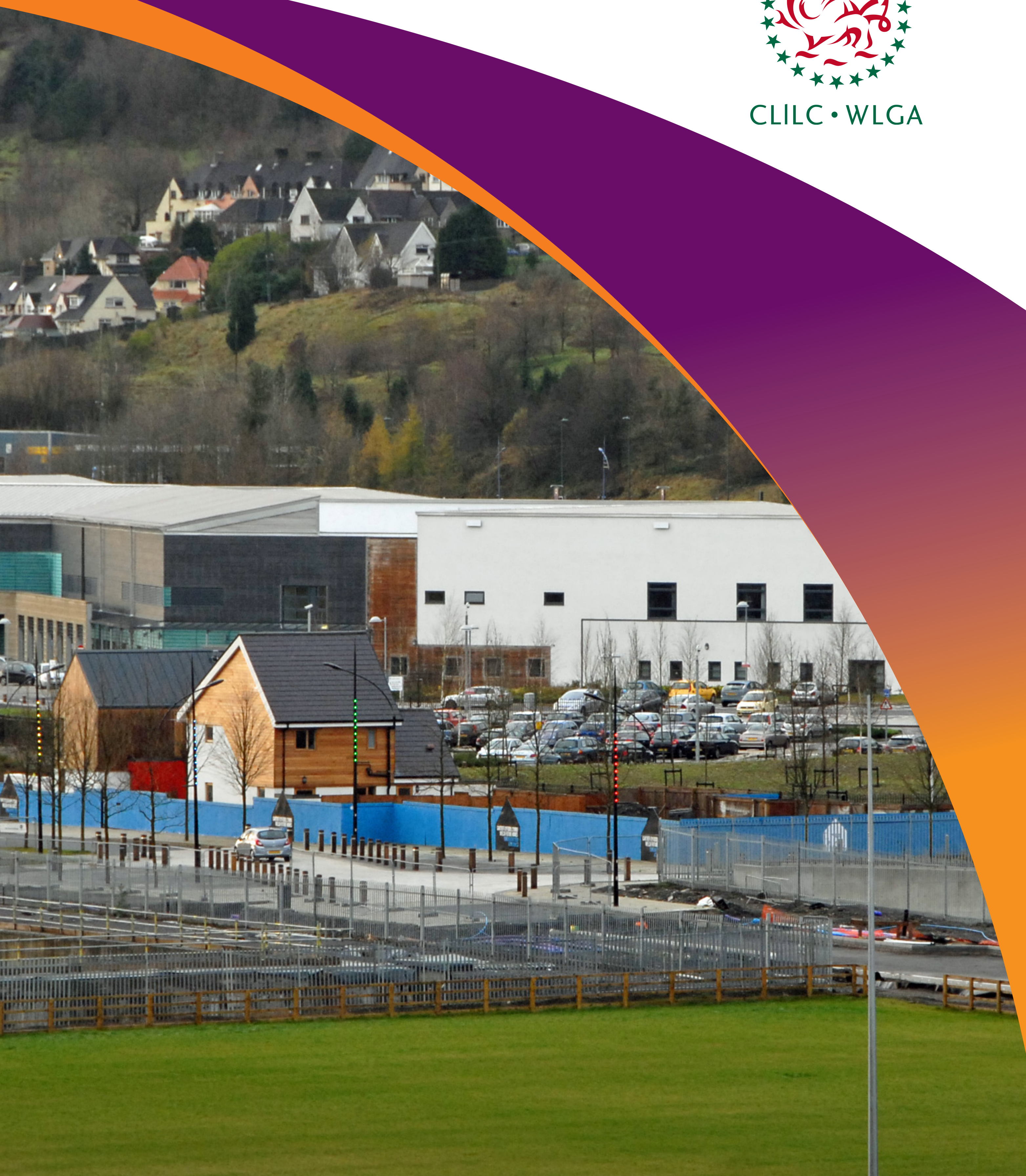
After Brexit: Regional economic policy in Wales

October 2017

SEFYDLIAD bevan FOUNDATION

In partnership with:

CLILC • WLGA



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1. INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

1.1. The Bevan Foundation is undertaking work on how Wales can respond to the challenges and opportunities arising from Brexit. As part of the 'After Brexit' project, it is working with partner organisations to identify new or revised public policies that Wales needs to pursue in preparation for Brexit. Several themed forums will be held, bringing stakeholders together with leading experts to consider innovative solutions and explore emerging recommendations for action by key decision-makers and politicians to consider.

1.2. This paper sets out the 'red lines' for a future regional policy that would enable Wales to prosper – and be no worse off – after Brexit (note: a summary of the structural funds programme can be found in annex 1). Produced in partnership with the Welsh Local Government Association, the proposals are based in part on discussions at a forum hosted by the two organisations on 22nd June 2017 which included academics, policy makers and service delivery organisations, together with desk-based research.

1.3. This paper gives a brief overview of EU regional policy and funding in Wales to date, as well as the current domestic policy position and outlook (as determined by the current political arrangements). It then considers the potential impact of Brexit on funding and outlines the options for a new regional policy for Wales, including its purpose and delivery.

Recommendation 1: In line with the promises made by the Leave campaign during the UK Referendum on EU membership, Wales should not lose a single penny after the UK leaves the EU. This means that the UK Government must provide the same level of resources to Wales as it would have received if the UK remained in the EU in relation to both Structural Funding and funding from the Common Agricultural Policy. This funding must be made available to Wales over and above the Barnett Formula ensuring that the levels reflect the continued needs and circumstances of Wales.

Recommendation 2: Whilst we welcome the proposal by the UK Government to put funding in place to support regional development after the UK leaves the EU, Wales' share of the proposed Shared Prosperity Fund should be devolved to Wales as economic development policy is a devolved matter, with the amount of funding available to Wales no less than if the UK had remained in the EU.

Recommendation 3: If the UK Government refuses to devolve Wales' share of its proposed Shared Prosperity Fund to Wales and directly manages the fund on a whole UK basis, with all areas across the UK competing for the funding, key partners, including the Devolved Administrations and the Local Government Associations of all the UK nations, should be involved in designing the new Fund. Further, it will be vital to support all areas of Wales to access funding from this Fund, working with the four regional partnerships listed below.

