairs manages the agricultural funds in England, and the devolved Administrations in their areas, apart from the EMFF, which is run across the UK by the Marine Management Organisation, a non-departmental Government body sponsored by DEFRA.

Gibraltar receives a small allocation of about €10 million, or £8.8 million, from the ERDF and ESF for 2014 to 2020. It has agreed operational programmes with the European Commission to implement those. It also takes part in two transnational programmes.

The need for continued regional investment in the event of a no-deal exit, and the nature of the projects supported by those funds, led to the introduction of legislation so that the funds could operate domestically under no deal until their planned closure, even though they would cease to be funded by the EU. Since the UK signed the withdrawal agreement document, which maintains the EU regulations for European structural and investment funds until programme closure—which might not be until 2026, given that programmes run until 2023 and generally take two to three years to wind up—that statutory instrument, the European Structural and Investment Funds Common Provisions and Common Provision Rules etc. (Amendment) (EU Exit) Regulations 2019, or SI 2019/625, contradicts the intent and purpose of the withdrawal agreement.

The draft regulations are therefore being made to revoke SI 2109/625, which was made on 18 March 2019. That SI disapplied retained EU law in relation to the European regional development fund, European social fund and European territorial cooperation fund, in order to ensure that the programmes could continue in a no-deal exit scenario. Under the withdrawal agreement, the regulations can still apply to the UK, despite the UK not being a member state.

Now that the withdrawal agreement has been signed by the UK and made into law through the European Union (Withdrawal Agreement) Act 2020, SI 2019/625 is no longer required and should be repealed in order not to confuse the statute book. The Act allows the UK to continue to apply EU regulation 1303/2013, the supplementary fund-specific regulations and associated delegated, and implementing legislation for European structural and investment funds, until the end of the current programmes. It is proposed that the UK shared prosperity fund will be set up as the domestic successor to European structural investment funds for new programmes.

It is necessary to revoke the original no-deal statutory instrument 2019/625 to remove conflict with the provisions of the European Union (Withdrawal Agreement) Act 2020. The United Kingdom will continue to participate in European structural investment fund programmes until their closure, and delivery continues through the management authorities and devolved Administrations. In order to remove any confusion from the statute book, as the no-deal guarantee for funding is not required, I commend the draft regulations to the Committee.

2.37 pm

Chi Onwurah (Newcastle upon Tyne Central) (Lab): It is a real pleasure to serve under your chairship, Dr Huq, especially on this very important subject, which I know is close to your heart and that of all of us here. I thank the Minister for his opening remarks, which were enlightening in some respects, though not in all, as I will come on to.

Between 2014 and 2030, the UK benefited from £17.2 billion of European structural and investment funds, as well as the additional national and private co-financing that that funding leveraged. That investment continues to strengthen projects led by not-for-profit organisations, local authorities, registered charities, higher and further education institutions, voluntary and community organisations, and statutory and non-statutory public-funded bodies, but it also—the Minister briefly made reference to this point—makes its way to businesses across the regions and nations of the United Kingdom that support these sectors in making the best of the investment.

Over time, the funding streams have become an integral part of the US business landscape. Whether through research and innovation, supporting our shift towards a low-carbon economy or promoting social inclusion to combat poverty and create jobs, the European Union structural and investment funds have mitigated some of the chronic regional, socio-economic and business investment disparities we see in the UK. As an MP from the north-east of England, I know very well how vital the funds have been in plugging the gaps left in my region after a decade of austerity.

The funds are underpinned by fair and progressive distribution formulas that ensure investment gets to where it is needed most and where it will have the most impact. I am sure that the Minister will agree that is the very definition of levelling up. Indeed, the Institute for Public Policy Research's report on the proposed shared prosperity fund, published in February 2019, states:

"After Brexit, the UK will need to continue to give targeted support and investment into regions with lower levels of growth and higher levels of poverty, or it risks worsening the geographical divide."

Labour supports the SI, in so far as it ensures that UK-funded programmes and activities entered into as part of the MFF 2014-2020 can continue to operate smoothly through to completion beyond the end of the transition period. We recognise that the SI is largely technical in nature and that it revokes a previous SI that, as the Minister has said, is no longer relevant and must be removed from the statute book. However, I want to raise a number of concerns that I hope the Minister will be able to speak to in his response.

We have just months left until the end of the transition period, but the Government are seemingly—obviously, I would say—struggling to negotiate effectively with the European Union, and they continue to undermine their own political declaration and withdrawal agreement at every turn. It was interesting to hear the Minister say that the SI was no longer needed because the withdrawal agreement had been signed and agreed, yet we debate in this House whether the withdrawal agreement will continue to apply in certain important aspects.

As things stand, the UK will have no access to structural investment funds once the 2014-2020 funding cycle comes to an end. The Minister said that "it is proposed" that the replacement be the strategic prosperity fund, using the passive voice as if it were not part of his Department's obligations—or promises rather than obligations. The Minister will also know that Labour has been concerned for some time that the UK shared prosperity fund has no details on how the Government will distribute and match the success of EU programmes. No details have been forthcoming whatsoever.

