Welsh Affairs Select Committee Inquiry – Shared Prosperity Fund

Response from the Bevan Foundation

The Bevan Foundation is Wales' most influential and innovative think tank. We develop practical solutions to poverty, inequality and injustice. We have a long-standing interest in regional development and have advocated for enhancement of economic and social development of Wales via regional funding[1].

How effective have existing arrangements for the management of European Structural Funds been?

Welsh arrangements for structural funds consist of the Wales European Funding Office's (WEFO) role as administrator of various strands of EU funding. These include the European Social Fund (ESF) and European Regional Development Fund (ERDF), jointly known as European Structural Funds programmes. The Programme Monitoring Committee (PMC), made up of representatives from a range of sectors and a number of public appointments, monitors the effective delivery and implementation of the funds throughout the programming period.

Management of structural funds has in the past been referred to as overly bureaucratic and complex. Simplification of the funds over successive rounds appears to have improved processes[2] and simplified costs also contribute to lower error rates (misuse of funds). WEFO was found to have maintained robust checks and balances despite the increased project approval rate required when facing prospect of a no-deal Brexit[3].

What impact have the Structural Funds had on the Welsh economy?

Wales has been a beneficiary of EU structural funding via regional programmes since 1989 and was the biggest UK beneficiary of the current 2014-2020 round of European funding and received in excess of £2 billion. Successive rounds of European Structural Funds have made significant and longstanding contributions to Wales and the Welsh economy. These have included initiatives focused on:

- tackling poverty and deprivation
- decontamination and re-development of swathes of land in less favoured regions (including one of Europe's biggest steelworks),
- upgrading and creation of key transport facilities and infrastructure
- investment in skills, apprenticeships and business facilities
- job retention, creation and support for key sectors and industries.

Some of these investments have left a lasting legacy to the Welsh economy decades on.

However, EU investment needs to be seen against the scale of the challenge parts of the Welsh economy have faced. Some areas have experienced dramatic and unprecedented economic restructuring, with the complete closure of key industries including mining and metal manufacturing, and have suffered disproportionately in successive economic

[1] Winckler, A. (2005) Structural Funding in Wales: the next steps. Bevan Foundation https://www.bevanfoundation.org/wp-content/uploads/2005/05/Structural-Funding-report.pdf

-[2] Wales Audit Office (2014) European Union Structural Funds 2007-2013 https://www.audit.wales/system/files/publications/WAO_EU_Structural_Funding_English_2013.pdf

[3] Wales Audit Office (2018) Managing the impact of Brexit on EU Structural Funds https://www.audit.wales/system/files/publications/eu-structural-funds-english.pdf

downturns. Recovery and re-orientation were always going to be a very significant undertaking.

This was coupled with expectations about the transformative capacity of the funds, which have at times been too high. The funds equate to a fraction of Wales' overall GDP. The scale of EU investments was put into sharp perspective by research on welfare reform which showed that across Wales as a whole, it removed almost four times as much, per year, as it received in EU regional aid[4]. As such, the capacity of structural funds alone to turn around the fortunes of regional economies was always limited relative to the scale of the challenge.

The structural funds' impact has been further diluted by relatively weak UK and Welsh Government policies on regional development, which did not match the EU's spatial priorities nor share its approach to economic change. For example, at the same time as the structural funds aimed to support areas such as the south Wales valleys, the Welsh Government was focusing on development of cities.

The impact has been further undermined by the EU single market itself. Since the early 1990s, a substantial amount of manufacturing capacity has relocated from Wales' structural fund areas to other member states, especially those in eastern Europe, taking much needed jobs with it.

Last, some of the ways in which the funds were used have been questioned. Public perceptions that some structural funds projects were unnecessary or did not lead to an improvement in people's material conditions or prospects have been well documented and examined[5]. These perceptions have at times eclipsed the impact of the most successful investments of EU structural funds.

What lessons should be drawn from previous rounds of European Structural Funds in Wales?