Recommendation 4: Welsh Government should set the direction for future regional policy in Wales, ensuring that it is responsive to regional and local needs. This means that decision-making and funding should be devolved down to the most appropriate level in line with the principle of subsidiarity, that local government and other key partners should be actively involved in co-designing a new regional policy for Wales and that it should be built on the work of the four Regional Partnerships already developing place-based plans for their areas. The four regions currently operate through the following arrangements:

- Cardiff Capital Region
- Swansea Bay City Region
- North Wales Economic Ambition Board
- Growing Mid Wales Partnership Board

All are moving towards formal joint governance arrangements to deliver City and Growth Deals and the regionalisation of economic development, transport and strategic planning in line with the Welsh Government's Local Government Reform agenda.

Recommendation 5: Local Authorities, working collaboratively at a regional level with key partners from the wider public, private and third sectors, and the Higher and Further Education sectors, should agree their regional development plans with the Welsh Government with funding allocated to each region to implement and deliver agreed shared outcomes.

Recommendation 6: Brexit is an opportunity to move away from the model of national (at UK or Wales level) programmes that take a long time to be developed which then require resource-intensive bidding processes. Such programmes result in projects being 'bent' to fit uniform eligibility criteria that do not reflect the specific needs and circumstances of different parts of Wales. The removal of programmes, and the administration that goes with them, would ensure that most of the funds are spent on delivering interventions that can make a real difference to people, communities and businesses.

Recommendation 7: Relative need (for the purpose of resource allocation) should be calculated on much more than relative levels of economic output as this gives a poor reflection of the regional population's level of need, including poverty levels. A broader range of measures of need should be adopted for the purpose of allocating resources, which reflect the levels of poverty, income and skills levels and economic inactivity within a region.

Recommendation 8: Funding must continue to be invested in innovation and growth which has an observable local impact, while also recognising that Wales has a significant Foundational Economy that has distinct needs and offers different opportunities for Wales.

Recommendation 9: Future regional policy must address both intra- and inter-regional economic and social inequality in Wales through an 'inclusive growth' approach, with income distribution a key measure of success.

2. REGIONAL POLICY CONTEXT

2.1. Regional policy has long existed in the UK as a way of addressing regional economic disparities, and has featured as part of European Union policy since its outset.[1] However, Welsh, UK and EU approaches to regional development have differed in recent years, both in terms of what they prioritise and how they engage with places in Wales.

2.2. Arguably, there has been no explicit UK or all-Wales economic regional policy for some years – the closest we have come to this has been the emerging city and growth deals. EU structural funds – a key component of EU regional policy - have taken on this role to some extent, but the principles and motivation behind structural funds have at times jarred with domestic economic policy.

2.3. With the UK now set to withdraw its membership from the EU, it will no longer have access to many forms of funding provided by the EU nor will it be subject to EU rules. Brexit is therefore both a threat and an opportunity to future regional development policy in Wales.

STRUCTURAL FUNDS IN WALES

2.4. Wales receives significant amounts via the European Regional Development Fund (ERDF) and European Social Fund (ESF) - known as structural funds. For its structural funding entitlement, it is divided into two regions – West Wales and the Valleys and East Wales. Between 2007-2013 Wales, benefitted from £1.8bn through the structural funds programme, helping 234,335 people to gain qualifications and 72,700 people into work, while creating 36,970 jobs and 11,925 enterprises.[2]

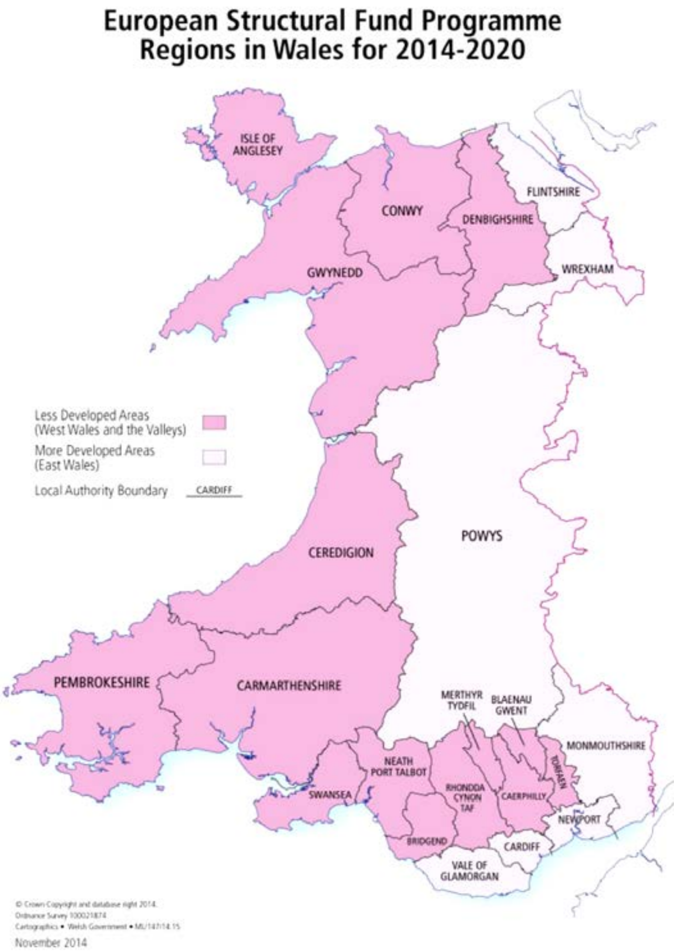
2.5. A comprehensive range of high-profile and large-scale projects continue to be funded with structural funds in Wales. Some of the projects funded through structural funds are the main delivery mechanism for Welsh and local government in these policy areas, while also key to regenerating local communities. Given wider budget pressures, this could not be continued if Wales were not to receive a sum after Brexit comparable to its current structural funds allocation. This would have major consequences for future

[1] The European Social Fund was created in 1958 – the same year that the European Economic Community first met.

[2] Welsh Government (2015), European Structural Funds programmes pre-2013 [accessed via: http://gov.wales/funding/eu-funds/previous/?lang=en]

policy and programmes, affecting both those who benefit from them as well as those employed in delivering them.

2.6. Wales also receives significant funding from the Common Agricultural Policy, both under Pillar 1, direct payments to farmers and Pillar 2, support for wider rural development. This funding has been vital to sustaining rural communities, natural resources and the cultural and heritage of the majority of Wales.