Labour has been pushing the Government for any kind of plan since the new fund was first suggested in the Conservative party's 2017 manifesto—more than three years ago. We were told that we would be seeing a full consultation document and final decisions on the fund's design as part of the 2019 spending review, so businesses and key stakeholders across the country duly geared up to work with the Government on the replacement fund. Instead, the Government cancelled the spending review and have since rowed back on their commitment to a full and transparent consultation process. The Minister made no mention of that.

A rescheduled spending review to conclude in July 2020 has been further delayed due to covid-19. We understand that, and the Government can be forgiven for having to adapt their legislative programme at short notice. However, the plans for the fund were already off schedule well before the pandemic hit. Without figures or even a simple timetable, businesses operating in all sectors across the UK are left in the dark, unable to plan for key funding applications beyond 2020, and all that just months before the transition period comes to an abrupt end. That adds even more layers of uncertainty on top of those already being felt by businesses small and large across our country as a result of the Government's mismanagement of the coronavirus pandemic and European Union negotiations.

The British Chambers of Commerce wrote to the Government in July 2019, more than a year ago, stating:

"From city regeneration schemes to business support, investment finance to research collaboration, businesses do not want to see 'cliff edges' in funding, but nor do they want a copy-and-paste approach to replacing the current system of EU development finance. Government must publish long-overdue proposals for a UK Shared Prosperity Fund for consultation—with a commitment to maximum local autonomy, a strong voice for business and a focus on economic growth."

That was requested more than a year ago.

First, can the Minister clarify today when we can expect to see a credible plan for the UK's shared prosperity fund? Secondly, can he confirm whether a full public consultation will take place to ensure all views and stakeholders get an equal opportunity to feed into this important and nation-shaping fund? Can he also clarify what work his Department has done to audit the impact of the European Union structural investment fund on businesses across the regions of the UK? Labour believes it is important for the Department and Ministers to have a clear picture of the impact before plans for a replacement fund can be decided upon. Can he agree that that vital work will be placed in the public domain before any consultation takes place?

The all-party parliamentary group for post-Brexit funding for nations, regions and local areas believes that the European regional development fund, the European social fund and the local growth fund, a non-EU fund, may be considered for amalgamation. The Minister mentioned a series of smaller funds including the European maritime and fisheries fund, and there is also the LEADER programme for rural development and the youth employment initiative. They could be considered for folding into the UK shared prosperity fund too. Taking into account the inflation uprating of those funding pots, as well as the additional designated "less developed regions" and "transition regions" the UK would have been allocated in the next MFF, the APPG suggests that any new shared prosperity fund should total just

[Chi Onwurah]

over £4 billion. Taking that figure as a starting point, will the Minister say whether the Government's fund will be higher or lower than that figure?

On devolution, the Welsh Government have legitimate concerns about the shared prosperity fund being directed centrally from Whitehall, which they would see as an attack on devolution. Welsh businesses need the Government here in Westminster to ensure that the extraordinary benefits experienced by Welsh businesses under the European structural and investment funds are not lost in the transition to a new fund. Many local authorities across England, Scotland and Northern Ireland share that concern. I want to see the replacement fund enabling local leaders, businesses and people to have more say on how money is spent in communities. Indeed, in March this year the Institute for Government said

> "Although the UK government has committed that the UK Shared Prosperity Fund will operate in a way that respects the devolution settlements, the devolved administrations are also suspicious that it might be used to allow the UK government to spend money directly in devolved areas, bypassing the devolved governments. This could signal a centralisation of regional development policy which would, according to Welsh First Minister Mark Drakeford, represent "a direct attack on devolution"."

Can the Minister reassure us that that is not his intention?

In a letter to the Chancellor in February, the chair of the North East England Chamber of Commerce, James Ramsbotham, called out the Government's "extremely poor" approach to engagement and consultation on the UK shared prosperity fund, which must recognise the north-east's specific challenges regarding deprivation and lower economic performance. You will understand, Dr Huq, that as a north-east MP I cite a north-east example, but I know that other regions have concerns about the lack of consultation. Many businesses I speak to are also concerned that the Government may move to a shorter funding cycle. A seven-year funding cycle is embedded in European Union structural and investment funds, which enables businesses to plan strategically to make smarter investments in their workforce and operations over a longer period of time. I ask the Minister to acknowledge the value of longer-term cycles. Will the Minister be advocating for that approach on behalf of UK businesses in any new fund?

I have concerns that the Government will propagate politically motivated funding strategies via the shared prosperity fund that could negatively impact areas that most need investment. We have seen cynical funding formulas deployed in the future high street fund and in the town of culture funds, targeting Conservative party seats that have received disproportionate levels of funding. Will the Minister allay the concerns of businesses and non-Conservative target seats by declaring today that the Government have no intention of leaving out areas that are in urgent need of investment?

Chair: Does any other Member wish to catch my eye, any Back Bencher? SNP not here? That's them for you, isn't it.

2.49 pm

Nadhim Zahawi: I thank the Shadow Minister for her remarks, and I will attempt to address those in my closing comments. I thank my colleagues for listening so intently to such an enthralling statutory instrument.