As a beneficiary of successive rounds of funding, some lessons from previous rounds have been built into existing practice, such as simplification of the way funds are administered and the need for robust mechanisms for oversight. Some key lessons are worth repeating and are outlined below:

- The priority for funds should be inclusive growth - both spatially and socially – to ensure everyone benefits and that prosperity truly is shared. The previous focus on GDP growth at the expense of improvements against other measures risked residents in the areas affected experiencing little real benefit themselves.
- A mismatch between different priorities of organisations involved with the management and spend of structural funds has diluted their impact in the past. This points to the need for the alignment of the SPF investments with the priorities of other public bodies, including the devolved administrations and local government.
- The requirement for a clear strategy to underpin the allocation of SPF investments that brings different interventions together including:

[4] Beatty, C and Fothergill, S. (2014) The impact of welfare reform on the Valleys. Centre for Regional, Economic and Social Research, Sheffield Hallam University https://www4.shu.ac.uk/research/cresr/sites/shu.ac.uk/files/welsh-valleys-report-2014.pdf

[5] Evans, D (2016) Wales and the Brexit Vote: A case of turkeys voting for Christmas? LSE blogs https://blogs.lse.ac.uk/politicsandpolicy/wales-and-the-brexit-vote/

- Ensuring labour market and economic interventions are complimentary and not contradictory. For example, investment to bring high skilled specialist tech firms to economically depressed areas that do not have the labour force profile to fill the jobs is likely to result in them being filled by workers from elsewhere, reducing the economic benefit for the area . By the same token, investment in specialist technological skills for workers in economically depressed areas where there are not the jobs to match will result in the loss of those skills as workers leave the area and go elsewhere for work.
- Increasing synergy between investments by different bodies so maximising their impact.
- Avoiding the use of funds for vanity projects that have high profile but little impact.

- The need for careful planning and delivery of projects. The failures of the Technium programme demonstrated the critical need for projects to have clear objectives from the outset, supported by the right levels of expertise in response to clearly identified and understood needs. The programme received substantial levels of funding but lacked a credible case and was underpinned by an overemphasis on supply side interventions

- For the funds to be truly additional to existing public expenditure. To ensure this complementarity of the funds, public expenditure also needs to be of a scale to enable the match funding required.

- The need for efficient and effective administration of the funds to ensure they are dealt with independently and are fully accountable and open to scrutiny.

- Clear and honest communication and expectations around what the funding will and will not deliver. The feeling amongst some communities that the funds did little for them must inform how the SPF is planned, delivered and communicated.

What should be the priorities and objectives of the Shared Prosperity Fund and what, if any, improvements are needed to the current European funding system?

The SPF must be first and foremost about creating an inclusive economy. An inclusive economy is one where there is decent work for everyone which generates an income sufficient to avoid poverty. It provides knowledge and skills so people can secure a livelihood and progress at work, and it supports diverse and resilient businesses that create wealth and provide goods and services. It is also one where people have a real say in economic decisions and their needs are taken into account.[6]

We are encouraged by the explicit commitment contained in the UK government's 2019 manifesto to purpose the SPF towards "tackling inequality and deprivation in each of our four nations"[7]. The poverty rate in Wales has been stagnant for a decade and stands at 23%. It is higher than the UK average and is the highest of any UK nation. Current levels of

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[6] Wales Cooperative Centre & Bevan Foundation (2018) Creating an inclusive economy in Wales
http://walescoop.wpengine.com/wp-content/uploads/2018/09/inclusive-economy-report-english.pdf
[7] Conservative and Unionist Party Manifesto 2019
https://assets-global.website-files.com/5da42e2cae7ebd3f8bde353c/5dda924905da587992a064ba_Conservative%202019%20Manifesto.pdf

inequality, poverty and exclusion demonstrate that there is still a long way to go in creating an inclusive economy. The SPF can play a role in helping to foster inclusive growth through tackling the drivers of poverty and deprivation at their roots.

The UK is one of the most regionally polarised countries in the developed world. Of 30 OECD countries it is has some of the highest regional disparities. These disparities have widened over the last two decades[8] and are manifest in multiple areas of life including health, life expectancy employment and income, skills and qualifications levels and deprivation levels across different parts of the UK.

Reducing regional disparities must be done by driving inclusive growth and the funds must go well beyond simply securing GVA uplifts or productivity increases. These alone are no guarantees that disparities within regions will not be maintained or indeed exacerbated. It is quite possible to reduce regional inequalities but still have massive social and economic ones.

Additionality must be a cornerstone principle in the design and delivery of the SPF and should have robust mechanisms to ensure that it is not deployed as a substitute for other forms of funding.