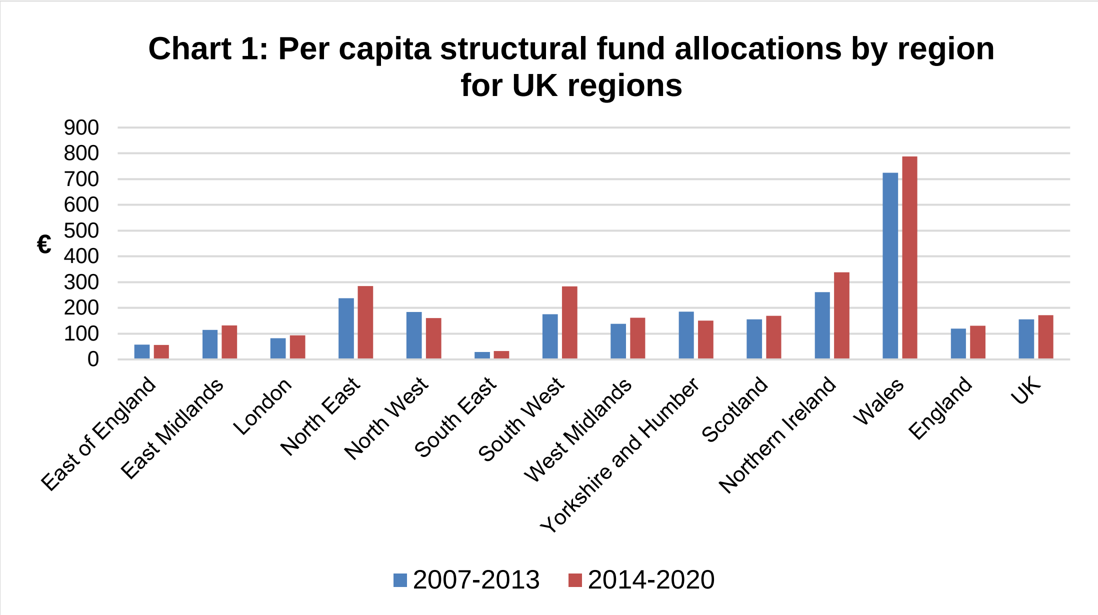
2.7. West Wales and the Valleys is one of two regions in the UK classed as one of the EU's 'less developed' regions because its per capita GDP is less than 75% of the EU average, while East Wales is considered a 'more developed' region as it has a per capita GDP of more than 90% of the EU average. This has significant implications for its structural funding allocation.[3]

[3] EU Commission (2016), [Regional Policy: Making Europe's regions and cities more competitive, fostering growth and creating jobs]

2.8. In the 2014-2020 period, Wales is expected to receive €2,431million in structural funds, more than four fifths of which is for West Wales and the Valleys.[4] The priorities for this round of structural funds are shown in Table 1.

Table 1: Priorities for the Structural Funds programmes 2014-2020	
European Regional Development Fund (ERDF) priorities: • Research and innovation • SME competitiveness • Renewable energy and energy efficiency • Connectivity and urban development	***European Social Fund (ESF) priorities:*** • Tackling poverty through sustainable employment • Skills for growth • Youth employment and attainment
Source: Welsh European Funding Office (2015), European Structural Fund Programmes 2014-2020: A summary of the ERDF and ESF Structural Fund programmes in Wales	

2.9. Wales receives substantially more structural funding per head than Scotland, Northern Ireland or England (see Chart 1), meaning that it will be hit much harder than those areas once this funding is withdrawn.



Source: SPERI (2016), SPERI British Political Economy Brief No. 24: UK regions and European structural and investment funds

[4] SPERI (2016), SPERI British Political Economy Brief No. 24: UK regions and European structural and investment funds

3. FINANCIAL IMPACT OF BREXIT

3.1. Funding for regional development after Brexit is highly uncertain. Funding has been guaranteed by UK Government for projects signed-off before the UK leaves the EU, with conditions attached to this around eligibility. [5]

3.2. But the financial arrangements after that are far from clear. The Conservative Party Manifesto for the 2017 UK General Election stated that the party would establish a 'Shared Prosperity Fund' once the UK withdraws from the European Union:

> *"Current EU-wide structural funding was designed to tackle disparities but it is expensive to administer and poorly targeted. As we leave the European Union, we must look at how we can better reduce and eliminate these inequalities.*
>
> *"We will use the structural fund money that comes back to the UK following Brexit to create a United Kingdom Shared Prosperity Fund, specifically designed to reduce inequalities between communities across our four nations. … We will consult widely on the design of the fund, including with the devolved administrations, local authorities, businesses, and public bodies. The UK Shared Prosperity Fund will be cheap to administer, low in bureaucracy and targeted where it is needed most".*[6]

3.3. A further reference to the Shared Prosperity Fund was made in the UK Government's financial support agreement with the DUP, which stated that Northern Ireland's "*needs [would be] properly reflected*" in the fund which will "*benefit all parts of the UK*".[7]

3.4. While the statements indicate that the Shared Prosperity Fund will be designed by UK Government, it is unclear what the role of the devolved governments will be beyond the consultation process, and in particular it is unclear if responsibility for designing and delivering the funding would be devolved. It is also unclear how the fund will target resources on need.

3.5. The arrangements for targeting funding to Wales are particularly important. If the 'shared prosperity fund' were simply allocated using the Barnett formula, Wales would receive significantly worse off than under the current arrangements and would suffer by far the greatest adverse impact in the UK.[8] While Wales' 2014-2020 structural fund allocation was €2.2 billion, it would