Now that, obviously, the UK has left the European Union we are able to design and implement our own regional funding programmes that I mentioned. Just a couple of small typos to mention, I do not want *Hansard* to get it wrong: I think the hon. Lady meant that businesses benefitted from the funds from 2014 to 2020, I think maybe she mistakenly said 2030 in her opening remarks, and she talked about US businesses, and I think she meant UK businesses.

Chi Onwurah: If I said 2030, I meant 2014 to 2020. I am pretty sure I said UK businesses.

Nadhim Zahawi: Absolutely. I will touch on the hon. Lady's remarks about what the UK shared prosperity fund will look like. The 2019 Conservative manifesto commits to creating the UK shared prosperity fund, a programme of investment to bind together the whole of the United Kingdom. I take slight issue with her final remark about our in some way discriminating; the Prime Minister is absolutely committed to levelling up all over the United Kingdom and, of course, binding the four nations together, tackling inequality and deprivation in each of our four nations. Through the UK shared prosperity fund the Government can cut out bureaucracy and create a fund that invests in UK priorities, at least as much as the current European fund has done, and is easier for local areas to access.

The hon. Lady asked about clarity. The Government recognise the importance of providing clarity on the UK shared prosperity fund. Decisions on the design of the fund will need to be taken after the cross-Government spending review. In the meantime, we will continue to work closely with interested parties. On the hon. Lady's question about consultation on the fund, the Government recognise the importance of reassuring local communities, including her own constituency, on the future of local growth funding and providing clarity on the UK shared prosperity fund. I can confirm that Government officials have held 26 engagement events in total, including 25 across the United Kingdom and one in Gibraltar. They were attended by more than 500 representatives from a breadth of sectors and designed to aid the development of the fund.

The hon. Lady asked about how the Government would set up the fund. Obviously, leaving the European Union provides us with fresh opportunities to create a fund that invests in UK priorities and targets funding where it is most needed, which was her point, while maintaining support for our businesses and communities.

The findings from the Scottish and Welsh Governments' consultations are certainly welcome. We want to ensure that the UK Government and their institutions are working effectively to realise the benefits of four nations working together as one United Kingdom. UK Government officials have held 16 engagement events across Scotland, Wales and Northern Ireland designed to aid policy development.

On devolution and the future of funding, clearly the House will recognise that international arrangements are a reserved matter and that it is for the United Kingdom Government to negotiate a future relationship with the EU for the whole of the United Kingdom. The programmes in which the UK is considering participation are those that represent benefits to the UK, provided the terms reached in negotiations are fair and appropriate. Those programmes were selected based on business cases that the devolved Administrations had the opportunity to feed into, as far as possible. BEIS has ensured that the views of the devolved Administrations were reflected.

The UK Government remain committed to engaging with the devolved Administrations on the negotiations, including on the discussions about participation in those EU programmes that were considered as listed in the UK's approach.

Chi Onwurah: I thank the Minister for his responses to my questions. I agree with him about much of what he says that the shared prosperity fund should do, but does he recognise that we have left the European Union and yet we still have no detail on that fund? There is nothing stopping the Government designing that fund now, now that we have left the European Union, so why do we still not have any detail on that fund? Can he please let us know when we will have some information on that fund, which, as a sovereign nation, we have the power to design?

Nadhim Zahawi: I am grateful to the shadow Minister for her question, and maybe I should have repeated what I said in my opening remarks; I thought she had actually got it the first time. Although we have left the European Union, the funding for business will carry on through 2021 all the way to 2023, so this idea that somehow we are being negligent is incorrect. The right thing to do is to go through the spending review and to design the UK shared prosperity fund correctly, so that it benefits the whole of the United Kingdom.

There have been some queries about future participation in EU programmes, and if that is the hon. Lady's point, I am happy to address it, because we will continue to take part in the PEACE PLUS Programme, which is so important to the people of Northern Ireland.

Chi Onwurah: I did listen to the Minister's opening remarks with rapt attention, and I acknowledge that he said that the funding and subsequent winding-up of funding could go on until 2025-26. However, we now have the power to design the shared prosperity fund and as I made numerous references to, businesses, business organisations and local authorities have been crying out for two or three years now for some indication of what will happen to that fund. The barrier is not the European Union; the barrier is the Government getting on with it and designing the fund.

Nadhim Zahawi: I am grateful to the hon. Lady for her intervention. I do not think there is a lack of focus or seriousness in wanting to design the fund and get it right. However, I hope that she will agree that it is important that we deliver that once we have the spending review delivered. I will not dwell any further on this matter, but clearly, decisions on the design of the fund will need to be taken after the cross-Government spending review. In the meantime, we will continue to work closely with interested parties, while developing the fund.

Dr Huq, I do not want to take up any more of your time, so I will finally conclude my remarks. In the context of the current pandemic, I will just add that managing authorities and devolved Administrations have made use of the flexibilities provided by the European Commission's coronavirus response investment initiative, as well as working with partners to provide assurance on business survival and job protection in the most exposed sectors of the economy.

I commend this draft regulation to the House.

Question put and agreed to.

2.57 pm

Committee rose.