The SPF also offers the opportunity to allocated investment on an even more targeted basis. Current eligibility is based on local authority boundaries which do not necessarily reflect areas in economic difficulty, e.g. the former mining community of Ystragynlais is located in the otherwise rural county of Powys and therefore is ineligible for cohesion funds. However, this must also be balanced against avoiding a “pepper pot” approach where targeting becomes so locally targeted that a substantive regional approach becomes diluted.

What level of funding should Wales receive and how should this be calculated moving forward?

We welcome the UK government’s manifesto commitment to match size of structural funds “at a minimum”[11]. Much has been made of calls for and commitment of “not a penny less” to the SPF. In reality maintaining the cash value of previous funding equates a real-terms cut so we would expect the funding allocated to nations and regions to be appropriately uprated in line with inflation.

The allocation funds must use previous EU structural funds receipts as a baseline. Any uplift above that baseline should be on the basis of key indicators of social and economic disadvantage.

The use of the Barnett formula to allocate funds is totally inappropriate. The funds are intended for specific areas not England as a whole, and should reflect Wales’ needs and circumstances not merely its population share. It would also be incompatible with the commitment to match the size of previous structural funds receipts. There must be absolute clarity and full transparency of the calculation used to allocate the SPF to Wales.

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[8] Regions and Cities at a Glance: United Kingdom (2018) OECD
https://www.oecd.org/cfe/UNITED-KINGDOM-Regions-and-Cities-2018.pdf

[11]Conservative and Unionist Manifesto 2019
https://assets-global.website-files.com/5da42e2cae7ebd3f8bde353c/5dda924905da587992a064ba_Conservative%202019%20Manifesto.pdf

Should funding be ringfenced on a nation or regional basis or should the fund be open to competitive tendering?

Funding for Wales must be ringfenced and managed within Wales. Whether the ringfenced funding is open to competitive tending should be at the discretion of the managing authority, which in this instance would be the Welsh devolved institutions. It is our view that while competitive tendering may well have some role for specific priorities, is not appropriate across the board for regional development.

What timescale should be adopted for each funding round?

Multiannual financial frameworks of at least 7 years that cross political cycles are the preferred approach to enable strategic and long-term planning, benefitting from the stability of longer funding cycle and flexibility to adapt the funds in response to circumstances.

How should responsibility for funding and administering the fund be divided between the UK and devolved governments?

Responsibility for oversight and administration of the funds in Wales should lie squarely with the devolved institutions in line with the Welsh devolved settlement.

The National Assembly for Wales is a legal and democratically elected body with reserved powers in multiple areas of Welsh life and executive competence as outlined in the Wales Act 2017. This constitutional settlement must be respected in the administration of the SPF.

It is also important that the expertise built up over years across the UK and in Wales, including in WEFO and the PMC is not lost under the new arrangements. This knowledge will be an important tool to help ease the transition from EU derived investment to UK derived investment.

What role should, or could local government and where applicable, city or growth deals play in relation to the fund?

Local government should be part of a broad partnership approach taken by the Welsh Government as managing authority of the SPF in Wales. Local government plays a critical role as a statutory body in economic development, tackling poverty and provision of public goods and services. It has local knowledge and insight that can make an important contribution to good regional development and more inclusive growth

Growth and city deals have capacity to contribute to business development and productivity aspects of the investment of the funds. However, they do not have the same statutory footing as local government and we have concerns about the lack of transparency and accountability of the city and growth deal model. The city deal focus on increasing regional GVA does not appear to be matched with a focus on sharing the benefits of growth and are implicitly based on ‘trickle down’ to less well-off people and communities. As such, city deals are poorly placed to play a central role in driving inclusive growth and tackling poverty and deprivation.

Are there implications for state aid rules?

State aid is an instrument that has historically been underused in the UK. The most recent data available shows that UK spend on state aid was around half the UK average[13].

[13] Industrial Communities Alliance (2019) State Aid: Its role in rebuilding industry and the regions.

The SPF offers an opportunity to inject fresh impetus into the use of state aid for the strategic economic stimulus of key industries and regions within the UK. A revised approach to state aid could include industries that have previously been ineligible for such as the steel industry, which continues to be a key regional employer in parts of Wales.

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