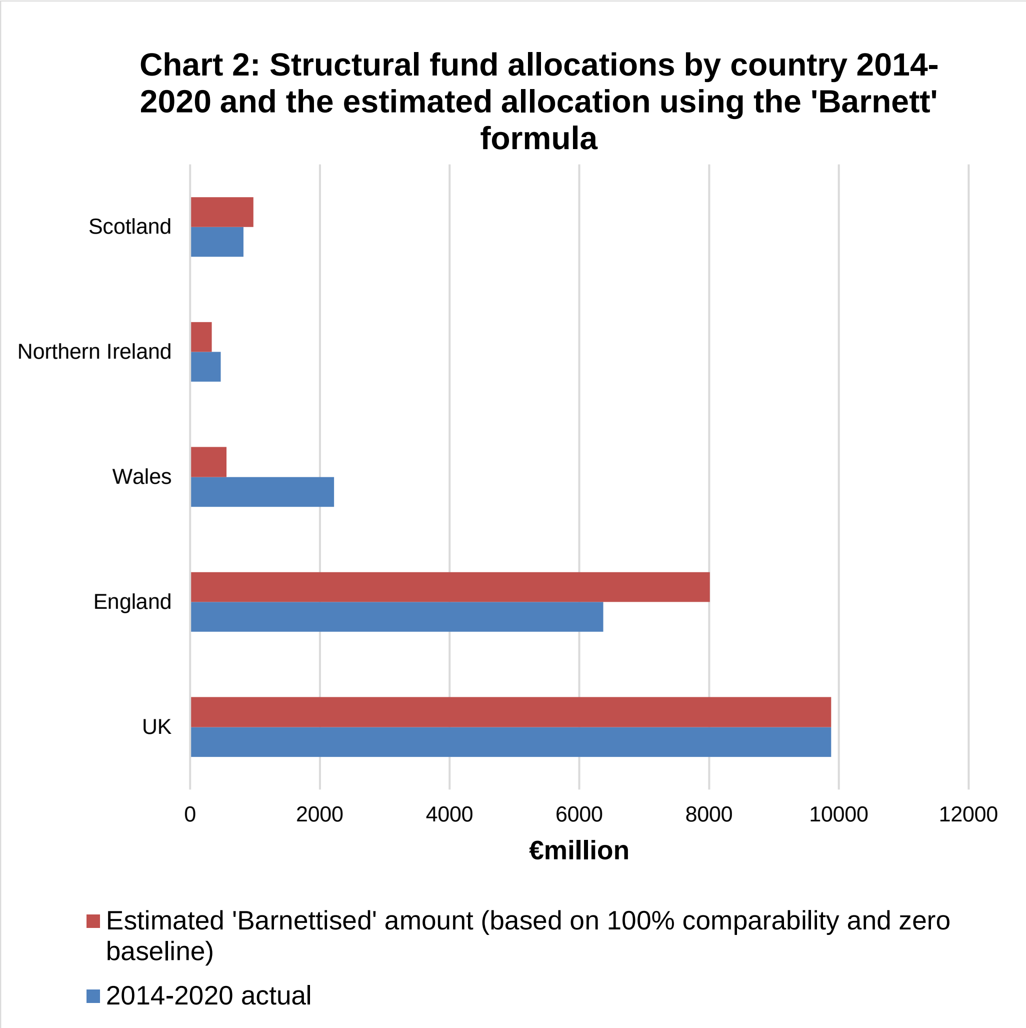
[5] UK Government (2016), Press release: Further certainty on EU funding for hundreds of British projects [accessed via: https://www.gov.uk/government/news/further-certainty-on-eu-funding-for-hundreds-of-british-projects]

[6] Conservative Party (2017), Forward Together: The Conservative Manifesto

[7] UK Government (2017), UK Government Financial Support for Northern Ireland, [accessed via: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/621797/UK_Govt__financial_support_for_Northern_Ireland.pdf]

[8] House of Lords European Union Committee (2017), Brexit: devolution

have received just €562 million had this been calculated through the Barnett formula.



3.6. If the UK Government is genuinely committed to ensuring that no part of the UK loses out as a result of Brexit, the funding mechanisms used in the UK shared prosperity fund must reflect Wales' high levels of need, and must not leave any part of the UK worse off than before Brexit.

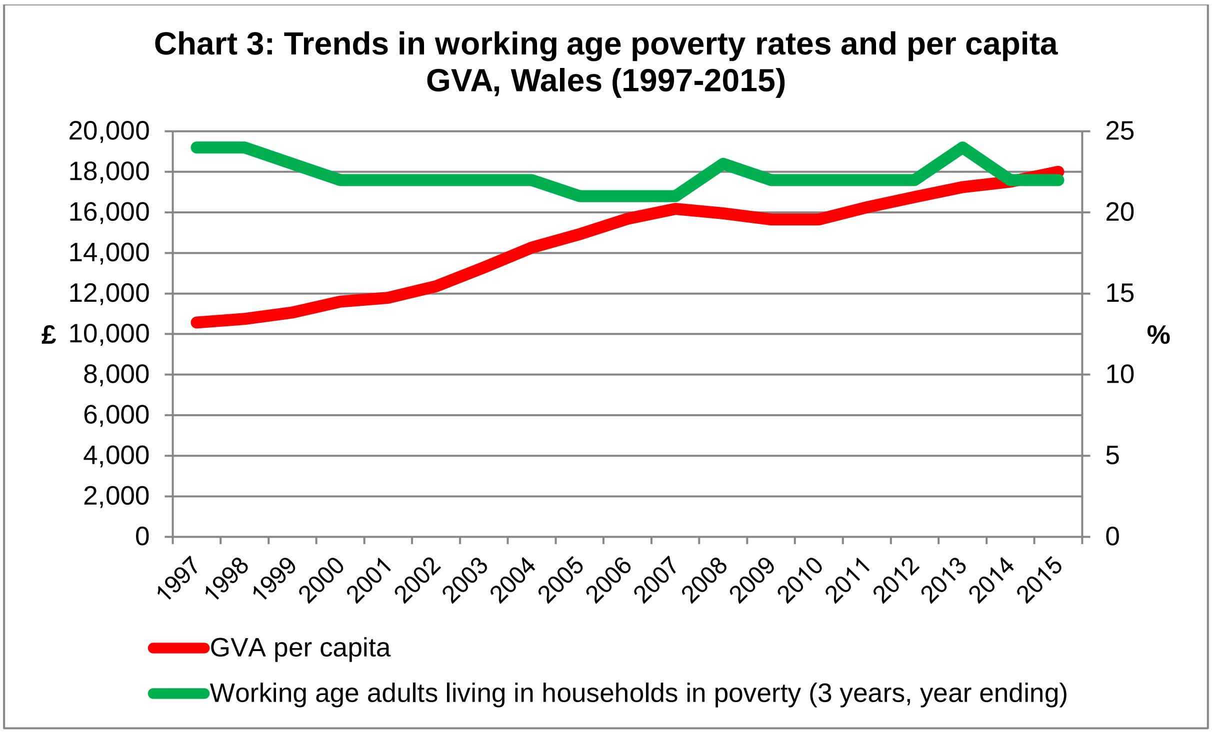
4. THE FUTURE OF REGIONAL POLICY IN WALES: FORUM VIEWS

4.1. The next section of this paper considers the priorities for future regional policy in Wales, drawing on views shared in a forum held by the WLGA and Bevan Foundation on 22nd June 2017, supported by desk-based research.

4.2. The discussions that took place were wide ranging and it is not surprising that a consensus could not be reached on such a complex issue. However, some thought-provoking views where expressed which we have captured below and are central to future debates on After Brexit: Regional Policy in Wales.

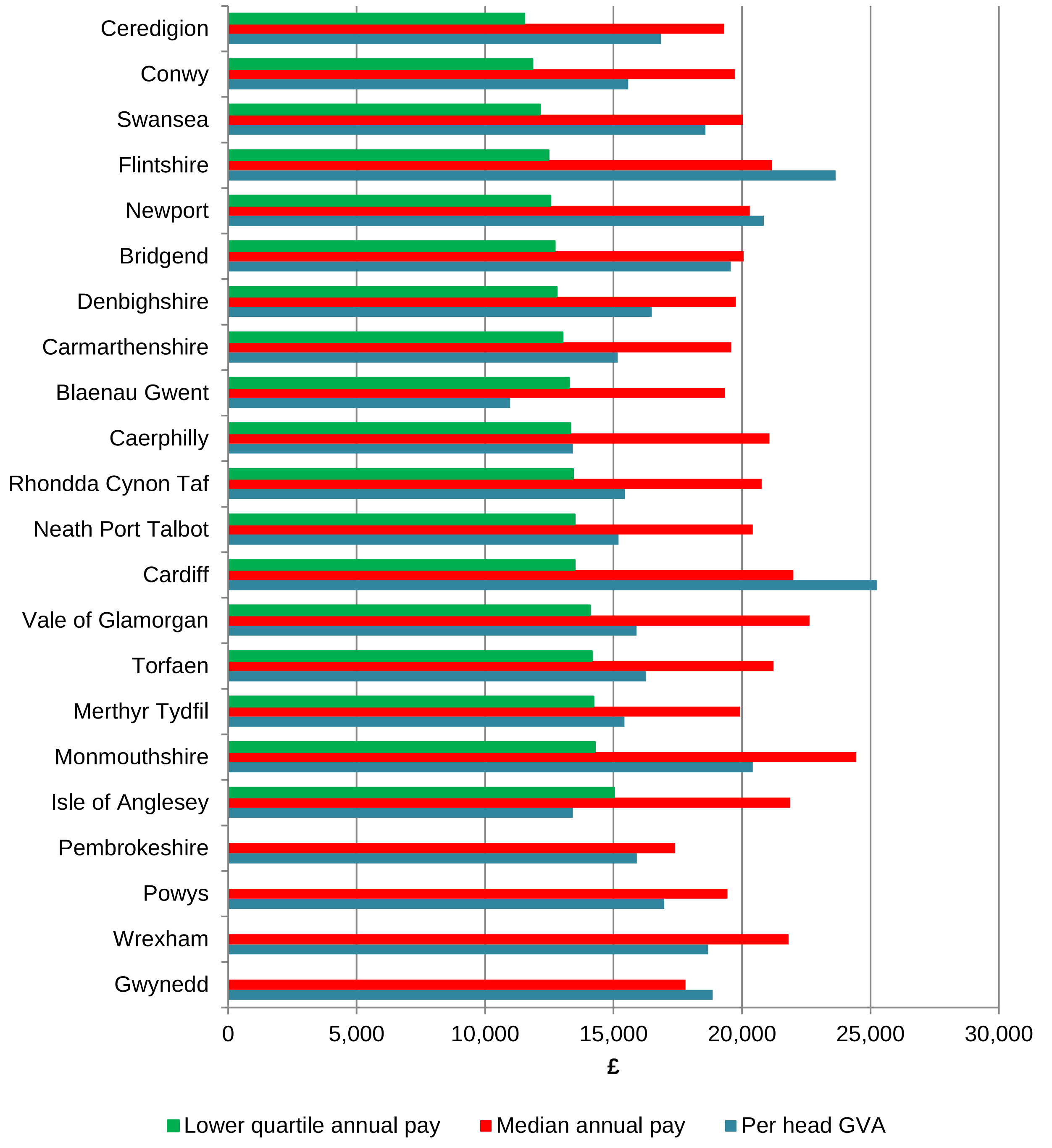
PURPOSE OF FUTURE REGIONAL POLICY

4.3. EU Structural Funds have been based on a model of development which has prioritised growth in GVA per head through investment in infrastructure, technology and knowledge transfer, and higher-level skills. While they have had some success in increasing output, creating jobs and developing a more skilled workforce, inequalities between groups of people and within different parts of Wales persist. For example, Chart 3 illustrates the steady increase in per capita GVA in Wales over the last two decades, which has no correlation with the relatively static poverty rates over the same period. Chart 4 shows there was little relationship between lower quartile and median annual pay and regional GVA across Wales' local authority areas in 2015.



Sources: StatsWales (2016), Gross Value Added by measure, Welsh economic region and year; DWP (2017), National Statistics: Households Below Average Income: 1994/95 to 2015/16. Note: poverty is defined as households with less than 60 per cent of contemporary median household income

Chart 4: Per capita GVA and annual pay by local authority areas, Wales (2015)



Sources: ONS (2016), Place of Residence by Local Authority - ASHE: Table 8; ONS (2017), Regional GVA(I) by local authority in the UK. Note: lower quartile pay data was unavailable for Pembrokeshire, Powys, Wrexham and Gwynedd

4.4. The Conservative Manifesto has proposed that the UK Shared Prosperity Fund would be based on the UK government's industrial strategy. The draft industrial strategy included a strong emphasis on investment in research, innovation, skills and infrastructure. While it included some reference to 'drive growth across the whole country' using these levers, it did not acknowledge that many are devolved. It also did not address the issue of ensuring all people benefit from growth.[9]

4.5. It was discussed that post-Brexit regional policy in Wales should focus on and channel investment into actions to ensure that the least well-off places grow and develop and that the benefits of growth are enjoyed by the least well-off people too.

4.6. Participants also spoke about how a future regional policy must also take into account the wider policy and legislative context. Wales already have a range of policy objectives and priorities set by legislation such as the Well-Being of Future Generations (Wales) Act 2015 which must be reflected in any future regional policy.

Measuring need

4.7. There was some dissatisfaction with a region's per capita GVA or GDP being used as the sole measure of their inequality. Several participants noted that it was not a good measure of the relative need experienced by regional populations as it does not take the poverty rate into account, and therefore – used on its own – is not a good measure of whether an area requires additional support.

4.8. Essentially, using regional GVA as a measure of need is useful in so far as it measures regional variation in what GVA measures (i.e. a particular measure of economic output). But to allocate resources based on more than inequality in economic output, a basket of measures should be adopted which gives a better picture of relative 'need' within a region.

4.9. Particularly if the intention is to engage communities in what the policy is trying to achieve, using GVA as the main measure of need is unhelpful as it means little to most people. The language used to describe need (and success) should be more relatable to people's everyday experiences as it is important that they understand why certain areas are given additional support and what progress this has resulted in.

4.10. Poverty rates, productivity levels, economic inactivity rates and more specific measures such as the proportion of the population with low skills levels should be considered important measures of relative need for allocation of resources in future.

Rationale and objectives

4.11. Brexit is an opportunity to devise policy objectives that better-reflect Wales' economic circumstances than the structural funds have allowed. In discussion it was indicated that the key objective of structural funds to date, i.e. to address regional inequalities in development, should be broadly maintained, but that it should also address inequality within regions.

4.12. Participants suggested that a 'two-tier' approach could work well. This would involve several high-level priorities supported by a set of targeted objectives

[9] UK Government (2017), Green Paper: Building our Industrial Strategy

against which performance can be measured, which would enable a sustained focus on macro-outcomes while steadily achieving the micro-objectives – possibly by taking a 'deep dive' approach in certain policy areas.

4.13. There was some agreement that regional policy should be focussed on achieving inclusive growth. A future regional policy should prioritise boosting prosperity for all – economic growth should result in a substantive decrease in poverty levels. Accordingly, there were calls for investment in job creation to be continued, and a specific focus on creating jobs in the less well-off parts of Wales and with consideration given to the quality of jobs created as well.

4.14. It was suggested that this approach should be based on Wales' assets rather than its deficits. Asset-mapping should therefore feature as part of the preparatory work in order to assess the capacity within communities and regions.

4.15. Continuing and expanding investment in innovation (with a long-term outlook) was supported, as well as boosting productivity and competitiveness. Universities and colleges should work with firms and government to ensure that research and skills are absorbed my regional businesses to maximize growth and innovation.

4.16. It was suggested that if these funds continued to be administered in seven-year cycles, they were well-placed to help Wales adapt to automation and other changes to the labour market as they allowed for longer-term planning.

4.17. Funds and/or investment provided to support a regional policy would also need to form part of the strategy to make Wales more outward-looking – both in terms of learning from examples of 'best practice' policy elsewhere and developing more international trade links.

4.18. However, it was noted that the regional policy would have to acknowledge that Wales has a significant 'foundational economy' – much of which does trade externally or experience rapid growth (due to relatively inelastic demand). The foundational economy is important for all parts of Wales in terms of services and jobs – around 40% of the Welsh workforce is employed in activities related to the foundational sector.[10] The opportunities this offers to achieve the objectives of a future regional policy will need to be harnessed, including in relation to reducing inequality.

Measuring impact

4.19. As per capita GVA can increase while poverty also increases, using rising GVA as the only or primary measure of success is inappropriate if inclusive growth is the desired objective.

4.20. Three suggestions were made for possible models of impact measurement which could be adopted by (and potentially adapted for) Wales: the Joseph Rowntree Foundation's Inclusive Growth Monitor, the OECD's system of sub-national territorial indicators, and developing an Index of Sustainable

[10] CRESC for FSB Wales (2015), What Wales Could Be

Economic Welfare or Genuine Progress Indicator model for Wales. All three suggestions consider the 'costs' of economic growth (to different degrees) and whether the benefits are felt equally.

Table 2: Suggested measures of impact for a future regional policy in Wales	
JRF's Inclusive Growth Monitor	18 indicators to capture the relationship between economic performance and poverty and related forms of disadvantage. The indicators cover income, living costs and labour market inclusion, as well as output growth, employment and human capital.
OECD's sub-national territorial indicators	52 indicators used to provide a comparative overview of regional performance. It includes demographic statistics, social and health statistics, regional income distribution, regional accounts, labour statistics, environmental statistics and innovation statistics.
Genuine progress Indicator	26 indicators, covering economic, environmental and social performance. It includes measures if income inequality, CO_2 emissions and unpaid work such housework and volunteering.
Sources: JRF (2016), An inclusive growth monitor for measuring the relationship between poverty and growth; OECD (2017), Regional Policy in OECD Countries; Cobb, Clifford, Ted Halstead, and Jonathan Rowe (1995), The Genuine Progress Indicator: Summary of Data and Methodology	

4.21. There was no consensus on how prosperity should be measured, however. Some participants noted that current arrangements had steered too far from valuing 'soft' outcomes, while others thought that some widely-recognised measures of impact included indicators that were not important to Wales.

4.22. There was also a note of caution about being too outcomes-focussed, as this can distort the behaviours of those responsible for delivering the policy.

Strategic fit

4.23. Any new regional policy should have a high level of strategic fit with existing relevant strategies, such as the Welsh Government's economic strategy, regional skills plans and the UK Government's industrial strategy.[11] This would help to maximise the likelihood of achieving outcomes and make it easier for those designing the delivery programme.

[11] This will only be as strong as the fit between existing strategies, of course. While economic competence is devolved, many of the key powers and levers are not which presents a significant political challenge.

4.24. If Wales were to have little influence over a future UK Shared Prosperity Fund, it is worth considering that existing legislation – including the Well-being of Future Generations (Wales) Act 2015 and the Environment (Wales) Act 2016 - may provide a justification in law for pursuing many of the recommendations mentioned in this paper.

The Well-being of Future Generations (Wales) Act 2015 and future regional policy

The Well-being of Future Generations (Wales) Act 2015 requires public bodies in Wales to comply with 'Local Well-being Plans' which are agreed by Public Service Boards. The purpose is to imbed long-term sustainability into the day-to-day activities of public bodies, targeted towards seven well-being goals:

1. A prosperous Wales
2. A resilient Wales
3. A healthier Wales
4. A more equal Wales
5. A Wales of cohesive communities
6. A Wales of vibrant culture and Welsh language
7. A globally responsible Wales

It is also designed to encourage particular ways of working for public bodies, including long-term thinking, prevention and collaboration. Success is measured using indicators determined by the public bodies, as well as 46 national indicators.

These statutory requirements exist and must be complied with regardless if Wales has a regional policy. It is difficult to imagine how any future regional policy or future funding programme could have conflicting objectives to those contained in the Act, as this would arguably infringe on the National Assembly for Wales' role as a legislator.

4.25. But opportunities to do things differently may be limited as Wales (and the UK) will still be subject to rules deriving from the UK's membership to other international organisations, such as the World Trade Organisation, and be subject to the terms of various trade deals (which Wales has little say over).

DELIVERY OF FUTURE REGIONAL POLICY

4.26. As well as looking at the principles behind future regional policy in Wales, the discussion considered how it should be delivered. It was clear that there are already regional structures in Wales which are well-placed to deliver a future regional policy, and there was a view that there is 'no point reinventing the wheel' by introducing a new regional structure.

4.27. However, there are lessons to be learnt to ensure a future regional policy is successful. It would also require the necessary supporting arrangements and clear delegation of responsibilities in order to function effectively.

Regional arrangements

4.28. There was agreement that Wales already has regional structures in place to drive economic development, so there would be no benefit in drawing up new boundaries. The regions are:
- The Cardiff Capital Region
- The Swansea Bay City Region
- The North Wales Economic Ambition Board
- The Growing Mid Wales Partnership

4.29. Where there is the potential to add value, participants suggested that continuous regional investment and pooling of resources should become the norm. However, everything needs to be a sum of the parts and all focussed on achieving the best possible outcomes – achieving this culture shift would take time. It would require the recognition of the regions with some form of clear authority – where responsibility lies must be clear from the outset.

4.30. The regions have already formed decision-making bodies and working relationships between local authorities. They have identified shared priorities and region-wide working to varying extents, as well as regional links to Welsh and UK Governments. They are at different stages in terms of becoming delivery bodies, and they have different forms of leadership (e.g. the Cardiff Capital Region is led by a 'super cabinet' of the 10 local authority leaders, while the North Wales Economic Ambition Board is a collaborative group of private and public sector organisations).

4.31. There was also the view that Welsh Government needed to consider devolving responsibility over certain decisions down to local or regional structures in Wales, although there was no agreement over the extent to which a regional or local devolution agenda should be adopted. It was noted that while this may happen in legislation and policy, there may still be push back if there is not a corresponding culture change.

4.32. However, participants discussed that the regions needed to be subject to a Wales-wide framework (even if this were in addition to a UK-wide framework) or strategic plan in relation to regional economic development, but there was some disagreement over how much direction this framework should give and how much strategic control should be retained centrally. For example, some thought that policy areas which were currently managed centrally (by Welsh Government) – such as apprenticeships policy – should continue to be managed this way.

4.33. There was a strong call for responsibility to be clearly defined from the outset. One participant noted that this is not always the case with the current regional arrangements, and should therefore be addressed – especially if the stakes are higher. The opportunities and risks of making economic development a statutory responsibility of local government should be explored.

4.34. Participants were also keen that there was a clear and protected role for community input in future regional policy. Purely ‘top-down’ solutions must be avoided, and mechanisms to enable communities and stakeholders to communicate the sort of changes that they want to see and what should be prioritised must be developed. This sense of ownership over projects, as well as awareness of where expenditure has delivered desirable outcomes, was suggested to avoid a feeling of disconnect – as was suggested had happened with EU funding.

Streamlining administration and developing a level playing field

4.35. A new regional policy presents an opportunity to streamline both the administration process for projects and the volume of projects (which arguably stems from the application and administration process), as well as moving away from national programmes towards regional initiatives.

4.36. It was also noted that EU funding restrictions have often seemed arbitrary to service users, creating inexplicable barriers. For example, access to certain employability programmes part-funded by structural funds has been denied to those already receiving support via DWP-funded programmes, which made little sense to the service user.

4.37. However, keeping some of the discipline associated with the administration of structural funds, particularly to prevent the repatriated funds simply being absorbed into other budgets, was deemed desirable.

4.38. The seven-year cycles that structural funds were allocated in had been beneficial by taking it out of both political and budgetary cycles and allowing for more long-term planning. The possibility of keeping this feature should be explored for any future fund.

4.39. A handful of participants thought that the way in which funding has been administered has not always resulted in it going towards projects which will maximise outcomes for an area. Instead, it has encouraged rent-seeking behaviour which has done little to create wealth and improve the prospects of those living in more deprived areas. A new regional policy must address this phenomenon through redesign and a thorough understanding of the perverse behaviours and outcomes associated with the structural funds programme.

Supporting collaboration and best-practice sharing

4.40. One of the key features of structural funding – that it has required significant levels of match-funding – means that collaboration has been inherent. Future regional policy should continue to encourage partnerships, particularly with the private and third sectors, including cross-border working (both at a regional and national level).

4.41. However, a ‘procurement by default’ approach to project delivery has pitted potential partners against each other, harming the opportunity for proper collaboration. It has also been resource-intensive, and has favoured bigger organisations that have the experience and capacity to submit successful bids. A review of how procurement is resulting in these unwanted outcomes was suggested, as well as a move away from the ‘procurement by default’ approach.

4.42. Further investment in the sharing of best practice (and ensuring that ‘best practice’ can travel) was suggested to make the most out of any future funds. This should be coordinated at a national level, with an organisation or body specifically responsible for looking at both internal and external examples of best practice to drive forward effective approaches to economic development.

4.43. Again, procurement was cited by some as an example of where this is needed. It was described as an ‘underutilised power’ which could be used to achieve social and economic change. There were good examples to learn from in Wales as well as further afield, such as the way in which the Basque region has used procurement to boost green infrastructure.

Green Public Procurement Programme of the Basque Country 2020

The Basque Administration has been leading the way in the use of public procurement to achieve its environmental goals. It intends that by 2020, the region’s government, provincial councils and local authorities will have achieved the ‘institutionalisation of environmentally responsible procurement.’ This will be done by working towards procuring 50% of products and services in 20 areas, including building, urban development and public transport. The strategy is governed and managed by a driver group, which is tasked with leading and coordinating the programme, a technical secretariat and the voluntary participation of all administrations involved.

Source: General Library of the Basque Government (2016), Green Public Procurement Programme of the Basque Country 2020

Monitoring and evaluation

4.44. Future regional policy needs to have processes for monitoring and evaluation included from the outset. Criticisms of the monitoring and evaluation arrangements for structural funds ranged from there being a significant confirmation bias to an issue with it not being taken seriously.

4.45. Monitoring and evaluation must be analysed at an early stage, so that failings are identified early on and addressed. This may result in a more proactive role for those responsible for monitoring, with the possibility of being able to take over the running of projects which persistently fail to deliver the desired outcomes.

4.46. Monitoring and evaluation should be treated as a highly-valued learning tool – not simply a way of measuring compliance.

5. ANNEX 1: EU REGIONAL POLICY

5.1. EU regional policy focuses on investing in regions in order to encourage economic growth and improve people's lives. It has focussed particularly on the EU's less developed and/or more disadvantaged regions, as determined by a range of criteria (depending on the fund) including per capita GDP, employment rates and geographic location (see Table 1).

5.2. The funding is not intended to replace national expenditure on regional development. The structural funds must be match-funded by government and/or a third party.

Table 1: EU Regional Funds, 2014-2020 funding round

		Fund	**Purpose**
European Structural and Investment funds [ESIFs]	Structural funds	European Regional Development Fund (ERDF)	Invests in growth sectors to develop jobs and competitiveness and address economic, environmental, and social challenges. It focuses on sustainable urban development in particular, as well as giving funds to areas that are naturally disadvantaged due to their location, such as the outer areas of the EU, and territorial cooperation. Priority investment areas: • Research and innovation • Digital agenda • Supporting SMEs • Low carbon economy
		European Social Fund (ESF)	Improving employability by supporting jobseekers and workers to access training, combating discrimination by helping marginalised communities to integrate, and enhancing the efficiency of public administrations and services. Priority investment areas: • Promoting and supporting employment and labour mobility • Social inclusion and tackling poverty • Education, skills and lifelong learning • Improving institutional capacity and making public administration more efficient
		Cohesion Fund	Invests in transport networks and environmental projects, promoting 'green' economic growth and reducing economic and social inequalities. Targeted at countries with a GDP lower than 90% of the EU average. It has provided

			investment for climate change adaptations, the trans-European transport network and the Connecting Europe Facility, which invests in broadband infrastructure, amongst other things.
		European Agricultural Fund for Rural Development (EAFRD)	Seeks to make the agricultural sectors more resilient, innovative and climate-friendly.
		European Maritime and Fisheries Fund (EMFF)	To make fisheries and aquaculture more sustainable and competitive
		EU Solidarity Fund (EUSF)	Rapid-response fund to support (natural) disaster-stricken regions

5.3. The regional policy budget runs on seven year cycles, and is set (along with the rules) by the European Parliament and EU Council of Ministers (based on a proposal by the Commission). Partnership agreements and investment plans are then developed by the EU Commission and EU countries (for both country-wide and regional initiatives), and delivered by the countries and regions. Funding is made available at the start of the year by the Commission, but individual, direct payments are made by the national/regional paying agency. In the case of Wales, this is the Welsh Government, via its executive agency, the Welsh European Funding Office.

Fig 1: How Structural Funds priorities and allocations are determined

5.4. Regional policy is currently focussed on several key investment priorities (see table 1), with the five ESIFs governed by a set of common rules, the Common Provisions Regulation for the European Structural and Investment

Funds (Regulation (EU) 1303/2013), as well as additional fund-specific regulations.[12]

5.5. Per capita Gross Domestic Product (GDP) is used to calculate structural fund allocation. There are three classifications of EU regions: 'less developed' regions have a per capita GDP < 75% of the EU average, 'transition regions' have a per capita GDP of between 75% and 90% of the EU average, and 'more developed' regions have a per capita GDP of >90% of the EU average.

5.6. The allocation of ESIFs is one of the many tools that are part of delivering Europe 2020 – the EU's 10-year growth strategy. The strategy is intended to create a Europe that is "better equipped to provide smart, sustainable and inclusive growth; a Europe combining job creation and social inclusion, where people can gain the skills they need to flourish; a Europe which can benefit from global opportunities." It includes five key targets and seven flagship initiatives, with progress monitored by the Commission and European Council.

Table 2: Europe 2020 strategy targets
1. **Employment:** 75% of the 20-64 year-olds to be employed
2. **R&D:** 3% of the EU's GDP to be invested in R&D
3. **Climate change and energy sustainability:** greenhouse gas emissions 20% (or even 30%, if the conditions are right) lower than 1990; 20% of energy from renewables; 20% increase in energy efficiency
4. **Education:** Reducing the rates of early school leaving below 10%; at least 40% of 30-34–year-olds completing third level education
5. **Fighting poverty and social exclusion:** at least 20 million fewer people in or at risk of poverty and social exclusion
Source: European Commission, Europe 2020 strategy [accessed via https://ec.europa.eu/info/strategy/european-semester/framework/europe-2020-strategy_en]

5.7. Given the concentration of the EU's population in urban areas (over two-thirds of EU citizens live in cities and this is a growing proportion), there has been a shift towards directing funding toward cities. For example, more than half of the ERDF allocations between 2014 and 2020 will be invested in urban areas.

[12] European Commission (2015), European Structural and Investment Funds 2014-2020: Official texts and commentaries

About the Bevan Foundation

The Bevan Foundation develops ideas to make Wales a fairer, prosperous and sustainable place. We are independent of government or any political party, and are funded by subscriptions, donations, grants from charitable trusts and foundations and commissions.

We have made every effort to ensure this report is accurate but responsibility for any errors, and for the views in the report, are those of the Bevan Foundation.

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